

## Germany: Inflation accelerates in February

The national inflation measure accelerated further in February and did little to quieten the discussions around potential ECB reaction to higher yields. We expect the ECB to advance its planned asset purchases and send a clear message of its willingness to act at next week's meeting.



Based on inflation outcomes of several regional states, German inflation in February came in at 1.3% year-on-year, from 1.0% in January. The harmonised index, relevant for European Central Bank policymaking remained unchanged at 1.6%.

Further acceleration in German inflation is mainly due to higher energy prices. Also, don't forget that these numbers are still distorted by lockdowns and imputed prices as many goods and services are simply not available.

### More to come

Looking ahead, for German (and eurozone) inflation, the only way is up.

In fact, there will be a series of one-off factors pushing up headline inflation. In the short run, it will mainly be higher energy prices driving headline inflation. But when economies reopen, price markups in sectors most hit by the lockdowns will also add to upward pressure on inflation. Finally, the full swing of the German VAT reversal will only unfold in the second half of the year. Taking all these factors into account, German headline inflation could eventually even range between 3% and 4%, eurozone inflation could breach the 2% level this year.

---

*As much and as long as the ECB has been working and hoping for inflation to finally return to 2%, this is not the inflation the ECB was looking for.*

---

Inflation mainly a result of supply-side shocks and one-off factors is rather deflationary than inflationary. Unless there are any second-round effects on wages in the making, the ECB will turn a blind eye to these developments. For any of these second-round effects to materialize, we would need to get significantly more fiscal stimulus and government policies aimed at increasing minimum wages.

For the ECB turning a blind eye on accelerating, inflation will not be an easy task but any premature normalizing of monetary policy would risk choking off the still-fragile economic recovery. However, this blind eye could turn into a black eye if financial markets have different thoughts as currently witnessed by increasing bond yields. Consequently, the ECB could still be forced into new action.

Up to now, the ECB has tried to soothe higher bond yields with words. However, after speeches by Christine Lagarde, Phillip Lane and Schnabel - the exact reaction function still remains unclear. There currently is a range of alternative targets, in order to demonstrate the ECB's willingness to look through higher headline inflation. Favourable financing conditions, nominal yields, real yields and yield curves.

All ways to say that the ECB could tackle any unwarranted increase in bond yields. And 'no', all German dreams about any premature tightening will not come true. Instead, we expect the ECB to advance its planned asset purchases and send a clear message of its willingness to act at next week's meeting.

## Author

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto: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 <http://www.ing.com>.