

ECONOMIC PULSE

GERMANY: RAPIDLY SPREADING WAVE OF OPTIMISM

The Pulse for May shows that the economy is slowly recovering from the sharp downturn caused by the coronavirus pandemic. The blue area, representing the situation in the past three months, is clearly expanding compared to that in the preceding three-month period (the area within the dashed line). Unlike in previous months, the recovery is no longer limited to manufacturing and construction, but is now broadening to services. This chimes in with the OECD weekly GDP tracker, which sharply improved in recent weeks.

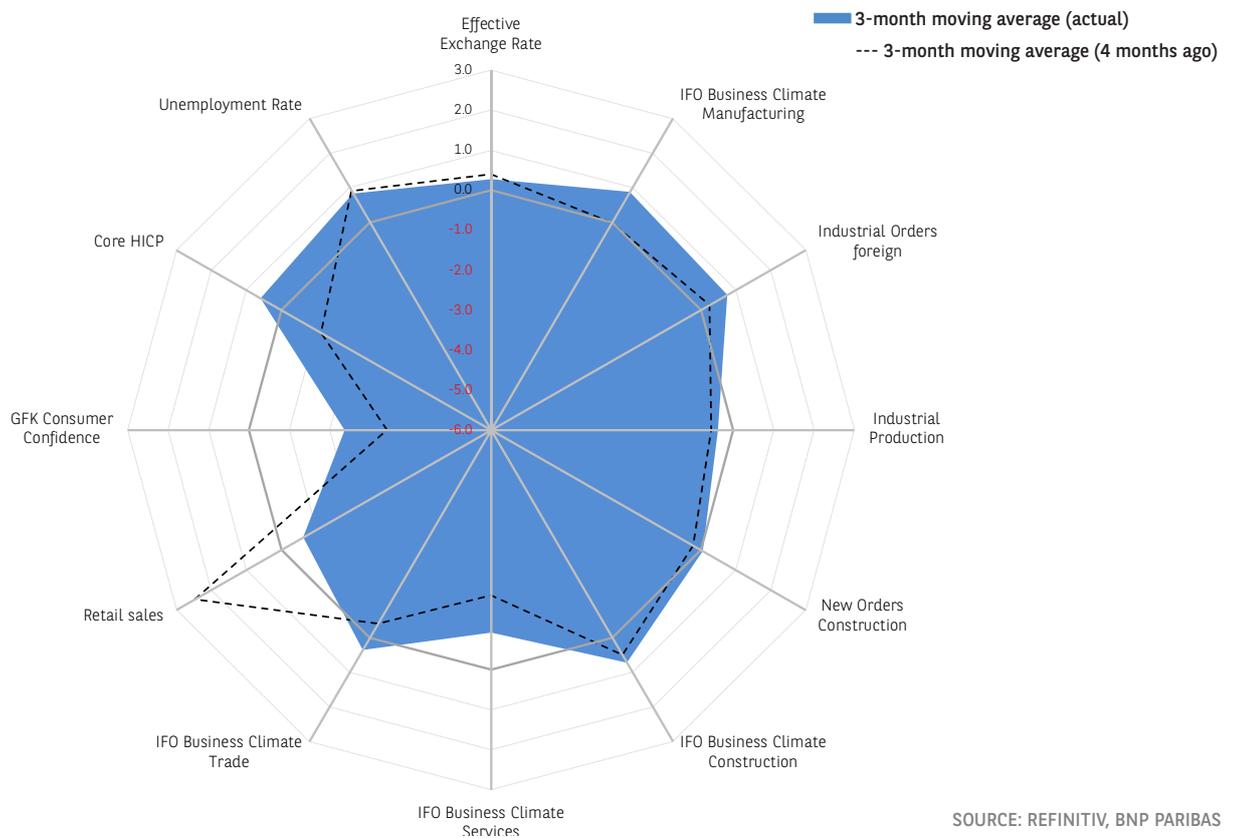
The improvement is confirmed by the latest ifo survey, which shows that the overall business climate indicator has risen to 99.2 in May, a highest since May 2019. The improvements in manufacturing and construction were only modest. Production has rebounded strongly in chemical and pharmaceutical products, electrical equipment and machinery. By contrast, it is still well below the pre-crisis level in the large transport equipment sector, partly due to the shortages in microchips. Moreover, construction activity has been held back by material shortages.

The prospects have brightened up in services, as infections have been steadily falling. In particular, optimism has returned to hospitality and tourism. Retail sales in Q1 2021 were still well below those in the preceding quarter because of the lockdown restrictions and the end of the VAT reduction in January. However, looking forward, expectations have substantially improved on the hope that the economy will soon open up further.

Moreover, consumers are feeling better. According to GfK research, their sentiment was up in May, and is projected to improve further in June as economic and income expectations are on the rise. Nevertheless, some skepticism remains among consumers. Many might feel that the situation is similar to that exactly one year ago, and prefer to wait before opening their wallets. The propensity to buy suffered a moderate loss in May after three consecutive increases.

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 +3. 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.

