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Economic Research

Economic Insight

Germany – positive signals from private consumption

In the third quarter, private consumption in Germany was a major factor in the economy's return to slight growth. The rise in real incomes, which has been underway for some time, is now having a positive impact. We expect this upward trend to continue in the quarters ahead. However, a turnaround for the economy as a whole is not expected until demand for industrial goods stabilizes, which is not likely to happen any time soon.

Private consumption picked up in the third quarter

Finally, some positive news again from private consumption. According to the Federal Statistical Office, it has played a major role in bringing the German economy back to growth again in the third quarter, contrary to expectations. In addition, real retail sales rose in September for the third month in a row, raising hopes that its sideways movement that has been observed for some time is coming to an end (Chart 1).

31 October 2024

Dr. Ralph Solveen^{AC}

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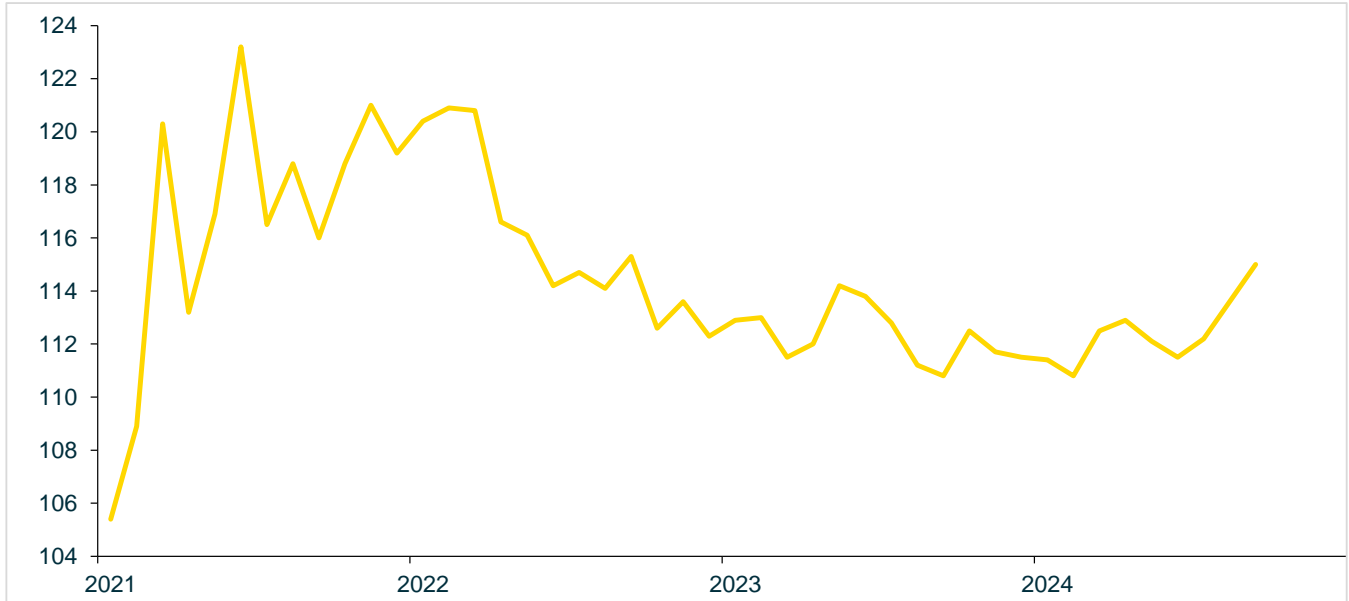
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Chart 1 - Turnaround of retail sales?

