

ECONOMIC PULSE

GERMANY: A HARSH WINTER

Although Germany is not the eurozone country experiencing the highest inflation rate, the trend is nevertheless uncomfortable. Consumer prices posted another hefty rise in January (+5.1% y/y, harmonised index), although this was less than in December 2021 (+5.7%). The end of positive base effects – caused by the end of the VAT rate cut in place in the second half of 2020 – did not therefore result in a marked fall in inflation.

Instead, other factors had a significantly stronger effect, with higher energy prices leading the way. The CPI's energy component¹ rose by 7.3% m/m in January, its biggest monthly rise since July 1991. With oil prices now at their highest level for eight years, and the escalation of tensions in Eastern Europe, it looks less and less likely that consumers' energy bills will ease significantly in the near term.

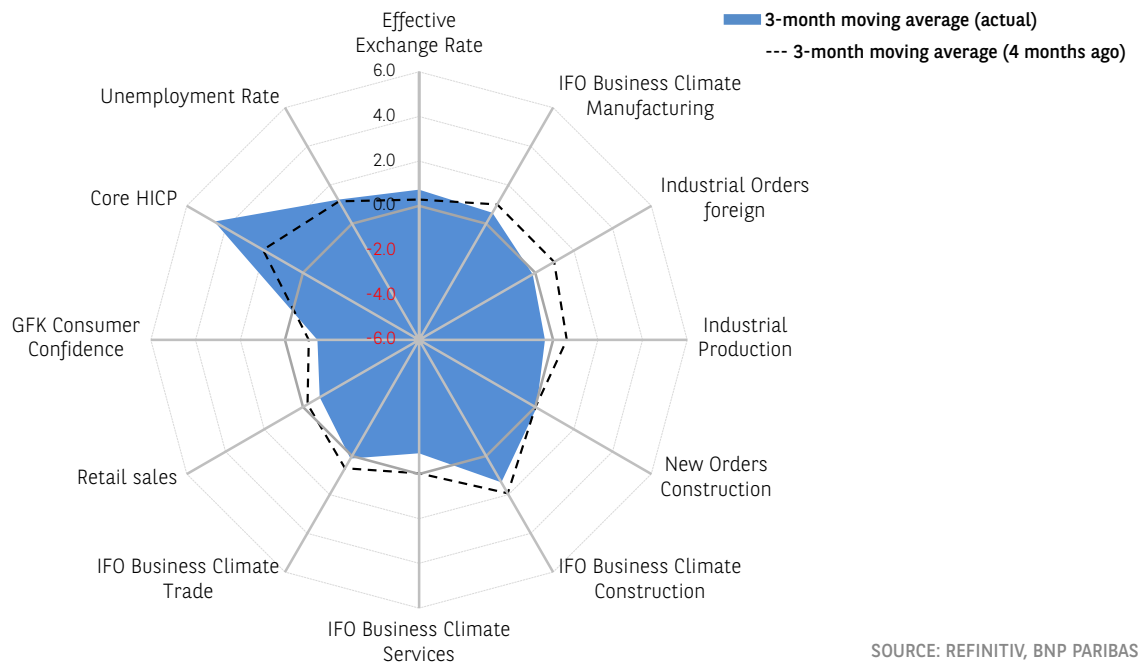
The German economy, where real GDP contracted by 0.7% q/q in Q4 2021, nevertheless continued to show a strong performance on the employment front. According to the Federal Ministry of Labour, the drop in unemployment accelerated in January (-48,000), and the jobless rate dipped by 0.1 percentage points at 5.1%. Further evidence of this strength came from new job openings, which hit nearly 840,000 in January. This has been the highest figure since 1992, when the current statistical series began. On the flipside, many vacancies are unfilled and labour shortages seem to be intensifying².

Industrial activity continues to be hampered by supply-chain problems. These remained substantial in January, affecting most sectors, as shown in the latest Ifo survey³. This survey nevertheless reveals a slight easing of these issues, which is also visible in the PMI figures. In January, the latter showed a further shortening of delivery lead times and an increase in manufacturing orders for the first time in six months. There was also a visible improvement in the Ifo survey: the business climate index, which had been falling since last June, improved slightly in January.

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1. Which includes vehicle fuels and domestic energy.
 2. This at least is what is suggested by the latest European Commission quarterly survey.
 3. <https://www.ifo.de/en/node/67761>

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.

