

## German consumers still in hibernation

Disappointing retail sales and still weak consumer confidence suggest that the consumption-driven recovery remains more of a dream than reality for Germany



In the less pessimistic forecasts for the German economy in 2024, private consumption plays a crucial role. On the back of assumed real wage growth (in the less pessimistic forecasts) private consumption is expected to pick up over the course of the year, pushing the entire economy out of stagnation. Unfortunately, data since the start of the year provides very little evidence of this consumption recovery really unfolding.

### February retail sales down for the fourth month in a row

This morning's retail sales data, as volatile and subject to regular revisions as it is, dropped for the fourth month in a row. In February, real retail sales adjusted for seasonal and calendar effects dropped by 1.9% month-on-month (-2.7% year-on-year). Earlier this week, the GfK consumer confidence indicator improved somewhat but remains close to record low levels. In fact, the willingness to spend dropped for the third month in a row and the willingness to save remains close to levels seen during the financial crisis.

## Consumer-driven recovery still unlikely

Over the last two decades, private consumption has hardly ever been a powerful growth driver for the German economy – except for the period between euro crisis and start of the pandemic, often known as the Wirtschaftswunder 2.0 era. Another exception was in 2022, when the post-lockdown catching up and fiscal stimulus clearly outweighed the negative economic impact from the war in Ukraine and higher energy prices. Last year, private consumption fell into hibernation and has not yet woken up.

Looking ahead, what will probably be the strongest increase in real wages in almost a decade could indeed still lead to a pick-up in private consumption. However, with still high prices, geopolitical but also domestic policy uncertainty as well as the gradual turning of the labour market, chances are high that German consumers will rather opt for precautionary savings. We still have doubts that Germany will see a consumption-driven recovery this year. Unless...

After two unexpected victories for the German national soccer team in recent days, hopes have returned that the upcoming European Championship in Germany – as well as successful performances by the national team – could boost consumer confidence and, in turn, consumption. Collective memories of the 2006 World Cup in Germany and the victory at the 2014 World Cup in Brazil are returning, as are those of a more cheerful and also economically better performing Germany. We don't want to spoil the party, but hard economic evidence linking hosting and/or winning major sports events and economic performances has always been very indistinct.

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