

# ECONOMIC PULSE

## GERMANY: HOISTING THE STORM SIGNAL

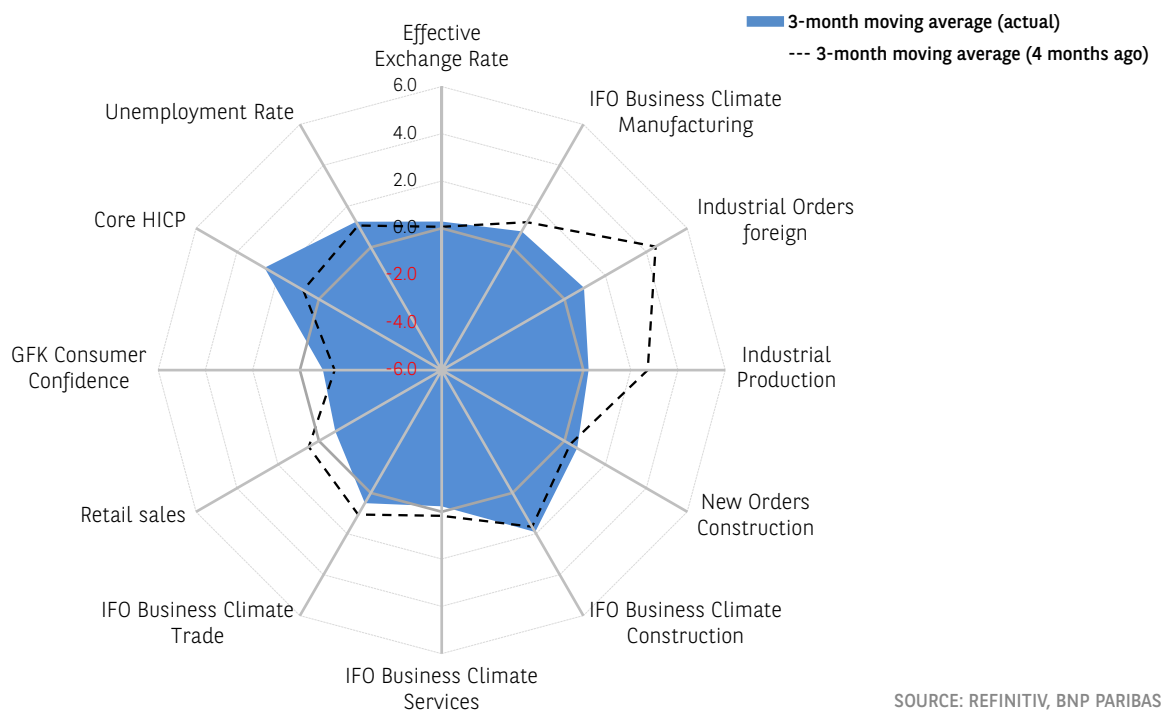
Our Pulse is clearly pointing to bad weather, as the blue area of the spider chart – the economic situation in the past three months – is clearly shrinking compared to the situation in the preceding three months – the area within the dashed line. The deterioration is noticeable in all sectors, with the exception of the construction industry. Ifo reported that the business climate in the manufacturing sector worsened in November for the fifth consecutive month. Industrial activity is dampened by supply bottlenecks and rising input prices. The improvement in expectations, in particular in the car industry, could signal that the shortages of parts in this sector are diminishing.

In the retail sector, sentiment has been affected by the fourth wave of the coronavirus pandemic. In some states, restrictions have been tightened by the introduction of the 2G-rule, which requires shoppers to show proof that they are either fully vaccinated or have recently recovered from COVID-19. In addition, rising inflation has been weighing on purchasing power. Harmonised inflation could have reached 6% in November, largely because of hikes in energy and food prices (22% and 4.5%, respectively). Consumer confidence is crumbling and the propensity to buy fell in November to a nine-month low.

When the need is greatest, the rescue is nearest. Last week, the SPD (social democrats), the Greens and the FDP (liberals) reached agreement on forming the next government headed by Olaf Scholz (SPD). The coalition programme provides continuity rather than a radical break with the Merkel policies. As the SPD had promised in its election programme, the minimum hourly wage will be raised from EUR 9.60 to EUR 12.00. For the Greens, the priority is meeting the climate targets of the Paris agreement through an early exit from coal-powered energy plants and the closure of coal mines “if possible” by 2030. The new finance minister, Christian Lindner (FDP), is expected to uphold the budgetary rules in Germany and at the European level. The lifting of uncertainties concerning policies should provide a boost to business and consumer confidence. However, the first challenge for the incoming government is to deal with the fourth wave of corona infections.

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### GERMANY: QUARTERLY CHANGES



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 +6. 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.

