GERMANY
SCENARIO 2025-2026

EUROPE'S LOCOMOTIVE AT A STANDSTILL

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WORKING EVERY DAY IN YOUR INTEREST AND FOR SOCIETY

GROUP ECONOMIC RESEARCH

KEY POINTS

EUROPE'S LOCOMOTIVE AT A STANDSTILL

- **The economic and financial situation of private non-financial agents is solid.**
- **Wage rises, which are modest compared to other trading partners, have improved competitiveness.**
- **The new context of higher energy prices.**
- **The contraction in foreign demand, particularly from China.**

	2023	2024	2025	2026
GDP (y/y, %)	-0,1	-0,2	0,2	0,8
Domestic demand (contribution to GDP, pps)	-0,3	0,0	0,5	1,0
Stockbuilding (contribution to GDP, pps)	0,0	0,1	0,5	-0,1
Net exports (contribution to GDP, pps)	0,2	-0,3	-0,7	0,0
Private consumption (y/y, %)	-0,2	0,0	0,2	0,7
Investment (y/y, %)	-0,7	-2,8	-0,3	1,6
Inflation (y/y, %)	6,0	2,5	2,1	2,0
Unemployment rate (%)	3,0	3,4	3,4	3,4
Fiscal balance (% of GDP)	-2,6	-2,2	-2,0	-1,8

Sources: Eurostat, Crédit Agricole SA / ECO

The downward revision of our forecasts for the German economy is in line with the preliminary estimate of a 0.2% contraction in GDP in 2024. Activity in the first three quarters of 2024 was supported in particular by public consumption, despite limited budgetary resources. Household consumption, on the other hand, weighed on growth. Households switched to savings because of low consumer confidence in a context of mediocre economic performance, and because purchasing power gains were still too timid. The rise in investment in other products would not be enough to offset the collapse in construction investment and the fall in productive investment. Gross fixed capital formation is likely to continue to be penalised by the long lag in the pass-through of past interest rate rises and by the deterioration in Germany's industrial sector. Net exports are expected to continue to contract, due to a fall in exports and an increase in imports. Inflation continues to slow, albeit at a slower pace, averaging 2.5% in 2024.

Economic activity in 2025 would be underpinned by public consumption and, to a lesser extent, by a slight increase in household consumption. We forecast a very slight recovery in GDP to 0.2% in 2025. We expect activity to accelerate in the second half of 2025, taking GDP to 0.8% in 2026, slightly above the economy's potential, but clearly below the growth seen over the last decade. The disinflationary process would continue, with inflation averaging 2.1% in 2025 and stabilising at 2% in 2026.

The deterioration in the economic and financial situation of companies was limited, which helped to keep the unemployment rate at very low levels. Nevertheless, the manufacturing industry has been negatively affected by the new context of higher energy prices. Besides energy prices, there are other structural challenges linked to labour shortages and the transformation of production, leading to uncertainty about the medium-term economic outlook.

RISKS

EUROPE'S LOCOMOTIVE AT A STANDSTILL

Headwinds

A more favourable trade-off between savings and consumption, despite a buoyant labour market and gains in purchasing power, limits household consumption.

A downturn in exports to China due to trade tensions with the United States and the European Union.

Tailwinds

Stronger growth in productive investment thanks to policies aimed at preventing the relocation of manufacturing.

An improved international outlook boosts demand for German products.

THE SCENARIO IN BRIEF

EUROPE'S LOCOMOTIVE AT A STANDSTILL

A second consecutive year of contraction

The third quarter of 2024 leaves the 2024 growth rate negative by 0.2% on an annual average basis, due to the fall in GDP in the second quarter. The downward revision of our forecasts is in line with the preliminary estimate of a 0.1% fall in GDP in the fourth quarter and a 0.2% fall in 2024, which would bring GDP back to the 2019 level. Germany would thus have experienced a five-year period marked by stagnation in economic activity.

GDP growth in the first three quarters of 2024 was sustained in particular by public consumption (+1.8% between January and September), while household consumption (-0.1%) weighed on economic activity. The decline in gross fixed capital formation (-2%) is explained by the collapse in productive investment (-4.9%), due in particular to the fall in spending on machinery and equipment, but also on transport goods. On the other hand, the fall in investment in construction (-2%) was mitigated by a smaller decline in investment in buildings and civil engineering works than in investment in housing. By contrast, investment in other products (+2.6%) rose. Net exports contracted as a result of lower exports (-0.2%) and higher imports (+2.4%).

Weak recovery in sight

We expect economic activity in 2025 to be underpinned mainly by public consumption (+1.8%), despite limited budgetary resources. To a lesser extent, we expect household consumption to grow slightly (+0.2%), weighed down by low household confidence in a context of mediocre economic performance and by purchasing power gains that are still too timid. On the other hand, gross fixed capital formation would continue to fall (-0.3%) due to the long transmission time of past interest rate rises and the deterioration in the German industrial sector. The rise in investment in other products (+1.8%) would not be enough to offset the collapse in investment in construction (-1.2%) and the fall in productive investment (-0,5%). Net exports are expected to continue to contract as a result of lower exports (-0.7%) and higher imports (+1%). The decline in Chinese imports of German products due to the introduction of barriers to the free trade of goods and the gradual slowdown in the growth of the Chinese economy would continue to weigh on the performance of German exports to the Asian country. We expect GDP to recover very slightly to 0.2% in 2025. We expect activity to accelerate in the second half of 2025 and take GDP to 0.8% in 2026, slightly above the economy's potential, but clearly below the growth recorded over the last decade.

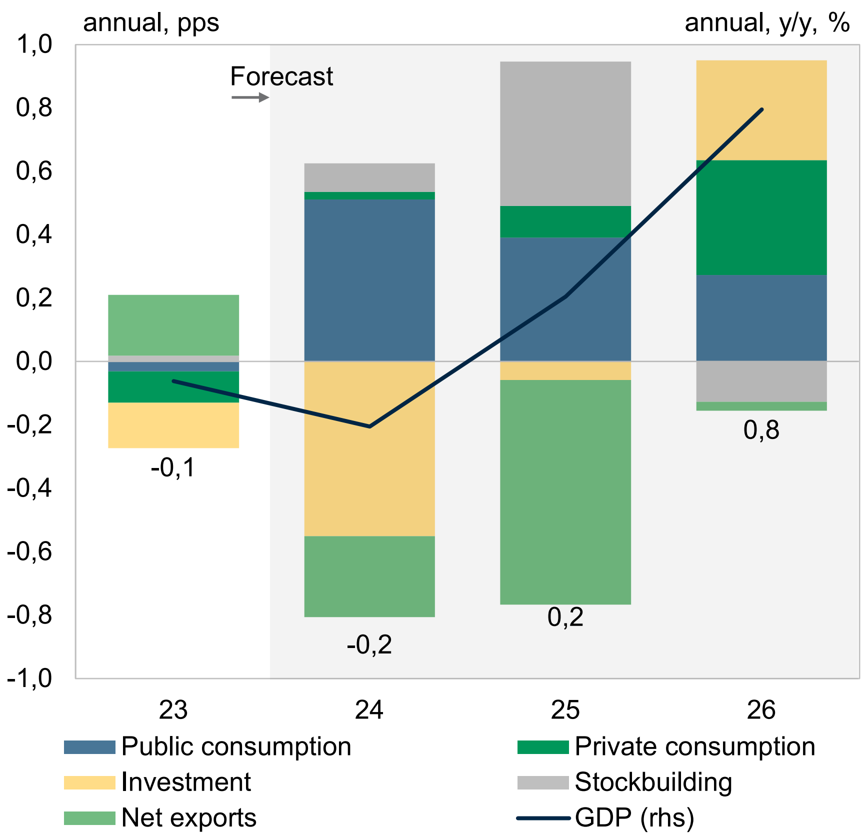
Structural challenges limit the economy's potential

The German economy is facing growing structural challenges that have made it one of the worst-performing developed economies. The sustainability of the industrial model relies on competitiveness based on cheap energy and strong external demand, particularly from China. Tighter financial conditions, rising energy prices and weak foreign demand were enough to send GDP into negative territory. Investment needs and the rising costs of an ageing population require additional budgetary resources, while labour shortages and low productivity are limiting projected potential growth.

