



COMMERZBANK

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Germany – core inflation still significantly above 2%

The German inflation rate fell from 1.9% in August to 1.6% in September mainly due to a further decline in energy prices. By contrast, core inflation (which excludes the often volatile energy and food prices) fell only slightly to 2.7% after 2.8% in August. Underlying inflation in Germany is therefore still well above the ECB's target. This is primarily due to the continued sharp rise in labor costs, which push up service prices in particular.

The German inflation rate fell further in September. At 1.6% – down from 1.9% in August – it was as low as it was last in February 2021, i.e. three and a half years ago. The main factor for this decline was again the development of energy prices, which were 7.6% lower in September than a year ago. In the case of food prices, the slight acceleration of price increases observed in recent months continued (1.6% year-on-year rate), while the core inflation rate excluding these two often highly volatile sub-groups declined slightly from 2.8% to 2.7%.

This still fairly strong underlying inflation is being driven primarily by wage costs, which have continued to rise sharply and are pushing up prices for services in particular. In September, these were 3.8% higher than a year ago, with the rate of inflation in this area having remained largely stable since the spring (Chart 1). The rate of inflation for goods (excluding energy and food) increased slightly. If we look at the price development at intermediate goods, it seems likely that the year-on-year rate is close to its bottom or will bottom out soon, especially since wage costs in the industrial sector have also risen significantly recently.

There are therefore a number of indications that the core inflation rate will remain well above 2% for now. Furthermore, the overall inflation rate probably bottomed out in September and will likely be back above the 2% mark by the end of the year.

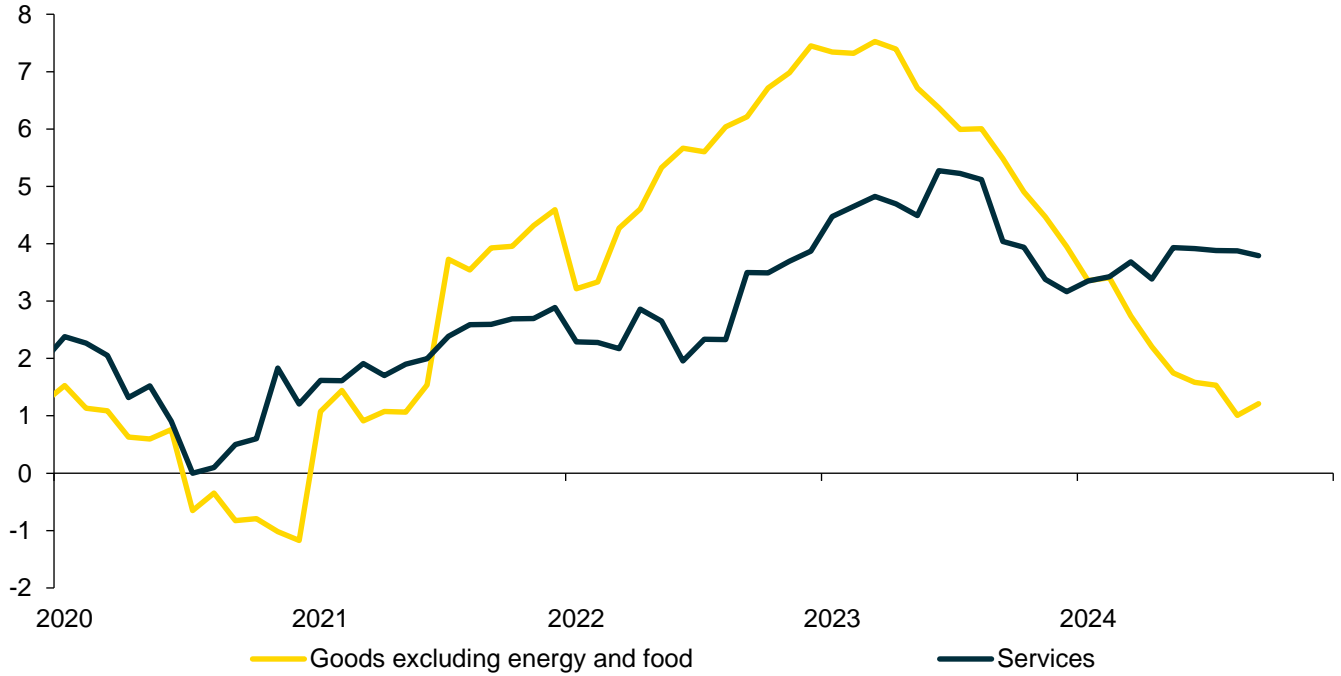


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Chart 1 - Services inflation stable at an elevated level

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



Source: destatis, S&P Global, Commerzbank Research



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