German Inflation Weakest Since 2009 Raises Pressure on ECB

By Stefan Riecher - Jan 5, 2015

German consumer prices are close to stagnating, adding to signs that euro-area inflation (GRCP2HYY) is turning negative and potentially bolstering the case for more European Central Bank stimulus.

Inflation in the region’s largest economy slowed to 0.1 percent in December, the Federal Statistics office said today. That’s the lowest rate since October 2009 and below the median forecast of 0.2 percent in a Bloomberg survey of economists.

ECB officials are debating whether to expand stimulus to including buying government bonds as plunging oil prices threaten to tip the euro area into a deflationary spiral. Germany has been the main center of opposition to quantitative easing as the central bank prepares a package that could be approved as soon as this month.

“Germany’s inflation rate almost hit freezing point in December,” said Marco Wagner, an economist at Commerzbank AG in Frankfurt. “A negative euro-zone inflation rate would reinforce the call from the ECB council doves for more QE.”

The euro traded near the weakest level in almost nine years and was down 0.8 percent at $1.1909 at 3:05 p.m. Frankfurt time. The DAX Index (DAX) of German stocks was 1.5 percent lower.

Further Measures

A drop in oil prices to the lowest level in more than five years is weighing on euro-area inflation. Data last week showed Spanish prices slid 1.1 percent in December from a year earlier, the most since July 2009. Economists surveyed by Bloomberg predict a reading of minus 0.1 percent for the euro area, compared with a 0.3 percent increase in November. The European Union’s statistics office is due to release the figures on Jan. 7 at 11 a.m. in Luxembourg.

While Bundesbank President Jens Weidmann has argued that cheaper energy costs provide an economic stimulus, other ECB policy makers have signaled there is a consensus for more action. A decision to start QE could come as soon as Jan. 22, when officials convene for their next monetary-policy meeting in Frankfurt.

ECB Chief Economist Peter Praet said in a guest commentary published in Austria’s WirtschaftsBlatt today that the central bank “will use further unconventional instruments within the scope of its mandate if necessary to counter the risks of a too-long period of low inflation.”

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