

## Germany: Retreat and relief

German headline inflation slows to the lowest level since February 2018 on the back of lower energy prices, and a further softening is in the offing. With consumer confidence close to all-time-highs, lower inflation makes consumers the best recession-fighting instrument that the German economy has



According to the just-released first estimate, German headline inflation came in at 1.4% year-on-year in January, from 1.7% YoY in December. HICP inflation came in unchanged at 1.7% YoY. Due to statistical revisions, the usual regional state data, which normally provides insights on individual inflation components, is not available today. [With higher water levels in German rivers](#), low oil prices have finally reached the German economy.

### Finally some good news

Earlier today, the German economy finally produced some encouraging macro data. Consumer confidence increased to a nine-month high, with the willingness to buy component improving to its highest level since April last year. At least for the time being, German consumers are defying the currently growing pessimism. Low inflation, higher wages and some tax relief since the start of the year have increased purchasing power. A strong consumer is clearly the best recession-fighting instrument for the German economy in the current times of extreme external

uncertainties.

## The only way is down, not up

Returning to inflation developments, in the preparation of the December ECB projections, the German Bundesbank sent in a headline inflation forecast of 1.4% YoY in Germany for 2019, with core inflation gradually increasing to 1.6%. A rather optimistic scenario in the current economic circumstances. In fact, if oil prices and the euro exchange rate were to remain at their current levels throughout the entire year, headline inflation is more likely to drop below 1% rather than getting anywhere close to the 2% mark. What's more, with increased economic uncertainty and companies' competitiveness under pressure, the ECB's forecast of gradually increasing core inflation is more wishful thinking than reality. Higher wages – current nominal wage growth is around 3% in Germany – are simply not passed on to consumer prices.

At least in the near term, the only way for headline inflation is down, not up. While this could lead to some headaches at the ECB, it is good news for the German economy. Together with the strong labour market and high consumer confidence, low inflation is a welcome shield against the current high wave of external uncertainties.

### 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 [www.ing.com](http://www.ing.com).