Snap | 20 May 2026 GERMANY

Increase in German producer prices signals gradual broadening of inflationary pressure

It s not an extreme increase, yet. Still, April producer prices suggest that inflationary pressures are already broadening, from higher energy prices to metals and fertilisers

When economists start writing about producer prices early in the morning, you know what time it is: it's inflation anxiety time. Producer prices usually live a quiet, Cinderella existence – only stepping into the spotlight when everyone is desperately looking for early inflation indicators. Today happens to be one of those moments.

German producer prices increased by 1.7% year-on-year in April, from -0.2% YoY in March; the highest increase since May 2023. On the month, prices were up by 1.2%. What is even more important: the increase in producer prices was mainly driven by higher prices for energy, metals and fertilisers.

Traditionally, producer prices lead consumer prices by a few months. However, over the last two years, domestic inflation, mainly services inflation, has become a dominant driver of consumer price inflation. At the current juncture, however, producer price developments should return as a leading indicator of consumer price inflation. In this regard, today's producer price data clearly suggest that, even if the increase is not yet extreme, at least in the near term, the only way is up for headline inflation.

First inflation wave in full swing

Today's producer price inflation confirms that a first inflation wave is in full swing. An inflation wave that remains mainly limited to energy prices but is gradually broadening. It won't be long before higher energy prices lead to knock-on effects on transportation and food costs. Needless to say, the longer the war in the Middle East and the blockade of the Strait of Hormuz last, the higher the likelihood that the initial energy price shock will not only have knock-on effects but could also be accompanied by additional supply chain frictions and, in turn, a self-enhancing inflationary spiral.

However, we still don't think that we will see a repetition of the 2022 double-digit inflation rates. The current price shock is hitting the German economy in a weaker state than in 2022, and the ability (and willingness) of consumers to actually pay higher prices is clearly limited. Instead, it will be companies in the middle of the supply chain that might be squeezed the most; they'll be unable to fend off higher wholesale prices and unable to pass these higher costs on to customers.

ECB to hike in June

In three weeks, the ECB will meet again, and signals since the last meeting have been very clear: a rate hike in June is clearly in the making. In fact, it would probably need another sharp deterioration of economic sentiment for the ECB not to hike. Even if the war in the Middle East ends tomorrow, the damage to inflation has already been done. Inflation has started and will continue to hit the eurozone economy. The only question is whether it will fall in the category of 'transitory' or whether supply chain disruptions could create more knock-on effects than 'only' on transportation and food prices. Given the 2022 experience, the ECB is likely to opt for an 'insurance' rate hike. Not that a rate hike will do a lot to affect inflation expectations, but it would be a symbolic move, stressing the ECB's determination to act.

What is even more interesting is what will happen beyond the June meeting. Markets have started to price in a total of three rate hikes. However, as long as fiscal stimulus remains muted, the risk of an outright inflationary spiral remains small, making an aggressive monetary policy reaction to the current energy price shock unlikely. In fact, even if it's still in the ECB's institutional memory, the comparison with 2022 hardly holds: back then, the eurozone economy entered a post-lockdown boom, there was substantial fiscal stimulus, higher inflation rates and a much looser monetary policy stance.

For us, the better reference period for the ECB remains the 2011 experience. Back in 2011, the ECB hiked interest rates – admittedly from slightly lower levels than currently – to tackle rising inflationary pressures. Only to find out that these rate hikes pushed the eurozone economy further into stagnation. As the ECB had underestimated the adverse effects of the sovereign debt crisis, the 2011 rate hikes were reversed quickly. Underestimating the adverse impact of a shock and focusing too much on rising inflation as a result of higher energy prices? The ECB has been there.

For now, we only see one insurance rate hike in June, to demonstrate the ECB's willingness and determination to keep inflationary expectations anchored. It's still hard to see that the ECB would really want to fight an exogenous supply shock at the cost of worsening an economic downturn.

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