THE SCENARIO IN BRIEF

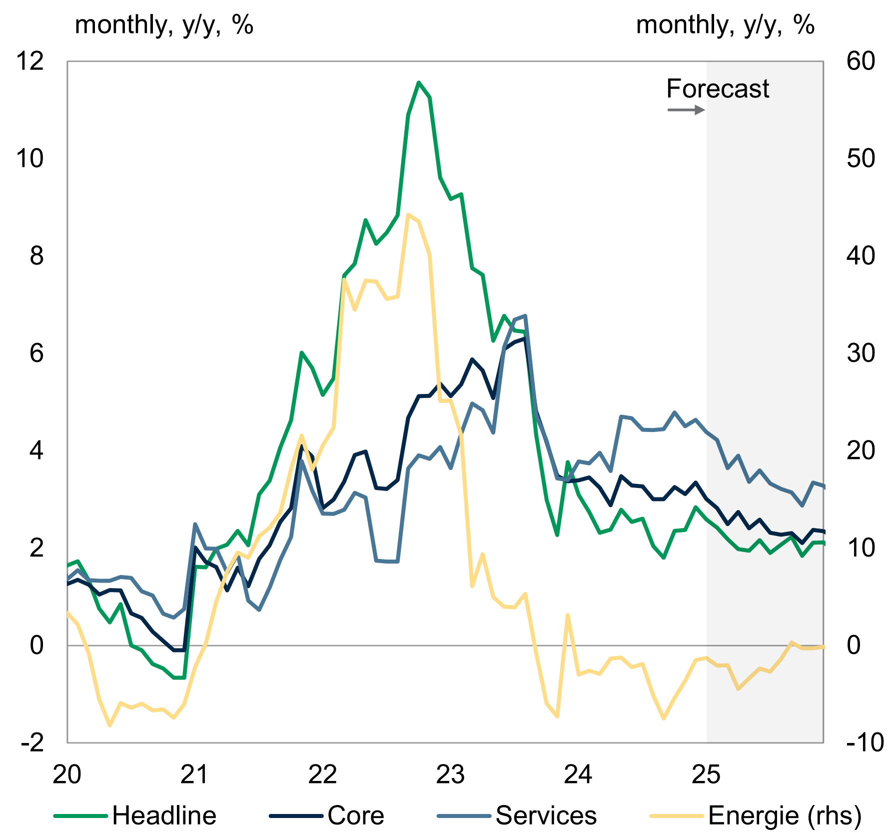
EUROPE'S LOCOMOTIVE AT A STANDSTILL

Contribution to GDP



Sources: Eurostat, Crédit Agricole SA / ECO

Consumer price inflation



Sources: Eurostat, Crédit Agricole SA / ECO

THE INTERNATIONAL ENVIRONMENT

A CONDITIONAL SCENARIO, MORE THAN EVER

Our scenario anticipates a slowdown in US economic activity in 2025, albeit less marked than in our October 2024 scenario. The slowdown in US GDP growth would weaken demand from trading partners. The end of the disinflationary process at an inflation rate above-target would limit the Fed's monetary easing capacity by 50 basis points in the first quarter of 2025 to 4%.

The negative output gap in the eurozone has yet to be closed, and the growth gap with the US economy is set to widen. The ECB's monetary policy remains unfavourable to growth. Once the inflation target has been reached, the ECB would moderate the cut in the deposit rate by 25 basis points in the first quarter of 2025 to 2.25%, slightly below the estimated neutral rate of 2.5%. Meanwhile, the ECB would also continue to reduce its balance sheet.

The gradual slowdown in economic growth in China is likely to continue to have a significant impact on German exports. Measures to boost domestic demand would continue to be conditioned by low consumer confidence.

Read our full analysis on the international environment in our latest Global Scenario.

	2023	2024	2025	2026	2023				2024				2025				2026			
					T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4
World GDP (y/y, q/q, %)	3,3	3,0	2,8	2,9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
United States GDP (y/y, q/q, annualised, %)	2,9	2,7	1,9	2,2	2,8	2,5	4,4	3,2	1,6	3,0	3,1	2,2	1,9	1,4	1,2	1,8	2,5	2,5	2,4	2,4
Eurozone GDP (y/y, q/q, %)	0,4	0,7	1,0	1,2	0,5	0,1	0,0	0,0	0,3	0,2	0,4	0,0	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3
China GDP (y/y, q/q, %)	5,2	4,8	4,2	3,9	1,8	0,7	1,5	1,3	1,5	0,5	0,9	1,1	1,1	1,0	1,0	1,0	0,9	0,8	0,9	0,9
ECB deposit rate (end of period, %)	4,00	3,00	2,25	2,25	3,00	3,50	4,00	4,00	4,00	3,75	3,50	3,00	2,50	2,25	2,25	2,25	2,25	2,25	2,25	2,25
Federal Reserve funds rate (end of period, %)	5,50	4,50	4,00	4,00	5,00	5,50	5,50	5,50	5,50	5,50	5,00	4,50	4,00	4,00	4,00	4,00	4,00	4,00	4,00	4,00
Exchange rate (average, EUR/USD)	1,08	1,08	1,05	1,09	1,07	1,09	1,09	1,08	1,09	1,08	1,10	1,07	1,05	1,04	1,05	1,07	1,07	1,08	1,09	1,10
Brent (average, USD/barrel)	82,2	79,9	78,3	79,3	82,2	77,9	85,9	83,0	81,9	85,0	78,9	74,0	75,0	80,0	80,0	78,0	75,0	80,0	80,0	82,0

Sources: BEA, ECB, Eurostat, FED, IMF, Refinitiv, Crédit Agricole SA / ECO

RECENT DEVELOPMENTS

EUROPE'S LOCOMOTIVE AT A STANDSTILL

The decline of the industry continues

Industrial production rose by 1.3% month-on-month in November, recovering some of the ground lost in recent months. However, without the December data, industrial production would have fallen by 1.4% over the first eleven months of 2024. However, energy-intensive industries registered a rise of 1.5% in November and 4.4% over the first eleven months of 2024.

A detailed analysis among manufacturing industries reveals the sectors that stand out the most. Among those with the strongest growth are producers of non-ferrous products products (+9.6% since last January) and transport equipment (+7.7%). Among those with the weakest performance are producers of metal products (-5.6%) and electrical products (-7,5%). New orders in the manufacturing industry are also down (-1.5%), weighed down by orders for metal products from abroad and by domestic orders for electrical products.

The industrial sectors expanding in October and November 2024 account for 5.5% of German gross value added (such as electrical and electronic products), while those contracting account for 9.2% (such as vehicles and machinery), which would weigh on GDP growth in the fourth quarter of 2024.

Surveys send out negative signals

Production data for Germany's main industries reflect weakness in both domestic and foreign demand. In this sense, the IFO's demand indicator for the manufacturing sector shows a downward trend in manufacturing output expectations and export expectations of manufactured goods.

The IFO's indicator of the current situation of companies in the manufacturing industry has been in negative territory for seventeen months, and deteriorated by 7.7 points in the fourth quarter. As for the expectations for the next six months, the indicator has been in negative territory for thirty-four months, and deteriorated by 1.8 points in the fourth quarter.

In the same direction, the manufacturing purchasing managers' index produced by S&P Global stood at 42.8 points in the fourth quarter (+0.8 points), but has remained in negative territory (below the 50-point level) for thirty months, still signalling a contraction in activity. Looking in detail at its sub-components, the index highlights the low level of stocks of finished products as the cause of the deterioration in the situation of manufacturing companies, while the fall in input costs is said to be contributing to the improvement in the business climate.

The negative signals sent by the surveys anticipate that activity in the German industrial sector would have been weak in the fourth quarter of 2024 and would not improve at the start of 2025.

