

## Germany: Inflation - the only way is down

Inflation drops to its lowest level in more than three years. There is more weakening ahead.



German inflation dropped to 0.8% YoY in April, the lowest reading since November 2016. In March, inflation was still at 1.4% YoY. 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, some states saw prices for packaged tours falling by more than 3% YoY and this has probably nothing to do with the Easter Bunny but rather with...yes, you guessed it, Covid-19.

One problem with today's – or more generally with current – inflation data is that it is almost impossible to measure consumer price inflation when there hardly is any consumption. Given that the German economy was in lockdown almost all of April, price statistics tell very little. How do you set prices if demand drops to zero within a couple of days?

Looking ahead, there could be a more structural problem for inflation statistics. If consumer behavior 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. With this in mind, Covid-19 could even have an impact on the ECB's strategic review.

In short, with low oil prices and deflationary forces, stemming from the economic damage of Covid-19, German headline inflation will in our view only move into one direction in the coming

months: down.

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