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Economic Research

Economic Briefing

Germany – Inflation remains stubbornly high

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The decline in the inflation rate in Germany has probably come to an end for the time being. At 2.3%, the headline rate in July was actually slightly higher than in June, as was the core inflation rate excluding energy and food, which was unchanged at 2.9% and therefore significantly higher than the ECB wants it to be. This is primarily due to the continued strong inflation in services, where prices are still being pushed up by high wage increases. This is unlikely to change much for the time being, meaning that the core inflation rate will remain well above the ECB's target of 2% in the coming months.

The disinflation process in Germany is proving to be more drawn out than some might have expected. After all, the year-long downward trend in the inflation rate had come to an end in spring. Since then, the inflation rate has been moving sideways at around 2¼%, rising again slightly from 2.2% to 2.3% in July (Chart 1). It is currently still being held down by the frequently volatile prices of food and energy. If these two sub-components are excluded, the core inflation rate was significantly higher at 2.9%, which was unchanged from the month ago.

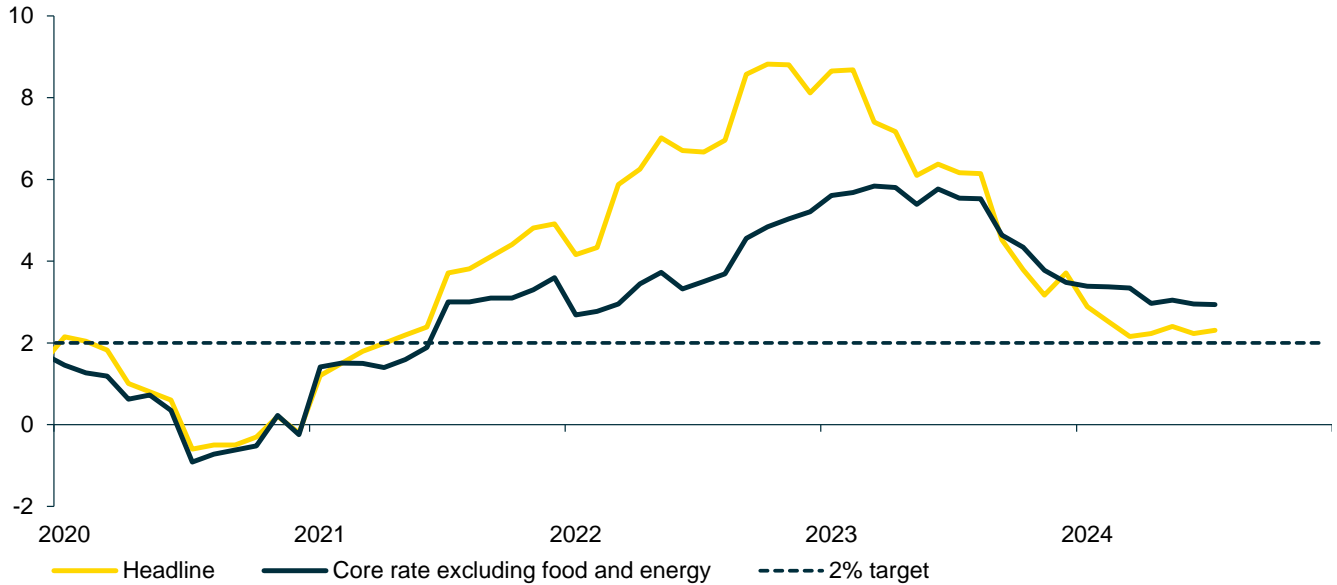


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Chart 1 - Headline inflation and core rate stable above 2%

National CPI, change on year in percent

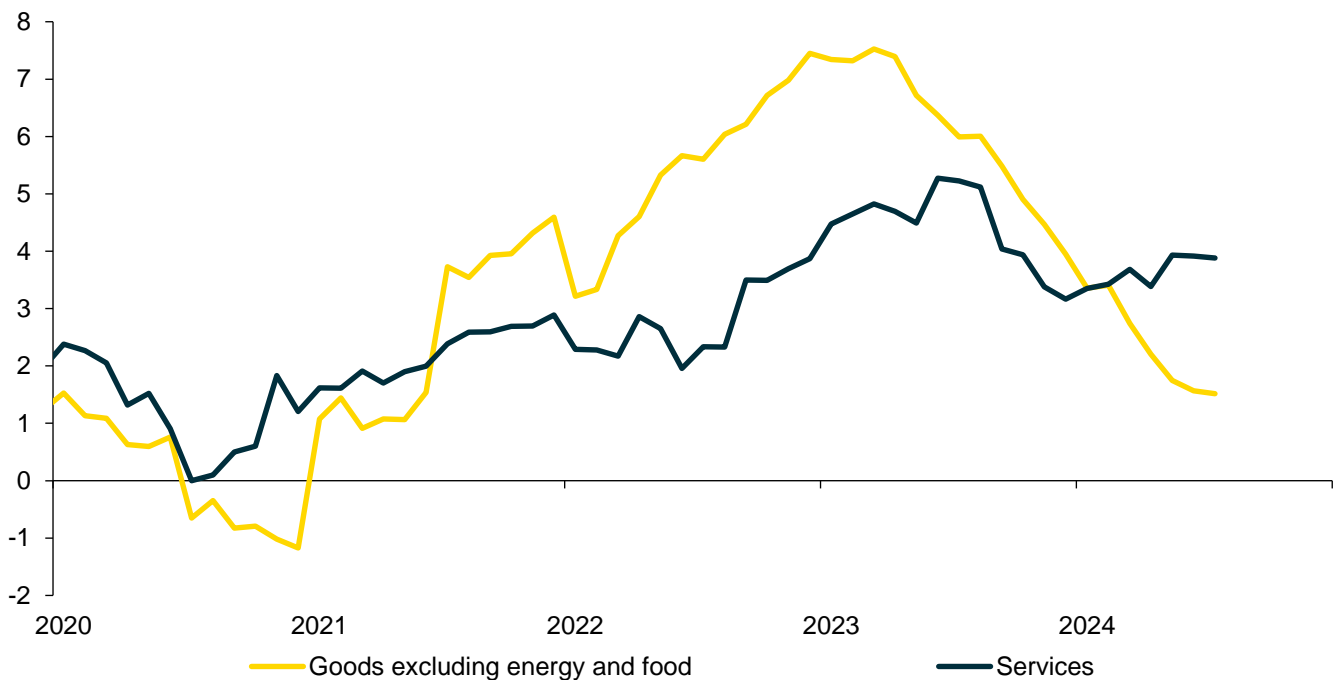


Source: destatis, Commerzbank Research

A look at the two sub-components of the core inflation rate shows that the prices of services in particular are continuing to rise sharply. Here the price pressure has actually increased somewhat recently. By contrast, the inflation rate for goods has fallen until recently, although the downward trend has flattened out somewhat of late (Chart 2).

Chart 2 - Services inflation stable at an elevated level

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



Source: destatis, S&P Global, Commerzbank Research



In view of the recent sharp rise in labor costs, the inflation rate for mostly labor-intensive services is likely to remain high for the time being. On the other hand, the downward trend in the inflation rate for goods is likely to end soon. This is because the effect of the temporary problems in the supply chains, which first drove up goods inflation and then caused it to fall again, will probably to come to an end in the coming months (see [here](#) for the eurozone). In addition, producers of goods are also facing significantly rising labor costs, which they will at least partially pass on to their customers. The core inflation rate is therefore likely to remain at around 3% in the coming months, well above the ECB's 2% target.



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