

## Germany: Inflation remains leisurely

Stable but low inflation in Germany strengthens the case for new ECB action



According to the just-released first estimate, based on the results of several regional states, German headline inflation came in at 1.3% year-on-year in June, unchanged from May, and the joint lowest since April last year. The national inflation measure increased to 1.6% YoY, from 1.4% in April.

The main inflation drivers were higher food prices and higher leisure costs. Communication and energy were actually drags on inflation. The strong fluctuation of leisure costs as a result of the timing of vacation and public holidays has been one of the main drivers of German headline inflation in recent months. It almost looks as if the country has become a leisure republic, given the sensitivity of headline inflation to just one single component. Where available, regional state proxies suggest that core inflation in Germany has remained broadly stable. In May, it stood at 0.9% YoY. As so often over the last years, if inflation is not even picking up in Germany, with a strong labour market and an economic expansion of 10 years, where else in the eurozone should it pick up?

If Germany was the entire eurozone, this week's data of weakening economic sentiment and stable but low inflation would have strengthened the European Central Bank's case for additional easing. Whether it would actually help an economy where loans to the corporate sector are

currently growing by more than 7% YoY, is a different issue.

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