

Multiple constraints on growth

Economic surveys pointed once again to a downturn, including the ifo Business Climate Index (88.5 in June compared to 93.4 in April) and the ZEW Indicator of Economic Sentiment (-14.7 in July compared to 28.1 in February). The erratic momentum of factory orders, which were up 6.4% m/m in May (after a low point in April 2023 not seen since May 2013), underlines one of the constraints at work: the irregularity of activity in transport equipment, which remains subject to sporadic supply difficulties. This phenomenon is generating high volatility in production, both in the aeronautics sector and the automotive sector (lower in April with an upturn in May, as also seen in France).

Another constraint is household spending intentions. German households are still worried about their purchasing power despite the disinflation which has begun (which led to a relative drop in the GFK index in June to -25.4 compared to -24.4 in May), and this disinflation had a marginal impact on their willingness to buy (-14.6 in June). Only 6.6% of households are considering making a major purchase in the immediate future (according to the European Commission), one of the lowest historic levels.

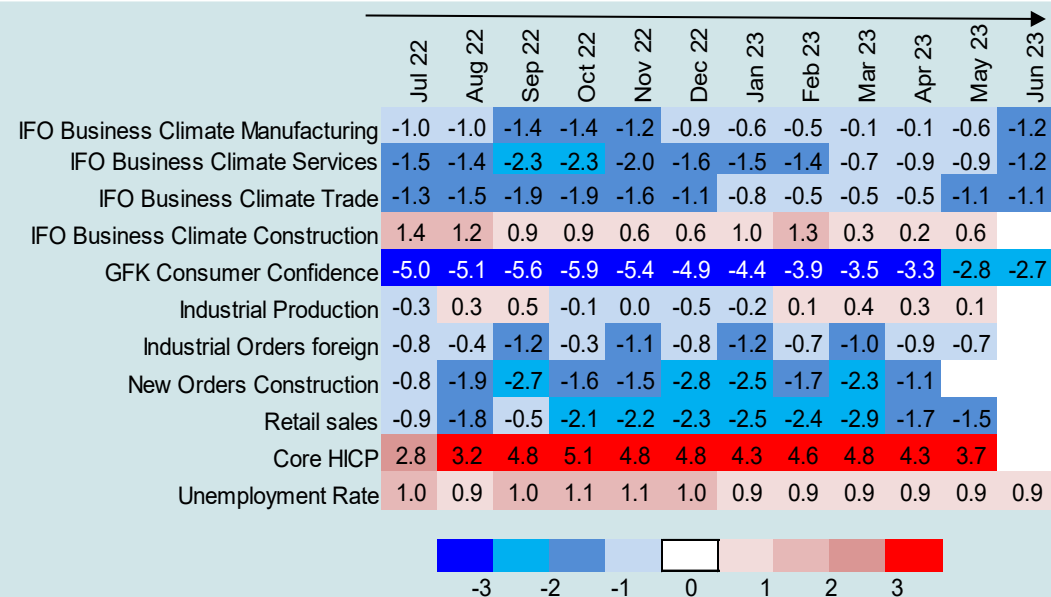
Disinflation was clear, between the peak seen in October 2022 and the figure seen in May 2023 (from 11.6% to 6.3% y/y), mainly driven by the drop in energy inflation. However, this was interrupted in June (6.8% y/y) and the additional disinflation should be modest over the summer. Energy-related base effects are expected to become more favourable again in autumn 2023 (the increase was marked in autumn 2022). Excluding energy and food, disinflation remains less noticeable (5.8% y/y in June, close to its peak in March).

Still significant in Q1, the momentum of the labour market (150,000 job creations) has somewhat slowed since then, as shown by the employment climate in the ifo survey (98.4 in June, close to its historic average, 97.8). Job creation is weaker in Q2 (16,000 jobs created in April-May).

We expect growth to reach 0.2% q/q in Q2, driven by recovery in the consumption of services, but representing an exception between two more difficult periods: a recession (-0.5% q/q in Q4 2022 and -0.3% in Q1 2023) and relative stagnation which we are expecting in H2 2023, consistent with the recent downturn in economic indicators.

Stéphane Colliac (article completed on 20 July 2023)

Germany: economic indicators monthly changes



The Indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero. Positive (negative) values indicate the number of standard deviations above (below) the mean value.
Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.

GDP growth

Actual		Carry-over		Forecast		Annual forecasts (y/y)			
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q3 2023	2022 (observed)	2023	2024
-0.1	0.5	-0.5	-0.3	-0.5	0.2	0.0	1.9	-0.4	0.5

Source: Refinitiv, BNP Paribas

