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Economic Research

Economic Briefing

Germany: Inflation rate still around 2%, but core rate close to 3%

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Dr. Ralph Solveen^{AC}

At 2.2%, the inflation rate in Germany in November was somewhat higher than in October (+2.0%). The increase is partly due to the fact that energy prices fell less in November than a year ago. However, the core inflation rate excluding energy and food also increased from 2.9% to 3.0%, with primarily service prices rising strongly. However, the core inflation rate should also begin to fall in the coming months.

The inflation rate in Germany rose from 2.0% in October to 2.2% in November (Chart 1). The increase compared to the previous month is due to the fact that although energy was slightly cheaper in November than in October, the drop a year ago was significantly bigger. As a result, energy prices were only 3.7% lower than a year ago, after a year-on-year comparison of -5.5% in October. Food prices have hardly changed compared to October and were 1.8% higher than a year ago. If these two often very volatile components are excluded, the core inflation rate amounted to 3.0%, slightly higher than in the previous month and significantly higher than the ECB's actual target of 2%.

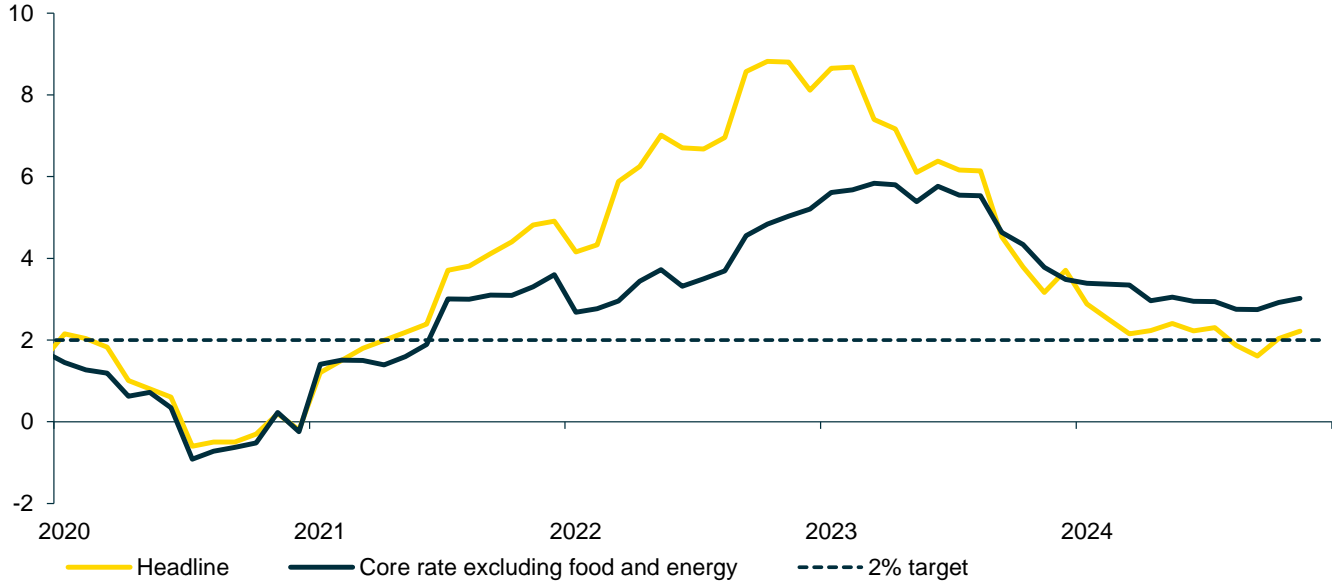


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Chart 1 - Headline inflation close to 2%, core rate still significantly higher

