

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.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.