

Germany: A case of wait-and-see

The German business climate is being driven down by the prolonged recession in industry. Industrial production (in the broad sense, including construction) has contracted in 10 of the last 12 quarters (including a further negative quarter likely in Q4 2024), for a cumulative drop of 8.4% (-14.7% compared to the peak seen at the end of 2017, see chart). This momentum explains the low IFO index (reaching, in December and January, its lowest level since the 2008 crisis, excluding Covid).

Industry and construction (one third of German GDP) have therefore impacted growth, explaining why growth returned to negative territory in Q4 and over 2024 as a whole (-0.2% each time), extending the near-stagnation that has lasted for 3 years. New factory orders (their 6-months moving average) recovered by 4% between August and December 2024. However, the sluggishness is set to continue in Q1 (forecast at +0.1% q/q), particularly under the effect of two areas of uncertainty.

The first relates to the federal election to be held on 23 February, the nature of the coalition that will be the outcome (the CDU/CSU dominate polls but a three-party coalition may be necessary, with the SPD and the Greens) and therefore, how quickly the next government will be able to act.

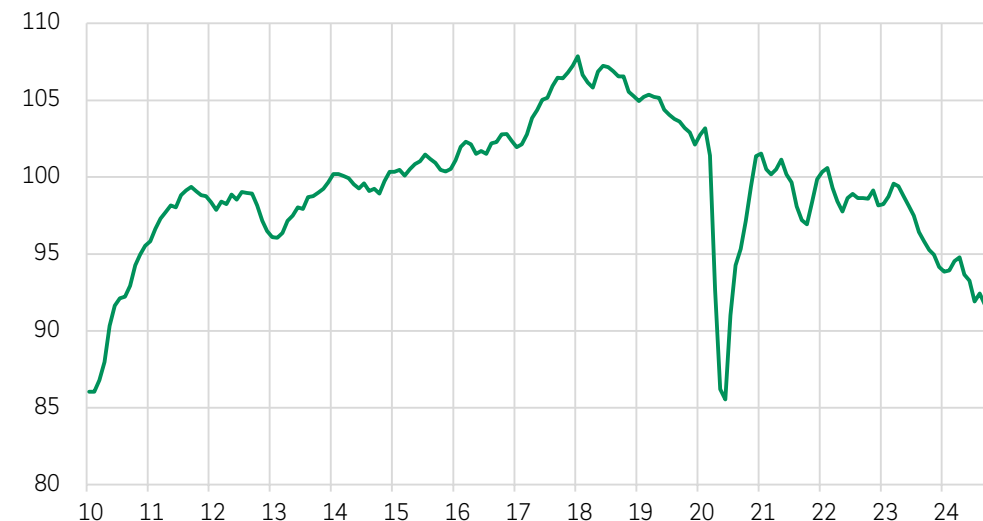
In particular, the two unfavourable evolutions affecting household confidence (-22.4 in February according to the GfK consumer confidence index, which has fallen lower in the last 3 months than in the previous 6 months) will have to be reversed: 1/ The rise in unemployment, moderate for the time being (to 3.4% in December 2024 compared to a low of 2.9% in mid-2023), but which is likely to continue; 2/ an increase in inflation compared to the rest of the euro zone (2.8% y/y in January in Germany compared to only 1.8% in France and 1.7% in Italy according to the harmonised index), particularly linked to a more pronounced rise in energy prices (compared to their 2021 level) and wages.

The second area of uncertainty relates to foreign trade. Foreign trade has failed to support German growth for almost five years. Exports of goods and services were close to their end-19 level in Q3 2024 and are expected to have fallen below this level in Q4, according to the preliminary comments by the Federal Statistical Office (compared to exports higher by 5.5% in France over the same period). And the possibility that President Trump would announce tariffs against Europe on 18 February could add to these issues, given that Germany accounts for nearly half of the European surplus with regard to the US, particularly on sectors that could be targeted (including automotive).

Stéphane Colliac, article completed on 5 February 2025

Industrial production index (incl. Construction) in Germany

3-months moving average



Source: Destatis, Macrobond, BNP Paribas.

GDP growth

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