National CPI, year-on-year change in percent

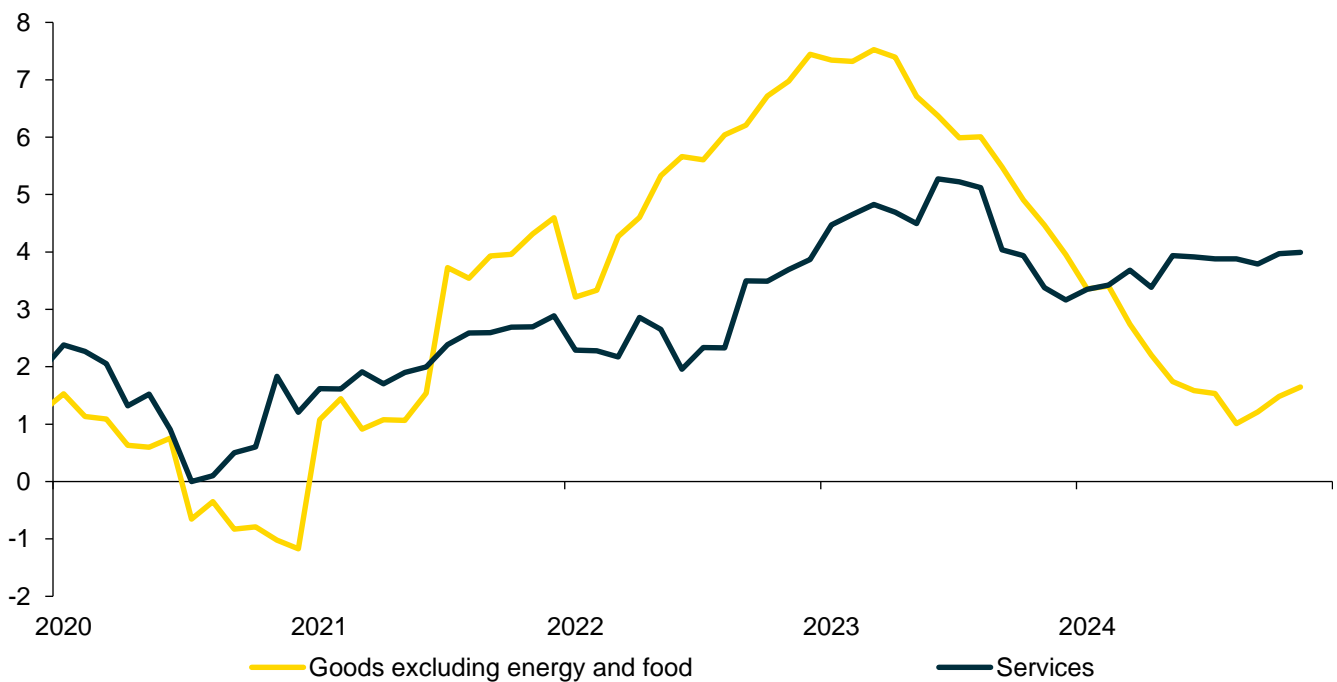


Source: Destatis, Commerzbank Research

This higher core inflation rate is due to the continued very strong rise in service prices (Chart 2). As in previous months, these were around 4% higher in November than a year ago. The rise in the prices of goods (excluding energy and food) has been significantly weaker over the past 12 months. However, the inflation rate here has risen recently after falling significantly from the beginning of 2023 to mid-2024.

Chart 2 - Services inflation stable at an elevated level

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



Source: Destatis, S&P Global, Commerzbank Research



While the inflation rate has recently risen again somewhat and is likely to be slightly higher again in December, a lower inflation rate is expected for the first few months of the coming year. This will probably not be driven by fluctuations in energy and food prices. Instead, the core inflation rate is likely to fall, as wage costs are likely to rise more slowly and companies will find it increasingly difficult to pass on these higher costs to their customers in view of the weak economy. As a similar trend is expected for the euro area, the price trend is likely to encourage the ECB to lower its key interest rate further.



Analysts

Dr. Ralph Solveen ^{AC}

Senior Economist

+49 69 9353 45622

ralph.solveen@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