ECONOMIC PULSE

GERMANY: ECONOMIC RORSCHACH TEST SUGGESTS IMPROVEMENT EXCEPT FOR SERVICES

The Pulse is a kind of Rorschach test, in which the economic climate can be read from the size and movements of the inkblot. In that respect, the Pulse for Germany offers an interesting picture this week. In general, the economic situation has clearly improved in the period September-November (the blue inkblot) compared to the preceding three-month period (the dotted area). This is most obvious in the manufacturing and construction sectors. In the construction sector, the indicators are even above the long-term average, as indicated by the bold line of the inner twelve-sided polygon.

In the services sector, the situation is somewhat mixed. Retail sales have been buoyant thanks to the temporary lowering of the VAT rates. Owing to the latter, core HICP is now well below its long-term average. By contrast, the ifo business climate index for services, which includes freight and passenger transport, hospitality and IT services, and the GfK consumer confidence indicator have hardly moved.
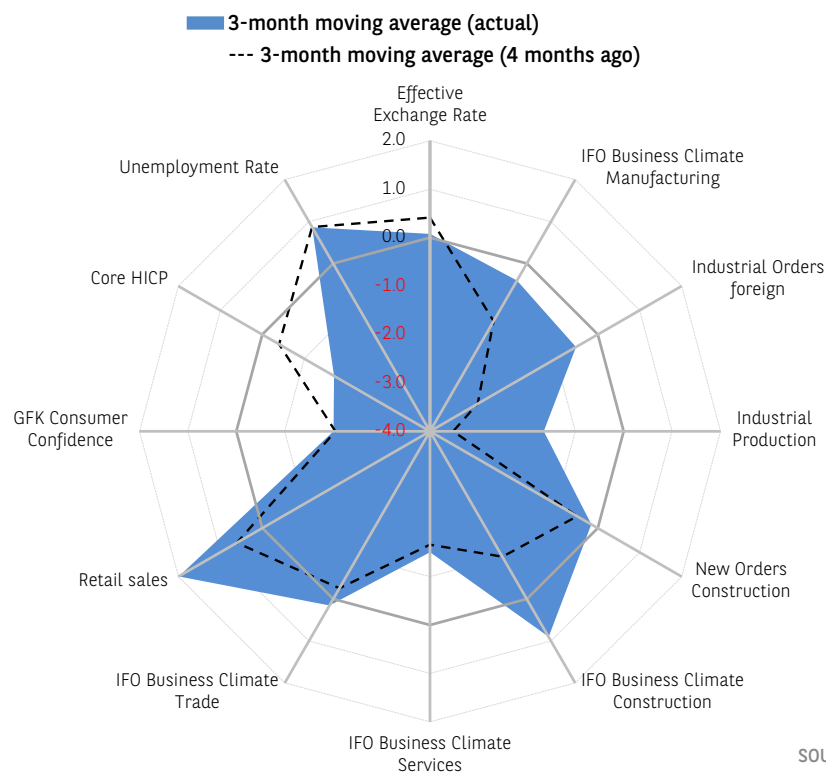
Prompted by a rapid rise in new Covid-19 cases, the federal government decreed a light lockdown in early November, implying the closure of bars, restaurants and theatres. As a result, consumer confidence and business expectations in particular declined significantly in the services sector in that month. By contrast, the ifo survey suggests that the impact on manufacturing has been limited, as growing incoming orders continued to underpin activity.

Despite the recent measures, infection rates have remained relatively high. Nevertheless, it is unlikely that government will impose more restrictions, as the country will soon roll out a vaccination programme. It could already start before the end of the year. This will certainly help to boost business expectations and economic activity. It suggests that the worst might be behind us, although it could take considerable time before the whole population is vaccinated and all remaining lockdown restrictions are removed.

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QUARTERLY CHANGES

■ 3-month moving average (actual)
--- 3-month moving average (4 months ago)

SOURCE: THOMSON REUTERS, BNP PARIBAS

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 +2. 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.

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