

## Further deterioration in demand

Business climate indicators in Germany have deteriorated in recent months, including the IFO survey (91.7 in May, 5 points below its long-term average, compared to 93.4 in April) or the ZEW index. The latter recovered slightly in June (-8.5 compared to -10.7 in May) but remained very negative and continued to deteriorate in most industrial sectors, as a result of a fall in demand (the current situation index fell at the same time from -34.8 to -56.5 between May and June). Factory orders reached in April (94.8) their lowest level since May 2013 (excluding Covid).

Household confidence continued its recovery in June according to the GfK index (-24.2 compared to -42.8 at its lowest in October 2022), probably buoyed, at least in part, by the fall in inflation. However, this has not yet had an impact on their willingness to buy: the corresponding indicator even fell to -16 in May compared to -13 in April. The opportunity to make major purchases now (6.3% of households in May) remains close to its lowest historical level, as a result of the rise in interest rates.

Disinflation is now visible (6.3% y/y in May compared to 11.6% y/y in October 2022), particularly on food (14.5% y/y in May compared to 21.2% y/y in March) or even durable goods (5.6% y/y in May, compared to 6.8% in March and 8.1% y/y in November 2022), but persists more on services (4.5% y/y in May compared to 4.8% y/y in March).

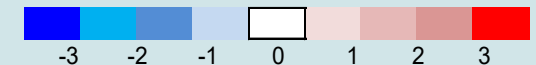
The labour market was dynamic in Q1 of 2023, with almost 155,000 jobs created. However, both the employment climate in the IFO survey (98.3 in April, compared to 100.2 in March) and job creation deteriorated in April. Employment barely grew in April (+0.04% m/m, its weakest growth since July 2022).

While the German economy recorded a technical recession (-0.5% q/q in Q4 2022 and -0.3% q/q in Q1 2023), we expect weak growth in Q2 (0.2% q/q) due to consumption of services (tourism in particular). However, this should fall in the second half of the year as a result of the deterioration in economic indicators.

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## Germany: economic indicators monthly changes

	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23
IFO Business Climate Manufacturing	-0.6	-1.0	-1.0	-1.4	-1.4	-1.2	-0.9	-0.6	-0.5	-0.1	-0.1	-0.6
IFO Business Climate Services	-0.7	-1.5	-1.4	-2.3	-2.3	-2.0	-1.6	-1.5	-1.4	-0.7	-0.9	-0.9
IFO Business Climate Trade	-0.8	-1.3	-1.5	-1.9	-1.9	-1.5	-1.1	-0.8	-0.5	-0.5	-0.5	-1.1
IFO Business Climate Construction	1.0	1.4	1.2	0.9	0.9	0.6	0.6	1.0	1.3	0.3	0.2	
GfK Consumer Confidence	-5.0	-5.0	-5.1	-5.6	-5.9	-5.4	-4.9	-4.4	-3.9	-3.5	-3.3	-2.9
Industrial Production	-0.1	-0.3	0.3	0.5	-0.1	0.0	-0.5	-0.2	0.1	0.4	0.2	
Industrial Orders foreign	-0.7	-0.8	-0.4	-1.2	-0.3	-1.1	-0.8	-1.2	-0.7	-1.0	-1.0	
New Orders Construction	-1.4	-0.8	-1.9	-2.7	-1.6	-1.5	-2.8	-2.5	-1.7	-2.3		
Retail sales	-3.1	-0.9	-1.8	-0.5	-2.1	-2.2	-2.3	-2.5	-2.4	-3.0	-1.8	
Core HICP	3.1	2.8	3.2	4.8	5.1	4.8	4.8	4.3	4.6	4.8	4.3	
Unemployment Rate	1.1	1.0	0.9	1.0	1.1	1.1	1.0	0.9	0.9	0.9	0.9	1.0



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