

28 March 2008

Economic news

INFLATION IN GERMANY

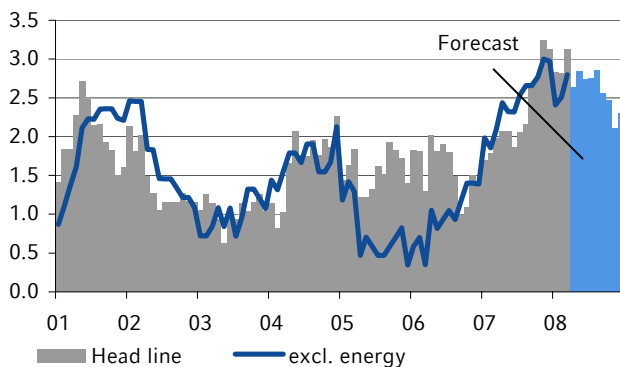
Steep rise in March CPI

March saw a sharper than expected rise in German consumer prices. This will inevitably push Eurozone inflation higher. With the inflation rate increasingly less likely to return below 2% this year, the ECB will probably not loosen monetary policy in the foreseeable future.

- According to preliminary calculations of the Federal Statistical Office, March consumer prices rose by an unexpectedly strong 0.5% on the month. In addition to energy prices, there was an upsurge in food, furniture and clothing prices. The inflation rate jumped from 2.8% to 3.1% as a result. The average annual change in the German HCPI calculated for European purposes is estimated at +3.2% for March 2008.
- Although inflation is expected to moderate slightly next month due to a base effect – April 2007 saw a sharp hike in consumer prices due, among other things, to the introduction of student tuition fees in a number of federal states –, it is increasingly less likely that inflation will return below the 2% level. The sharply higher crude oil prices will cause further hikes in gas and electricity prices, over and above the increases already announced for April and May. Despite the firm euro, producer and import prices have recently risen at an accelerated pace, leading to higher costs in the production of goods. Companies will – at least in part – pass this on, together with rising wage costs, to the consumer. On average, the inflation rate this year is unlikely to be much lower than 2 1/2%. Our previous annual inflation forecast was 2.2%.
- The sharp increase in consumer prices in Germany will inevitably push Eurozone inflation higher, especially since the other countries are, for the most part, likewise being hit by surges in energy and food prices. An inflation rate of below 2% is currently not on the cards for this year. Against this backdrop, the ECB's serious concerns over inflation are likely to persist in the foreseeable future. Consequently, for the time being there is little likelihood that the ECB will loosen its monetary policy.

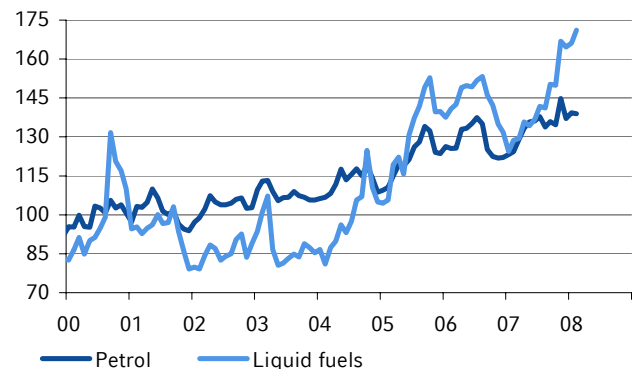
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Consumer prices (% y/y)



Source EcoWin, WestLB Research

Prices for petrol and liquid fuels (2000 = 100)



Source EcoWin, WestLB Research

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