

ECONOMIC PULSE

GERMANY: BOOST TO GROWTH NEEDED

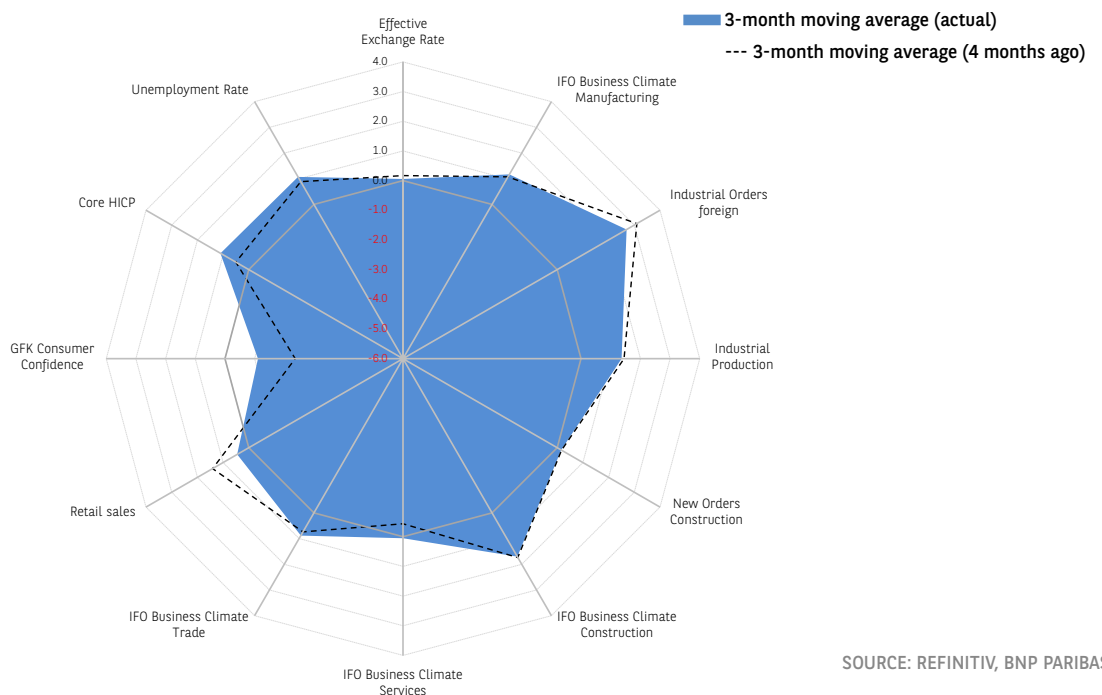
Our Pulse chart shows that the economic situation in Q3, designated by the blue area, was almost unchanged from that in the previous quarter, represented by the area delimited by the dashed lines. Recent business cycle indicators even suggest that the recovery is losing steam. The Ifo business indicator has been declining since July. In particular, the manufacturing sector is reporting a worsening of business conditions as both activity and expectations are on a declining trend. Order books are still relatively full, but order intake is levelling off. This is partly related to supply chain disruptions. In particular, shortages of semiconductors are weighing on production in the car industry. Moreover, soaring input prices have been affecting profits margins. In August, they were 12% higher from a year earlier (8.3% excluding energy).

Rising prices have also been observed for consumer goods and services. In September, consumer prices were 4.1% higher from a year earlier and we forecast inflation to rise to 4.6% in Q4. This is mainly due to temporary factors such as the return to the higher VAT rates on 1 January and the increase in crude oil prices. In September, energy prices were 14.3% higher from a year earlier. The higher prices have been weighing on consumer sentiment. In September, the GfK consumer confidence index declined to -1.1, a lowest since June. The institute expects consumer confidence to increase in October, on the back of better economic and income expectations due to an improving labour market. Retailers are less sure that this will result in more sales. In recent months, sales have been on a slowly declining trend as higher energy prices have been affecting purchasing power and they expect this trend to continue in the coming months.

The SPD (social democrats) won the German election. Its political leader Olaf Scholz will now turn to the Greens and the FDP (liberals) in order to form a coalition that has sufficient support in the *Bundestag*. One of the challenges for the incoming government will be to provide new impetus to growth. The SPD campaigned to boost the minimum wage to EUR12 from EUR 9.60 by 1 January 2022. However, the risk is that negotiations drag on for a considerable time, while the economy is slowing down. This is likely to have also a negative impact on the neighbouring countries.

Raymond Van Der Putten

QUARTERLY CHANGES



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -6 and +4. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