Retail sales, volumes, 2015=100, seasonally adjusted monthly figures



Source: Destatis, S&P Global, Commerzbank Research

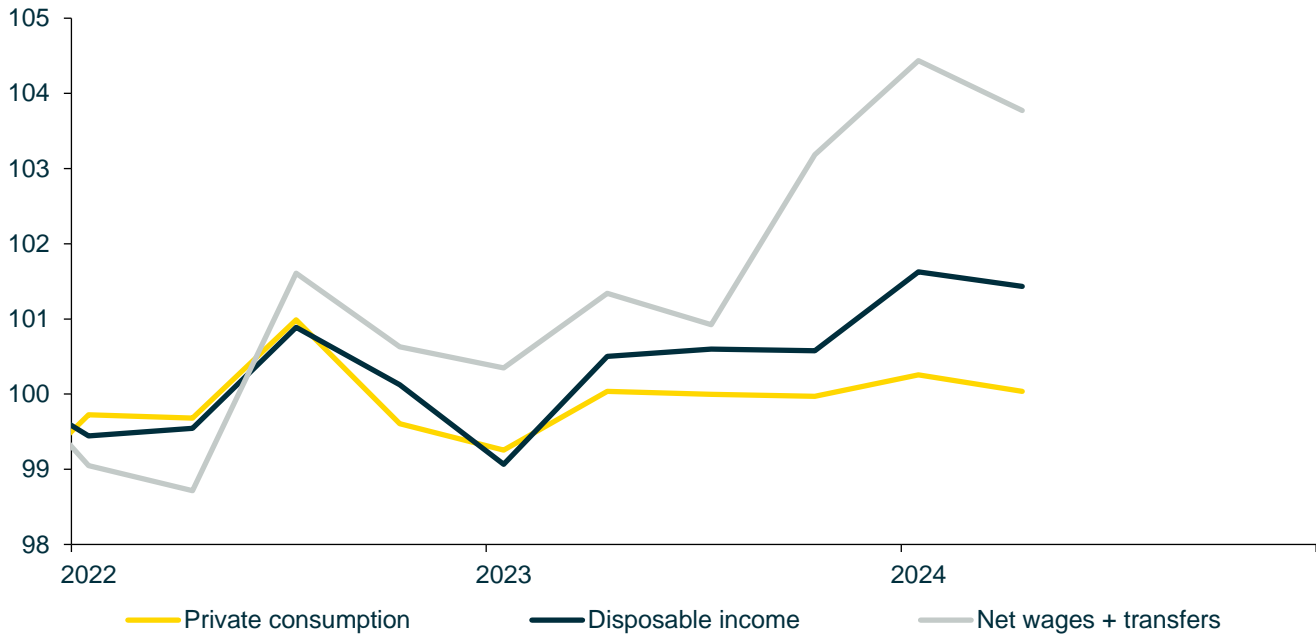
Real incomes are rising again,...

There are certainly good arguments for a better performance of private consumption. Since the beginning of 2023, the real disposable incomes of private households have risen again, without private consumption having ended its sideways movement (Chart 2). The upward potential for consumption is even greater when we look at net wages plus transfers (so-called mass income), which better reflects the financial situation of those households whose consumption depends on their income in the short term because they are close to their “budget constraint”. In the second quarter - figures for the third quarter are not yet available - these were almost 4% higher than in 2022 when adjusted for inflation.



Chart 2 - Upward potential for private consumption

Data are price-adjusted, using the private consumption deflator, 2022=100



Source: Destatis, S&P Global, Commerzbank-Research

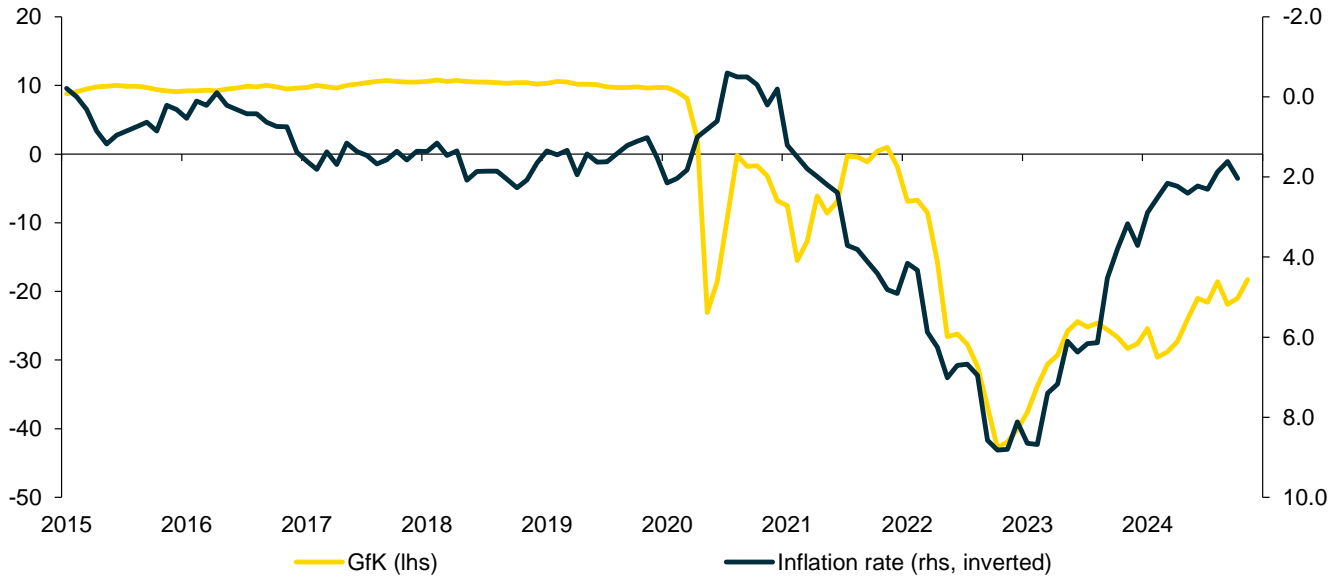
... but consumers are only slowly regaining confidence

Consumption has so far been held back by the fact that private households are clearly still reeling from the shock of strong inflation in recent years. After the GfK consumer climate index had collapsed following the rise in the inflation rate, it has only partially recovered despite the fact that the inflation rate has now returned to a normal level (chart 3). This is likely to continue to affect consumer spending. However, if the slight upward trend in the consumer climate continues in the coming months, this brake should increasingly be released in the coming year.



