



# Economic Update Germany

## 8 May 2012

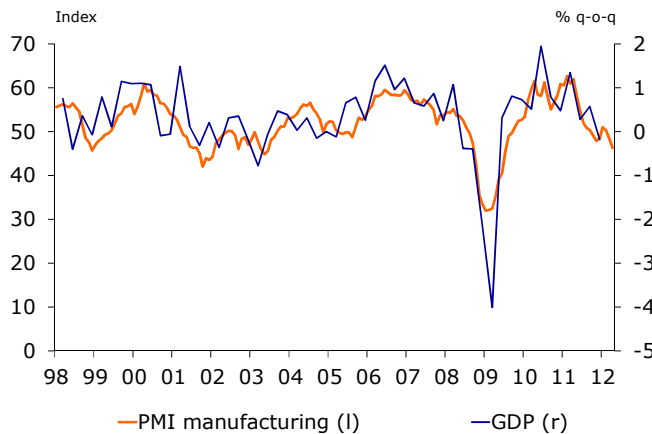
### Economic visibility is extremely poor

year-on-year change (%)	'11	'12	'13
Gross Domestic Product	3.2	1	1¾
Private consumption	1.3	1	2
Government consumption	2.3	1½	1¼
Investment	8.0	3¼	4¾
Exports	9.5	4¼	5¼
Imports	7.8	5¾	7
Inflation	2.5	2	1¾
Unemployment (%)	7.1	6¾	6½
Government balance (% GDP)	-1.0	-¾	-½
Government debt (% GDP)	81.5	79	77½

- The PMI manufacturing data in April is pointing to economic contraction in 12Q2.
- But the other reliable leading indicators suggest the recovery is still on track.
- Consumer sentiment slipped slightly, but this could be a temporary phenomenon.
- Unemployment rose strongly in April and this might mark the beginning of a labour market turnaround for the worse.
- However, relatively strong vacancy data suggest the *arbeitsmarktwunder* is not over.
- Amid very poor economic visibility, we must wait for more incoming data to get a better understanding of Germany's economic direction.

Source: Reuters EcoWin, Rabobank

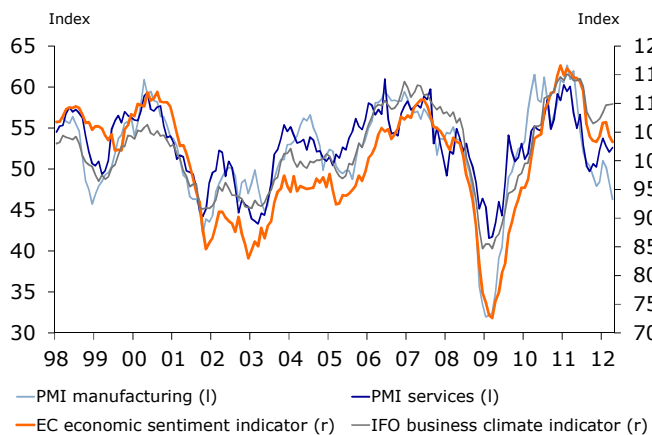
### Is the European locomotive slowing down?...



Source: Reuters EcoWin

The third consecutive month of decline in the manufacturing PMI data during April was a nasty surprise. The manufacturing PMI dropped to 46.2 and all the sub-components deteriorated. It seems that record-high fuel prices as well as renewed tensions in the financial markets are leading to mounting pessimism amongst producers. On past form, the manufacturing PMI data is now consistent with economic contraction in 12Q2. That said, the composite PMI reflecting activity in both the manufacturing and services sectors remained in expansion territory during April (dropped from 51.6 to 50.5). This was obviously due to the resilience of the services sector (PMI: 52.2), which will continue to support economic activity.

