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Economic News

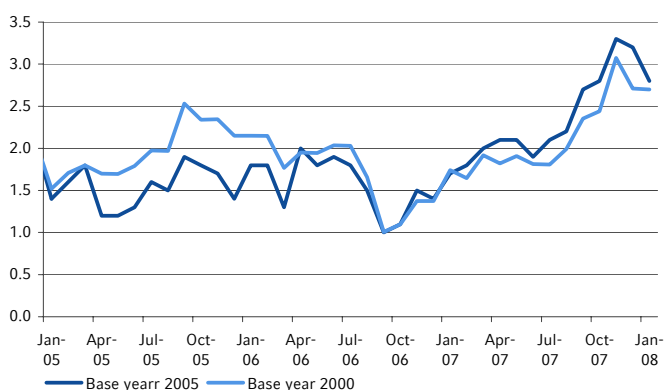
CONSUMER PRICES IN GERMANY

Inflation risks remain elevated even after the CPI revision

- **Consumer prices in February** posted an unexpectedly sharp increase. The consumer price index for Germany rose by a significant 0.5%, which corresponds to a year-on-year increase of 2.8%. Energy and food prices continued to be the main inflation drivers. The annual change in the German HICP calculated for European purposes is estimated at +2.9% for February.
- Prior to this, the final results for January were released taking into account the new index calculation. One consequence of now using 2005 instead of 2000 as the base year is that the **inflation rate in January** was revised up from 2.7% to 2.8% versus the previous year. In contrast, the monthly rate of change was lowered from -0.3% to currently -0.4%. Calculating back through the previous years based on adjusted statistics does not present a uniform picture. Accordingly, the inflation rates for 2006 were revised down by 0.1 percentage point to 1.6%. By contrast, 2007 inflation figures were revised up by the same amount to currently 2.3%.
- With regard to the **new weighting system**, the weights for housing (including water and energy), communications and healthcare have increased. Household goods, transport and clothing will have a lower weight in future. Overall, however, the change in the weighting system should only have a limited impact on the consumer price trend. **Methodical changes** could play a greater role in future. Due to the introduction of weightings for business types, the significance of discounters has clearly increased, which has driven up inflation rates in recent months, for example.
- Overall, as far as the new calculation method for the index is concerned, the dampening effect that was widely anticipated has not materialised. Inflation therefore remains a dominant issue for the ECB.

Arnd Schäfer
+49 211 826-5116
arnd.schaefer@westlb.de

Consumer prices (% y/y)



Source German Federal Statistical Office, WestLB Research

Weighting system (in %)

Product groups	Base year 2000	Base year 2005
Food and non-alcoholic beverages	10.3	10.4
Alcoholic beverages and tobacco	3.7	3.9
Clothing and footwear	5.5	4.9
Housing, water, electricity, gas and other fuels	30.3	30.8
Furnishings, household equipment and routine maintenance of the house	6.9	5.6
Health	3.5	4.0
Transport	13.9	13.2
Communication	2.5	3.1
Recreation and culture	11.1	11.6
Education	0.7	0.7
Restaurants and hotels	4.7	4.4
Miscellaneous goods and services	7.0	7.4

Source Federal Statistical Office, WestLB Research

WestLB AG
Herzogstraße 15
D-40217 Düsseldorf

WestLB AG
London Branch
Woolgate Exchange
25 Basinghall Street
London EC2V 5HA
United Kingdom

T: +49 (0)211 826 71841
F: +49 (0)211 826 6154

T: +44 (0)20 7020 2000
F: +44 (0)20 7020 4209

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