

ECONOMIC PULSE

GERMANY: RAPID SPREAD OF DELTA VARIANT WEIGHS ON ECONOMIC SENTIMENT

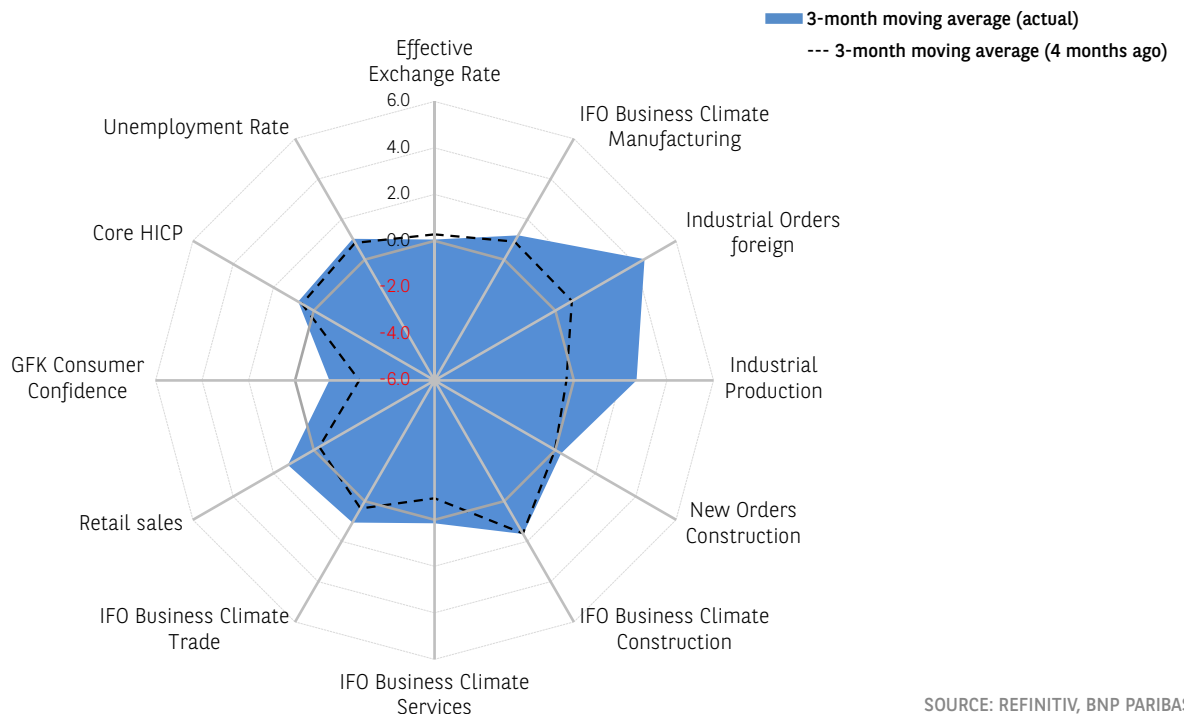
The German economic climate has significantly improved according to our Pulse. The blue area, representing the situation in the past three months, has clearly expanded compared to that in the preceding three-month period (the area within the dashed line). This is most obvious in the hard data for the manufacturing sector such as orders and production, which strengthened significantly in Q2 from the previous quarter.

However, this is largely a rear mirror view that stands in sharp contrast to the most recent sentiment indicators that actually signal a deterioration of the economic climate. In August, the ifo Business Climate index dropped for the second consecutive month owing to a further slide in expectations. This is partly related to the worldwide shortage of semiconductors that is holding back output in Germany's large car industry. In addition, the lack of building materials is delaying construction activity. The business climate also deteriorated in services in August despite increased activity on the back of the easing of Covid-19-related measures. However, expectations fell sharply, as the sector fears a renewed tightening following the rapid spread of the delta variant. The increase in infections is also the reason for the sharp drop in consumer sentiment in August. The GfK institute expects a further decline next month.

A major uncertainty for the economy is related to the course of the pandemic. In recent weeks, the 7-day incidence rate has rapidly increased and stood at 60.1 per 100.000 inhabitants on 25 August. In the most populous land of North Rhine-Westphalia, it even reached 114.3. At the same time, the vaccination momentum is slowing. Currently, only 60% of the population is fully vaccinated. A second uncertainty is the outcome of the upcoming federal elections, which will be held on 26 September. In recent weeks, the CDU/CSU lead in the polls has completely disappeared and the party is now in a neck-and-neck race with the SPD.

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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.

