

ECONOMIC PULSE

GERMANY: LAST STAND IN THE 3RD QUARTER

Against all odds, German GDP grew by 0.3% in the 3rd quarter (q/q). This is very surprising because the Minister for the Economy, Robert Habeck, announced on 12 October that “the German economy should contract in the third and fourth quarters of this year as well as in the first quarter of 2023”. Although the detail of the GDP components is not yet available, the national institute of statistics (Destatis) points out that private consumption would have driven growth in the 3rd quarter. But this is difficult to reconcile with the 3.5% fall in retail sales (including sales of vehicles) between Q2 and Q3 2022 and that of 2.6% in wholesale trade. It would seem that it was consumption of services which increased strongly with the end of the catch-up effects in the accommodation/catering sector, which seem to have come fully into play in relation to the 16.8% q/q increase in turnover in the sector.

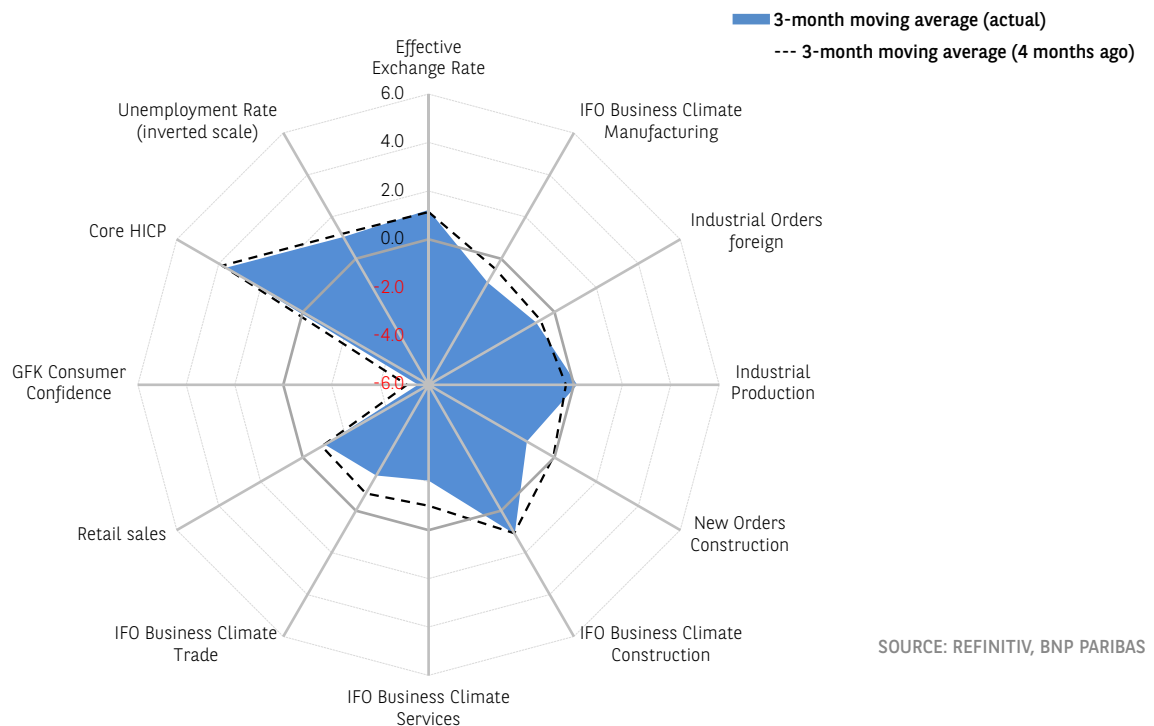
But we shouldn't be misled. This positive surprise does not call into question the difficult situation in which the German economy finds itself. Very high energy prices continue to undermine industry. Production in pharmaceuticals and chemicals was 8.3% lower in October than in January 2022. A similar fall can be seen in the wood and paper industry (-7.9%). Steel and metal manufacturers fared a little better, with the drop in their production limited to 2.6% since the beginning of the year, even though their business is energy intensive. Finally, the production in automotive sector has improved in recent months as a result of the improvement in supply side (particularly semiconductors), but it still remains at a very low level and new car registrations in October were 23.3% lower than in October 2019.

Supply is not the only aspect that is suffering. On the demand side, new orders in industry are falling. Since the start of 2022 they have fallen by 12.3% and the drop is particularly significant for foreign demand outside the Eurozone (-20.5%). However, it is partly in this market segment that Germany has based its growth over the past decade.

As for the business surveys, all are pointing in the direction of a marked deterioration in activity in the 4th quarter, which is clearly visible on our barometer. Household confidence remains at very low levels. The composite PMI declined for the eighth month in a row and the 6-monthly business outlook as seen by business leaders surveyed by the IFO is not recovering. After the surprise of GDP growth in the third quarter, it is difficult to imagine the German economy continuing to grow over the last three months of the year.

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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.

