

Germany: An upcoming rebound?

The business climate is struggling to recover. The IFO business climate index remained stable in February compared with January, at 85.2, and remains close to the low recorded in November (84.7). It is the situation of industry that is having the greatest impact. Industrial output, including construction, contracted again, by 0.7% q/q in Q4 (the 6th fall in 7 quarters). However, January's figures show a slight rebound (+0.6% month-on-month on the 3-month moving average).

Households remain pessimistic. The GfK index stands at -24.7 in March 2025, continuing its decline since the start of the year and remaining below the 2024 average, despite an upturn at the end of last year. In February, the index stood at -22.6, with a fall in wage expectations and purchasing intentions (-5.4 and -11.1, respectively).

The labour market has cooled. The unemployment rate remains low (3.5% in February) and stable compared with January, but has risen from its low point of 2.9% in mid-2023. After net job destructions in Q2 and Q3 (-70,000 on a cumulative basis) and creations in Q4 (+22,000), job destructions resumed in January (-11,000 compared to December). The IAB labour market barometer continued to deteriorate, reaching 98.3 in February (a new low, compared with an all-time average of 102). In addition, growth in negotiated wages moderated in Q4 (+5.8% y/y compared with +8.9% y/y in Q3).

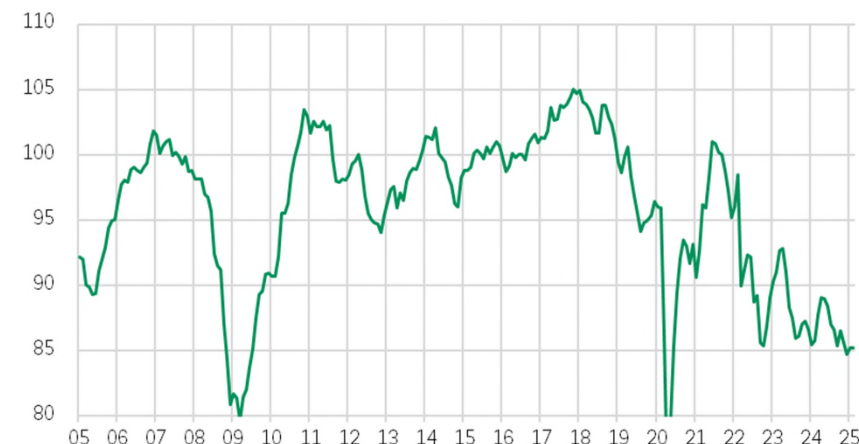
Inflation remains high. Harmonised inflation fell from 2.8% y/y in January to 2.6% in February, but is still 0.8 points above its September level. Services continue to weigh heavily, with inflation at 5% in February. Since November, producer prices have stopped falling, but their increase remains moderate (+0.5% year-on-year in January).

Growth still weak in Q1, before the (big) rebound? In Q1 2025, we forecast quarter-on-quarter growth of 0.1%. The coalition resulting from February's parliamentary elections has yet to be formed, but strong measures could buoy growth above our forecast (0.1%) for Q2.

See *EcoFlash*, *Germany: "whatever it takes"?*, 12 March 2025.

Marianne Mueller, article completed on 14/03/2025

IFO Business Climate in Germany



Source: IFO, BNP Paribas

GDP GROWTH (q/q) : observed, carry-over, forecast

Actual				Carry-over	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0.2	-0.3	0.1	-0.2	-0.2	0.1	0.1	0.1	-0.2	0.2	0.5

Source: Refinitiv, BNP Paribas