Economic Research

Economic Briefing

German inflation holds its ground

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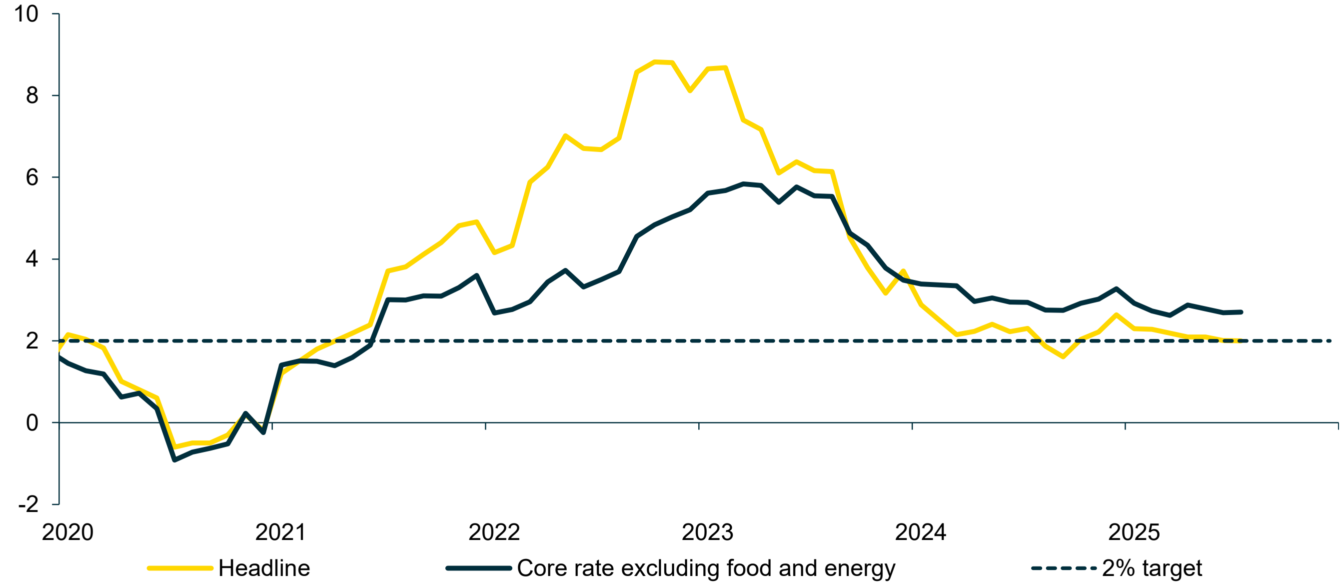
The German inflation rate remained at 2.0% in July and the core rate remained at 2.7%, as in the previous month. Price pressure in the services sector continues to ease, probably because wage costs are rising more slowly and companies are finding it more difficult to pass on higher costs to their customers. The core inflation rate is likely to stabilize just above the 2% mark due to the somewhat stronger economy. Based on the national figures available so far, the inflation rate for the eurozone is also expected to be 2.0% in July.

The figures for German consumer prices in July did not bring any major surprises: compared with the previous month, they rose by 0.3%, meaning that the inflation rate – i.e. the change compared with the same month last year – remained at 2.0%, as in June. Additionally, there was little movement in energy and food inflation, as well as in the core inflation rate, which excludes these two often highly volatile components. This core rate stagnated at 2.7% (Chart 1).

