

ECONOMIC PULSE

GERMANY: GROWTH MOMENTUM NEEDS TO STRENGTHEN FURTHER

The German economy is strongly rebounding according to our Pulse. The blue area, representing the situation in the past three months, has clearly expanded compared to that in the preceding three-month period (the area within the dashed line). The latest data confirm that the growth momentum is strengthening. In June, the IFO climate index reached 101.8 (2015=100), a highest since April 2018. Companies were notably more satisfied with their current business. The recovery is also broad-based with the climate index progressing in all sectors.

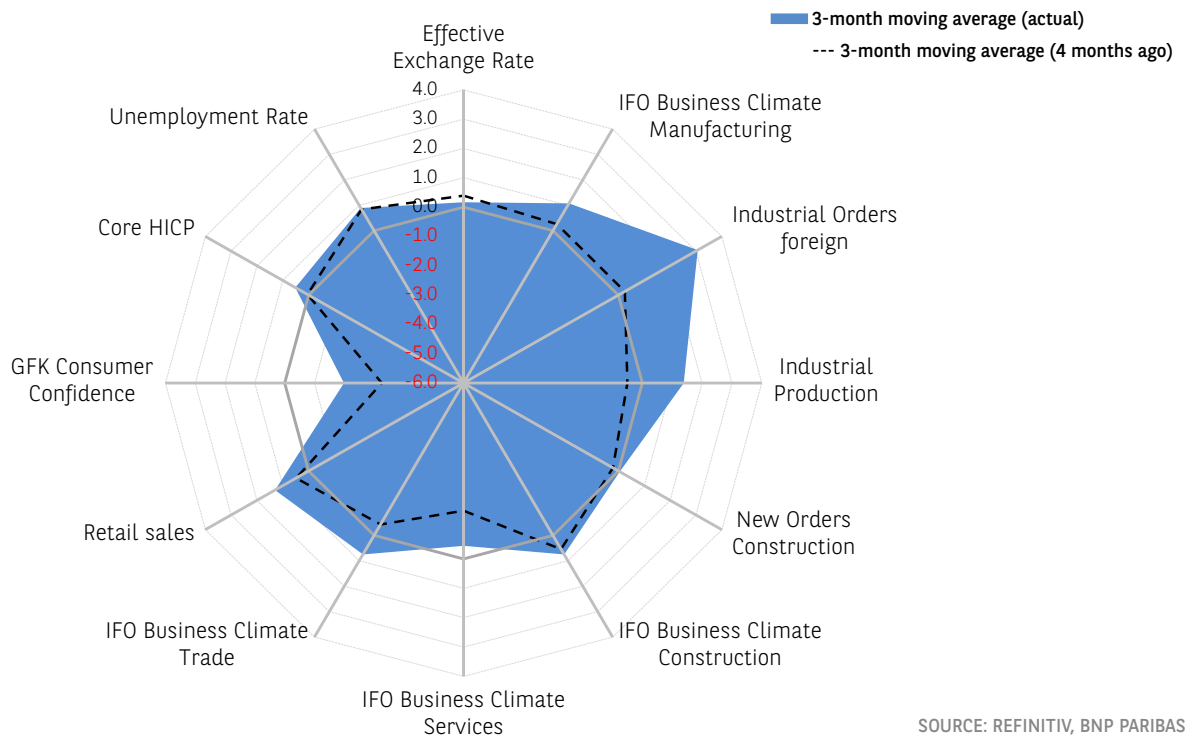
The manufacturing sector has reported a strong inflow of orders, mainly from the outside of the eurozone. However, the crisis is certainly not over in this sector. In June, business expectations actually deteriorated, as companies have become concerned about supply shortages of intermediate goods. The output of the large motor vehicles industry has been on a declining trend since last December, partly owing to the shortage of semiconductors. The energy transition is adding to the problems. By contrast, activity has been buoyant in chemicals and pharmaceuticals, and in optical and electronic equipment. The climate in the construction sector only improved slightly, as material shortages continue to pose major problems. In addition, the sector struggles to find qualified workers, a problem that pre-dates the coronavirus crisis.

The main improvement in sentiment was in the trading and services sectors. The retail sector suffered in the early months of the year from the forced shop closures. Only the online-sales business benefited from these measures and could increase its turnover by more than 40% compared to the end of 2019. In recent months, the reopening of shops has boosted retail activity. Not surprisingly, in May and June, retailers reported a remarkable improvement in their business conditions.

We should be prudent in interpreting the data for two reasons. First, the economy is on the rebound, which could easily peter out if the recovery is not supported by a very accommodative fiscal stance. Many of the support measures will stay in place at least until after the federal election on 26 September. It is important that all political parties realise that a government should be quickly formed after this date to steer the economy through this difficult phase in the recovery. Second, the recovery can easily be thrown off track by a new wave of infections. Hence, the authorities are proceeding very carefully in removing the lockdown restrictions.

Raymond Van Der Putten

GERMANY: QUARTERLY CHANGES



SOURCE: REFINITIV, 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 -6 and +4. 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.

