

ECONOMIC PULSE

GERMANY: RISING INFECTIONS THREATEN TO THROW RECOVERY OFF COURSE

According to the Pulse, activity in Germany recovered strongly in the past three months. The blue area of the chart spread out further compared to three months ago (demarcated by the dotted line). Activity in the manufacturing sector strengthened, on the back of well-filled order books. Nevertheless, in August (last observation), activity remained around 10% from levels seen a year ago. In particular, production of investment goods remained weak as low utilisation ratios and high uncertainty weighed on capital expenditure. In the car industry, production was even almost 30% lower from last year.

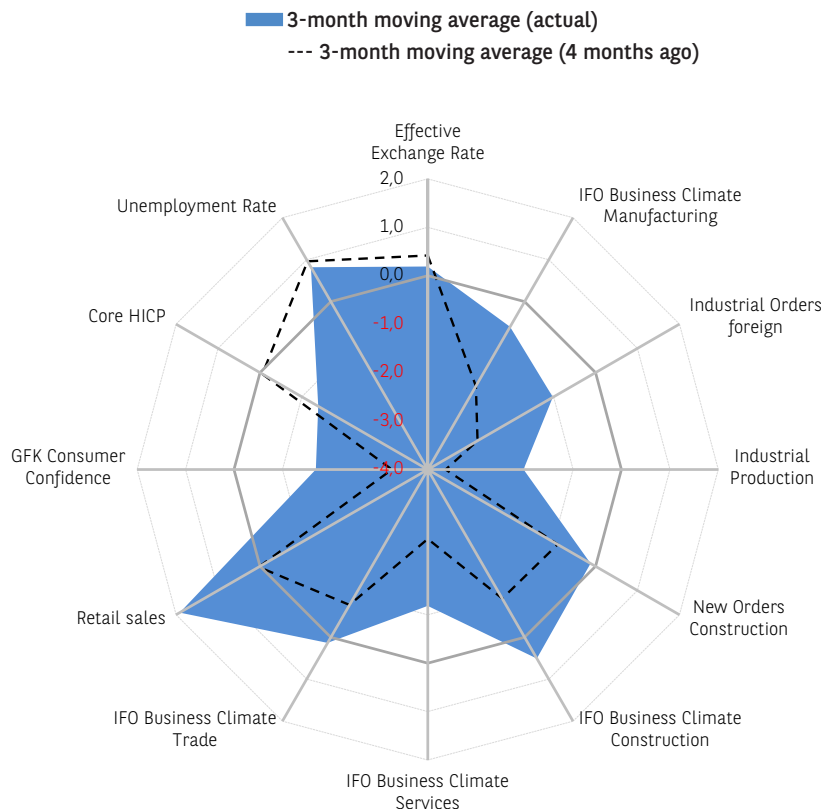
Furthermore, the services sector fared much better in the past three months. In the period June-August, retail sales were more than 5% higher than in the preceding three-month period, a growth pace well above the long-term average (the inner circle in the chart). An important factor was the temporary VAT reduction from 1 July, which resulted in a sharp fall in core inflation. This rosy picture corresponds with the strong rebound in GDP in Q3, 8.2% from the previous quarter, according to the first estimate of the German statistical office Destatis.

However, the second wave of Covid-19 infections threatens to throw the recovery off course. Only in October, 210k infections were reported, i.e. 42% of all cases during the whole pandemic. To break the chain of infection, Chancellor Merkel and the prime ministers of the Länder have jointly decided to close leisure facilities and restaurants and to restrict the size of groups gathering indoors and outdoors from 2 November until the end of the month.

This drastic decision had been feared by both households and businesses. According to the GfK survey, consumer sentiment deteriorated sharply in October, as around three quarters of consumers assumed that COVID-19 poses a major or very major threat, and about half were concerned about their personal future. The ifo survey reported a deterioration in the business climate in October due to weaker expectations, mainly in the services sector.

Raymond Van der Putten

QUARTERLY CHANGES



SOURCE: THOMSON REUTERS, BNP PARIBAS

The indicators in the radar are all transformed into z-scores. By construction, the z-scores have mean zero and their values, which indicate how far the indicator is removed from its long-term average, are in the interval between -4 and 2 in almost all cases. 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 improvement.

