

ECONOMIC PULSE

GERMANY: WORRYING DEVELOPMENTS

The German economy further recovered in the third quarter, as GDP strengthened by 1.8% from the preceding quarter. Growth is mainly driven by higher consumer spending related to improved labour market conditions and a further relaxation of sanitary measures. However, our Pulse chart indicates that this favourable environment is unlikely to last: the situation in the three months to October (blue area) worsened compared to the situation in the preceding three-month period (area within the broken line).

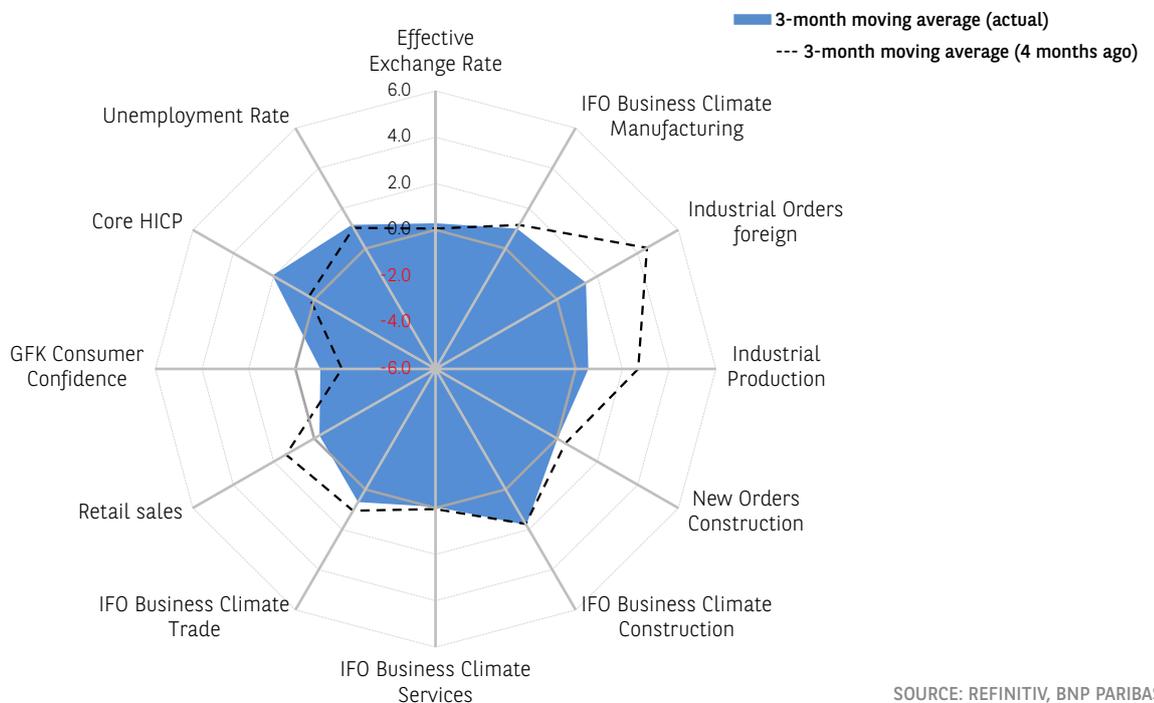
The recovery is threatened by two important factors. First, problems on the supply side are clearly hampering production in the manufacturing and services sectors. In August, industrial orders declined sharply, although remaining well above the pre-crisis level. By contrast, industrial production is still well below the pre-crisis level, partly due to the global semiconductor shortage. According to the European quarterly business survey, almost all German firms reported lack of intermediate goods in October as a major limiting factor for production. Moreover, manufacturers noted even more staffing problems than before the crisis. The services sector has also serious recruiting problems since the lifting of most of the sanitary restrictions.

The second factor is rising inflation. As the chart indicates, core inflation was substantially higher in the period August-October than in the preceding three months. This is mainly due to the return to the higher VAT rates on 1 January 2021. A more serious problem is the growing cost for energy, which is biting into the household budget just before the start of the winter. Nonetheless, consumer confidence slightly improved in the three months to October compared to the previous three-month period. This could change soon as both households' economic and income expectations fell sharply in October.

Against this backdrop, it is important that Germany gets a new government soon. Negotiations are under way between the SPD (social democrats), the Greens and FDP (liberals) to form the next coalition government. This might take a considerable time, as the parties have to bridge important differences. However, time is pressing as economic growth is slowing and the number of new Covid-19 infections is rising again.

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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 +6. 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.

