GERMANY : THE END OF THE NEO-MERCANTILIST MODEL?

In May 2022, Germany recorded its first trade deficit since 1991. Due to a much bigger than expected increase in imports (2.7% m/m) and an unexpected drop in exports (-0.5% m/m), the country's trade balance was negative to the tune of EUR 1 billion. By comparison, Germany was running a monthly trade surplus of nearly EUR 20 billion at the end of 2019. Moreover, this deterioration of the trade balance is likely to continue. The Kiel Institute's real-time forecasts suggest that exports will continue to fall, and imports to grow, over the next two months. As a result, the trade deficit is expected to exceed EUR 4 billion by end-July.

To date, it has been rising import prices, and supply constraints more generally, that have caused the German neo-mercantilist model to wobble. However, a lack of demand could come into play in the second half of 2022. S&P Global's June survey of purchasing managers in industry reported significant worsening of their order books over a number of months. The balance on the new orders index has fallen by more than 15 points since January 2022, and by more than 22 points over the past year. The same picture emerges in the expected demand figures from IFO's survey, which shows a very marked fall of 29 points over the year to June. Although for the time being order books are full enough to cover several months of production, the weakening of demand could become the main drag on industrial activity as supply constraints start to ease.

When it comes to inflation, the slight dip seen in June (to 7.6% y/y from 7.9% y/y in may) was due largely to the exceptional steps taken by the government to cut public transport prices; a monthly pass giving access to all rail services apart from main-line trains was introduced at a cost of EUR 9 on 1 June. However, alongside the ensuing reduction in services inflation (2.1% y/y, from 2.9% in May), inflation in the prices of goods continued to accelerate (14% y/y from 13.6% in May). Nothing so far suggests that inflation in Germany has reached its peak.

Price increases will hit consumer spending, particularly on goods, and there are no signs of improvement. Retail sales rallied slightly in May (0.6% m/m) after their collapse in April (-5.4% m/m). Total consumer spending should, however, benefit from a return to normal in spending on services, where the scope to catch up remains substantial (services revenue in April was still 25% below its end-2019 level). Yet, it remains to be seen to what extent this will boost overall spending. Households might decide to switch from goods to services, rather than increase their overall spending.

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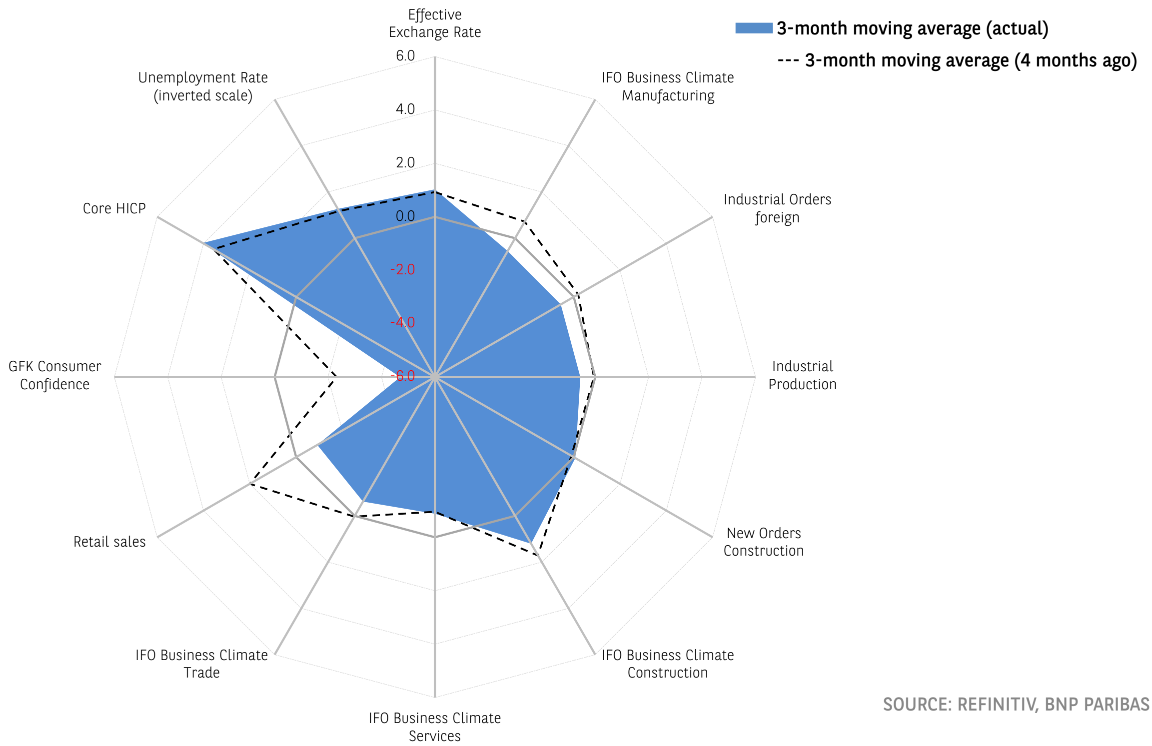
GERMANY: QUARTERLY CHANGES



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.