

# ECONOMIC PULSE

## GERMANY : SLOWDOWN CONFIRMED

The indicators currently available for the end of last year suggest that Germany recorded weak growth at best in Q4 2021: a GDP contraction cannot be ruled out. Industrial orders remained at a relatively strong level, but production continued to be held back significantly by supply problems for certain components. According to the latest PMI report from Markit, supplier delivery times in the manufacturing sector remain longer than during the first lockdown in 2020, although tensions have eased somewhat since the summer of 2021. The manufacturing PMI closed 2021 at 57.4, its lowest level for twelve months.

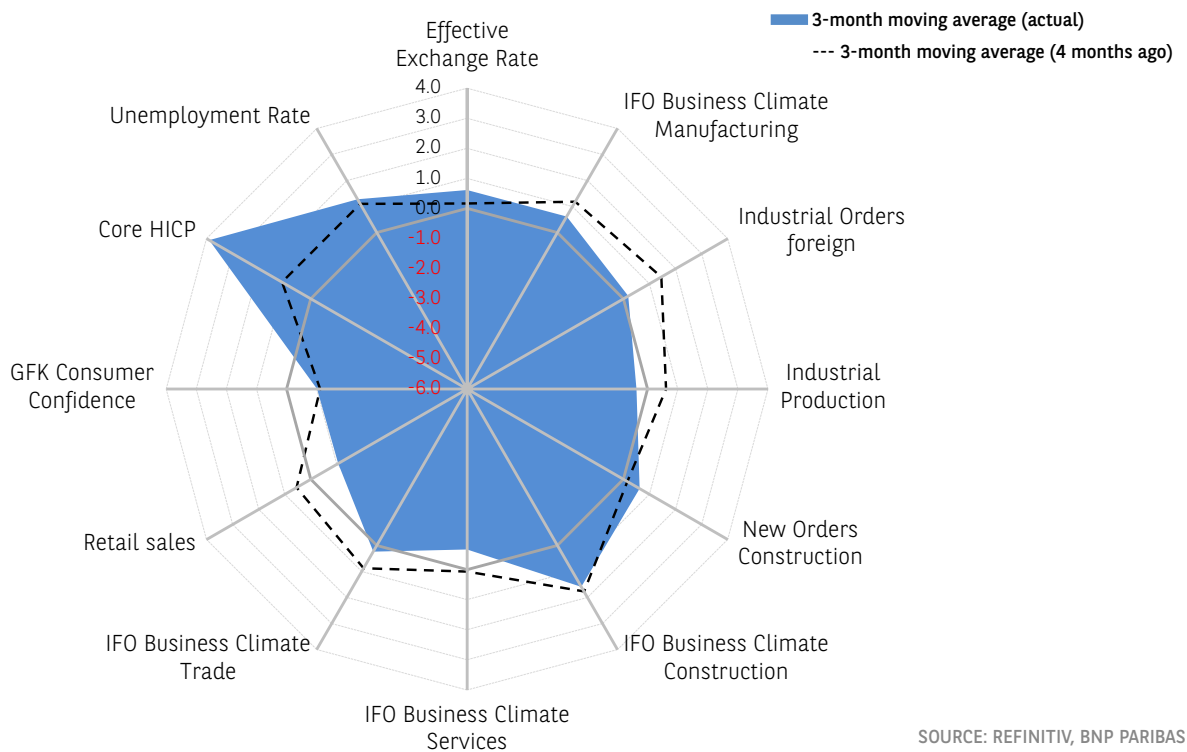
The deterioration of business confidence was even more marked in services. This reflects the tightening of conditions of access to shops and other 'non-essential' facilities for unvaccinated people introduced by the government in early December. The services PMI dropped to 48.7 in December, falling below the threshold of 50 which indicates a contraction in activity for the first time in eight months. The same trends emerge from the Ifo institute survey: in December, the services index recorded its biggest monthly fall since the end of the first lockdown in the spring of 2020.

The drop in the business surveys has had no tangible effect on the labour market so far. Unemployment continued to fall in December, down by 23,000 according to the Federal Ministry of Labour. The number of people out of work fell by 386,000 over the course of 2021, making up for approximately two thirds of the 501,000 increase in 2020. The unemployment rate was 5.2% of the active population in December, which is slightly higher than at the end of 2019.

Against a background of widespread increases in inflation in Europe, Germany is experiencing some of the biggest rises. Inflation in the country is currently much higher than in France, for example, at 5.7% compared to France's 3.4% on the harmonised measure in December. This is due in part to a bigger jump in energy prices (electricity, gas, petrol), but also to stronger price rises for food, medical products and cultural and leisure goods and services in 2021. Furthermore, there are base effects due to the temporary VAT cut between July and December 2020; these effects will drop out of the inflation data from January 2022.

**Guillaume Derrien**

### GERMANY: 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 +4. 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.

