

Economic Briefing

Germany – Gasoline rebate pushes inflation rate down

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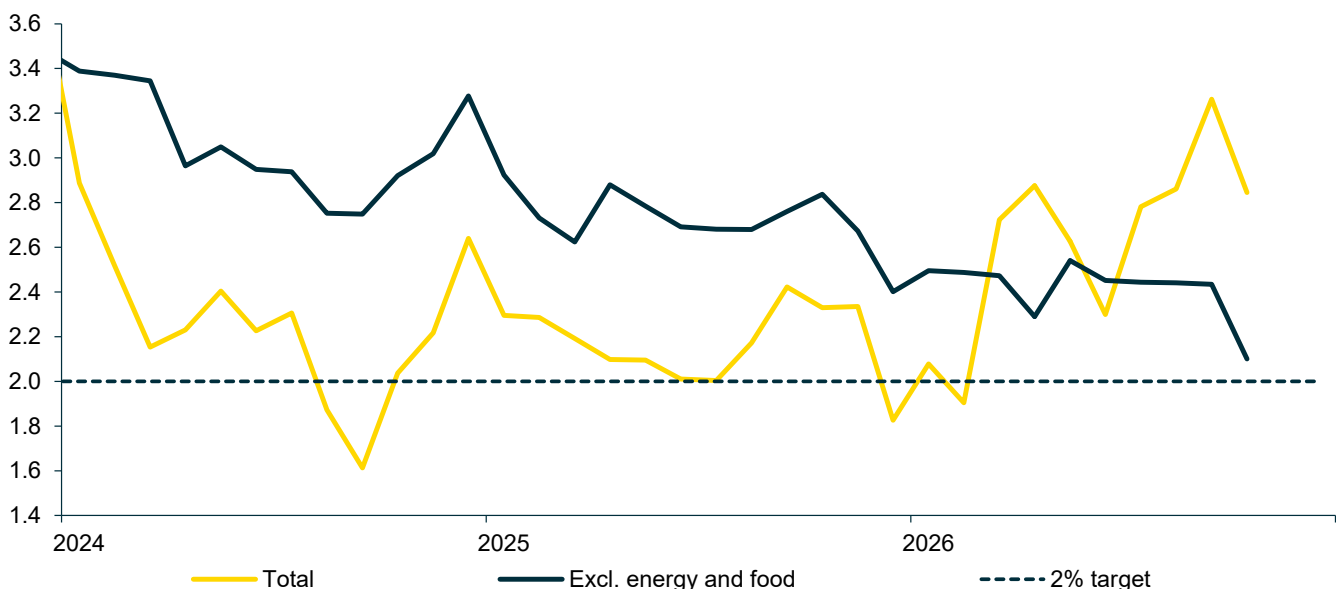
The German inflation rate (national definition) fell significantly in October, from 3.3% to 2.8%. This is partly due to lower energy prices. Fuel prices have dropped noticeably as a result of the temporary reduction in the energy tax levied on them. However, the core inflation rate excluding energy and food is also likely to have declined in October from 2.4% to 2.1%. This trend is unlikely to prove sustainable, however. Instead, the inflation rate is expected to rise again soon.

Inflation rate falls below 3% again in October, ...

Good news for private households in Germany: The inflation rate has dropped significantly from 3.3% in September to 2.8% in October. Part of this decline is attributable to the so-called "gasoline rebate." Because of the temporary reduction in the tax on fuels, their prices have fallen. But the core inflation rate excluding energy and food, whose prices also often fluctuate sharply, has also declined from 2.4% to 2.1% (Chart 1).

Chart 1 - Inflation rate back below 3%, but for how long?

National CPI, change on year in percent



Source: Destatis, Commerzbank Research



... but is likely to rise again soon ...

However, the inflation rate is not expected to fall further in the coming months; rather, it is likely to rise again. This is because there are currently no signs of a lasting improvement of the situation in the Middle East and, consequently, of a noticeable drop in energy prices. Even for the coming year, only a gradual decline in energy prices is expected, meaning they will likely remain significantly higher than before the start of the Iran war for quite some time. In addition, the fuel rebate will expire early next year, and it remains to be seen to what extent the “fuel price cap” planned for then will lower fuel prices. Another factor pointing toward a return to higher inflation is that, in the long run, the massive rise in European gas prices over the past few weeks will have a much stronger impact on consumer prices, especially since gas and electricity prices for private households have actually fallen in recent months – at least according to calculations by the Federal Statistical Office. The slight increase in these two subcomponents of the CPI, as indicated by the state-level data for October, could mark the beginning of an upward trend here. Finally, companies are likely to increasingly attempt to pass on their significantly higher energy costs to their customers, meaning that the core inflation rate is also expected to rise again in the coming months.

... and rise above 3% again

In light of these factors, we expect the inflation rate to rise above three percent again by the turn of the year and not to fall significantly below this mark in the following months. The core inflation rate is also likely to rise noticeably due to the indirect effects described above and move toward 3%.



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