Economic Research

Economic Briefing

Germany – Underlying inflation remains stubborn

30 May 2025

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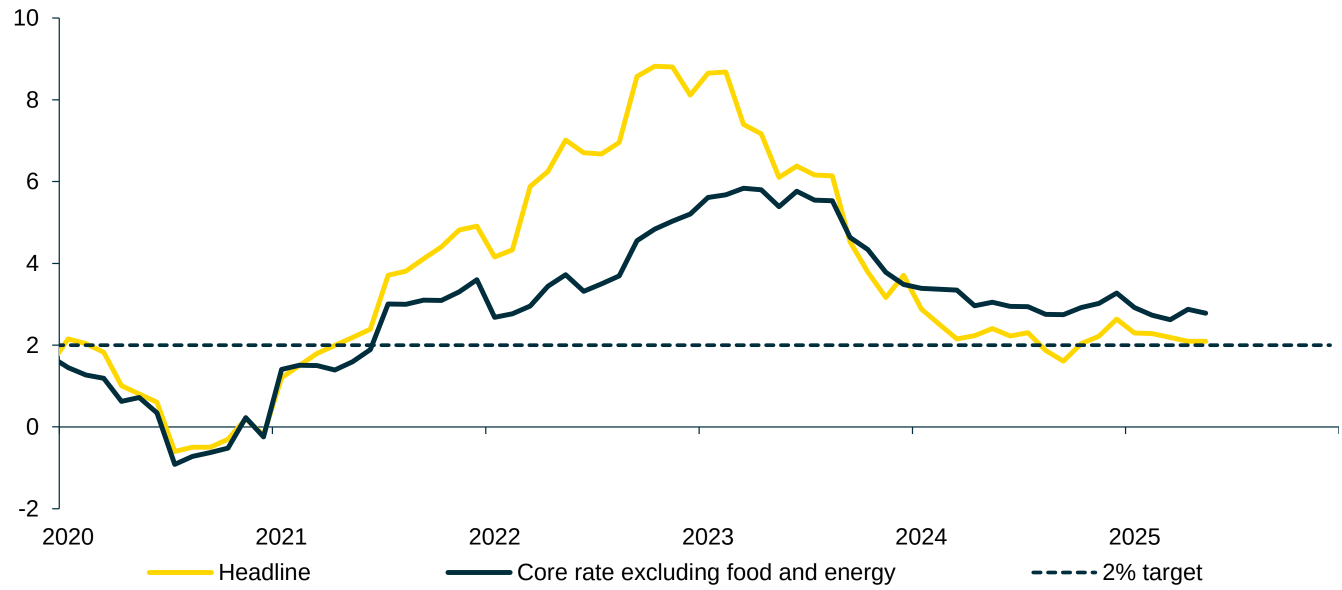
The German inflation rate remained at 2.1% in May, as in the previous month, and thus only slightly above the ECB's target. However, the core inflation rate, which excludes the often highly volatile energy and food prices, remains significantly higher at 2.8%, and there has been little progress in this area over the past twelve months. Nevertheless, the ECB is likely to cut interest rates further on Thursday.

According to initial estimates by the Federal Statistical Office, the inflation rate in Germany stood at 2.1% in May, the same as in the previous month. This is largely in line with the ECB's inflation target. However, excluding energy and food prices, which often fluctuate sharply, inflation is significantly higher, with prices rising by 2.8% year-on-year (April: 2.9%) (Chart 1).

Chart 1 - German inflation rate close to ECB's target, core rate still higher
National CPI, change on year in percent



