Germany: The Easter Bunny is still haunting inflation

German inflation data for April provides more evidence that the ECB's decision on the future of QE could be postponed until after the June meeting

1.6% German headline inflation

Unchanged in April

Based on the results of several regional states, German headline inflation remained unchanged at 1.6% YoY in April. According to the harmonised European definition (HICP), the measure more relevant for ECB policymaking, headline inflation even slowed down to 1.4% YoY, from 1.5% in March. The Easter Bunny effect was only partly reversed. Not surprisingly, as Easter was exactly at the beginning of April and the vacation period started in the week ahead of and ended in the week after Easter. This explains, why prices for package holidays didn't yet drop in all states in

April. Leisure costs, by the way, actually did.

Under the surface of the Easter Bunny, German inflation data still tells a two-sided story: while prices for consumer goods have gradually accelerated in recent months, inflation in services has slowed down and has even been negative for a couple of months for communication and clothing. All of this means that a significant acceleration of German inflation looks highly unlikely. In the coming months, more vacation, reversed Easter Bunny effects and higher oil prices could temporarily blur headline data. However, the underlying trend is one of a very gradual increase in inflationary pressure, if any at all.

> *Today's Germany inflation data will not make life easier for the ECB*

Consequently, the current economic controversies on whether or not the Phillips curve is broken and on whether or not higher wages still lead to higher inflation will not be solved any time soon. For the ECB, today's German inflation data will not make life any easier. With the soft patch of the economy in the first quarter, low but also partly blurred headline inflation and a new feeling of uncomfortable caution, the decision on the nitty-gritty details of QE tapering could become complicated. While the case for an extension of QE until at least the end of the year (or even longer) is getting stronger by the day, it is now increasingly far from certain that the ECB will already be able to communicate details at the June meeting.

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