

## A whiter shade of pale

Germany has just experienced four quarters of stagnation or negative growth, and business climate indicators suggest that economic activity remained broadly depressed at the beginning of Q4: current conditions of economic activity remain close to their lowest levels in both the IFO survey and the ZEW survey (-80 for the latter in November). In line with this depressed environment, production in key sectors (automotive, chemicals and metals) declined again in September (in Q3, it is now nearly 15% below the peak reached at the end of 2017 for each of these sectors). Exports do not drive growth as well (-6% y/y in Q3, trade balance figures in terms of value from Destatis).

The combination of a long period of low growth and a sharp reduction in inflation on volatile components (energy, food) has contributed to a sharp drop in headline inflation. This reached 3% y/y in October according to the harmonised index (a level not seen since June 2021) compared to 11.6% y/y a year ago. After a sharp drop in September and October, year-on-year inflation is expected to stabilise around its current level in the coming months.

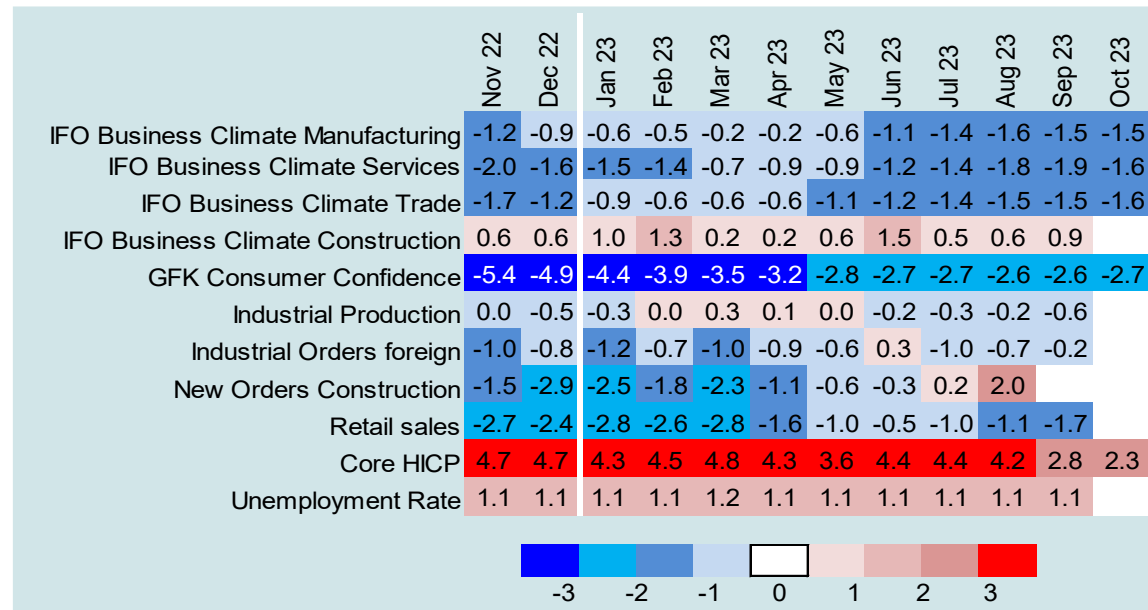
The deterioration in the economy ultimately impacted the labour market: after a long period of sustained job creation (94,000 on average per quarter from mid-2022 to mid-2023), almost 6,000 jobs were cut between June and September. The IFO Employment Barometer, which is below its long-term average (at 96 in October), indicates a still moderate momentum at the beginning of Q4.

The index of new factory orders contracted to a new low in September (-12% y/y), mainly due to a decline in demand for capital goods, which could suggest a downturn in machinery and equipment investment, which has proved resilient up until now. Household confidence, which fell again to -28 in November (compared to -24 in June and +3 as a long-term average), does not suggest a rebound in demand either.

Green shoots could come from foreign demand (slight upturn in the index of new export orders). However, this return to growth is not expected to happen until 2024. Before then, we expect a further fall in German GDP in Q4 2023 (-0.1% q/q).

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## 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)				
Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2022	Q4 2023	Q1 2024	2022 (observed)	2023	2024
-0.4	-0.0	0.1	-0.1	-0.2	-0.1	0.0	1.9	-0.1	0.4

Source: Refinitiv, BNP Paribas

