

Germany – stubborn core inflation

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Table of contents

Core inflation rate stable at 2.7%	1
Will the stronger rise in goods prices be sustained?	2
No reason for the ECB to change interest rates	3

The German inflation rate rose from 2.0% to 2.2% in August. More importantly, however, the core inflation rate, which excludes the often highly volatile energy and food prices, remained at 2.7% for the third month in a row. Its trend decline thus appears to have come to a halt, at least for the time being. The underlying price pressure is therefore more persistent than some had expected.

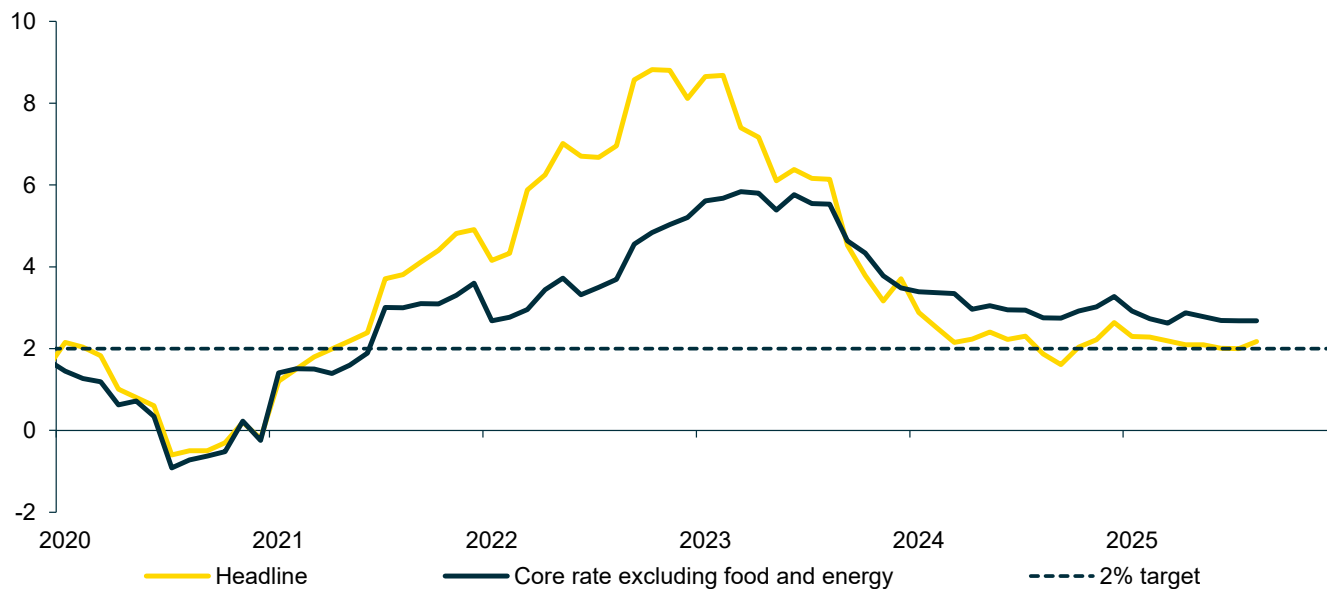
Core inflation rate stable at 2.7%

Somewhat surprisingly, the German inflation rate rose from 2.0% to 2.2% in August (consensus: 2.1%), moving slightly further away from the ECB's inflation target of 2% (Chart 1). This is primarily due to the fact that energy prices did not fall as sharply as in July compared with the previous year. The core inflation rate, which excludes the often highly volatile prices of energy and food, remained at 2.7% as in the previous month, thus not continuing the slight downward trend observed in the previous months. It therefore remains stubbornly above the ECB's target.



Chart 1 - Core inflation stable above 2%

National CPI, change on year in percent



Source: Destatis, Commerzbank Research

Will the stronger rise in goods prices be sustained?

A closer look at the details shows that inflation for services has not slowed further, but remained at 3.1% as in the previous month (Chart 2). However, we assume that this is only a short-term interruption in the decline seen in recent months. This is because companies' wage costs are no longer rising as sharply as they were a year or two ago, and the weak economy is certainly making it more difficult for companies to pass on their higher costs to their customers.