Chart 3 - Consumers are still digesting shock of jump in prices

Germany, GfK consumer climate, seasonally adjusted monthly figures; consumer price index, year-on-year percentage change



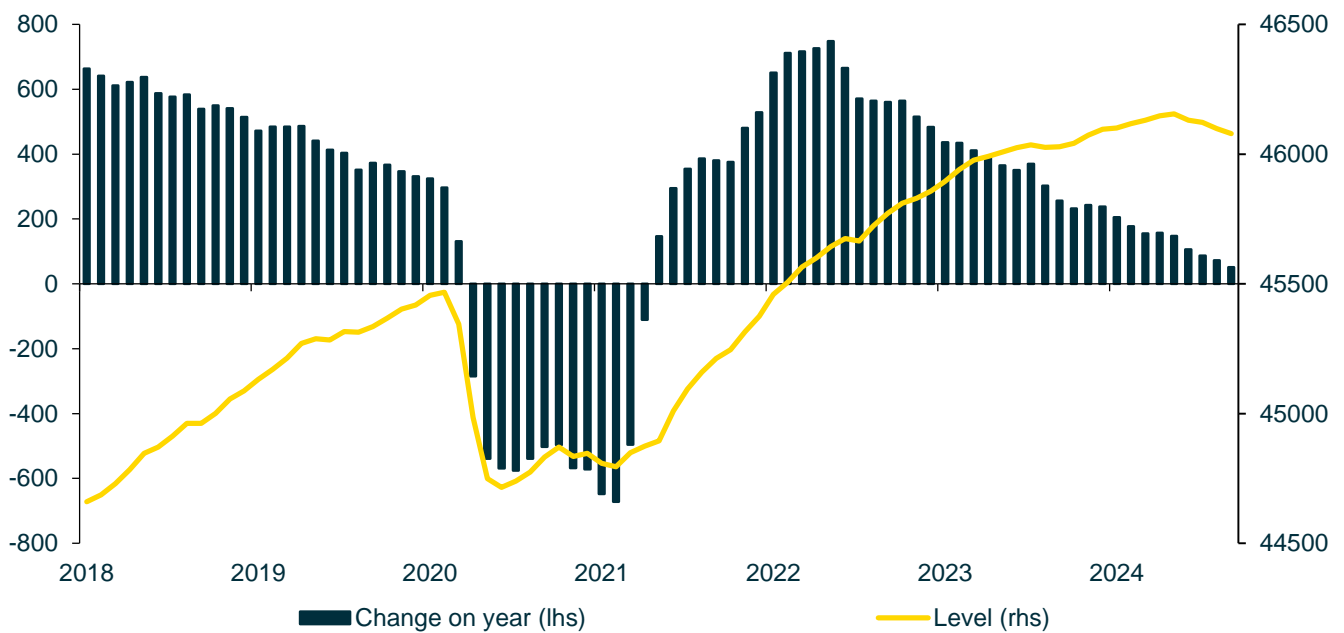
Source: Destatis, GfK, S&P Global, Commerzbank-Research

As the labor market is also weakening, ...

However, income growth is likely to slow down. This is because the weak economy is increasingly making itself felt on the labor market, meaning that the number of people in employment has been falling for several months (Chart 4).

Chart 4 - Number of employed people falling

Number of employed people, in thousands, seasonally adjusted monthly figures



Source: Destatis, S&P Global, Commerzbank Research

... consumption growth is likely to remain subdued, ...



This suggests that private consumption will continue to increase in the coming quarters. However, the increase will probably remain subdued, partly because real disposable incomes are likely to rise more slowly due to the weaker labor market. This is all the more true as increasing concerns about employment are likely to slow down the recovery in consumer confidence.

... and cannot overcompensate for weakness in manufacturing for the time being

The increase in consumer spending expected in the coming quarters is therefore unlikely to be sufficient to compensate for the continuing weakness in the manufacturing sector. Even if the mood here has brightened somewhat recently, there are still no signs of a revival in demand. We do not expect this to happen until next year, when the dampening impact of high interest rates will fade. The economy as a whole should then start to grow again on a sustained basis, with private consumption also likely to make a contribution. However, this recovery will only be moderate in view of the numerous structural problems in the German economy.



Analysts

Dr. Ralph Solveen ^{AC}

Senior Economist

+49 69 9353 45622

ralph.solveen@commerzbank.com

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Commerzbank Offices

Frankfurt

Commerzbank AG
DLZ - Gebäude 2,
Händlerhaus
Mainzer Landstraße 153
60327 Frankfurt
Tel: + 49 69 136 21200

London

Commerzbank AG
PO BOX 52715
30 Gresham Street
London, EC2P 2XY
Tel: + 44 207 623 8000

New York

Commerz Markets LLC
225 Liberty Street, 32nd
floor,
New York,
NY 10281-1050
Tel: + 1 212 703 4000

Singapore

Commerzbank AG
128 Beach Road
#17-01 Guoco Midtown
Singapore 189773
Tel: +65 631 10000