

ECONOMIC PULSE

GERMANY: GOVERNMENT STIMULUS PACKAGE INSTILLS CONFIDENCE

According to the Pulse, business conditions during the past three months, as indicated by the blue area, were in general worse than in the preceding three-month period (area within the dashed line). That is most obvious in the production-related hard data, which cover the lockdown period March-May. Despite the absence of specific lockdown measures in industry, manufacturing production was 20.3% lower during these months from the period December-February.

Nevertheless, the sectors most hit were tourism and hospitality, a sector not covered by the Pulse. In March-April, the number of overnight stays was more than 70% lower from one year earlier. Other service sector branches benefited: sales in food stores were 9.2% higher in March-May from December-February as they profited from the forced closing of restaurants and bars and online sales were even 16.7% higher. However, overall retail sales, excluding motor vehicles, declined by 1.4% due to lockdown restrictions.

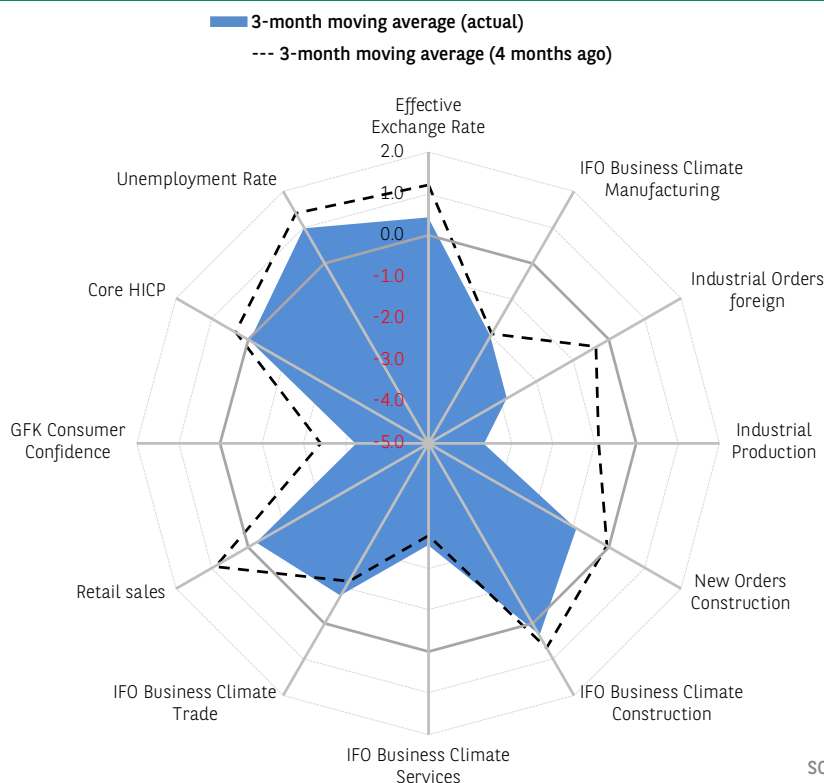
The German statistical office Destatis confirmed the sharp deterioration in business conditions. According to the first estimate, GDP contracted by 10.1% in Q2 on the previous quarter. It was the steepest quarterly decline since the start of the series in 1970.

Despite the sharp fall in activity, the unemployment rate remained relatively low - 6.2% in June compared with 5.1% in March - as enterprises have made extensive use of the furlough scheme (Kurzarbeit). Due to the gradual lifting of the lockdown measures, the number of furloughed employees has been declining, from 7.3 million in May to 6.7 million in June, or 20% of the insured labour force.

The bright news is coming from the survey data, which cover the period May-July. They indicate that the tide has definitely turned. In July, in the IFO survey, the balances of opinion in manufacturing, construction, trade and services all improved, although remaining firmly in negative territory. Also households consider that the worst is behind them. The GfK consumer confidence improved in July, as economic expectations, income expectations and the propensity to buy saw significant increases for the third consecutive time. An important factor was the cut in the VAT rates on 1 July, from 19% to 16% for the standard rate, and from 7% to 5% for the reduced rate, as part of the government's stimulus package. The effect of the package on activity is likely to become more visible in the next few months.

Raymond van der Putten

QUARTERLY CHANGES



SOURCE: THOMSON REUTERS, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -5 and +2. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