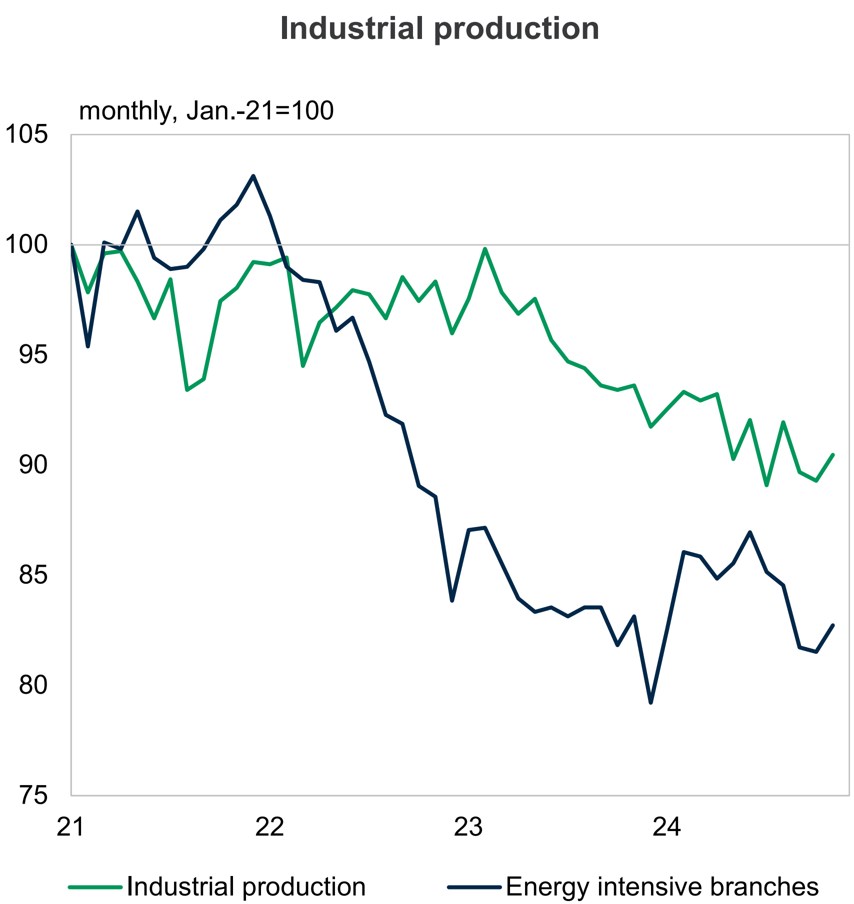
Low consumer spending limits retail activity

Retail sales (excluding vehicles and motor fuel) registered in November are 8.4 points below the trend recorded between 2010 and 2019. The trend in retail sales is in line with that in household confidence. In this respect, the December household confidence index compiled by GFK has been in negative territory for thirty-eight months. Only the sub-indicators on income expectations and willingness to save are in positive territory. The consumer survey does not anticipate a recovery in retail sales, but a trade-off in favour of savings in response to the low level of household confidence.

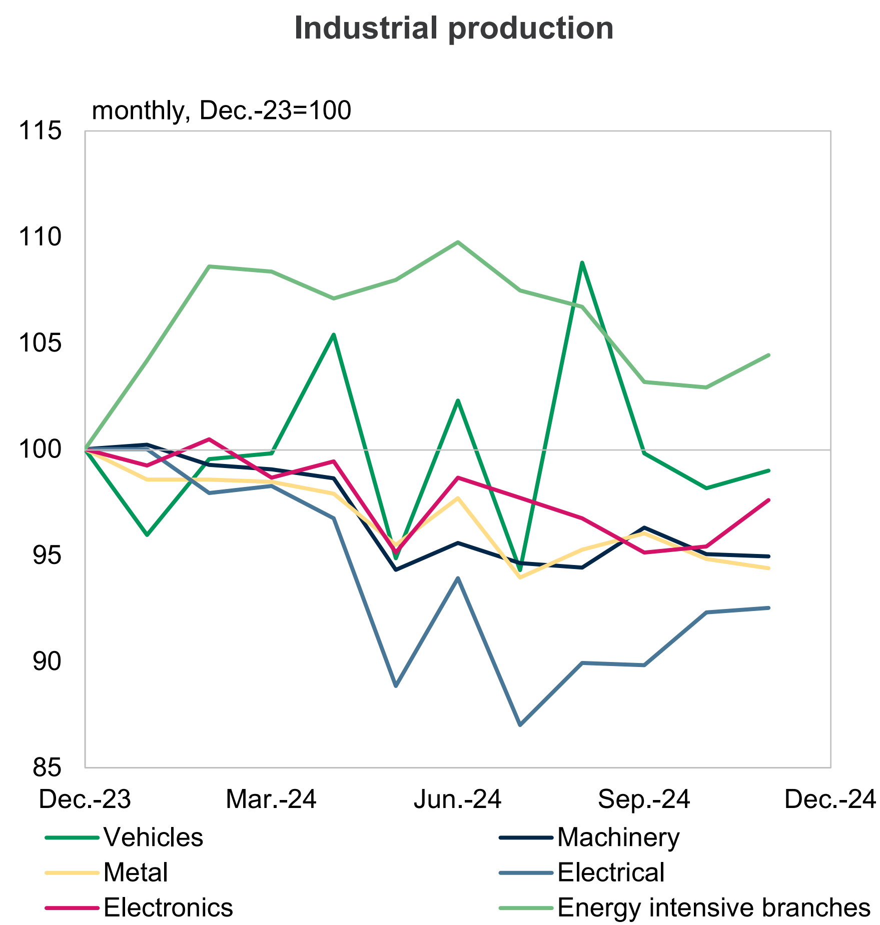
The IFO's activity indicator for the current situation of companies in the retail sector has been in negative territory for twenty months, and deteriorated by 0.2 points in the third quarter. As for the expectations for the next six months, the indicator has been in negative territory for forty-one months, but improved by 0.1 point in the third quarter.

