

Germany: Weaker inflation supports case for ECB action

Low August inflation in Germany bolsters the case for a new round of monetary easing at the ECB's September meeting



German headline inflation came in at 1.0% year-on-year in August, from 1.1% in July. That's according to the just-released first estimate, based on the results of several regional states. The national inflation measure dropped to 1.4% YoY, from 1.7% in July. This year's strong discrepancy between the national and the European measure of German inflation is mainly caused by methodological changes to the measurement of package holidays in the European measure and changes to the weights of different components in the national measure.

Looking at the available components in several regional states, there were opposing trends in price developments. While prices for heating oil have started to drop compared with last year, reflecting lower global prices, those for electricity and gas are still up. At the same time, prices for food have started to accelerate, probably early signs of the dry and warm summer, while costs for communication and durable goods continue to fall. Overall, these diverging trends seem to offset each other, keeping core inflation measures broadly unchanged.

Looking ahead, lower oil prices will keep German headline inflation hovering around 1% in the coming months. While this is good news for consumers, who as Mario Draghi once said can "buy

more stuff”, the low inflation combined with the prospects of an at best stagnating economy bolsters the case for new monetary stimulus from the ECB in two weeks from today. In fact, we think that the ECB doesn’t want to wait until the Eurozone economy is again caught in a possible deflationary spiral but will want to set another (maybe final) preemptive strike. In our view, the ECB will present a new stimulus package consisting of a 20bp cut in the deposit rate, a tiering system, a restart of QE with 30bn euro per month as well as a repricing of the TLTROs.

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 www.ing.com.