

ECONOMIC PULSE

GERMANY: DIVERGING FORTUNES FOR SERVICES AND INDUSTRY

The Pulse for Germany highlights the dichotomy that characterises the economy at the moment. As can be seen on the left-hand side of the chart, the lockdown announced in early November and drastically tightened in mid-December is heavily weighing on the household sector and services. The GFK consumer confidence index and the IFO indices for trade and services worsened in the three months to January (blue area) compared to the preceding three-month period (dotted line). GFK noted that the propensity to consume has been in free fall since the closure of non-essential shops in mid-December, as there is not much to buy. In the chart, retail sales still expanded, but that is because the latest published data are from November.

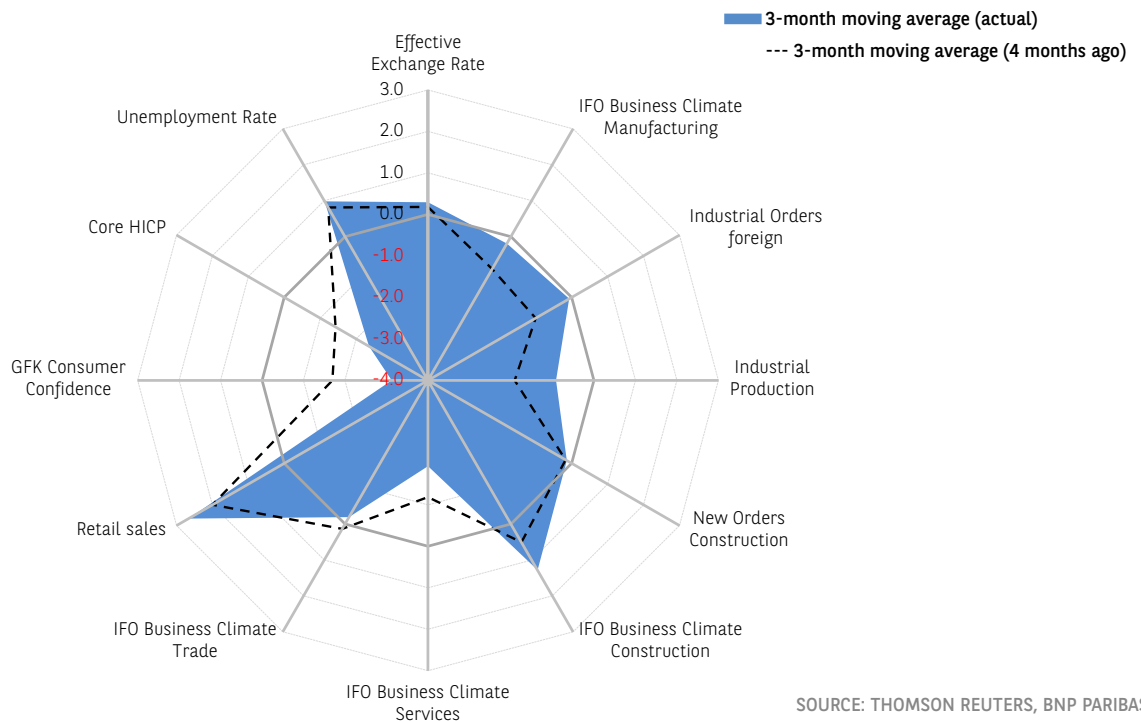
The picture is different on the right-hand side of the chart, showing a spreading out of the blue area that covers manufacturing and construction. Manufacturing is supported by strong overseas demand, in particular from China. The IFO business climate index for the sector weakened in January, but the firms reporting expanding activity still outweigh those that experience a decline by a considerable margin. In November, industrial output was back at pre-pandemic levels, whereas orders even reached a highest since November 2018. In the construction sector, the prospects are mixed. Activity remains at

relatively high levels for residential and public construction, but is declining for industrial construction, due to the fall in demand for office space.

The coming three months are likely to be crucial. Much depends on the course of the pandemic. Thanks to the tightening of the lockdown, the infection rate has come down. Moreover, the ongoing vaccination campaign should contribute to bringing the pandemic under control. However, the authorities are worried about prematurely lifting the lockdown restrictions (which were recently extended to 14 February), as that could be counterproductive. Once these restrictions are lifted, activity in services could pick up rapidly. In addition, the prospects for the manufacturing sector have brightened. According to a recent IFO survey, export expectations in manufacturing have reached their highest level since October, as the lifting of some uncertainties such as Brexit, the US presidency, and the start of the vaccination campaigns worldwide has led to cautious optimism.

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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 -4 and +3. 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.

