

## The German consumer is worried

This week's macro data showed that betting that private consumption will be a strong growth driver in 2025 is risky



Christmas shoppers in Essen, Germany

German consumer confidence dropped to its lowest level since May, retail sales took a nosedive in October after a promising third-quarter performance, and the labour market is gradually turning. This week's macro data have once again illustrates why betting on a strong return of private consumption in Germany is a risky game.

The gradual turning of the labour market is a particular concern for 2025. Over the last few years, the strong labour market has been an important driver of the economy's resilience. Until the summer, total employment was moving from one all-time high to another, with almost 46 million people working. However, while this job growth seems to have been enough to limit any sense of urgency to react to four years of economic stagnation and an even longer period of deteriorating international competitiveness, it was not enough to prevent the current private consumption slump. Why? A large part of the recent job growth took place in the public sector and in part-time and low-wage jobs.

Looking ahead, it will come from healthy levels, but the gradual weakening of the labour market looks set to continue. Recent restructuring announcements by large industrial companies will not have been the last piece of bad news. Don't forget that layoffs in Germany are hardly imminent, but take time before they become effective and show up in labour market statistics. Also,

recruitment plans in industry remain low and have started to come down significantly in services. Finally, the number of bankruptcies has been increasing by low double-digit percentages since last summer. It is easy to see how this trend will also push up unemployment. Today's bankruptcy is tomorrow's unemployment.

On a more positive note, real wages continued to improve in the third quarter, but as unions shift away from focusing on wage increases to job security, wage growth is likely to dampen next year. Lower interest rates and more policy certainty - once a new government is in office - could also reduce savings and support consumption. For now, consumption remains both the Achilles' heel as well as the wild card for the country's economic outlook in 2025.

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