

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.

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 <http://www.ing.com>.