

German consumers take an optimistic turn

A better-than-expected improvement in consumer confidence not only adds to recent positive macro news out of Germany, but also gives hope that private consumption could pick up over the coming months



Even German consumers are brightening up. Consumer confidence increased to the highest level in two years at -24.2 in May, from -27.3 in April. Looking at the details of consumer confidence in April, German consumers had become more optimistic regarding their own income expectations. Willingness to both spend and to save increased somewhat, indicating that despite more optimism, the German consumer remains cautious.

Private consumption to pick up over the next months.

The German economy has entered a phase of cyclical improvements, as indicated by yesterday's Ifo index, but also by hard macro data for the first two months of the year. Somewhat surprisingly, the current improvement has been driven by a rebound in industrial activity, trade and weather-driven stronger activity in the construction sector. Private consumption, however, has stayed behind. Retail sales had dropped for four months in a row since November last year and consumer

confidence has been more than muted. Today's improvement in consumer confidence suggests that private consumption could also gradually improve over the coming months.

Looking ahead, with nominal wage increases of some 7% year-on-year in the first quarter, 2024 should be the year with the strongest increase in real wages in almost a decade. Some pick-up in private consumption after the consumption slump of the winter months will happen. However, with prices remaining high, as well as geopolitical but also domestic policy uncertainty and the gradual turning of the labour market, chances are high that German consumers will rather opt for precautionary savings.

Still, let's focus on the positives. After a long period of disappointing macro news out of Germany, optimism has finally returned. The cyclical trough is behind us, but this doesn't necessarily mean that a strong recovery is imminent as structural weaknesses remain. In fact, an unpleasant risk of this cyclical improvement could be that it gives rise to policy complacency, which in turn would further delay the necessary structural improvements.

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