# ECONOMIC PULSE

## GERMANY: RECOVERY HELD BACK BY UNCERTAINTIES

Compared with three months earlier, the blue area of the chart – representing data for the last three months – is spreading out like an oil stain. Nevertheless, most indicators remain well below their long-term average, i.e. the inner grey circle in the chart. In particular, indicators for households and services improved substantially, due to the lifting of the lockdown restrictions. Retail sales boomed in the period May-July following the reopening of shops and the temporary reduction of the VAT rate in July.

The manufacturing sector is also showing incipient signs of recovery. The ifo indicator for the manufacturing business climate improved in September for the fifth consecutive month. Also hard data have started to improve. In July, manufacturing production strengthened by 0.3% on the previous month, the third consecutive improvement, but it was still 12% lower than a year earlier. This subdued performance is largely due to the structural problems that existed before the sanitary crisis.
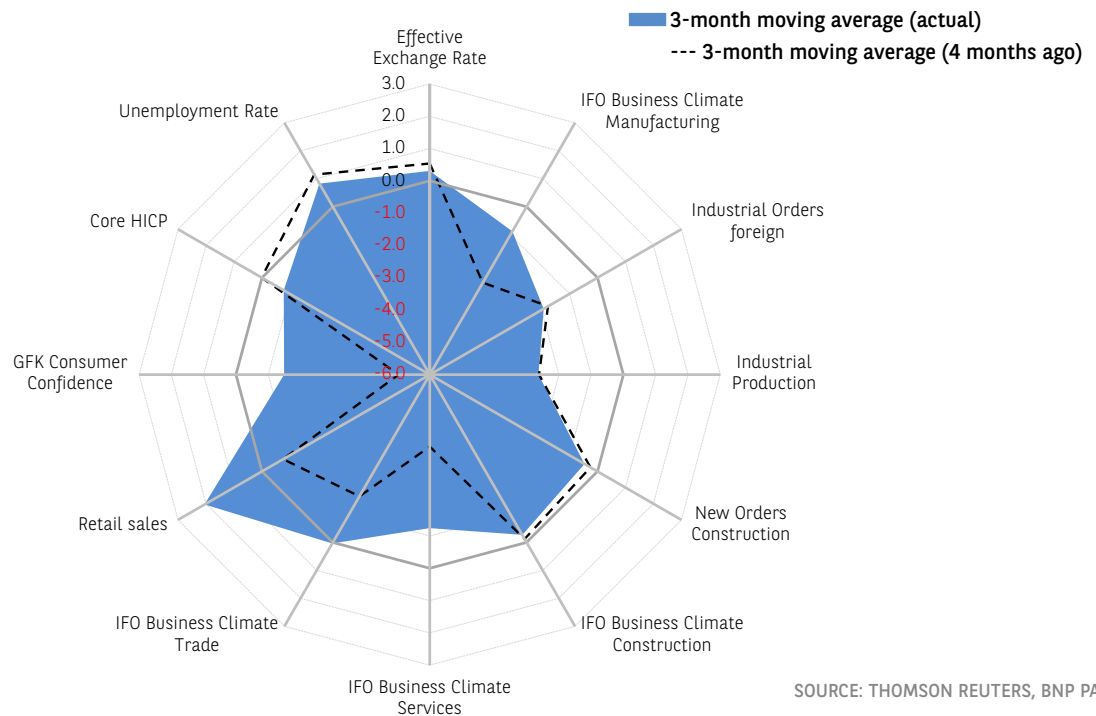
The German economy seems on the road to recovery, but many actors remain wary. The main immediate worry is the rise in infections, which may result in the tightening of restrictions. The labour market is also a cause for concern. Even though unemployment rose only slightly in August, the number of workers on furlough amounted to 4.6 million in August, i.e. 14% of socially insured employees. The government has already announced an extension the furlough scheme until end 2021. It is partly politically motivated, as the general election will be held in autumn 2021. However, it also signals that the government expects the pandemic to go on well into next year. Finally, it is not sure how the global economy will get out of the crisis and how Germany industry might benefit from the new environment.

These concerns are likely to limit any further improvement in economic sentiment. The ifo survey for September only showed a limited improvement in the expectations component and it even declined for business services. Moreover, even though both economic and income expectations were on the rise, consumer sentiment dropped in September, due to a fall in the propensity to buy.

**Raymond Van Der Putten**

## QUARTERLY CHANGES



Legend: 3-month moving average (actual); 3-month moving average (4 months ago)

SOURCE: THOMSON REUTERS, 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.*

BNP PARIBAS

The bank
for a changing
world