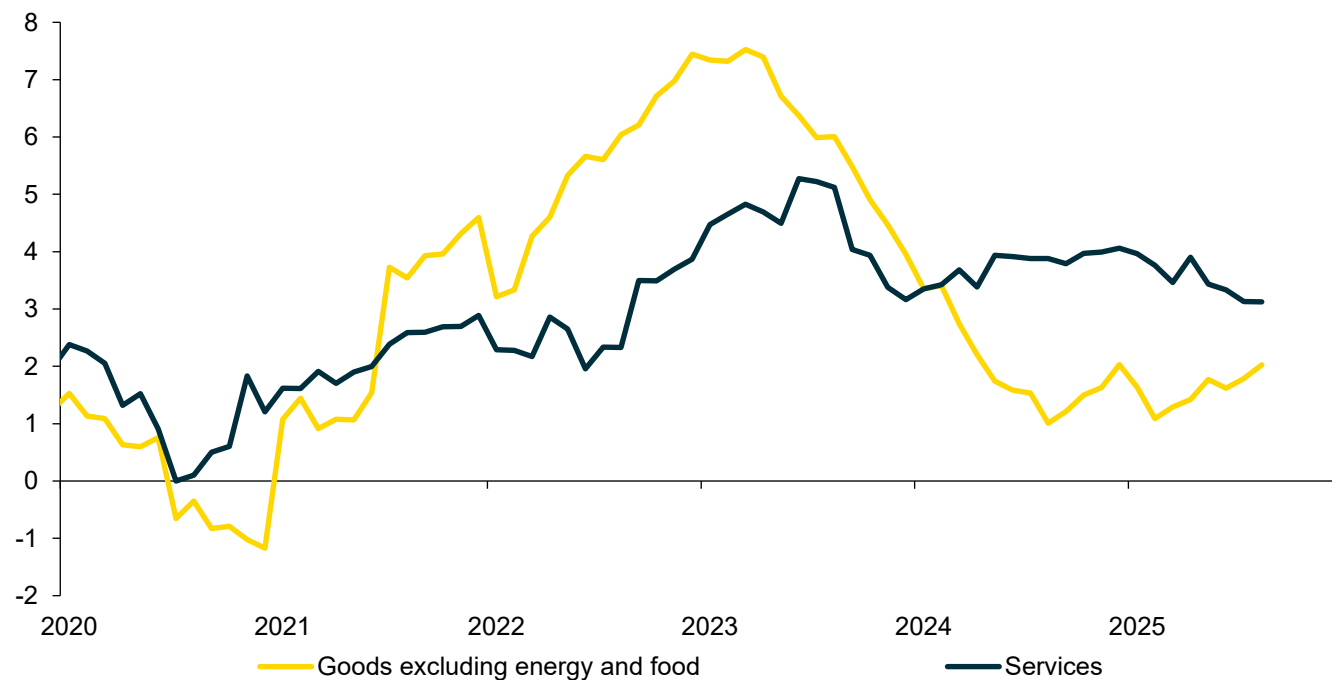
Inflation for goods (excluding energy and food prices) has even increased slightly recently. According to preliminary August results, these prices were 2.0% higher than a year ago. However, it is questionable whether goods prices will continue to rise so strongly in the coming months. The euro has



recently strengthened, which is why import prices for consumer goods have already fallen again. With a certain delay, this should slow down the rise in prices for goods, many of which are imported. We therefore expect the core inflation rate to resume its slight downward trend in the coming months.

Chart 2 - Service inflation stable, goods inflation has picked up

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



Source: Destatis, S&P Global, Commerzbank Research

No reason for the ECB to change interest rates

The national consumer price figures for August available so far do not indicate any major surprises in the figures for the eurozone due on Tuesday. Inflation remaining close to the ECB's target level is unlikely to prompt the ECB to consider changing its key interest rates, either upwards or downwards.



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