



Will the ECB be responsive to the weakness of the German economy?

The German economy continues to send signals of weakness, both structural and cyclical. In a context where inflation in the euro area finally seems to be confirming its relaxation, the European Central Bank (ECB) may be tempted to loosen its monetary conditions more significantly and thus give a boost to the German economy, and more broadly to the euro area.

Is Germany once again the "sick man" of Europe? This expression was applied to Germany at the end of the 1990s and the beginning of the 2000s when the country's economy showed persistent lethargy and, above all, a structurally weak labour market. Today, it appears once again as the "weak link" in the euro area, with a sluggish post-covid recovery. Since 2021, the country's growth has been globally flat, whereas the other major economies of the zone are showing positive growth (see chart 1). Germany has proven to be particularly vulnerable to the recent shocks, the Covid crisis, the war in Ukraine, and the evolution of the Chinese economy. Firstly, its industry, which represents an important share of the economy, has suffered, whereas the post-covid recovery has been more favourable to the service sectors. Additionally, the composition of the German industrial sector appears vulnerable to China's commercial offensive (automobile). Secondly, consumption has been held back by unusually high inflation. Lastly, fiscal policy has proven to be less generous than elsewhere.

A direct and indirect impact on the euro area. Germany represents one-third of the monetary union's economy, and its stagnation therefore has a mechanical impact on global activity. It also affects neighbouring countries, given the strong commercial ties. This is particularly the case for Eastern European countries such as the Czech Republic, Poland, and Hungary. In the euro area, if Austria and the Baltic States have a significant proportion of their export activity with Germany, other economies seem less directly affected by the specific difficulties of the German economy.

The ECB could lower its interest rates further in response to an unfavourable economic context in the euro area's largest economy. Markets' expectations were for a gradual rebound of the German economy, facilitated by the softer inflation and expectations of lower interest rates from the ECB. However, this rebound is slow to materialise and could be more moderate than expected by the consensus. Meanwhile, a slower inflation trend seems to be taking shape (see graph 2). Inflation stood at 2.2% year-on-year in August, down from 2.6% in July, and while core inflation remains high at 2.8%, it has also significantly decreased and should continue to normalise in a context of wage growth moderation. Consequently, the ECB is gaining leeway and could loosen its policy more quickly to provide additional support to the economy. Currently, markets are expecting two rate cuts by the end of the year and six by this time next year. If the economic weakness and inflation moderation signals continue, the ECB may want to move more quickly and decisively.

Chart 1 - Real GDP (100 in Q4 2019)

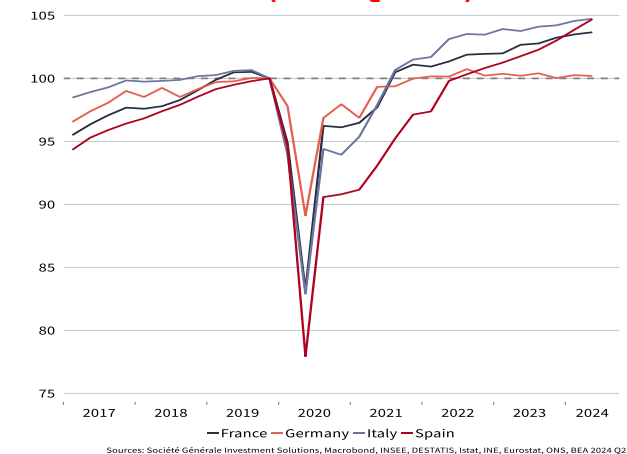
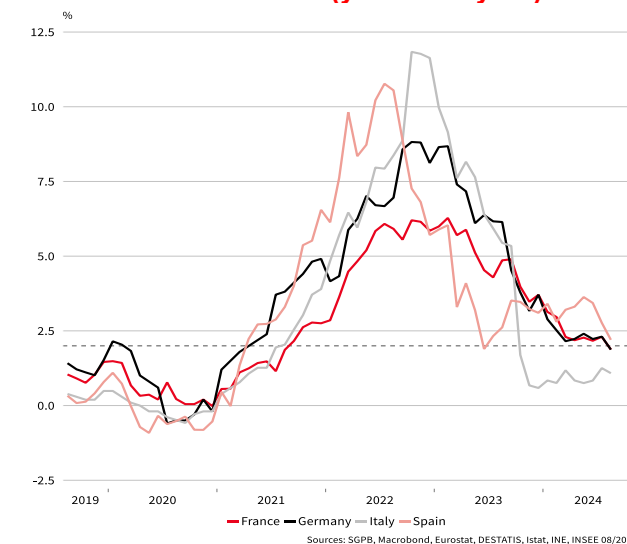


