

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.

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