Germany: Time to buy more stuff?

Lower inflation is bad news for the ECB but good news for the German economy

Further slowdown. German headline inflation is losing more momentum and seems to be on its way to what European Central Bank President Mario Draghi would call a re-anchoring at lower levels. According to the just-released first estimate, German headline inflation dropped to 0.9% year-on-year in September, from 1.0% YoY in August. The national inflation measure dropped to 1.2% YoY from 1.4% YoY in August. Judging from the available regional data, headline inflation weakened on the back of lower food and energy prices. Where available, core inflation measures remained relatively stable.

Earlier today, the German labour market sent a sign of relief. In September, the number of unemployed dropped to 2.234 million. In seasonally-adjusted terms, the number of unemployed dropped by 10,000, the first decline since April this year. The unemployment rate remained unchanged at 5.0%. The improvement was the best September performance since 2016. Also, German retail sales increased in August, by 0.5% month-on-month, from -0.8% in July.

All of this means that, at least for the time being, the feared growing contagion from the manufacturing meltdown to the rest of the German economy is not (yet) materialising. Even better, private consumption should benefit from lower inflation rates in the coming months because, in the words of Mario Draghi, “with low inflation, you can buy more stuff”. It’s hard to see

Germans listening to Draghi these days but if they do, they would definitely temper growing recession fears.

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