Chart 2 - HICP inflation (year-over-year)



Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg and Macrobond on the 22/03/2024, publication achievement date. In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document.

Our Macro Comments

Market Performances

Events of the week



United States – The monthly household accounts data continue to show resilient consumption, with inflation continuing to converge towards the 2% target. Household disposable income rose by 3.7% year-on-year in nominal terms, still supported by healthy growth in wages. The personal consumption deflator, the Federal Reserve's preferred measure of inflation, continued to decelerate, rising by 2.5% year-on-year and by 2.6% for the index excluding energy and food. More importantly, services inflation continues to normalise towards its pre-Covid-19 crisis level, and its momentum is already compatible with 2% inflation. Lastly, household consumption remains strong, with volume growth of 2.7% year-on-year.



Euro area – Money supply and credit data for July showed no change in trend. The M3 money supply remained unchanged at 2.3% year-on-year, while growth in credit to the private sector rose from 1.1% to 1.3% year-on-year. Credit to households and non-financial companies remains on a very weak growth path (0.5% and 0.6% respectively), illustrating the sluggishness of domestic demand.

The week in data

Country	Data	Actual	Previous	Forecast
Germany	Ifo Expectations AUG	86.8	87 [®]	86.5
Germany	GfK Consumer Confidence SEP	-22	-18.6 [®]	-18
Germany	GDP Growth Rate QoQ Final Q2	-0.1%	0.2%	-0.1%
Germany	Unemployment Rate AUG	6.0%	6.0%	6.0%
United States	CB Consumer Confidence AUG	103.3	101.9 [®]	100.7
United States	Personal Income MoM JUL	0.3%	0.2%	0.2%
United States	Personal Spending MoM JUL	0.5%	0.3%	0.5%
United States	PCE Price Index YoY JUL	2.5%	2.5%	2.6%
United States	Chicago PMI AUG	46.1	45.3	45.5
France	Consumer Confidence AUG	92	91	92
Euro Area	Loans to Households YoY JUL	0.5%	0.3%	0.5%
Euro Area	M3 Money Supply YoY JUL	2.3%	2.2%	2.7%
Euro Area	Economic Sentiment AUG	96.6	96 [®]	95.8
Euro Area	Consumer Confidence Final AUG	-13.5	-13	-13.4
Euro Area	Inflation Rate YoY Flash AUG	2.2%	2.6%	2.2%
Euro Area	Core Inflation Rate YoY Flash AUG	2.8%	2.9%	2.8%
Euro Area	Unemployment Rate JUL	6.4%	6.5%	6.5%

Source : Macrobond, Le 30 Aug 2024

Colors in 'Actual' column represent the difference with previsions.

Key events next week

Monday	
China	Caixin Manufacturing PMI AUG
Euro Area	HCOB Manufacturing PMI Final AUG
United Kingdom	S&P Global Manufacturing PMI Final AUG
Tuesday	
United States	ISM Manufacturing PMI AUG
United States	Total Vehicle Sales AUG
Wednesday	
China	Caixin Services PMI AUG
China	Caixin Composite PMI AUG
Euro Area	HCOB Composite PMI Final AUG
United Kingdom	S&P Global Composite PMI Final AUG
United States	Balance of Trade JUL
United States	JOLTs Job Openings JUL
United States	Fed Beige Book
Thursday	
Germany	Factory Orders MoM JUL
Euro Area	Retail Sales YoY JUL
United States	ADP Employment Change AUG
United States	ISM Services PMI AUG
Germany	New Car Registrations YoY AUG
France	New Car Registrations YoY JUL
Friday	
Germany	Balance of Trade JUL
Germany	Industrial Production MoM JUL
France	Balance of Trade JUL
France	Industrial Production MoM JUL
United States	Non Farm Payrolls AUG
United States	Unemployment Rate AUG
United States	Average Hourly Earnings MoM AUG

