

Heading towards a 2nd recession in the second half of the year?

While Germany is barely coming out of a recession recorded in Q4 2022 and Q1 2023, economic surveys emphasise the risk that the country will fall back into recession in H2. The deterioration identified by IFO's business climate is clear (85.7 in August, returning to its low level of October 2022), both in industry and services. In the ZEW survey, the current business conditions indicator fell to -79.4 in September. In the past, such a level has always resulted in negative growth.

Household confidence, measured by the GFK index, has stabilised at a historically low level for five months. In September, it is approaching -25.5, the same level it was in May. Although it has recovered from its low of -42.8 (October 2022), driven by a fall in inflation, it remains very deteriorated compared to its average pre-Covid level (+6 between 2001 and 2019). In addition, the proportion of households deeming a significant purchase in the immediate future appropriate continues to fall, reaching an all-time low in August 2023 at 5.8% (according to the European Commission). This deterioration should weigh on household consumption, while it was already 2% below its pre-Covid level in Q2.

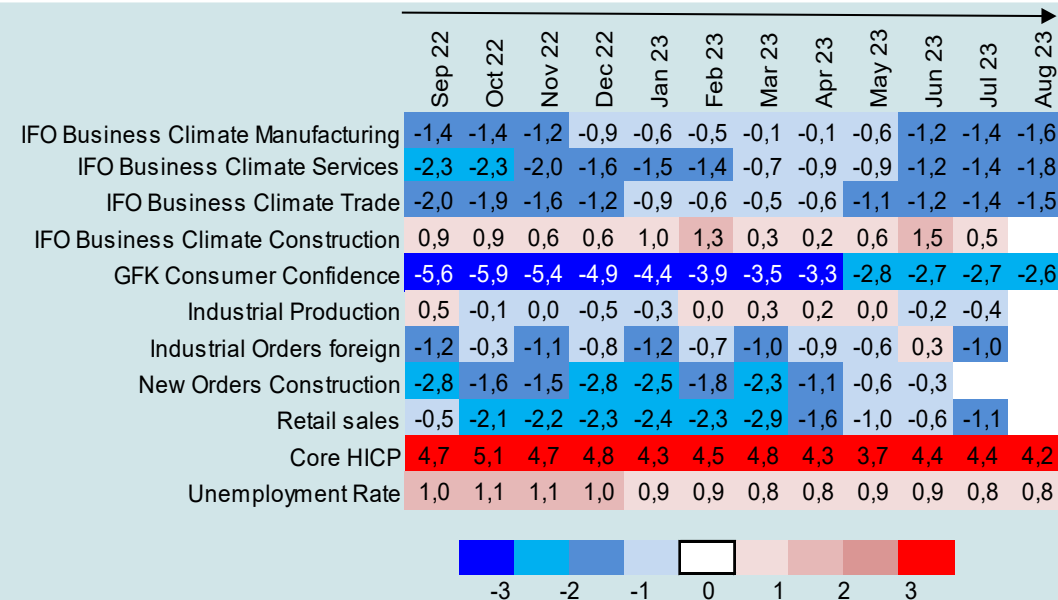
The latest data showed a stabilisation of inflation at a still high level (6.4% y/y in August 2023, compared to 6.3% in May), highlighting the lack of momentum, at this stage, in the direction of disinflation beyond energy and food prices. Inflation in services has therefore exceeded 5% since June (5.1% in August), a first since the country's reunification.

With 42,000 jobs created in Q2 2023 (after two quarters at over 100,000 net jobs created), the loss of momentum is more pronounced on the labour market side than on the inflation side. The IFO survey's employment climate fell to 97 in August, a level that had not been reached since June 2010 (excluding the Covid period), suggesting a further slowdown.

Given these negative factors, we expect a GDP contraction in Q3 and Q4 (-0.1% q/q each time). After a recession at the turn of 2022-2023 and zero growth in Q2 2023, the economy is going through a prolonged period of underperformance, with Germany being one of the few countries where GDP is below its level before the start of the war in Ukraine (-0.2% between Q1 2022 and Q2 2023).

Stéphane Colliac (completed on 21 September 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



BNP PARIBAS ECONOMIC RESEARCH

William De Vijlder Chief Economist	+33 1 55 77 47 31	william.devijlder@bnpparibas.com
OECD ECONOMIES AND STATISTICS		
Hélène Baudchon Deputy chief economist, Head - United States	+33 1 58 16 03 63	helene.baudchon@bnpparibas.com
Stéphane Colliac France, Germany	+33 1 42 98 43 86	stephane.colliac@bnpparibas.com
Guillaume Derrien Eurozone, Southern Europe, Japan, United Kingdom - Global trade	+33 1 55 77 71 89	guillaume.a.derrien@bnpparibas.com
Veary Bou, Tarik Rharrab Statistics		
ECONOMIC PROJECTIONS, RELATIONSHIP WITH THE FRENCH NETWORK		
Jean-Luc Proutat Head	+33 1 58 16 73 32	jean-luc.proutat@bnpparibas.com
BANKING ECONOMICS		
Laurent Quignon Head	+33 1 42 98 56 54	laurent.quignon@bnpparibas.com
Céline Choulet	+33 1 43 16 95 54	celine.choulet@bnpparibas.com
Thomas Humblot	+33 1 40 14 30 77	thomas.humblot@bnpparibas.com
Marianne Mueller	+33 1 40 14 48 11	marianne.mueller@bnpparibas.com
EMERGING ECONOMIES AND COUNTRY RISK		
François Faure Head - Argentina, Turkey - Methodology, Modelling	+33 1 42 98 79 82	francois.faure@bnpparibas.com
Christine Peltier Deputy Head - Greater China, Vietnam - Methodology	+33 1 42 98 56 27	christine.peltier@bnpparibas.com
Stéphane Alby Africa (French-speaking countries)	+33 1 42 98 02 04	stephane.alby@bnpparibas.com
Pascal Devaux Middle East, Balkan countries	+33 1 43 16 95 51	pascal.devaux@bnpparibas.com
Hélène Drouot South Korea, Philippines, Thailand, Andean countries	+33 1 42 98 33 00	helene.drouot@bnpparibas.com
Salim Hamad Latin America	+33 1 42 98 74 26	salim.hamad@bnpparibas.com
Cynthia Kalasopatan Antoine Ukraine, Central European countries	+33 1 53 31 59 32	cynthia.kalasopatan.antoine@bnpparibas.com
Johanna Melka India, South Asia, Russia, Kazakhstan	+33 1 58 16 05 84	johanna.melka@bnpparibas.com
Lucas Plé Africa (Portuguese & English-speaking countries)	+33 1 40 14 50 18	lucas.ple@bnpparibas.com
CONTACT MEDIA		
Mickaelle Fils Marie-Luce	+33 1 42 98 48 59	mickaelle.filsmarie-luce@bnpparibas.com

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