



ECB unimpressed by the rise in inflation - for now

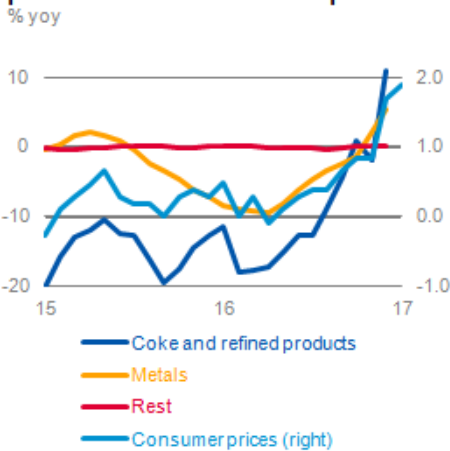
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Deutsche Bank Research Management
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Germany: Strongly rising producer & consumer prices



Sources: Statistisches Bundesamt, Deutsche Bank Research

The headline inflation rates, which have increased substantially in recent months, have rekindled the debate surrounding the ECB's bond-buying programme. German producer prices have also risen sharply in recent times. In December 2016, the prices of metal (up by 5% on December 2015) and energy (up by 10%) increased particularly sharply. Nevertheless, the remaining inputs (weighting: 83.6%) continued to show no inflationary pressure at all.

For the ECB, however, the increase in eurozone consumer price inflation to 1.8% in January and the rise of more than 2% percentage points in consumer prices since summer 2016 are the more relevant metrics. They meant that the ECB's average annual inflation target of "below, but close to, 2%" was within reach again – after three years of inflation rates that had hovered just above zero.

But despite the high level of media attention – particularly in Germany – the ECB is unlikely to consider prematurely winding down its bond-buying programme. The core inflation rate – i.e. the change in the price of consumer goods excluding volatile items such as food and energy – remains virtually unchanged at around 1% both in Germany and across the eurozone. For the core inflation rate to increase, high wage growth is needed. As in recent years, wage growth is likely to be around 2% in Germany – despite full employment.

Despite the recent increase in overall inflation, it therefore seems unlikely that the ECB Governing Council, at its March meeting, will be willing to signal a tapering of its bond purchases. In the best-case scenario, it will formulate more specific conditions under which the bond-buying programme could be reduced. As before, we expect the ECB to announce a scaling back or modification of its bond purchases in June at the earliest. However, it is probable that the ECB's comments in March will hint at a slight shift in emphasis.



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