



Underestimated inflation

a problem only in Berlin or in Germany as a whole?

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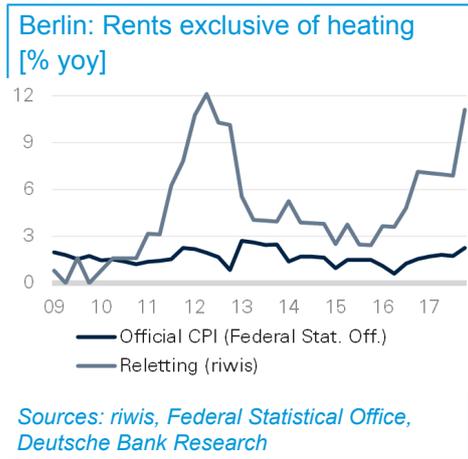
Author

Jochen Moebert
+49(69)910-31727
jochen.moebert@db.com

www.dbresearch.com

Deutsche Bank Research Management
Stefan Schneider

House prices and rents have risen considerably during the current house price cycle. Rents are the component of the consumer price basket which has the biggest impact on overall inflation. While recent newspaper reports and market figures reflect the uptrend in rents, the official statistics are suspiciously free of it. This holds especially for Berlin. Consequently, official figures for the capital – and probably for Germany as a whole, if to a smaller extent – probably underestimate actual inflation.



Numerous German tenants have had to cope with rent increases in the last few years, particularly in large and popular cities. Official consumer price statistics often do not reflect actual, considerable rent increases. This is particularly evident for Berlin. According to the Berlin statistical office, net rents in Berlin have risen by c. 16% since 2009 and by roughly 2% in 2017. Those who are currently looking for a new home in Berlin – and there are many; c. 13% of all Berliners, including newcomers to the city, move every year – will probably be astonished by these figures. The rental table for Berlin, which is released every two years, raises even more doubts. According to it, net rents were up by about 45% between 2008 and 2016, i.e. almost three times as much as claimed in the official statistics. Market data confirm significant rent growth. According to the riwis database, a source used by the Bundesbank for its financial market stability reports, rents for re-let homes in Berlin have risen by more than 60% since 2009 and by roughly 10% in 2017 alone.



Official statistics underestimate inflation in Berlin

If we replace the net rent figures used for the consumer price inflation basket by market rents (according to riwis), inflation in Berlin jumps from an official figure of 1.5% to 3.1% in 2017. While market rents exaggerate actual rent growth somewhat, as they capture only re-let apartments, but not existing tenancy agreements, the official statistics appear to underestimate actual inflation. This assumption is supported by another phenomenon. Across Germany, net rents make up roughly 20% of the consumer price inflation basket used by the statistical offices. However, they actually claim a bigger share of tenants' income in Berlin, where incomes are notoriously low. According to the latest available income and consumption survey, Berlin households spent c. 27% of their private consumption expenditure and c. 27% of their net household income on rent payments in 2013. Today, this share looks set to be even higher.





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Taken together, the insufficient weight of rents in the consumer price inflation basket and the excessively low official figures on rent inflation suggest that inflation in Berlin is systematically underestimated.

Is inflation underestimated across Germany?

Rent developments in Bremen are similar to those in Berlin. During the last few years, market rents have risen at roughly double the pace reflected by official figures. Data for Hamburg are aggregated with those for Schleswig-Holstein and are therefore not comparable. As in Bremen and Berlin, there are divergences across Germany. While market rents rose by almost 40% between 2009 and 2017, official rent price inflation amounted only to 10%. If German inflation figures were calculated on the basis of market rents, inflation in 2017 as a whole would amount to 2.5%, i.e. almost 1 pp above the official figure. However, market rent figures are only collected in 127 cities with 30 million inhabitants, i.e. in regions where rents tend to rise relatively strongly anyway. The figures are therefore not representative. In addition, existing tenancy agreements are not included. This means that official inflation figures probably underestimate actual inflation to a smaller extent in Germany as a whole than in Berlin or Bremen. However, rents look set to rise more strongly against the background of an insufficient supply of housing. That means that actual and official inflation figures might deviate more strongly across Germany.

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