

Will Germany (also) avoid recession?

Business climate indicators show relative improvement (for example, the IFO rose from 84.3 in September 2022 to 91.1 in February 2023), attesting to better than expected business activity, particularly as fears of a worsening energy crisis did not materialise. However, these indicators are still below normal, in line with negative growth in Q4.

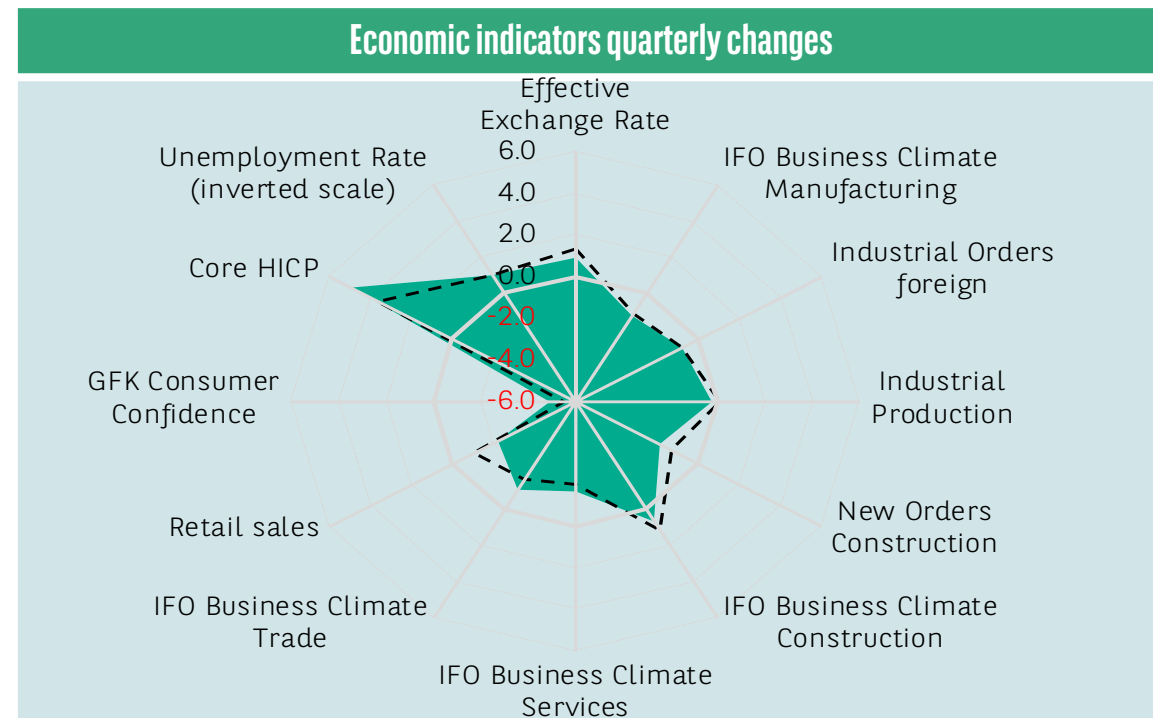
Acceleration in inflation caused consumer confidence to wane through to October last year, with annual data published on 13 January indicating a 1% q/q fall in consumer spending in Q4. However, consumer confidence has regained close to 10 points since October, reaching -33.9 in February.

This can be explained by the more moderate pace of inflation (9.2% y/y in January following a peak of 11.6% in October) due to the German government's energy price cap. Meanwhile, core inflation continued to increase, reaching 5.4% in December following 5.1% in November.

The Ifo Employment Barometer declined in the fall on the back of a less favourable general business climate, before rebounding in parallel with the business climate, highlighting a situation that is still characterised by a low unemployment rate (5.5% in January) and relatively unchanged labour shortages (around three in 10 services and manufacturing companies in January, according to the European Commission)

Germany's economic growth was not as hard hit as had been feared. The economy shrunk in Q4 (-0.2 q/q) and we expect a further contraction in Q1 (-0.4% q/q). However, with moderate improvement in economic surveys, there is a risk that this estimate could be revised upwards.

Stéphane Colliac



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 +6. In the radar chart, the green 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.

GDP growth											
Actual			Forecast	Carry-over	Forecast			Carry-over	Annual growth forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q1 2023	Q2 2023	Q3 2023	Q3 2023	2022 (observed)	2023	2024	
0.1	0.5	-0.2	-0.4	-0.3	0.0	0.1	-0.2	1.9	-0.2	1.2	

Source: Refinitiv, BNP Paribas



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