ECONOMIC PULSE

GERMANY: TAKING A STEP BACK BEFORE THE GREAT REBOUND

The German statistical office Destatis estimates that economic activity shrank by 1.7% in Q1 2021 after robust growth in the second half of 2020 (8.5% in Q3 and 0.5% in Q4). This was largely due to the tightening of the Corona restrictions in mid-December, which has been a drag on private consumption. Moreover, construction activity was hampered by bad weather. Only the manufacturing sector reported output growth, underpinned by strong overseas demand.
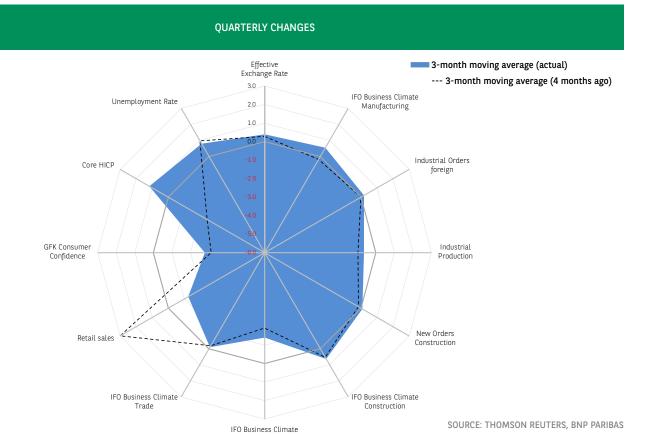
This picture is partly confirmed by our Pulse for April, which mainly covers data from Q1. The blue area has remained almost unchanged from that in the previous three months (the area within the dashed line). The sharp drop in retail sales in the three months to February is due to the closure of non-essential shops from mid-December onwards. The sharp rise in core inflation reflects the ending of the temporary VAT cut on 31 December.

The economy is likely to rebound very quickly, as business cycle indicators have been strengthening since February. In April, the IFO climate index inched higher for the third consecutive month. However, businesses have become more pessimistic about the coming months,

which might be related to the lack of improvement in the Covid-19 pandemic. In particular, business sentiment in the services sector declined, although the balance of opinion remained positive.

The health situation is also weighing on consumer sentiment. Because of a significant decline in economic and income expectations by households, the institute GfK forecast a decrease of consumer confidence for May to -8.8, down 2.7 points from April. This pessimism is undue, as the labour market is improving, even though it hardly shows up in the employment data. In March, employment only marginally improved and was still 1.7% lower (750k persons) compared to February 2020. However, the number of employees in the short-time work scheme, which are included in the employment numbers, is on a declining trend. In March, the scheme was used by 8% of employees, compared with 8.7% in the previous month.

Raymond Van Der Putten

QUARTERLY CHANGES

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.

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