RECENT DEVELOPMENTS

EUROPE'S LOCOMOTIVE AT A STANDSTILL



Sources: Destatis, Crédit Agricole SA / ECO



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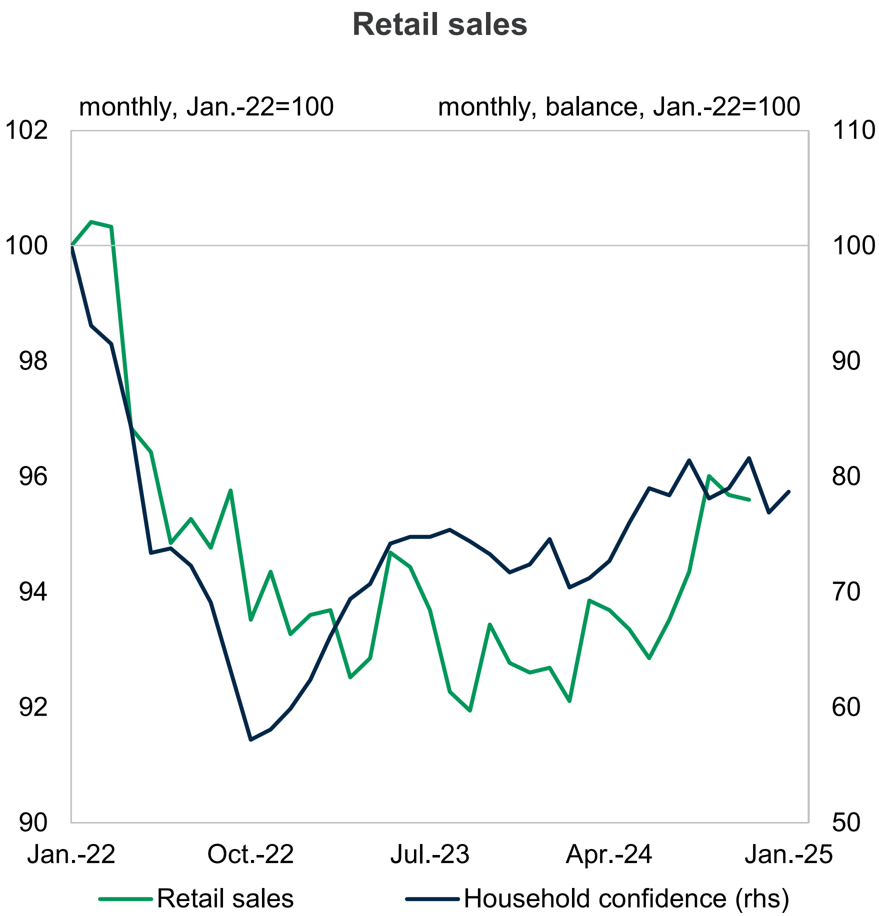
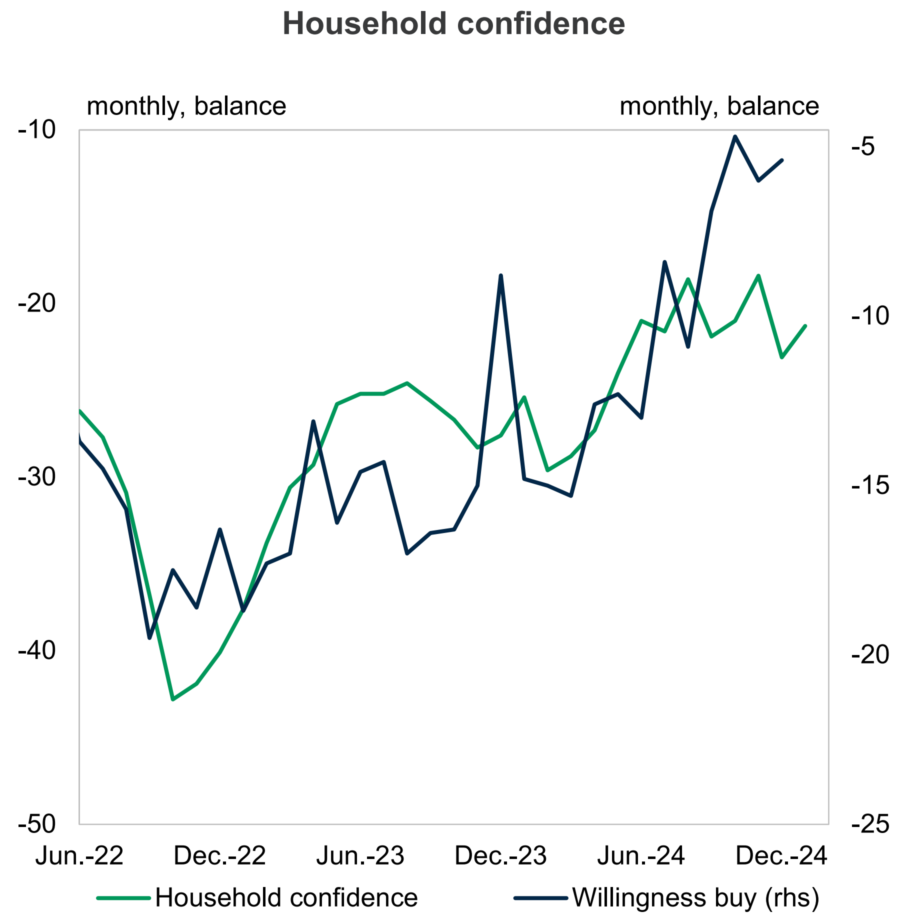
RECENT DEVELOPMENTS

EUROPE'S LOCOMOTIVE AT A STANDSTILL



Sources: *Destatis, GFK, Crédit Agricole SA / ECO*



Sources: GFK, Crédit Agricole SA / ECO

HOUSEHOLDS

THE ECONOMY'S WEAK PERFORMANCE AND SMALL GAINS IN PURCHASING POWER WEIGH ON HOUSEHOLD CONFIDENCE

Inflation continues to slow, albeit at a slower pace

Inflation averaged 2.5% in 2024, 3.6 points lower than in 2023, close to the average of 1.5% recorded between 2000 and 2019, and far from the peak of 11.6% in October 2022. Furthermore, core inflation (which analyses the underlying trend in prices excluding volatile components) stands at 3.3%, 3.6 points lower than in 2023.

Although inflation has fallen, the cumulative rise in consumer prices remains. Cumulative inflation since January 2021 stands at 21.1%, an increase that has considerably eroded household purchasing power, as the rise in disposable income has been less than the rise in consumer prices.

Services prices are showing signs of rigidity, despite slowing somewhat, due to the sustained momentum of nominal wages. On the other hand, the moderation in inflation would be due mainly to the fall in energy prices.

The disinflationary process would continue in 2025, but the fall in inflation that we anticipate would be much weaker, with an average annual rate of 2.1%, 0.1 points above the ECB's target, but 0.6 points above the average recorded between 2000 and 2019 (a decade characterised by deflationary pressures that pushed inflation away from the target and motivated the deployment of an expansionary monetary policy). Inflation would stabilise at 2% in 2026.

Limited wage growth

Real wages are 9.2 percentage points below the trend recorded between 2010 and 2019 in the third quarter of 2024, while agreed real wages are 13.9 percentage points lower. In fact, the increase in agreed wages is small compared with the rise in wages overall. This difference, known as wage drift, would narrow by 2025, or even become slightly negative.

In addition, a significant share of wage negotiations under collective agreements have resulted in the granting of bonuses to compensate for the increase in consumer prices, which entail lower costs because of their temporary nature, compared to wage increases. However, these type of compensations have been limited to €3,000 per employee, which would generate a negative base effect in 2025, slowing the annual growth rate in real wages.

Real wage growth has also been held back by weak growth in real labour productivity, which since 2023 has been below the trend recorded between 2000 and 2019.

Growth in disposable income accelerated (+4.1% year-on-year) in the third quarter, mainly due to the increase in operating surplus and property income, which offset the rise in employer contributions. On the other hand, earnings growth continued to slow (+4.8% annualised).

GFK's earnings expectations survey points to a decline in the second half of 2024, after the improvement seen in the first half of 2024. We expect nominal wages per employee to rise by 5.1% in 2024 (slowing from 6.4% in 2023), and to continue to moderate to 2.5% in 2025 and 2.6% in 2026.

HOUSEHOLDS

THE ECONOMY'S WEAK PERFORMANCE AND SMALL GAINS IN PURCHASING POWER WEIGH ON HOUSEHOLD CONFIDENCE

The job market remains dynamic, despite the recession

Given the persistent shortage of skilled labour in many sectors, companies are holding back employees in the face of the slowdown in activity. Generous short-time working regulations have supported these decisions. Agreements between companies and unions to guarantee jobs in strategic plants have also helped to limit to a large degree job losses.

The number of people employed rose in October and November 2024, after falling in the third quarter of 2024, even though job losses in manufacturing accelerated. The labour force increased slightly in October and November 2024, after four months of contraction. The unemployment rate stood at 3.4% in November for the fourth consecutive month. In addition, the number of job vacancies registered by the BFA rebounded in December 2024 and the number of jobseekers fell for the fourth consecutive month.

Recent employment developments do not seem to be leading to a change in the labour market, as the hiring expectations indicators for the coming months show a further deterioration. Both the indicator published by the IFO and the indicator estimated by the IAB deteriorated in December. The various indices show that manufacturing (weighed down by the worsening situation in the German industrial sector), and wholesale and retail (weighed down by weak retail sales), are the sectors reporting the weakest hiring prospects, while the situation is more moderate in construction and services.

Given the context analysed, we estimate that job creation would remain stagnant. The weak economic situation (which would discourage people from entering the labour market) and demographic trends (characterised by an ageing population) would also slow labour force growth. We therefore expect the unemployment rate to remain stable at around 3.4%.

