

## Germany: Consumer confidence halts

Stagnating consumer confidence suggests that the consumption-driven rebound will not necessarily morph into a sustainable consumption-driven recovery.



German consumer confidence is stagnating. According to the GfK institute, German consumer confidence increased only marginally to -1.6 in October, from -1.7 in September. This is still weaker than the -0.2 in August and the lowest level since April 2003. Business expectation increased further in September, while the willingness to spend weakened to the lowest level since June.

German consumers currently show two faces. There is the face of a high willingness to spend, while at the same time the willingness to save is still much higher than prior to the crisis. In fact, since the end of 2019, the savings ratio of German households has more than doubled, to 20% in the second quarter. Interestingly, according to a recent ECB study, the increase in the savings ratio in the entire eurozone is mainly driven by so-called forced, ie involuntary, savings. While this would imply that there is lots of pent-up demand once the economic situation stabilizes, the fact that wages dropped significantly in the second quarter suggests that the role of precautionary savings could be more important than suggested by the ECB study. In Germany, nominal wages dropped by 4% YoY in the second quarter on the back of short-term work schemes and the lockdown measures.

Up to now, retail sales and private consumption have experienced a strong rebound. The lifting of

the lockdown measures and fiscal measures to sustain purchasing power are an important driver of the return of private consumption. Looking ahead, only a swift return of the labour market to pre-crisis levels would unleash potential pent-up demand. However, given latest announcements of job shedding in the sectors hit most by the economic impact from lockdowns and social distancing and in sectors, in which Covid-19 is accelerating structural transitions, such a swift return looks increasingly unlikely.

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