

## German inflation - still more relative than vigorous

German inflation at seven-year high but still little evidence of a sustainable increase in underlying inflation



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Based on the results of seven regional states, German headline inflation accelerated in September to its highest level since early 2011.

With 2.3% year on year, 2.0% in August, German headline inflation has now been above the ECB's definition of price stability for five months in a row. The HICP inflation came in at 2.2%, from 1.9%.

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The increase in headline inflation, however, isn't so much the result of the ECB's ultra-loose monetary policy but rather the result of higher energy and increased food prices in some states due to the hot and dry summer weather.

Where available, regional core inflation measures remained broadly unchanged in September. In fact, except for a temporary pick-up during the summer months of 2017, core inflation has been hovering around 1% since the beginning of 2014, and there is still very little evidence to expect an imminent acceleration indicating underlying inflationary pressures in the economy remain low.

## Accelerating core inflation? Still more wish than reality

Today's German inflation should further put ECB president Mario Draghi's comments at the beginning of the week into perspective.

Remember his appearance at the European Parliament, Draghi surprised markets by stating the ECB saw a "relatively vigorous" pick-up in underlying inflation in the coming years. At the September meeting, the ECB had talked about a gradual increase over the medium term.

This new characterisation of the outlook for core inflation came as a surprise. Particularly given that the ECB staff had actually lowered its core inflation projections for 2019 and 2020 at the September meeting.

An increase in core inflation has been and currently still looks much more like wishful thinking than reality. Or to paraphrase Mario Draghi: with today's German inflation data any pick-up in core inflation in the Eurozone still is much more relative than vigorous.

### Author

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

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