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Economic Research

Economic Briefing

December German inflation surprisingly higher

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The past year ended with unpleasant news regarding German inflation. The December inflation rate came in markedly higher than expected (2.6% vs. 2.4% consensus). This was not only due to higher energy and food prices, but also due to sharply rising prices for services, which are driven by strong wage increases. Inflation in January is likely to be almost as high as in December as a result of higher prices for CO2 and insurance services. The inflation problem has not yet been solved. Inflation in the euro area is also likely to be higher than expected in December (2.4% consensus).

German inflation rose from 2.2% in November to 2.6% in December. This is well above expectations (consensus & Commerzbank: 2.4%).

The reason for higher inflation forecasts were falling energy prices in December 2023, resulting in a stronger year-on-year increase in December 2024. However, beyond this base effect, energy and food prices rose significantly in December compared to November, increasing the headline inflation rate by 0.1 percentage points.

Excluding the volatile prices for energy and food, core inflation rose slightly from 3.0% to 3.1% in December. The high core inflation is mainly due to the sharp rise in prices for services (4.1% after 4.0% in November), which are being driven by strong wage increases. By contrast, prices for goods excluding energy and food are continuing to rise moderately at 1.6% (Chart 1).

Another high inflation rate in January

Inflation in January is likely to be almost as high as in December. A base effect leads to slightly lower inflation in January. However, the increase in the CO2 price for transport and heating from EUR 45 to EUR 55 per ton CO2 at the beginning of the year could increase consumer prices by just under 0.1% on its own. We assume a similar order of magnitude of price increases by insurers, which are likely to increase their premiums significantly in January due to the recently sharp cost increases.

Inflation problem not yet solved

Inflation is likely to move back towards the 2% mark in the further course of the new year – mainly due to the weak economy, which weakens employees' bargaining power.

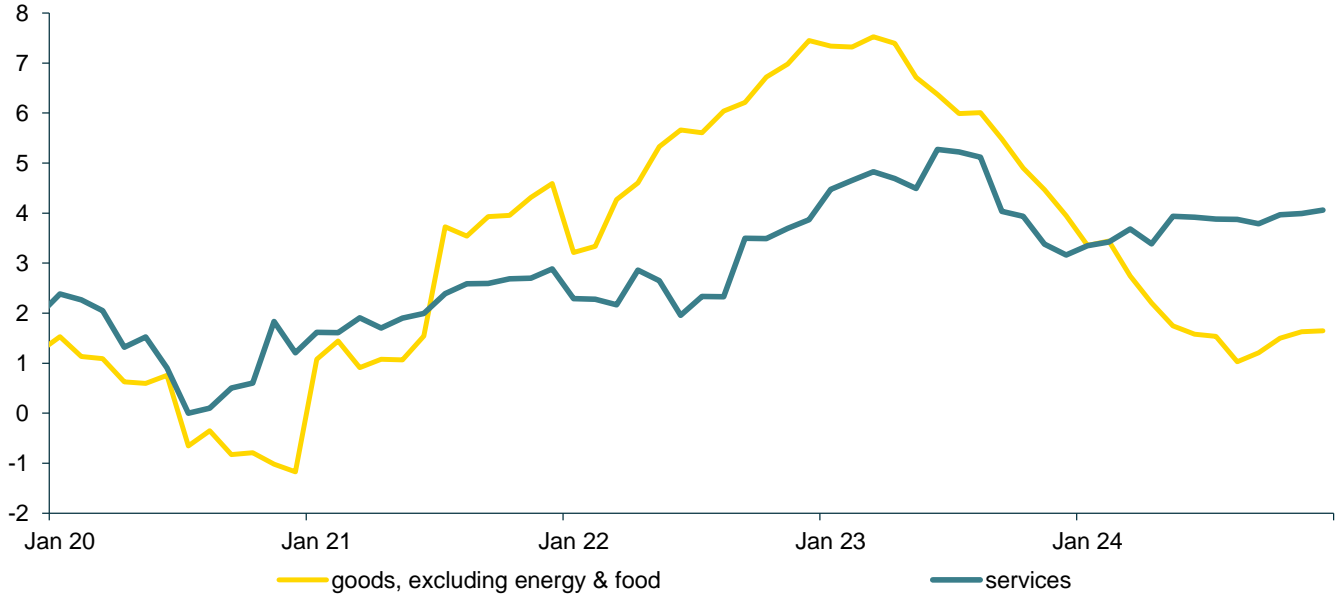
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However, the inflation problem is unlikely to be fully resolved in the foreseeable future due to deglobalization, demographics and decarbonization.

German services inflation still too high

German consumer price index, % change year-on-year



Source: Federal Statistical Office, Commerzbank Research



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