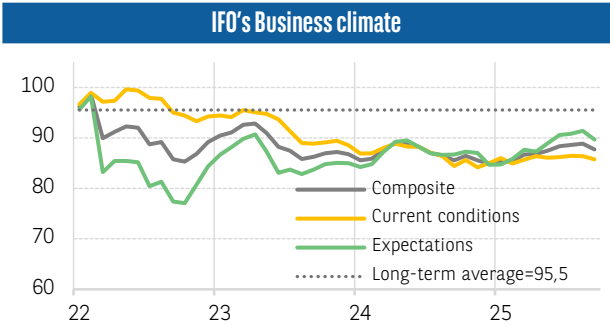
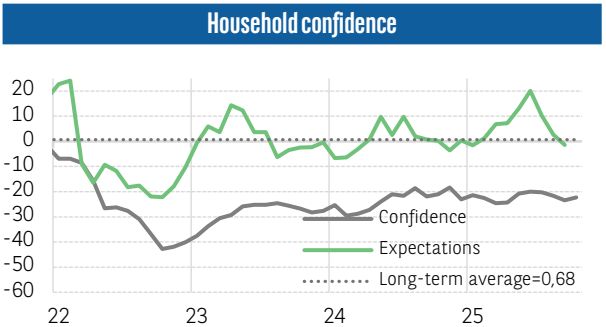


Germany: A two-stage recovery: moderate in Q3, stronger in Q4



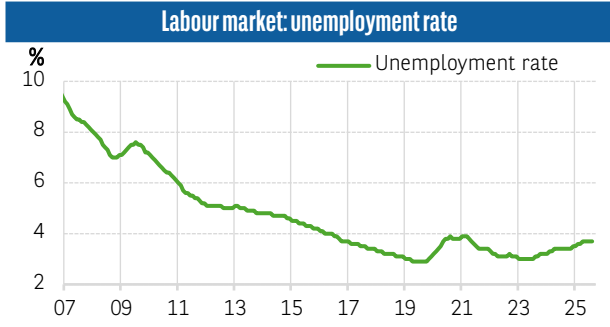
Source: IFO, BNP Paribas

The decline in the IFO index in September does not impede the upward trend that began in early 2025. The relative weakness in September particularly affected services and retail trade. However, there has been a clear improvement since the beginning of the year in industry, construction and wholesale trade. This momentum has not yet spread to the rest of the economy, whilst awaiting the effective implementation of investment plans, with a ramp-up expected in Q4.



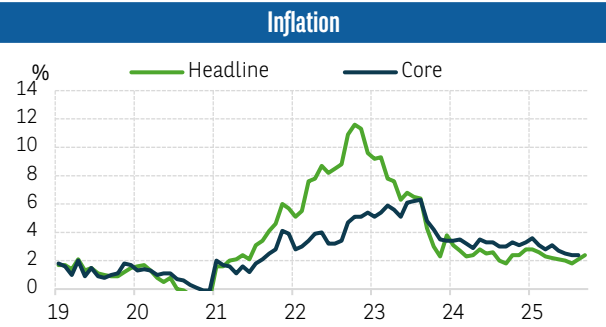
Source: GfK, BNP Paribas.

Household confidence has deteriorated and consumption is sluggish. Household confidence improved in September but remains below its average level between April and July. Expectations of wage increases are supporting morale. However, spending intentions are deteriorating, suggesting that household consumption, which was already stagnant in Q2, will remain sluggish.



Source: Destatis, BNP Paribas.

Stable unemployment and employment. The unemployment rate has been stable at 3.7% y/y in August for five months (+0.7 pp compared to the low point in H1 2023). Job creation in the public sector is offset by losses in industry. According to the Federal Employment Agency, companies remain reluctant to hire, making it difficult to find work – a finding corroborated by the IAB and IFO employment surveys.



Source: Destatis, BNP Paribas

Persistent inflation. Harmonised inflation reached 2.4% y/y in September (+0.3 pp m/m, preliminary figures, the highest since February), driven by services (+3.4% y/y, +0.3 pp m/m). The rise in negotiated wages (+4.4% y/y in September) is supporting this persistent inflation in services. In addition, the decline in energy prices is slowing (-0.7% y/y, after -2.4% in August).

GDP growth q/q: actual, carry-over and forecasts										
Actual			Carry-over	Actual		Forecast		Annual forecasts (y/y)		
Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	2024 (observed)	2025	2026
-0,3	0	0,2	0,1	0,3	-0,3	0,1	0,3	-0,5	0,3	1,4

Source: Refinitiv, BNP Paribas

Real GDP contracted in Q2 2025, after two consecutive quarters of growth. It was penalised by the decline in private investment and the moderate decline in exports (a partial backlash after a good Q1). Growth is expected to be contained in Q3, before benefiting from measures to support public and private investment from Q4 onwards.

Marianne Mueller (completed on October 1, 2025)



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