

And now, disinflation

German inflation resumed its downward trend, after stabilising between May and August (6.4% y/y in August according to the harmonised index), to reach 4.3% in September, due, firstly, to base effects (seasonally adjusted inflation was 2.3% m/m in September 2022, compared to a more normal 0.3% in September 2023). We expect a further drop in inflation of nearly 1 pp in October for the same reason (+1.1% m/m in September 2022 1 pp above the average for October over the last 15 years). Underlying inflation also fell to 4.8% y/y in September after a high of 6.3% in August 2023. In September-October 2022, energy inflation had been clearly passed onto underlying inflation, and the drop in the former has since an impact on the latter (average monthly rise in seasonally adjusted underlying inflation of 0.2% over the last 3 months, compared to 0.4% over the previous 6 months and 0.6% in H2 2022).

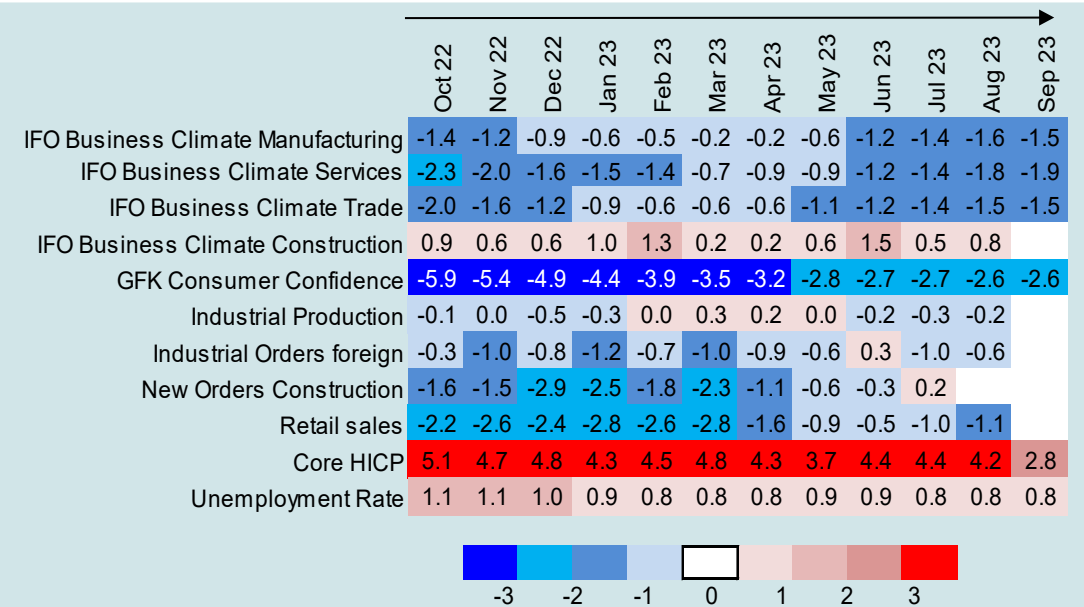
This drop in inflation can also be explained by the slowdown in demand. Household consumption has not supported growth since Q3 2022 (down in Q4 2022 and Q1 2023, stabilisation in Q2 2023). The GfK Consumer Confidence Index stood at -26.5 in October, having remained close to this level for 6 months now, well below its pre-Covid average (+6 between 2001 and 2019). For the time being, the opportunity to make major purchases has hit an all-time low, at 5.8% of respondents in August 2023 according to the European Commission: since April 2022, this has been under 10%, a level below which it had not fallen during the 2008 crisis.

This reduced consumer demand is being reflected in new factory orders, the 6-month average of which, at end-August 2023 was 6% lower than the average seen in August 2022. This reduction can be primarily explained by lower domestic orders (-6%, including -19% on durable goods) and foreign orders outside the eurozone (-6.5%, including -18% on durable goods). Demand constraints also weighed on the business climate, with the IFO current conditions index reaching a new low of 88.7 in September 2023 (-5 points in 3 months).

These developments, along those seen in the IFO's Employment Barometer (95.8 in September), which has been below its long-term average for 3 months now, suggest a downward risk for growth: H2 2023 should, according to our forecasts, mark a new recession (-0.1% q/q in Q3 and Q4) after already negative growth in Q4 2022 and Q1 2023 and zero growth in Q2 2023.

Stéphane Colliac (completed on 19 October 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)		
Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q4 2022	Q3 2023	Q4 2023	2022 (observed)	2023	2024
0.4	-0.4	-0.1	0.0	-0.2	-0.1	-0.1	1.9	-0.3	0.3

Source: Refinitiv, BNP Paribas



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