

Germany: Easing inflation hysteria

A drop in German headline inflation in January suggests that even the ECB's expectation of higher inflation is currently more wish than reality



Source: istock

1.6% January headline inflation
YoY

Based on results from six regional states, German headline inflation slowed to 1.6% YoY in January, from 1.7% YoY in December. According to the harmonised European definition (HICP), the measure more relevant for ECB policy making, headline inflation even dropped to 1.4% YoY, from 1.6% in December. While many financial market participants have recently been speculating about a return of inflation in the Eurozone, this German data suggests the opposite.

In fact, today's inflation data show two interesting things: (1) the appreciation of the euro has offset stronger oil prices; (2) underlying inflationary pressure in the Eurozone's largest economy remains low. While oil prices have increased by more than 16% over the last twelve months, the stronger euro seems to have offset the inflationary impact. Denominated in euro, oil prices only increased by less than 5% over the same period. What is more, looking at the available components at the regional level shows underlying inflationary pressures remain low. Measures of core inflation slightly dropped. Low core inflation rates, however, mask two diverging trends in German prices. While prices for consumer goods have increased at an annual rate of above 2% for quite some time, the ongoing decline in communication costs and lower prices for services continued to put downward pressure on core inflation.

Looking ahead, even with stable oil prices and an unchanged exchange rate, base effects should push German headline inflation up to, or even above, 2% in the first half of the year. However, there are still hardly any signs that underlying inflation could accelerate and ongoing structural factors such as increased competition in the service sector and price transparency on the back of digitalization or automation and globalization provide substantial arguments that this will change any time soon. In this regard, the ongoing wage negotiations in the industrial sector, or better the outcome of these negotiations, will be an important signal for the future path of inflation.

Today's German inflation numbers should ease the recent excitement in markets about a possible inflation surge and changes to the ECB's monetary policy stance. For the time being, the ECB's own assessment and confidence that inflation will substantially pick up remains more wish than reality.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom

this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.