ECONOMIC PULSE

GERMANY: DIFFICULT TIMES AHEAD

The economic landscape is not improving much in Germany. November's economic surveys confirm that the German economy is not just facing a slower pace of growth, but is indeed getting bogged down. Although the country's composite PMI was up slightly (46.3 from 45.1), it remained at a very low level, well below the theoretical threshold for expansion. On the other hand, activity in services, which had been a key driver for growth in the third quarter, fell significantly with a PMI published at 46.1 in November, down for the fifth consecutive month.

The deterioration of the economy has been accompanied by the first signs of a slowdown in consumer prices. Inflation fell slightly between October and November (from +10.4% y/y to +10% y/y). Moreover, the indicators which are upstream of consumer prices, such as production prices in industry, slowed significantly from +45.9% y/y in September to +34.6% y/y in October. The same applies to import prices, which are falling (+23.5% y/y in October, from +29.8% y/y).

German trade surprised in October with an unexpected improvement in the trade balance (EUR 6.9 billion, up from EUR 2.8 billion), but for bad reasons. It can be explained by a drop in imports (-3.7% m/m) suggesting a higher than expected weakness in domestic demand. At the same time, exports fell by 0.6% m/m.

This poor performance of exports occurred when Germany was showing its ambition to reduce its dependence from, which has been its first trading partner since 2016, with bilateral trade representing almost EUR 250 billion in 2021. In a strategic paper which was made public, the Minister for Economic Affairs Robert Habeck clearly expresses his wish to see Germany's dependence on China shrink. He argues that German companies must focus on alternative markets. But this desire for emancipation is not a consensus in Germany. And the reason is simple: the large German groups continue to invest heavily in China, while small and medium-sized companies (including those in the Mittelstand) have changed gear.

While mid-sized companies are no longer investing in China, based on recent work by Rhodium Group, the three major German carmakers Volkswagen, BMW and Mercedes, as well as the chemicals giant BASF, have alone generated a third of investments from Europe to China over the past four years, also according to Rhodium. And this momentum is not fading, since German investments to China reached a record high of around EUR 10 billion over the first six months of 2022, according to a study by the German IW institute. This difference in appreciation of the Chinese market is creating a dichotomy between German giants and the rest of the production fabric. This makes the government's positioning even more difficult.

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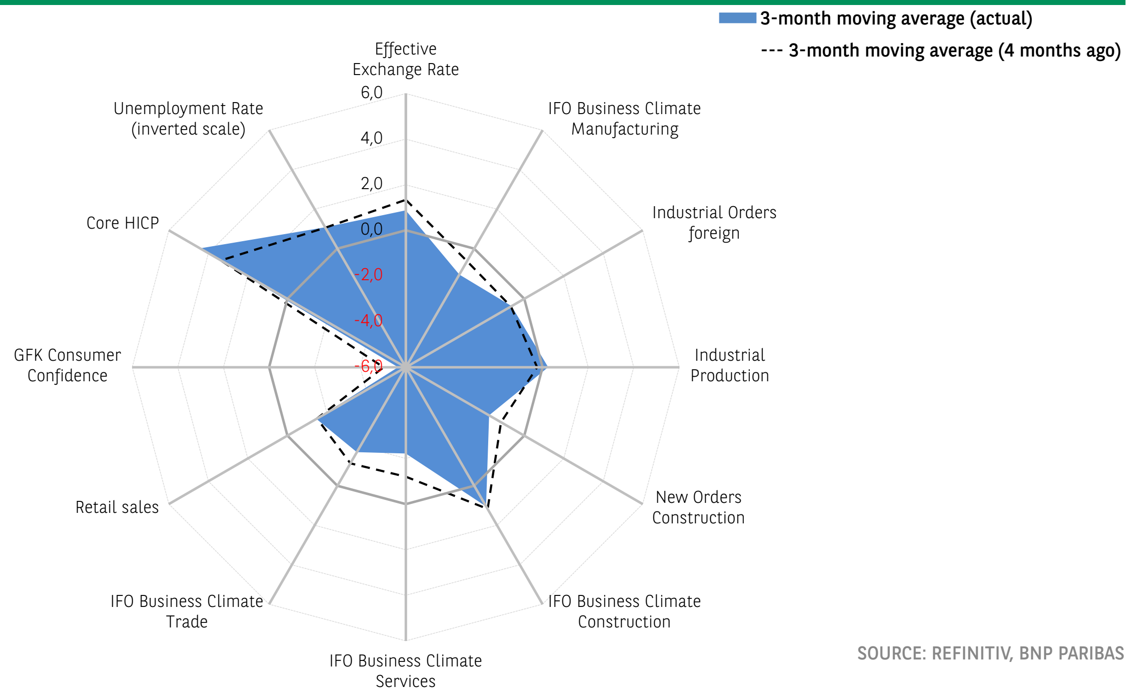
GERMANY: QUARTERLY CHANGES



SOURCE: REFINITIV, 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 -6 and +6. 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.