Source: Bloomberg, on 30 August 2024, 1W = 1 week change, 3M = 3 month change, 12M = 12 month change, YTD = year to date change. Equities; total return in local currency. Government bonds = 10 year returns. Figures are rounded..

Our Macro Comments

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3.66	3.66	3.91	3.90	3.65
USD SOFR O/N	5.35	5.31	5.33	5.39	5.31
JPY TONAR O/N	0.23	0.23	0.08	-0.04	-0.06
GBP SONIA O/N	4.95	4.95	5.20	5.19	5.19
CHF O/N	0.97	0.99	1.38	1.66	1.77

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	3.00	2.95	3.15	2.56	2.98
10Y Bund	2.28	2.24	2.66	2.02	2.46
10Y BTP	3.66	3.61	3.96	3.70	4.11
10Y JGB	0.90	0.87	1.06	0.62	0.64
10Y Bonos	3.10	3.05	3.39	3.00	3.47
10Y Swiss	0.45	0.40	0.85	0.68	0.95
10Y Gilt	4.02	3.99	4.35	3.74	4.35
10Y USNote	3.87	3.86	4.55	3.91	4.09

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3.00	2.98	3.37	2.73	3.32
EUR Corporate Baa	3.59	3.60	4.08	3.78	4.51
GBP Corporate Baa	4.64	4.62	4.95	4.36	5.34
USD Corporate Aaa	4.44	4.45	5.07	4.54	4.79
USD Corporate Baa	5.12	5.15	5.78	5.38	5.87
USD EM aggregate	6.64	6.70	7.23	7.11	7.62

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	78.76	2.1%	-3.8%	3.6%	-9.2%
Or, USD/oz	2,521	1.5%	7.6%	22.5%	30.0%
Copper, USD/metric ton	9,238	0.6%	-8.9%	8.2%	10.2%
Platinum, USD/oz	941	-2.1%	-9.3%	-5.4%	-3.8%
Palladium, USD/oz	951	-0.3%	0.2%	-14.5%	-23.0%
Silver, USD/oz	29.49	-0.3%	-6.4%	23.2%	20.2%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1.11	-0.4%	2.5%	1.2%	2.0%
EUR/CHF	0.94	-0.9%	-4.2%	1.1%	-2.0%
USD/GBP	0.76	-0.4%	-3.2%	-4.1%	-3.7%
USD/JPY	145.34	-0.6%	-7.2%	2.4%	-0.2%
USD/BRL	5.64	1.6%	8.4%	15.1%	14.0%
USD/CNY	7.10	-0.6%	-2.1%	0.0%	-2.2%
USD/RUB	91.90	-0.6%	1.6%	0.7%	-4.3%

Equity indices	-1W	-3M	YTD	-12M
Developed markets	1.3%	6.6%	12.2%	17.6%
Euro area	1.7%	-0.3%	11.6%	15.6%
Germany	2.3%	2.2%	14.4%	18.6%
France	1.6%	-4.2%	3.1%	4.4%
United Kingdom	1.1%	1.8%	9.1%	12.6%
Switzerland	0.4%	3.9%	10.5%	11.0%
United States	0.4%	6.8%	18.9%	24.1%
Japan	0.8%	-1.2%	13.8%	15.5%
Brazil	0.6%	10.9%	2.4%	17.5%
Hong Kong	0.8%	-2.4%	6.8%	-3.2%
India	1.3%	11.2%	15.1%	26.7%
China	-1.1%	-8.8%	-3.0%	-12.9%

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