

Moving towards “stop and go” growth?

Industrial activity and new industrial orders experienced sizeable variability in Q1, with a strong rebound in January-February followed by a sharp drop in March. Overall, new orders remained stable during the first quarter (q/q). The IFO survey has even deteriorated in May (91.7, compared to 93.4 in April), and the ZEW index has returned to negative territory (-11 in May, following on from 4 in April and 13 in March).

By contrast, the rebound in household confidence continued in April (-25.7, compared to -42.8 at its lowest in October 2022), and began to reverberate on household willingness to buy, standing at -13 in April, compared to the generally flat level seen between October and March (-17 for March). As a result, a rebound in consumption seems possible during the second quarter, after two quarters of decline according to Destatis (-1.7% q/q during Q4 and -1.2% q/q during Q1 2023).

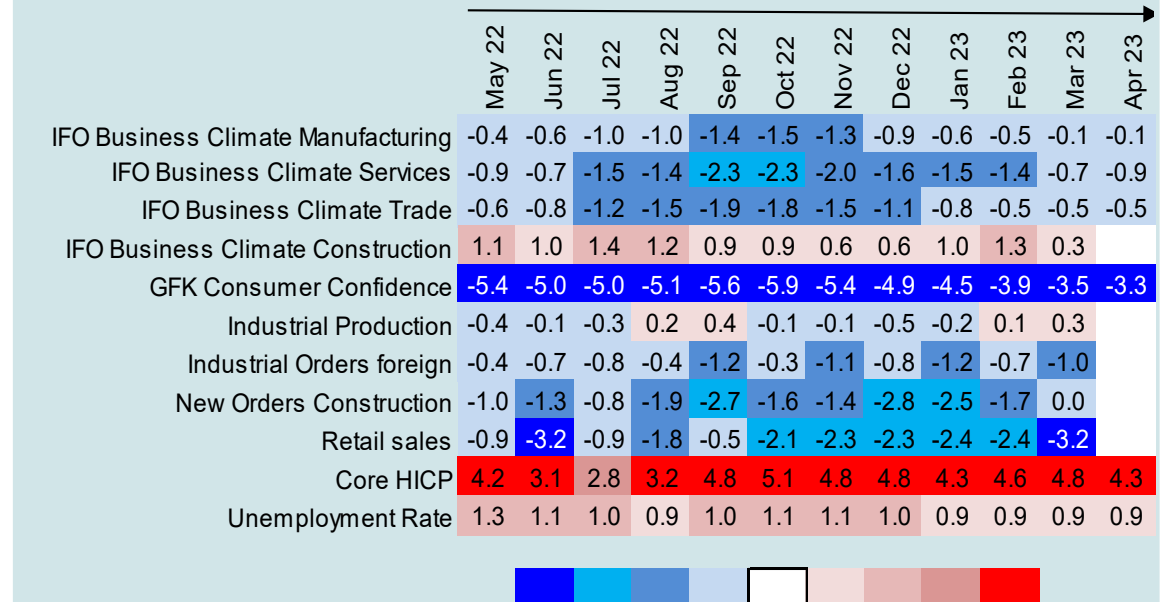
Inflation remained high during the first quarter (8.7% y/y on average, after peaking at 10.8% y/y on average during the fourth quarter), and disinflation mainly driven by the fall in energy prices (which have been capped by the federal government), is still gradual (7.6% y/y in April). At the same time, inflation in services has remained close to its peak, standing at 4.7% y/y in April.

The German labour market is still vibrant, with almost 160,000 jobs created during the first quarter (the highest figure since the first quarter of 2022) and an employment climate of 100.2 in April (the highest since August 2022). However, lower labour constraints in the construction industry (18% of respondents in Q2 2023, compared to 33% in Q4 2022) hint that a downturn may be getting underway.

Following a recession (-0.5% q/q during the fourth quarter of 2022 and -0.3% during the first quarter of 2023), German growth is expected to pick up again during the second quarter (+0.2% q/q, according to our forecasts), driven by a rebound in consumption. However, with momentum dissipating in recent economic surveys, another downturn may well be on the horizon during the second half of the year.

Stéphane Colliac (article completed on 25 May 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)		
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



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