GERMANY: PUT TO THE TEST

With Gazprom announcing on 2 September that gas deliveries via NordStream1 would be interrupted until further notice due to alleged oil leaks discovered during maintenance work, the increase in deliveries promised by the Russian company via other pipelines (such as those crossing Ukraine) will only marginally compensate for the shutdown of NordStream1. The likelihood of power cuts this winter is increasing even though gas inventories are expected to be replenished in early November.

At the same time, consumer prices are continuing to accelerate in Germany. Inflation, as measured by Destatis, was +7.9% year-on-year in August. The energy shock has very quickly spread to goods, which continue to show rising prices (+14.7% y/y) while price movements in the cost of services have been more moderate (+2.2% y/y).

Despite the significant momentum in prices, remuneration paid to employees (including wages and bonuses) slowed in nominal terms during the 2nd quarter (+2.9% y/y following +4% y/y in the 1st quarter) due to a decrease in the variable component, resulting in a very sharp drop in earnings in real terms (-4.4% y/y following -1.8% y/y). Faced with such a loss in purchasing power, the government of Olaf Scholz announced a new package of measures worth 65 billion euros (or 1.8% of GDP). With total expenditure exceeding 3.5% of its GDP, Germany is now one of the most interventionist countries in Europe against the backdrop of the inflationary shock and the energy crisis.

Included in this new raft of measures are energy payments of 300 euros for pensioners and 200 euros for students. The government will also reduce VAT on gas and apply reduced prices on basic electricity consumption. Finally, the subsidy for rail transport will be extended and expanded (the monthly rate is likely to be raised to 49 euros instead of 9 euros). Initial estimates show that the price cap would reduce total inflation year-on-year by around 0.5 points.

In addition there are increasingly evident signs of a slowdown in production. Industrial production lost ground in July (-0.3% m/m) and fell 1.1% over one year after having been stable in June. The decline is even more marked in the manufacturing industry (-1% m/m; -1.4 over one year), which is still 5% below its pre-crisis level. It is the energy-intensive industries that have seen the biggest falls in production (paper, chemicals, automotive). New orders for the industry have also fallen (-1.1% m/m). While orders from countries outside the euro zone have rebounded strongly (+6.4% m/m), domestic orders fell back sharply (-4.5% m/m), a sign that German domestic demand is suffering. The signals emanating from the PMIs for August show that activity is likely to continue to deteriorate (-1.2 pts m/m for the composite to 46.9). The decline is apparent in the services industry, where the PMI lost 2 pts over one month (to 47.7) and in industry where the production capacity utilisation rate continues to deteriorate (-1.8 pts m/m to 54.3). The analysts surveyed in early September by the ZEW have revised their assessment of the current situation downwards (-1.5 pts m/m to 55.3) as well as their expectations for the next six months (-1.8 pts m/m to 55.3).

Finally, after a significant improvement in the trade surplus in June, this fell in July (falling from 6.2 bn euros to 5.4 bn euros), impacted by the effect of a decline that was more marked in exports (-2.1% m/m) than in imports (-1.5% m/m). The Kiel Institute estimates that exports have continued to slump in August (-0.7% m/m), further reducing the trade surplus to just 3.6 bn euros.

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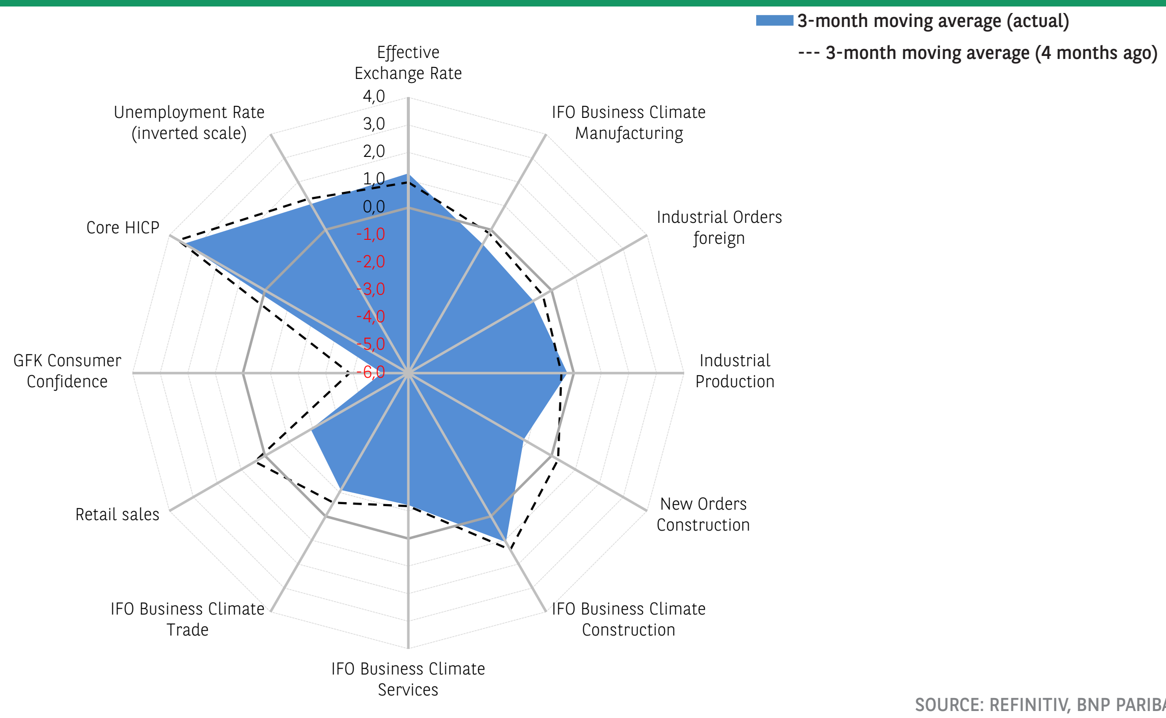
QUARTERLY CHANGES



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 +4. 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.