### ...or not?



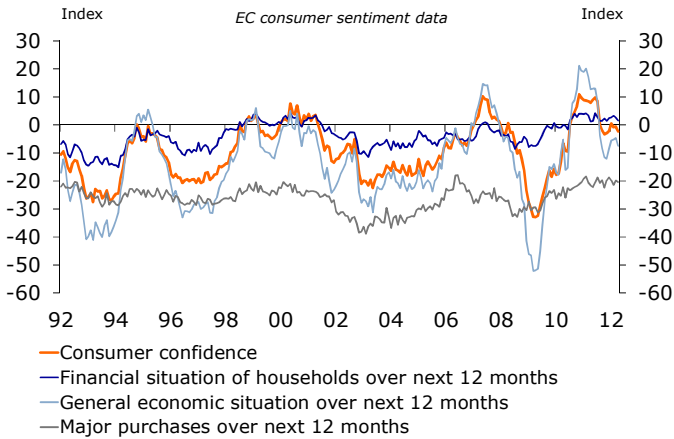
Source: Reuters EcoWin

The weakness in the PMI manufacturing data is difficult to reconcile with the other reliable leading indicators. The Ifo index for April increased for the sixth consecutive month, defying expectations of a modest drop. The manufacturing orders also rose by 2.2% m-o-m in March, after growing by 0.6% in the previous month. There is thus no indication about any imminent economic setback. Also the EC economic sentiment indicator (ESI) portrays a brighter picture than the PMIs. Against this uncertain macroeconomic backdrop, we have to wait for more incoming data to assess the strength of the German economy. We expect economic visibility to improve somewhat by the end of this quarter.

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## Consumer optimism eases



Source: Reuters EcoWin

The GfK consumer climate indicator has slipped from 5.8 to 5.6 in April (the long-term average is 4.6). Worryingly, the willingness-to-buy index has slipped the most. The EC consumer confidence index also fell from -0.6 to -2.3 in April (the long-term average is -8.0) and all its sub-components deteriorated. Thus far, the drops are not large enough for us to question the resilience of household spending. Germans are probably getting somewhat nervous about the recent bad news coming from the Eurozone and the labour market (see below). That said, a significant weakening of consumer sentiment going forward will force us to lower our private consumption growth forecast for 2012-13.

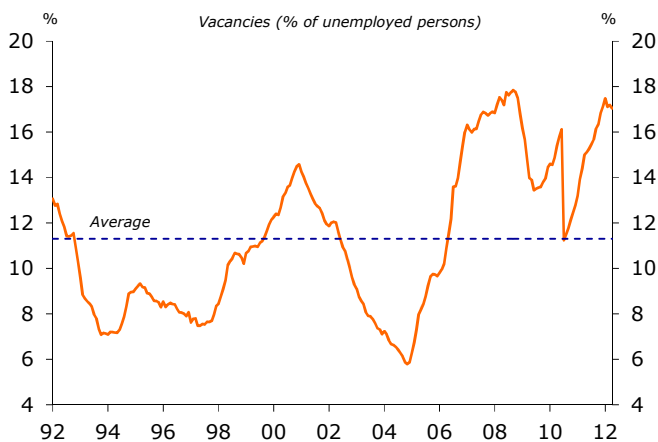
## Arbeitsmarktwunder coming to a halt?...



Source: Reuters EcoWin

Some have taken the latest labour market data as proof that the *Arbeitsmarktwunder* has come to a halt. German unemployment increased by 19,000 m-o-m in April, the largest monthly increase since June 2009. It is noteworthy to mention that unemployment has ticked up 4 times during the labour market recovery (see figure), but the magnitudes have been far smaller than the recent one (ranged between 1,000 and 7,000). Besides, the employment sub-indices in the manufacturing and services PMIs entered the contractionary territory in April (49.0 and 49.7, respectively). Thus, one can conclude that unemployment is having a lagged reaction to the economic slowdown observed since mid-2011.

## ...or not?



Source: Reuters EcoWin

The information above suggests that firms are losing their confidence about the outlook and unemployment is set to rise further. But the vacancy data paint a far healthier picture of the labour market. Indeed, the ratio between the number of vacancies and unemployed was still close to its historical high levels in April (see figure). What's more, the average time it took to fill a vacancy was 66 days in April, 11 days more than it took in the same period last year. Finally, the BA-X vacancy index decreased five points to 171 in April but remained close to its all-time high in January (179). As such, we can still expect the labour market recovery to continue, albeit at a slower pace than in 2010-11.

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