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Economic Research

Economic Briefing

Germany – Inflation near 2%, but ...

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According to preliminary figures from the Federal Statistical Office, the German inflation rate fell from 2.4% to 2.2% in June. A stronger decline in energy prices played a role here, but the core inflation rate also fell slightly from 3.0% to 2.9%. This was due to a further fall in the inflation rate for goods, although the downward trend is likely to come to an end soon. By contrast, the inflation rate for services remained stable at just under 4%. Although the overall inflation rate could temporarily fall to 2% in the coming months, the core inflation rate is likely to stabilize near its current level and thus well above the ECB's target.

In May, the German inflation rate rose again for the first time since December 2023, when it had been pushed up by a special effect. At 2.2% in June, it has now fallen back to the level it was at in March and April. One reason for the lower year-on-year rate was the fact that the fall in energy prices was even more pronounced than in the previous year. However, even if energy prices and food prices, which are often also very volatile, are excluded, the inflation rate fell slightly. The core inflation rate defined in this way was 2.9% in June, after 3.0% in May.

A look at the details shows that this decline in the core rate is due to a lower increase in goods prices (excluding energy and food), whose year-on-year rate has been on a strong downward trend for more than a year (Chart 1). This is due to the price surge caused by the supply bottlenecks resulting from the coronavirus pandemic, which came to an end around a year ago. The decline in the rate of inflation for goods is primarily due to the fact that these sharp increases are no longer included in the year-on-year comparison. Most recently, prices fell slightly compared to the previous month on a seasonally adjusted basis. However, in view of the fact that prices in the preliminary stages are tending to rise again and labor costs are increasing, this is likely to prove to be a temporary phenomenon, meaning that the inflation rate for goods should stabilize in the coming months.

In contrast, the inflation rate for service prices is even showing a slight upward trend. As in the previous month, it amounted to 3.9% in June. In this usually very labor-intensive sector, rising wage costs are having a much greater impact. We therefore expect the inflation rate for services to remain close to its current level for the time being.

The overall inflation rate may fall temporarily to 2% in the coming months due to lower energy prices. However, the core inflation rate is likely to stabilize well above the ECB's target value, showing that the inflation problem has not yet been solved.

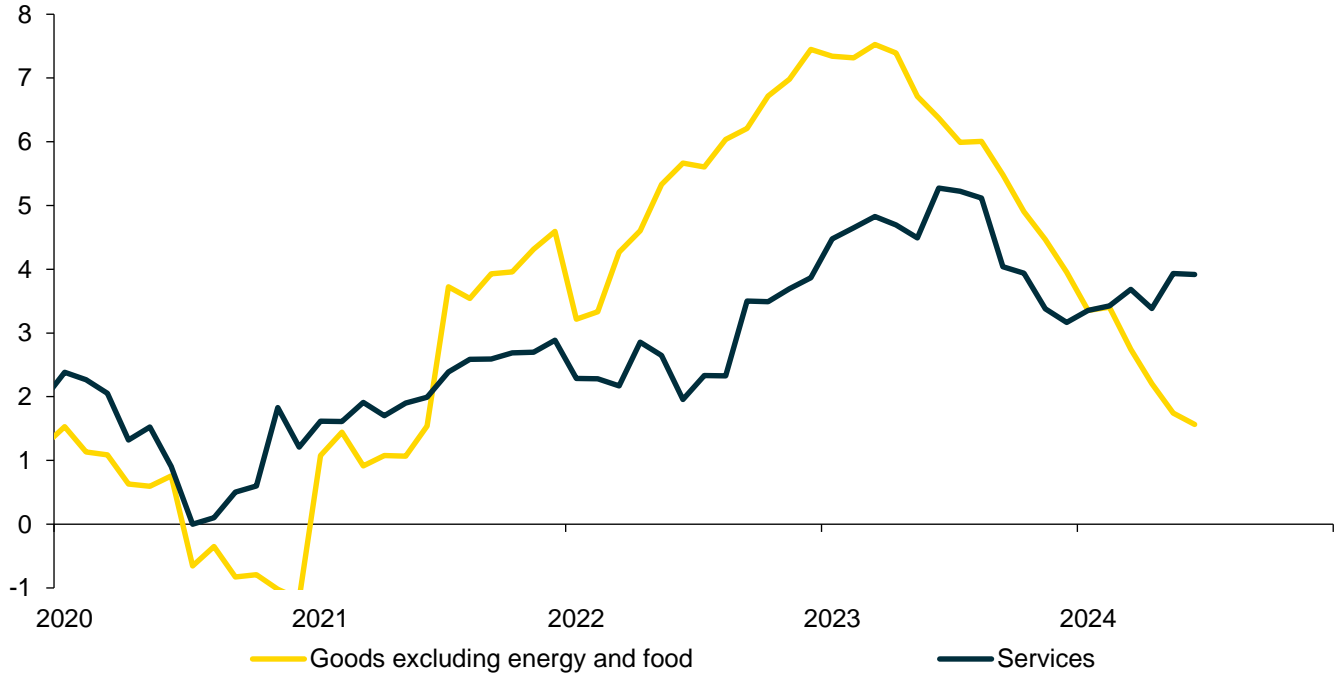


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Chart 1 - Services inflation stable at an elevated level

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



Source: destatis, S&P Global, Commerzbank Research



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