# Germany: No forward guidance (from inflation)

Subdued inflation in Germany leaves the ECB slightly baffled, supporting the case to buy more time, but defintely good news for consumers.

According to the just-released first estimate based on the results of several regional states, German headline inflation came in at 1.7% year-on-year in February, unchanged from January. The national inflation measure closed the recent gap with the European measure and increased to 1.6%, from 1.4% YoY in January. The main inflation drivers were the delayed pass-through of higher oil prices as well as higher food prices, a late effect of last summer's drought.

## No guidance for the ECB but good news for German economy

Today's German inflation data do not bring any new guidance for the ECB. Stable headline inflation and low core inflation simply mean that it will still take a while before it becomes clear in which direction Eurozone inflation will be heading. For now, both views, the one of a gradual increase in core and headline inflation, and the other of stubbornly low inflation will stay alive. An interesting take-away from the German experience for the ECB is the fact that even though the transmission from a tighter labour market to stronger wage growth has since 2016 finally matched past experiences, the transmission from higher wage growth to faster inflation is still barely existing.

Returning to Germany, today's inflation data illustrate that the drop in global oil prices since late-September has still not fully reached German consumers. While global oil prices are roughly speaking back to their February 2018 levels, prices for heating oil were up by some 15% YoY in most German states.

While today's inflation data might still leave the ECB a bit baffled, it is good news for the German economy. Together with the strong labour market and high consumer confidence, low inflation is a welcome shield against the current high wave of external uncertainties.

## Author

**Carsten Brzeski**
Global Head of Macro
carsten.brzeski@ing.de

### Disclaimer