

## Germany: Sliding into disinflation

Headline inflation continues its recent slide and shows that there are more disinflationary forces at play than just low oil prices



German inflation continued its recent slide and fell to the lowest level since September 2016, coming in at 0.6% year-on-year in May, from 0.9% YoY in April. Using the HICP measures, inflation dropped to 0.5% YoY, from 0.8% YoY in April. This first estimate is based on the results of regional states data, according to which the drop in headline inflation was mainly driven by the sharp fall in oil and other energy prices. However, the drop in prices for consumer goods witnessed in many regional states suggests that a lack of demand, as well as an attempt to get rid of the goods piled up during the lockdown, have put downward pressure on inflation.

Looking ahead, there could be a more structural problem for inflation statistics. If consumer behaviour were to change structurally after an end to the lockdown measures, at least for a while, the basket measuring consumer price inflation might have to be adjusted, or at least taken with a pinch of salt.

In short, with low oil prices and deflationary forces stemming from the economic damage of Covid-19, German headline inflation will, in our view, continue moving in one direction in the coming months: down.

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