

# ECONOMIC PULSE

## GERMANY: INDUSTRIAL PRODUCTION DECLINING, TRADE SURPLUS HISTORICALLY LOW

Although Germany returned to positive economic growth in the first quarter of 2022 – with GDP up 0.2 % q/q according to the initial estimate published by the Federal Statistical Office (Destatis) – March figures already showed the impact of the conflict between Russia and Ukraine and strict lockdowns in several regions of China. Industrial production, which accounts for 24 % of German GDP, fell sharply in March (by 4.6 % m/m) after almost zero growth in February. Industrial production remains well below its pre-Covid level: in Q1 2022, it was 5.2 % lower than in Q4 2019. Worse, the rapid decline in March created a sharply negative growth overhang for the second quarter (-3 %). Among the factors seriously hampering output according to the European Commission’s quarterly survey of the manufacturing sector, 90 % of business leaders in Q1 mentioned difficulties sourcing inputs as opposed to fewer than 6 % in normal times<sup>1</sup>, and 77 % said that this would remain a problem in the second quarter. The labour market is also tight and a lack of personnel is holding back output for 38 % of businesses.

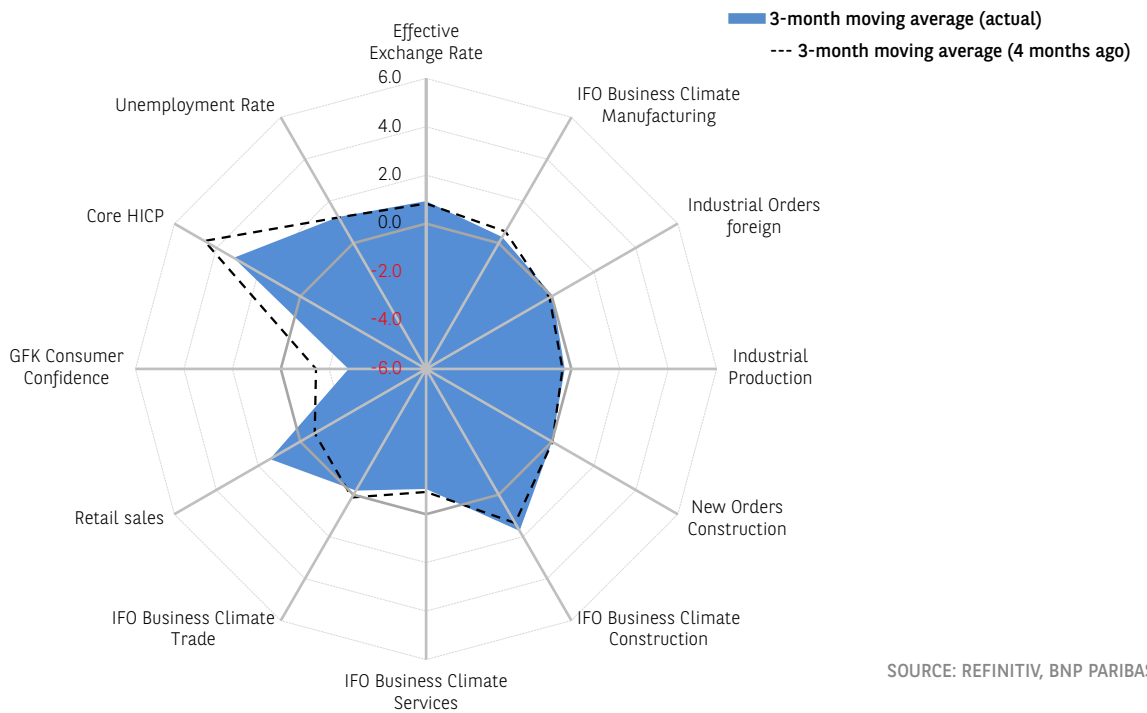
The decline in manufacturing output was accompanied by a fall in exports in March (-3.3 % m/m), while imports continued to rise at a rapid pace (+3.4 % m/m). The result of this “scissor effect” is that Germany’s trade surplus fell very sharply to EUR 3.2 bn (from EUR 11.1 bn previously), back to the lows seen during the first lockdown in April 2020 (EUR 3.5 bn). In March, the geopolitical context caused a slump in exports to Russia (-62.3 % m/m), while imports fell only slightly (-2.4 % m/m), reflecting Germany’s energy dependency. The conflict between Russia and Ukraine, together with highly restrictive anti-Covid measures in China, mean that global demand for German goods has fallen significantly: new foreign orders fell for the second consecutive month in March (-6.7 % m/m) and new orders from non-eurozone countries fell even more (-13.2 % m/m).

Germany’s outlook remains negative for the second quarter of 2022. In April, annual inflation hit 7.4 %, the highest level since Germany reunified in 1990. The last time inflation was this high in West Germany was in October 1981, during the Iran-Iraq War. Analysts surveyed by ZEW institute in May estimate that economic activity has recently deteriorated significantly in Germany, with the current situation indicator falling 5.7 points to -36.5. And although the indicator for the next few months rose by 6.7 points in May, it remains clearly in negative territory (-34.3).

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1. On average between 1982 and 2019.

### 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 +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.

