ECONOMIC PULSE

GERMANY: MORE CONFIDENCE AMONG BUSINESSES AND HOUSEHOLDS

The significant shrinking of the blue area in today's Pulse indicates that the economic climate has substantially deteriorated during the past three months because of the lockdown measures in order to stop the Covid-19 pandemic. However, there were some remarkable differences. In April, in the industry sector, manufacturing output was 30% lower than a year earlier. By contrast, construction was among the least affected activities, and production was even slightly above the level in April 2019. In the retail sector, clothing stores were particularly hit, reporting a fall in turnover more than 70% from last year. Nevertheless, the sector had also some clear winners. Food stores reported an increase in sales of 10%, as bars and restaurants were closed, and online sales rose by almost 25% from last year.

The trough is likely behind us. Following the decline in new Covid-19 cases, all German states have been gradually lifting lockdown restrictions, although each at its own speed. The progressive opening of businesses has certainly contributed to the improvement in economic sentiment. Consumer confidence strengthened both in May and June and a further improvement is anticipated for July. Also the ifo climate index improved in June for the second consecutive month on the back of a rebound in expectations.

By contrast, the assessment of actual conditions continued to decline. The improvement in confidence is underpinned by the economic stimulus package, announced in early June. In particular, the temporary reduction in value-added tax will stimulate activity in the second half of the year.

Nevertheless, the situation remains both difficult and fragile. The recent re-instauration of lockdown measures in several districts shows that the health crisis is far from over. Moreover, a record number of short-time workers and rising unemployment are likely to weigh on confidence. The economy is expected to rebound in the third quarter, but it may take until the end of 2022 before activity is back at its pre-crisis level.

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QUARTERLY CHANGES
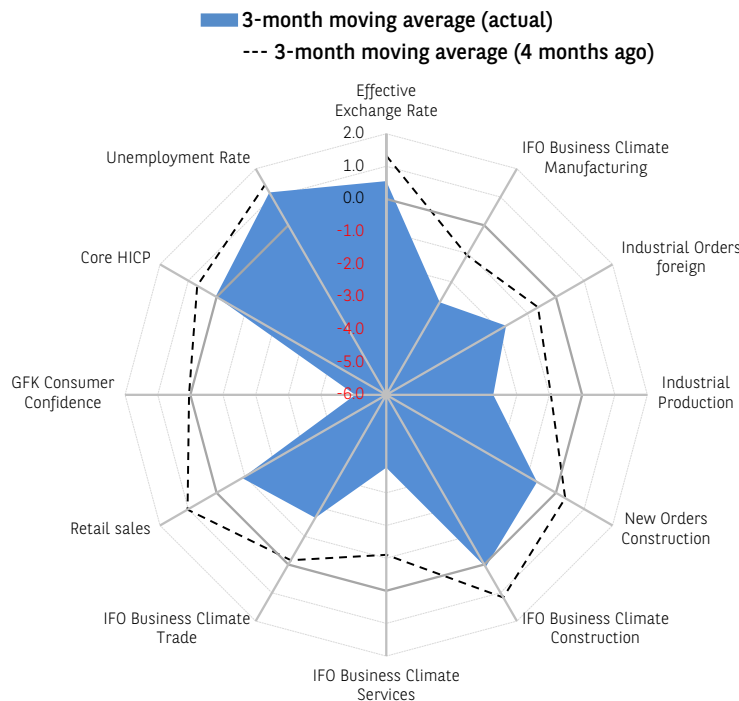
SOURCE: THOMSON REUTERS, BNP PARIBAS

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 -3 and 3 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.