

Germany: Inflation still more wish than reality

The latest German inflation data suggests that the ECB's own assessment and confidence that inflation will substantially pick up remains more wish than reality



Based on the results of six regional states, German headline inflation slowed once again, dropping to 1.4% YoY in February, from 1.6% YoY in January. According to the harmonised European definition (HICP)- the measure more relevant for ECB policymaking- headline inflation dropped to 1.2% YoY, from 1.4% in January. While many financial market participants have recently been speculating about a return of inflation in the Eurozone, these German data suggest the opposite.

1.4%

German headline inflation
(YoY)

In fact, today's inflation data show that the appreciation of the euro has offset stronger oil prices

and that underlying inflationary pressure in the Eurozone's largest economy remains low. The latter is particularly remarkable. Available components at the regional level show that underlying inflationary pressures have actually abated in recent months. Interestingly, the ongoing decline in communication costs and lower prices for services is now joined by lower inflation in consumer goods.

Looking ahead, if an economy that is at a very mature stage of the cycle, with low unemployment and nominal wage increases, is not providing inflation numbers of at least around 2%, how will the rest of the Eurozone ever be able to do so? In our view, structural factors like increased competition in the service sector and price transparency on the back of digitalisation or automation and globalisation provide substantial arguments that this will not change anytime soon.

All of this means that the recent speculation in financial markets about a possible inflation surge and changes to the ECB's monetary policy stance look increasingly premature. For the time being, the ECB's own assessment and confidence that inflation will substantially pick up remain 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.