Households benefit from a solid economic and financial situation

The household debt ratio fell to 50.2% of GDP in the third quarter of 2024, continuing the process of deleveraging that began in 2021. Rising financing costs contributed to the fall in the household debt ratio, as shown by the contraction in mortgage lending (which is particularly sensitive to interest rates).

The household savings rate rose to 20.5% in the third quarter of 2024, 2.1 points above the trend recorded between 2010 and 2019, and continued to accelerate once again since 2022. Households continue to favour savings, which has led to an increase in financial assets and a decrease in more liquid instruments (cash and call deposits).

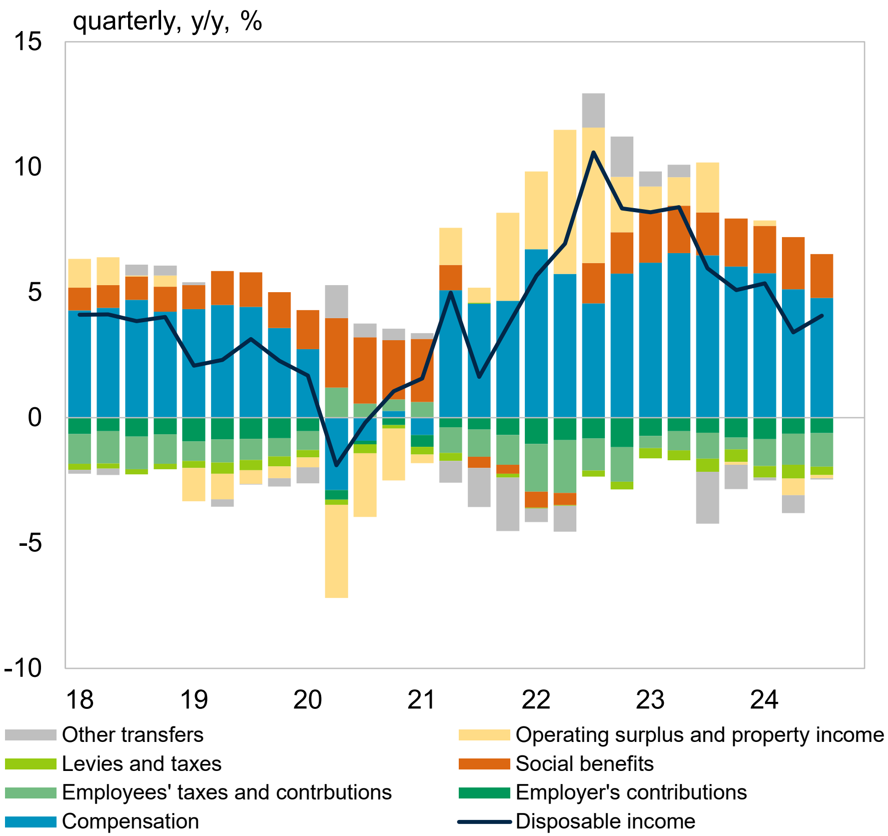
We believe that households would continue to choose to save on the basis of low household confidence and the long lag in the transmission of interest rate cuts. We therefore forecast the household savings rate to score 20% in 2024 and 20.3% in 2025.

Finally, given the context analysed, we believe that aversion to spending and still too timid gains in purchasing power would weigh on household consumption. **We therefore expect household consumption to stagnate in 2024, followed by a very slight recovery of 0.2% in 2025 and 0.7% in 2026.**

HOUSEHOLDS

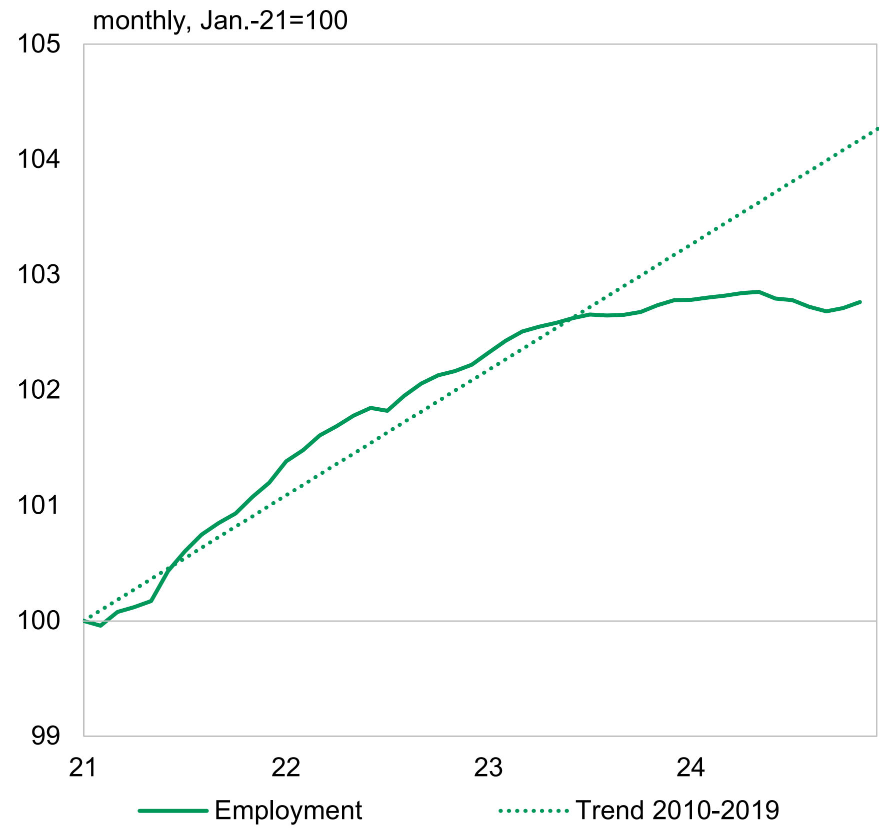
THE ECONOMY'S WEAK PERFORMANCE AND SMALL GAINS IN PURCHASING POWER WEIGH ON HOUSEHOLD CONFIDENCE

Contribution to disposable income



Sources: Destatis, Crédit Agricole SA / ECO

Employment



Sources: BFA, Crédit Agricole SA / ECO

CORPORATES

RISING PRODUCTION COSTS AND FALLING DEMAND CONTINUE TO DETERIORATE THE INDUSTRIAL SECTOR

Reducing interest rates would not be enough to encourage investment

The profit margin of non-financial companies fell to 36.2% in the third quarter of 2024, but the downward trend observed since 2023 could begin to reverse. The moderation in wage growth would continue, and the productivity cycle would pick up.

The investment rate rose in the third quarter of 2024 to 19.8%, but has remained broadly stable since 2023, despite the fall in profitability. The deterioration in the economic situation could limit the recovery in the investment rate, despite the ongoing reduction in interest rates. The transition from an environment of restrictive financial conditions to one that facilitates lending would take time, due to the time needed for the reduction in the benchmark interest rate to have a full impact on lending conditions. This situation, at the earliest, would not take place before the second half of 2025.

Increase in insolvencies

The number of business insolvencies has increased since the trough registered in 2021, due to the end of support measures linked to the pandemic, the suspension of the registration of business insolvencies during the pandemic, higher energy prices and rising labour costs, in a context of economic weakness. Rising financing costs due to tighter monetary policy also weighed on investment, particularly in construction and other interest-rate-sensitive sectors. At the same time, the number of new businesses registered increased, which also explains the rise in insolvencies.

However, the number of business insolvencies remained at historically low levels, at 5,520 in the third quarter of 2024, similar to the number registered in the third quarter of 2016 and well below the peak of 10,206 insolvencies in the second quarter of 2003. The manufacturing sector registered the highest number of insolvencies, in particular in the installation and maintenance of equipment business, machinery and metal products. Wholesale and retail, and professional and administrative services also registered the highest number of insolvencies. In its latest annual report on financial stability, the Bundesbank estimates that insolvencies would rise in 2025, given the structural challenges and weakness of the German economy.

