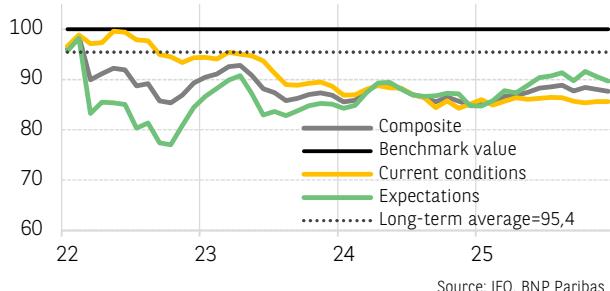


Germany: The recovery is here

IFO's Business climate



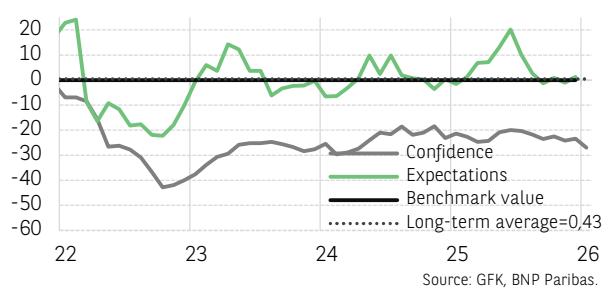
An unevenly distributed rebound in business sentiment. The industrial recession ended in Q4 2025. Production rebounded, driven by capital goods, as did demand (new industrial orders). However, the business climate remains mixed, as it is higher than at the end of 2024, but did decline at the end of 2025. The impact of US customs tariffs and Chinese competition fueled the recession in some sectors (most notably, chemicals and metallurgy), while the automotive industry benefitted from the rebound in new car registrations in Germany. Services are in a better shape, with the PMI in expansion territory for four months.

Labour market: unemployment rate



The rise in the unemployment rate remained limited (3.9% in November, +0.4 pp year-on-year) thanks to job creation in services, which partially offset job losses in manufacturing. In the short term, unemployment could rise marginally as a result of ongoing restructuring in industry, while labour shortages are likely to persist in services. However, this increase would be limited by the economic recovery, which is expected to consolidate.

Household confidence



Household confidence ended 2025 at its lowest level of the year (-26.9), weighed down by weaker income expectations (slowing wage growth and fears about future pension reform) and a sharp increase in the propensity to save. However, the anticipated slowdown in inflation and the increase in the minimum wage should provide support in the coming months.

Inflation



Inflation returns to around 2%. After several months above target (due to persistent inflation in services, a rebound in food prices and a smaller decline in energy prices), harmonised inflation returned to its target in December (2% y/y). This disinflationary trend is likely to strengthen in 2026, with wage growth slowing (negotiated wages grew by 3.6% y/y in December, compared with 4.7% over the year), which should bring down core inflation.

GDP growth q/q: actual, carry-over and forecasts

ACTUAL	OBSERVED				FORECAST (q/q)			ANNUAL FORECASTS (y/y)			
	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	2024 (observed)	2025	2026	2027
0.1	0.3	-0.2	0.0	0.3	0.3	0.5	-0.5	0.3	1.4	1.5	

Source: Refinitiv, BNP Paribas

The German economy returned to growth in Q4 2025 (+0.3% q/q) according to our estimate, supported by public spending, despite the negative impact of the decline in exports on part of industry (which had contributed to GDP stagnation in Q3). The roll-out of investment plans, their knock-on effect and the implementation of reforms should support growth in 2026, which is expected to stand at +0.3% in Q1 and +1.4% for the year.

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