Inflation shock gets worse in Germany

German inflation increased once again in October. We are still a few months away from the peak

The German inflation shocker has entered the next round as headline inflation just came in at 10.4% year-on-year in October, from 10.0% YoY in September. The HICP measure increased to 11.6% YoY, from 10.9% YoY in September. The fact that monthly inflation (0.9% month-on-month) is still far above the historical average for October illustrates how inflation is spreading across the German economy.

Peak not reached, yet

The available regional data suggest that the increase in headline inflation was not only driven by higher food, energy and commodity prices. Inflationary pressure is actually spreading across the entire economy with prices for clothing and other apparel, and leisure and packaged holidays further increasing.

Looking ahead, the peak of German inflation will probably come at the turn of the year but it will take until next spring before inflation drops into single-digit territory again. The recent drop in wholesale gas prices will hardly affect the short-term inflation outlook and may only bring relief later in 2023.

Today's German inflation data once again underlines that no central bank in the world can bring down actual inflation. This is why the ECB's own narrative will increasingly shift toward inflation expectations and longer-term inflation outlooks. With this in mind, after yesterday's jumbo rate hike, the December meeting could indeed deliver a dovish pivot. ECB president Christine Lagarde was more vocal than ever regarding a looming recession yesterday and the ECB's staff projections in December will very likely show inflation structurally coming down to 2% during 2024 and 2025. Enough to stop the rate hiking cycle at the latest in February and shift from rate hikes to gradual quantitative tightening at the start of the second quarter of 2023.

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