CORPORATES

RISING PRODUCTION COSTS AND FALLING DEMAND CONTINUE TO DETERIORATE THE INDUSTRIAL SECTOR

The risk of industrial relocation is very real

The German industry has been in recession since production peaked in 2017. In November 2024, industrial production was 29 points below the trend recorded between 1990 and 2019. Among the most important sectors of the manufacturing industry, vehicles, machinery, energy-intensive branches, and metal products, registered the sharpest contraction. New orders fell mainly as a result of domestic demand, followed by demand from outside the eurozone.

The replacement of Russian gas by liquefied natural gas imports has led to a structural increase in industrial energy costs. As a result, the sector is losing competitiveness, particularly in energy-intensive sectors. According to the DIHK, companies in the manufacturing and construction sectors would also face difficulties related to the regulatory environment, weak domestic demand, a shortage of skilled labour, and high labour costs. As a result, up to 43% of large companies in the German industrial sector are considering or are in the process of relocating their production.

Given the context analysed, we therefore forecast a 5.5% decline in productive investment in 2024, followed by a marked moderation in the fall to 0.5% in 2025, and a very slight recovery of 2% in 2026.

Still not enough homes being built

The loss of household income, the past rise in interest rates and the contraction in mortgage lending have pushed down house prices and curbed new construction. House prices fell by 0.7% year-on-year in the third quarter of 2024 and by 11.6% from their peak in 2022. House prices are still overvalued by 20% according to the EC, and between 25% and 40% in urban areas according to the Bundesbank. Furthermore, despite weak demand, supply is 39% lower than the number of new homes needed, according to the government.

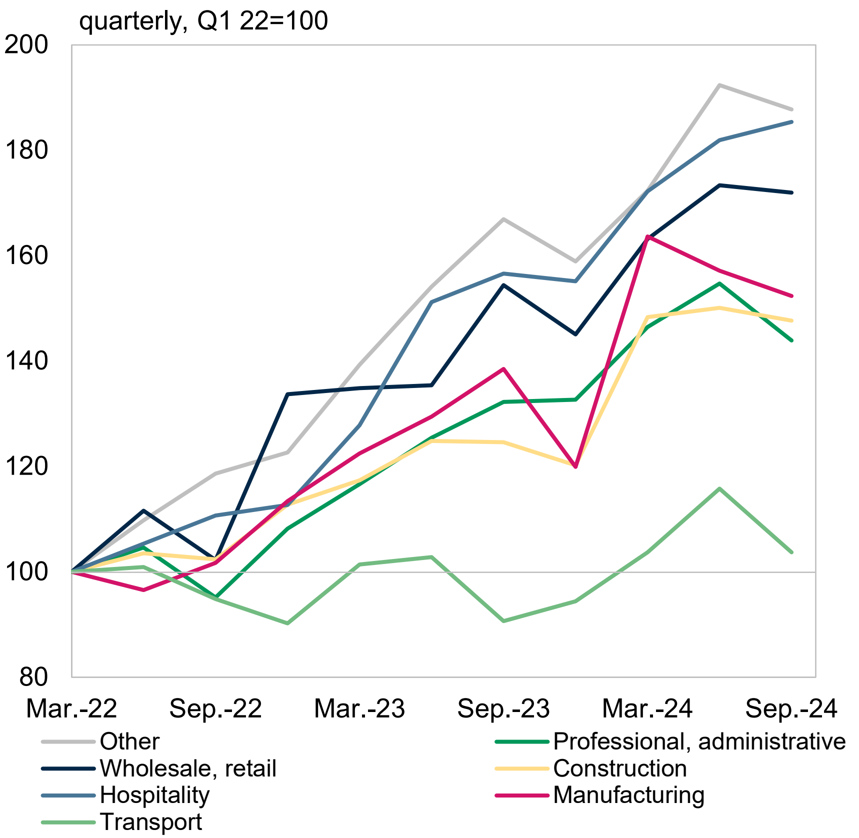
Construction activity was underpinned by investment in buildings and civil engineering structures. While housing construction has followed a downward trajectory, building and civil engineering construction has remained stable since the second half of 2022. We expect these opposing trends to continue.

We therefore forecast a further decline in construction investment of 3.7% in 2024, followed by a moderation in the fall to 1.2% in 2025, and a very slight recovery of 1.2% in 2026.

CORPORATES

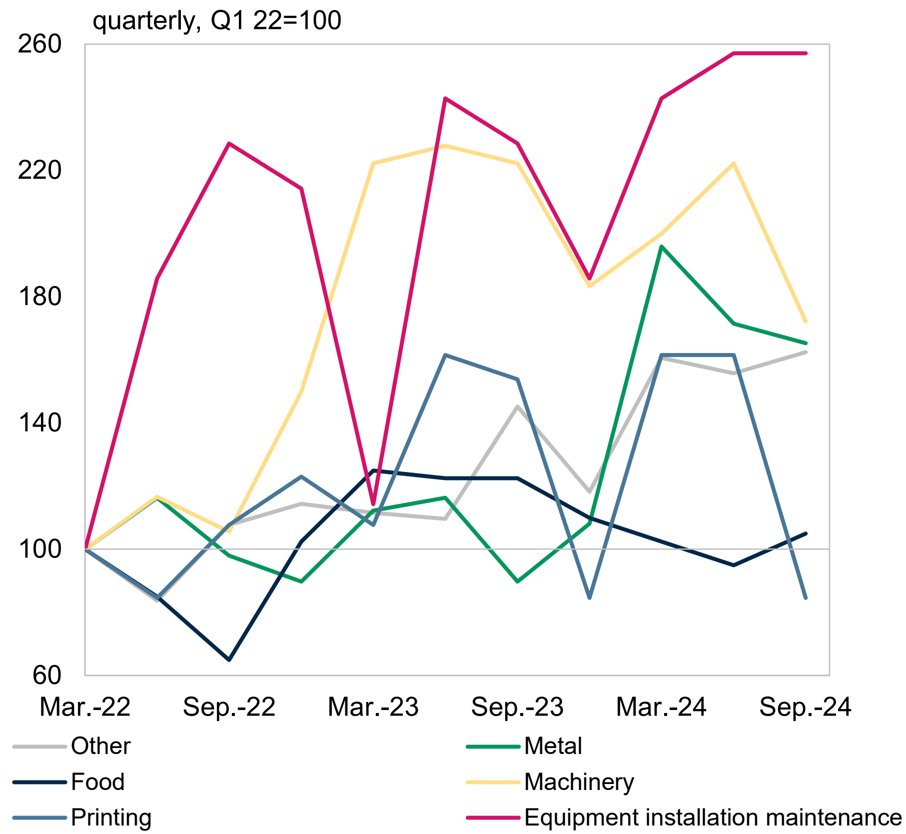
RISING PRODUCTION COSTS AND FALLING DEMAND CONTINUE TO DETERIORATE THE INDUSTRIAL SECTOR

Insolvencies by economic activity



Sources: Destatis, Crédit Agricole SA / ECO

Insolvencies by manufacturing sector



Sources: Destatis, Crédit Agricole SA / ECO

THE INTRODUCTION OF NEW BARRIERS TO FREE TRADE IN GOODS WOULD REDUCE EXPORTS

Redirecting exports

Exports fell gradually after the recovery seen in the first quarter of 2024. Among Germany's main trading partners, exports to China fell by 6.4% in the first three quarters of 2024, while exports to Poland rose by 3.6%.

China (the fourth-largest destination for German exports, with a share of 6.2% of the total) has significantly supported German exports over the past decade. However, the reconfiguration of value chains and the gradual slowdown in the growth of the Chinese economy would weigh on the performance of German exports from 2021 onwards.

However, demand for German goods increased in other markets. Among Germany's main trading partners, this is the case of the United States (first at 10.1%), the Netherlands (third at 7%) and Poland (fifth at 5.7%), whose imports of German products have mitigated the downward trend in Chinese demand.

The deterioration in the German industrial sector is largely the result of a fall in demand for German products. The introduction of new barriers to the free trade of goods, particularly with regard to China and the United States, could exacerbate the situation in the German industrial sector. The growing risk of industrial relocation is jeopardising the German economic model, which is heavily dependent on exports.

