GERMANY: THE IMPACT OF THE WAR IN UKRAINE HAS BEEN MORE PRONOUNCED THAN EXPECTED

The negative prospects for the second quarter of 2022 are no longer a risk as suggested by business surveys, they are now taking concrete shape in Germany. After the very sharp worsening in the trade balance in March (a 4% decline in exports in volume terms and a symmetrical 4.1% increase in imports), it barely improved in April and remains at an extremely low level. According to the Kiel Institute's real-time forecasts, exports probably fell in May (-1.7% m/m) but will see a slight recovery in June (0.6% m/m). Over the second quarter as a whole, Germany's trade balance could shrink to its lowest level since Q2 2001.

These trade difficulties have come against a background where demand addressed to Germany by its main trading partners is falling, as indicated by another fall in orders received by industry in April (-2.7% m/m). Although order books remain satisfactory, the deterioration since February has been swift. In addition, the details of this fall are sobering as the biggest drops have come in capital goods (-4.3%), followed by consumer goods (-2.6%), a sign that consumption is not the only component to be affected but that business investment is now also suffering from the situation, with the postponement of a number of investment projects.

Supply difficulties also continue to weigh on manufacturing production, which struggled to recover in April (0.4% m/m) and is still well below its pre-Covid levels (-6.1% relative to Q4 2019). The biggest hit has come in the automotive sector, where, in addition to semiconductor shortages, there are now bottlenecks in the supply of cable looms which had been supplied by Ukraine. The result of this is that new car registrations continued to fall in May (-10.2% y/y). Germany's automotive industry association (VDA) is concerned about the weakness of sales: only 1 million units were sold in the first five months of the year, 33% below the 2019 figure.

Nor are we seeing better signals in the area of consumption. Although household spending on services is likely to hold up, benefiting from substantial accrued growth since the relaxation of health protection measures at the beginning of the year, consumption has slipped considerably (retail sales were down 5.4% m/m in April).

Lastly, the German economy has been hit harder than expected by the repercussions of Russia's war in Ukraine. At the beginning of the conflict, initial estimates of the impact of an embargo on Russian energy put the reduction in 2022 growth at around 2 percentage points (Bachmann et al 2022). In reality, the effect has been much more severe, even though the embargo is not yet effective. The OECD now forecasts GDP growth of only 1.9% in 2022 and 1.7 % in 2023 in its June economic outlook (compared respectively to +4.1 % and +2.4 % in December 2021).

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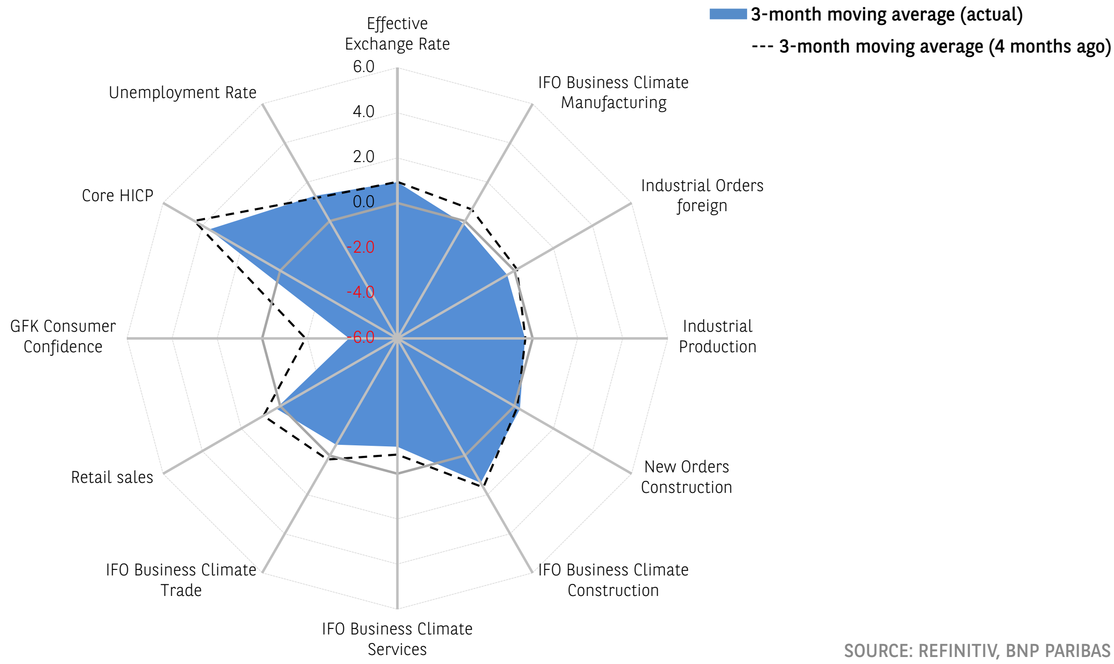
GERMANY: QUARTERLY CHANGES



SOURCE: REFINITIV, 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 +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.