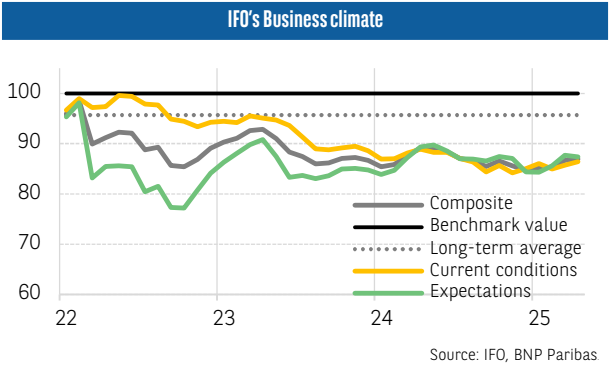
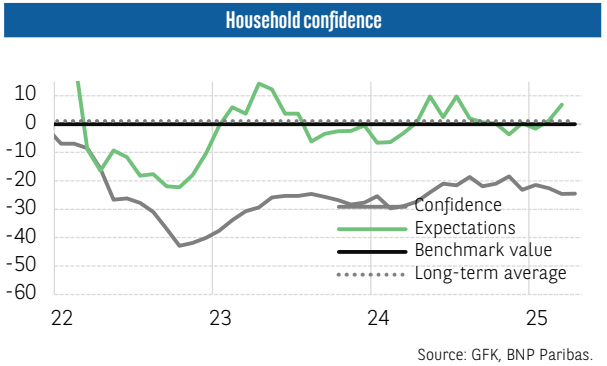


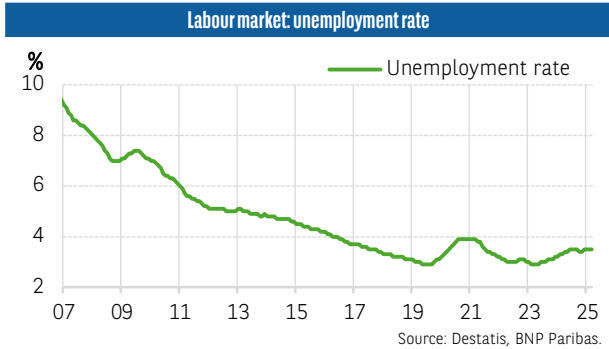
# Germany: Slight Improvement in Business Climate, despite Customs Tariffs



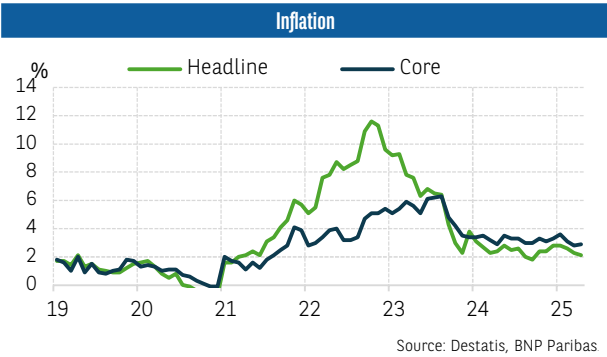
**The business climate remains fragile.** The IFO index has been rising since the beginning of 2025, including in April (86.9, +0.2pp m/m, historical average of 95.7). However, the economic outlook has darkened as a result of the trade tensions triggered by the protectionist shift in the United States. These tensions have now spread to the services sector (flash PMI down to 48.8 in April). Industry is showing signs of stabilisation, but the situation remains fragile.



**Household confidence rebounds.** The GfK confidence index rose to -20.6 in April (highest level since last November, historical average of +1.1). Expectations regarding income and the economic situation are on the rise (supported in particular by the new government's programme, which includes a cut in income tax for the majority of households, as well as a rise in the minimum wage), as are purchasing intentions. The propensity to save is falling, although it remains high.



**The labour market remains resilient overall,** with the unemployment rate at 3.5% in March. The IAB employment index rose slightly from 98.3 in March to 98.6 in April. After job losses in the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2024 (67,000 in cumulative terms), the situation has since stabilised. However, sectoral disparities between industry, which is struggling, and services, which are expanding, persist.



**Inflation is easing and crossing the eurozone average.** Inflation, measured by the Harmonised Index of Consumer Prices, reached 2.1% y/y in April (preliminary estimate), compared with 2.8% in January 2025, thus falling below the average for the Eurozone as a whole (2.2% in April). The moderation in goods and food prices and the fall in energy prices are contributing to this dynamic, while inflation in services is rising. According to our forecasts, inflation should stabilise thereafter, averaging 2.3% in 2025.

GDP growth q/q : actual, carry-over, forecasts										
Actual				Carry-over	Actual*	Forecast		Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0.2	-0.3	0.1	-0.2	-0.2	0.2	0.2	0.2	-0.2	0.4	1.0

\*Q1 2025 preliminary estimation

Source: Refinitiv, BNP Paribas

**Return to positive growth.** Growth in Q1 2025 reached +0.2% q/q (in line with our forecasts), after -0.2% in Q4 2024. We are expecting a similar trend in the 2nd quarter, against a backdrop of persistent uncertainty over US tariffs - currently extended at the minimum rate of 10% until 8 July - but also benefiting from the gradual installation of the new government.

Marianne Mueller (completed on May 2, 2025)