Given the context analysed**, we therefore forecast a fall in exports of 0.7% in 2024 and 0.7% in 2025, followed by a very slight recovery of 1.8% in 2026. German exports are likely to grow more slowly than world exports. Germany would therefore continue to lose market share, and exports would contribute less to Germany's economic growth.**

Furthermore, we forecast a further fall in imports of 0.2% in 2024, followed by a very slight recovery of 1% in 2025 and 2% in 2026. Weak domestic demand would indeed weigh on imports.

Slight recovery in competitiveness

The current account surplus recovered to 6.2% of GDP in 2023, following the decline caused by higher energy prices, weak foreign demand, and increasing imports of equipment and intermediate goods. The trade balance surplus also recovered to 4% of GDP in 2023. The high current account surplus underlines the competitiveness of German exports and supports the positive net international investment position.

The response to the recent inflationary shock would have improved the international competitiveness of goods produced in Germany. Indeed, not only would wage growth have been insufficient to catch up with the trend seen between 2010 and 2019, but it would have risen less than productivity, leading to a fall in unit labour costs. In other words, the modest rise in wages in Germany would have been relatively lower than that seen in other trading partners, which would anticipate an improvement in the external balance.

THE INTRODUCTION OF NEW BARRIERS TO FREE TRADE IN GOODS WOULD REDUCE EXPORTS

Competition from China

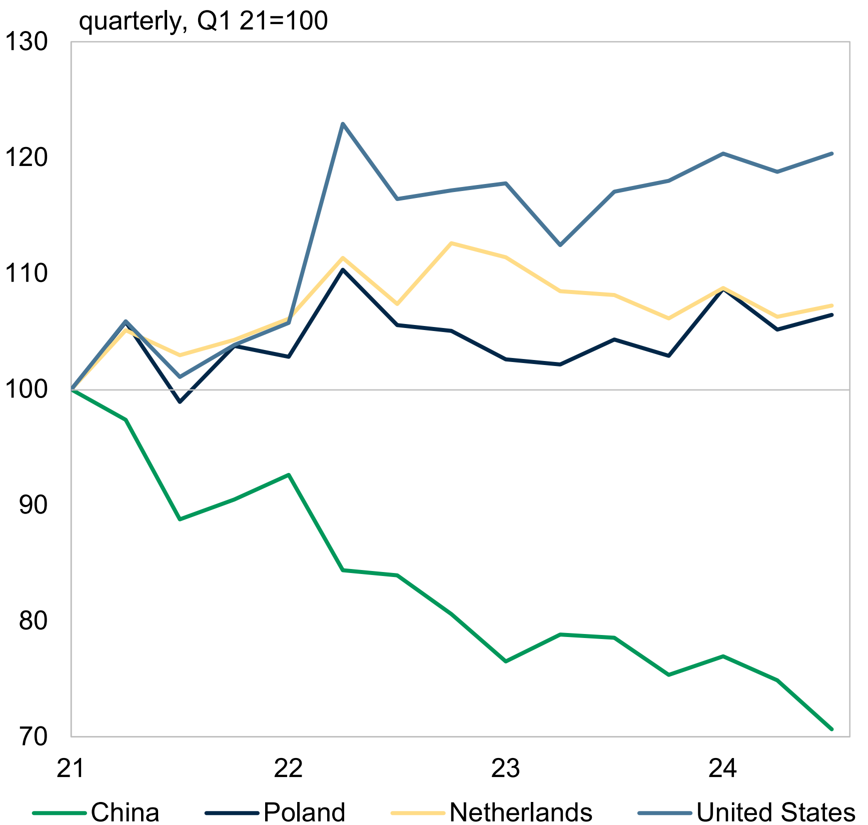
The Chinese economy has deployed a forced industrialisation economic policy of import substitution, a strategy that advocates replacing imports with domestic production. At the heart of this policy is the national MIC25 strategy. The plan aims to develop China's future key manufacturing industries. Specifically, the plan aims to improve the production capabilities of China's industries, shifting from labour-intensive to technology-intensive production, increasing value added and significantly reducing reliance on foreign components and materials used in production. The plan includes a range of measures, such as subsidies, facilitation of foreign investment and acquisition, forced production transfer agreements, and funding for research and development, with the government playing a direct role in implementing the strategy.

The plan has reinforced China's ambition to become a major player in areas dominated by German companies. The measures have sparked debate about the market distortions created by Chinese state support. The German government has encouraged companies to reduce their dependence on China, notably by diversifying supply chains and reducing exposure to Chinese markets, while recognising that complete decoupling is not possible, given the close dependence between the two partners. China is no longer seen simply as a market, but as a strategic competitor.