Source: Destatis, Commerzbank Research

Core inflation rate has barely fallen in a year

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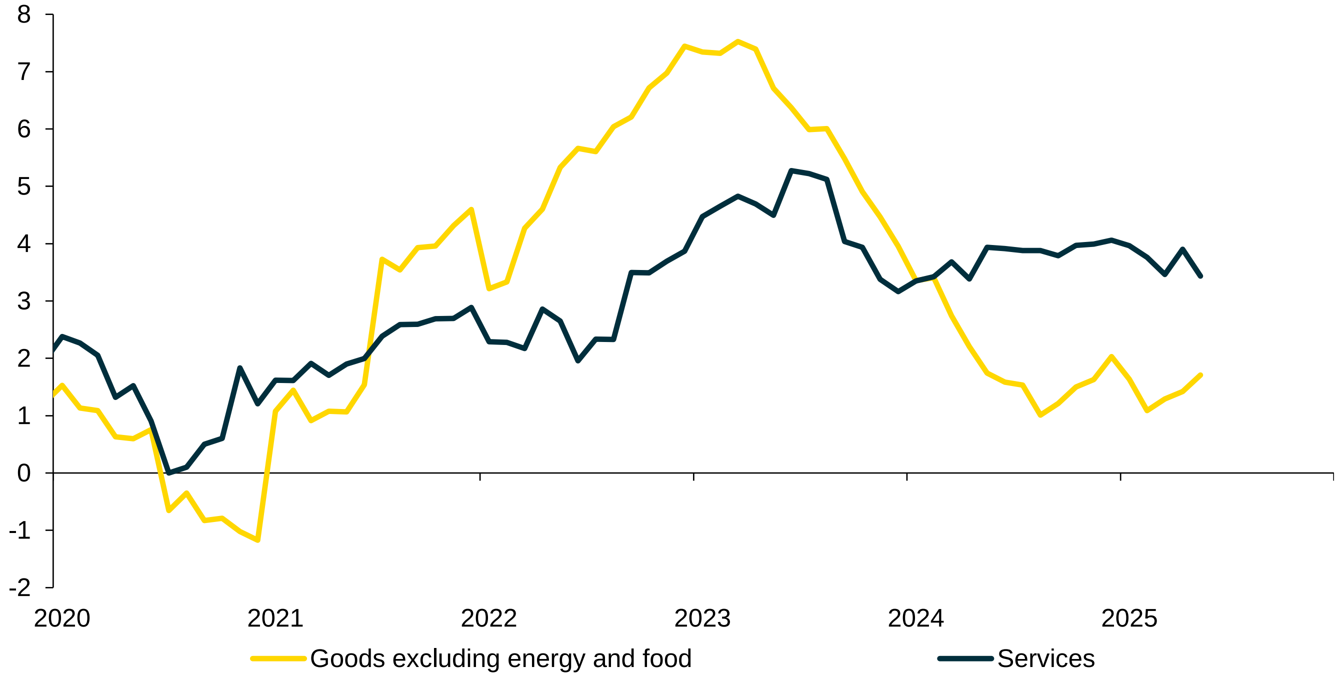
The core inflation rate thus remains higher than the ECB's target, and on balance there has been little progress in this area over the past twelve months. At 3.0%, the core inflation rate in April 2024 was only slightly higher than it is currently. The two subcomponents of the core inflation rate show different trends. Inflation in services has slowed since the beginning of the year, and the temporary jump in April is likely to be primarily due to the late timing of Easter (Chart 2). It is becoming increasingly apparent that wages are no longer rising as strongly as before and that, in addition, companies are finding it more difficult to pass on higher wage costs to their customers in view of the continuing weak economy. In contrast, inflation for goods (excluding energy and food) has picked up recently. This trend had already become apparent in the preliminary figures, as producer prices for consumer goods have risen somewhat more strongly again recently. Nevertheless, this upward trend in goods inflation is unlikely to continue because of the weak economy. As a result, the core rate is likely to ease somewhat in the further course of this year due to the likely further slowdown in inflation in services, without however falling back to the ECB's target.

Chart 2 - Service inflation slowing down

Sub-groups of German CPI, change on year in percent



Source: Destatis, S&P Global, Commerzbank Research

ECB set for further interest rate cuts

As inflation in the eurozone is likely to have matched the ECB's inflation target in May – the relevant figures will be published next Tuesday – the current price trend is unlikely to prevent the ECB from lowering its key interest rate further on Thursday. We expect a further 25 basis points cut, which will be the last for the time being, at the ECB meeting in September.

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