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Snap

Germany: Inflation at ten-year-high

Headline inflation climbed to a ten-year-high in October but underlying inflationary pressure remains subdued.

Some brief distraction in these turbulent political days. It might sound boring but in these days and hours of historic political changes in Germany, there still is ordinary macro data. Earlier this morning, German unemployment dropped to another record low. Trade tensions, emerging market crisis, slowing economic growth or Brexit, the German labour market continues to defy all possible headwinds. Admittedly, labour markets always react with a delay to economic developments. Still, the numbers remain impressive. The seasonally-unadjusted unemployment rate dropped to 4.9%, its first time under 5% since 1980. The number of unemployed dropped to 2.2 million people. These are numbers which in other countries would stimulate government leaders to personally claim credit for.

Headline inflation at 10-year-high

At the same time, there is finally some evidence that the Phillips curve might not be entirely dead in Germany. The tight labour market has gradually pushed up nominal wages, even though there is clearly room for more. The pass-through of higher wages into higher prices, however, is still hard to find. This is at least what the just released first estimate for October inflation is suggesting. Based on the results of seven states, headline inflation came in at 2.5% YoY in October, from 2.3% YoY in September. HICP inflation came in at 2.4%, from 2.2% YoY. Headline inflation reached a ten-year high.

While headline inflation has now been on a gradual increase since the start of the year and has been above levels the ECB defines as price stability for six months in a row, available components still should little signs of a pick-up in underlying inflation. In fact, the increase in headline inflation seems to be mainly driven by higher oil prices and the vacation-driven effect of higher prices for hotels and packaged holiday trips.

Craving for December

With crumbling and more uncertain growth prospects, new political developments and very little underlying inflationary pressure, the ECB will be happy that December is not too far away and that it can bring net QE purchases to an end before discussions about an extension could flare up again. Against the background of recent developments, however, next year's discussions on the timing of the first rate hike will be fervid.

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