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Economic Research

Economic Briefing

# German inflation falls surprisingly

**Inflation in Germany surprisingly fell to 2.3% at the beginning of the year. The consensus had expected an inflation of 2.6% – the same as in December. Rising fuel prices and one-off effects such as the price increase of the Deutschland-Ticket, a monthly flat rate public transport ticket, did indeed have an upwards pressure on the inflation. However, the underlying trend of the core rate has apparently slowed considerably due to the weak economy. In view of the sharp rise in wages, however, it is too early to consider the fight against inflation to be over. In the euro area, on the other hand, inflation will likely not fall.**

German inflation fell from 2.6% to 2.3% in January. This is well below the consensus and Commerzbank's expectations (both 2.6%). Inflation excluding the volatile prices for energy and food (core rate) also fell from 3.3% in December to 2.9% in January (Chart 1).

The drop in the inflation rate is particularly surprising because fuel prices rose sharply at the turn of the year and one-off effects such as higher prices for the Deutschland-Ticket, a monthly flat rate public transport ticket, and insurances occur in January. The easing in the underlying price pressure for services and goods excluding energy is apparently all the more significant. Inflation fell particularly sharply for clothing and entertainment services, for example. In addition, the rise in food prices also fell noticeably from 2.0% to 0.8%.

## Nevertheless, the inflation problem has not been solved

The lower core rate is in itself a positive sign for consumers and could also signal lower price pressure in the coming months. However, the inflation rate also surprisingly rose in December (Chart 1). One should therefore not read too much into today's downward surprise either. The continued high wage inflation also suggests that the inflation problem has not yet been solved.

31 January 2025

Dr. Vincent Stamer<sup>AC</sup>

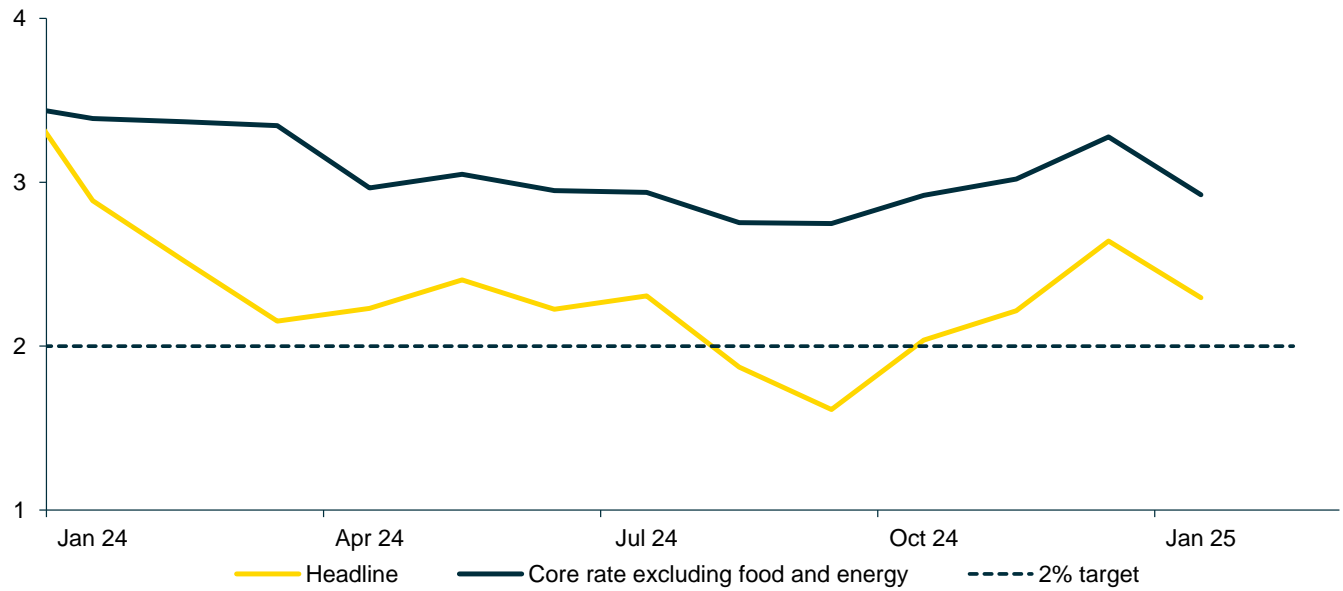
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**Chart 1 - Inflation drops, but remains too high**

National consumer price index in Germany, headline and core components, year-on-year changes in %



Source: Statistisches Bundesamt, Commerzbank-Research

**Inflation is unlikely to fall in the euro area in January**

However, the decisive factor for the ECB is the harmonized consumer price inflation, which remained unchanged at 2.8% in Germany in January. Harmonized consumer price inflation differs from the national figures, for example in the weighting of components and the valuation of owner-occupied properties. Inflation is therefore unlikely to have fallen in the currency area as a whole. While the inflation rate in France also fell slightly, it rose in Belgium and Spain due to the strong economy. This is another reason why the ECB target of 2% is unlikely to be reached in the spring.



## Analysts

**Dr. Vincent Stamer** <sup>AC</sup>

Economist

+4969935345800

vincent.stamer@commerzbank.com

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#### Commerzbank Offices

##### Frankfurt

Commerzbank AG  
DLZ - Gebäude 2,  
Händlerhaus  
Mainzer Landstraße 153  
60327 Frankfurt  
Tel: + 49 69 136 21200

##### London

Commerzbank AG  
PO BOX 52715  
30 Gresham Street  
London, EC2P 2XY  
Tel: + 44 207 623 8000

##### New York

Commerz Markets LLC  
225 Liberty Street, 32nd  
floor,  
New York,  
NY 10281-1050  
Tel: + 1 212 703 4000

##### Singapore

Commerzbank AG  
128 Beach Road  
#17-01 Guoco Midtown  
Singapore 189773  
Tel: +65 631 10000