Chart 1 - Core inflation still above 2%

National CPI, year-on-year change in percent



Source: Destatis, Commerzbank Research

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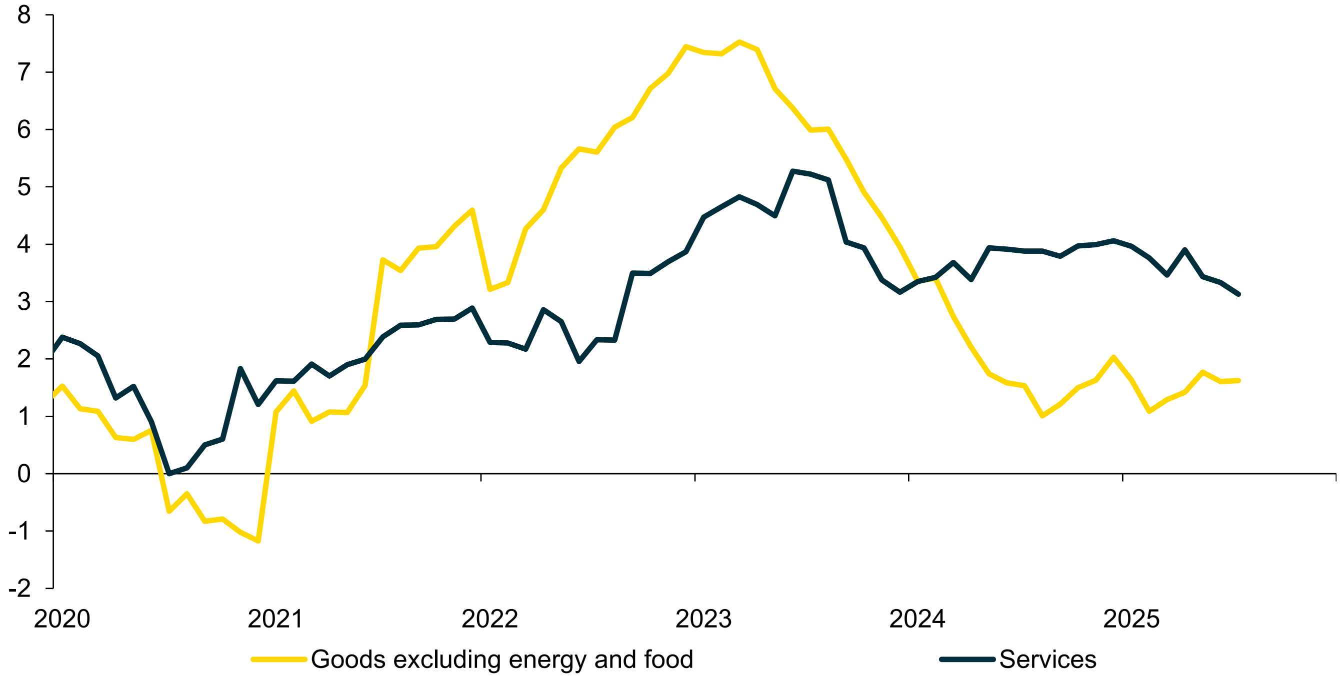
Services inflation is inching downwards

A look at the two subgroups of the core inflation rate shows that the slight downward trend in the inflation rate for services has continued. In July, it stood at 3.1%, almost a percentage point lower than at the beginning of the year. This is likely due to the fact that companies' wage costs have not risen as sharply in recent months as they did last year and that the sluggish economy is making it more difficult for companies to pass on their higher costs to their customers. Price pressure on goods excluding energy and food is significantly lower. However, the inflation rate here increased from 1.6% to 1.8% in July.

Chart 2 - Service inflation slowing down

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



Source: Destatis, S&P Global, Commerzbank Research

We expect services inflation to ease somewhat further in the coming months for the reasons mentioned above, which is unlikely to be fully offset by a higher inflation rate for goods. However, as we expect the economy to pick up slightly in the second half of the year, the core rate is likely to stabilize at just above 2%. For headline inflation, on the other hand, a drop below the 2% mark is possible, although this is likely to prove a temporary phenomenon.

Eurozone inflation also likely to be 2% in July

Based on the national results available so far, the inflation rate in the eurozone is likely to be 2.0% in July, which would be slightly higher than previously expected by us and the consensus. At 2.3%, core inflation is also likely to be at the expected level.

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