INTERNATIONAL TRADE

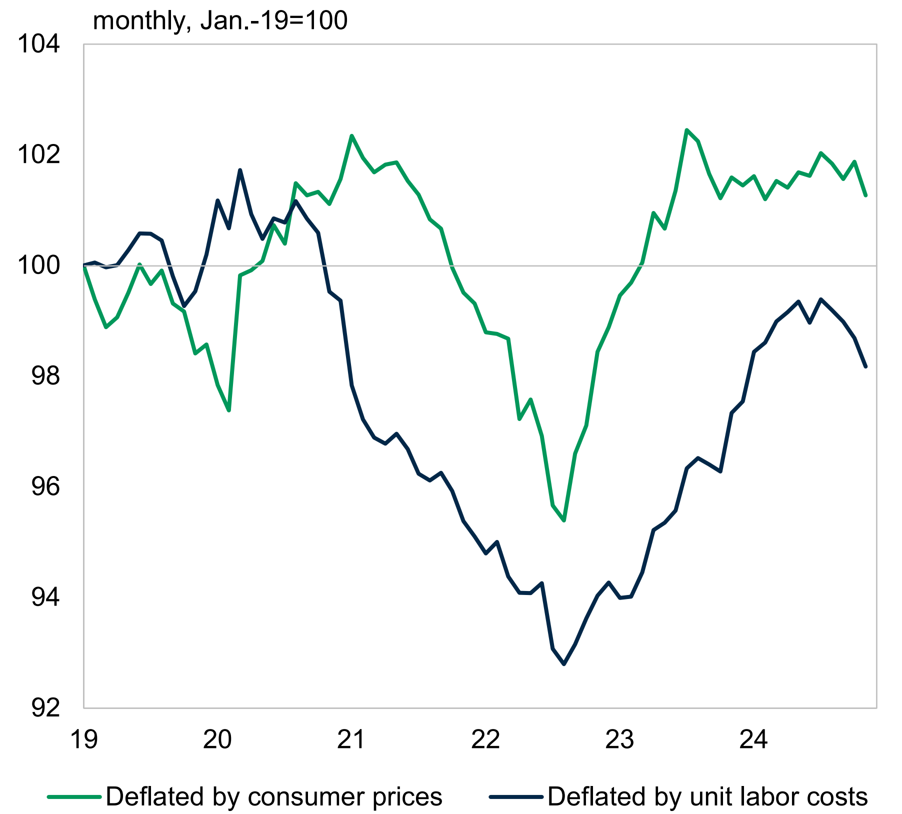
THE INTRODUCTION OF NEW BARRIERS TO FREE TRADE IN GOODS WOULD REDUCE EXPORTS

Exports



Sources: Bundesbank, Crédit Agricole SA / ECO

Real effective exchange rate



Sources: IMF, Crédit Agricole SA / ECO

THE SCENARIO IN FIGURES

EUROPE'S LOCOMOTIVE AT A STANDSTILL

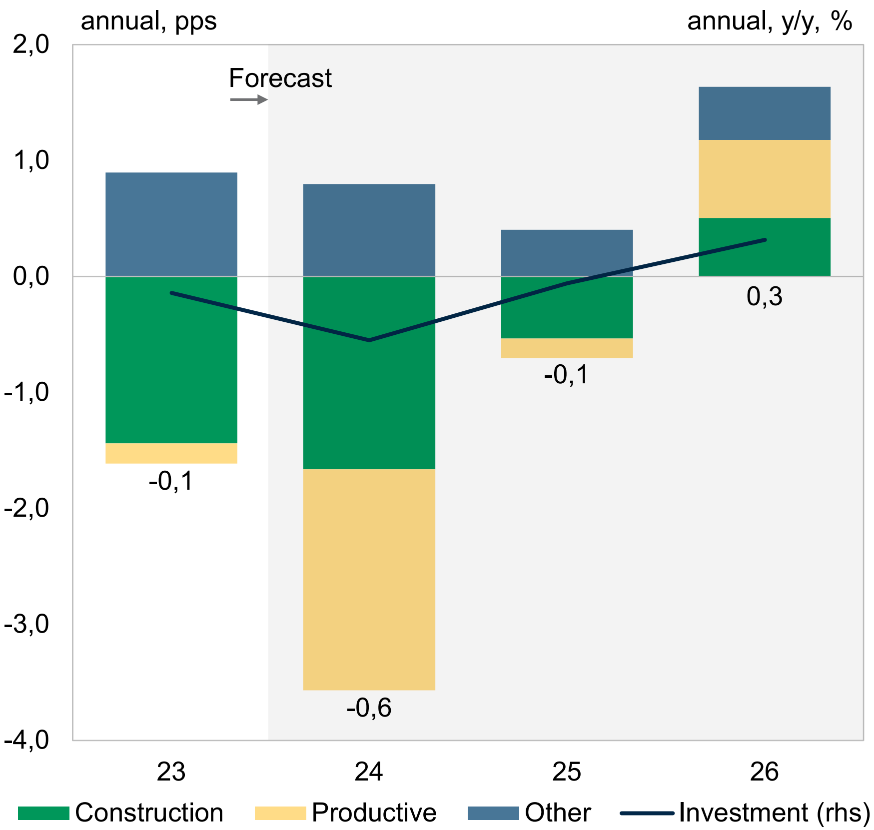
	2023	2024	2025	2026	2023				2024				2025				2026			
					T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4
GDP (y/y, q/q, %)	-0,1	-0,2	0,2	0,8	0,1	-0,2	0,2	-0,4	0,2	-0,3	0,1	-0,2	0,2	0,1	0,1	0,2	0,2	0,2	0,2	0,2
Domestic demand (contribution to GDP, pps)	-0,3	0,0	0,4	1,0	0,0	0,3	0,2	-0,1	0,0	-0,3	0,2	0,1	0,0	0,2	0,2	0,3	0,2	0,2	0,2	0,2
Private consumption (y/y, q/q, %)	-0,2	0,0	0,2	0,7	-0,4	0,8	0,0	0,0	0,1	-0,5	0,3	0,1	-0,1	0,1	0,2	0,2	0,2	0,2	0,2	0,2
Public consumption (y/y, q/q, %)	-0,1	2,4	1,8	1,2	0,2	-0,2	1,2	0,7	-0,3	1,6	0,4	0,5	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3
Investment (y/y, q/q, %)	-0,7	-2,8	-0,3	1,6	0,6	-0,2	-0,3	-1,4	0,2	-2,1	-0,1	-0,3	0,1	0,2	0,4	0,5	0,4	0,4	0,4	0,4
Stockbuilding (contribution to GDP, pps)	0,0	0,1	0,5	-0,1	-0,3	-0,1	-0,2	-0,7	0,0	0,4	0,8	0,1	-0,1	0,0	-0,1	0,0	-0,2	0,1	0,1	0,1
Net exports (contribution to GDP, pps)	0,2	-0,3	-0,7	0,0	0,5	-0,4	0,2	0,4	0,2	-0,4	-0,9	-0,3	0,2	-0,1	-0,1	-0,1	0,2	-0,1	-0,2	-0,2
Exports (y/y, q/q, %)	0,2	-0,7	-0,6	1,8	0,2	-0,4	-0,7	-0,9	1,4	0,2	-1,9	-1,0	0,7	0,2	0,2	0,2	1,1	0,4	0,2	0,1
Imports (y/y, q/q, %)	-0,3	-0,2	1,0	2,0	-1,0	0,5	-1,4	-2,0	1,0	1,2	0,2	-0,3	0,4	0,4	0,4	0,4	0,6	0,6	0,6	0,6
Inflation (y/y, %)	6,0	2,5	2,1	2,0	8,7	6,9	5,7	3,0	2,7	2,6	2,2	2,5	2,4	2,0	2,1	2,0	2,0	2,0	2,0	2,0
Core inflation (y/y, %)	5,1	3,2	2,5	2,2	5,5	5,6	5,8	3,7	3,4	3,2	3,1	3,2	2,8	2,6	2,3	2,3	2,3	2,1	2,1	2,1
Unemployment rate (%)	3,0	3,4	3,4	3,4	3,0	2,9	3,0	3,1	3,3	3,4	3,5	3,4	3,4	3,4	3,4	3,4	3,4	3,4	3,4	3,4
Current account balance (% of GDP)	5,9	6,7	6,4	6,0	5,4	5,6	6,6	6,2	6,3	7,2	6,6	6,6	6,4	6,4	6,4	6,4	6,0	6,0	6,0	6,0
Fiscal balance (% of GDP)	-2,6	-2,2	-2,0	-1,8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public debt (% of GDP)	62,9	63,4	64,3	64,8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Sources: Eurostat, Crédit Agricole SA / ECO

THE SCENARIO IN PICTURES

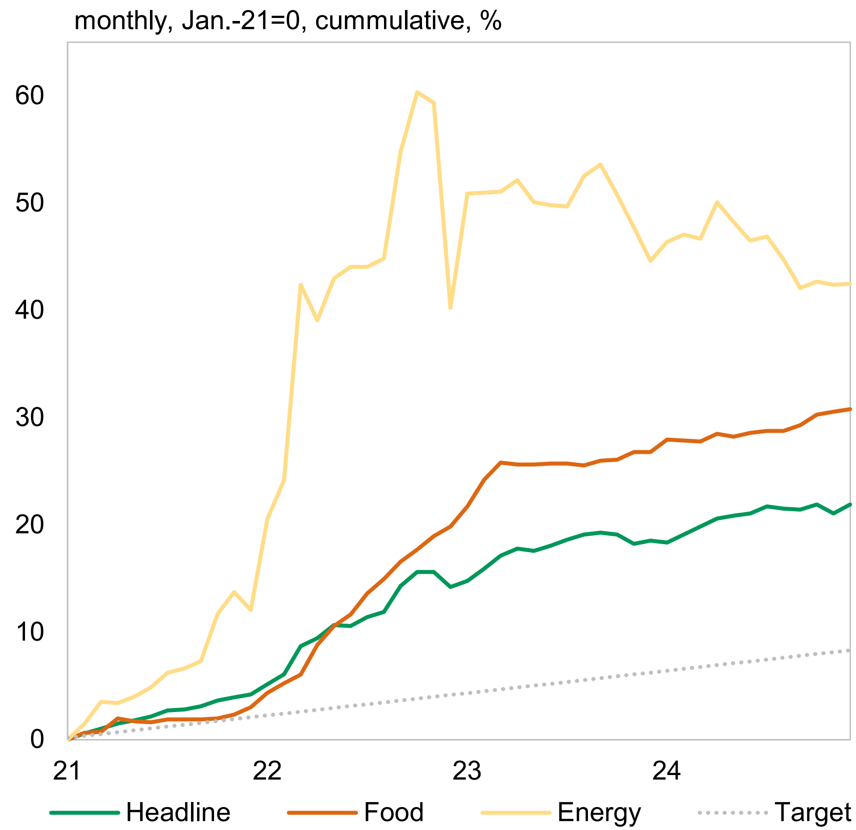
EUROPE'S LOCOMOTIVE AT A STANDSTILL

Contribution to GDP



Sources: Eurostat, Crédit Agricole SA / ECO

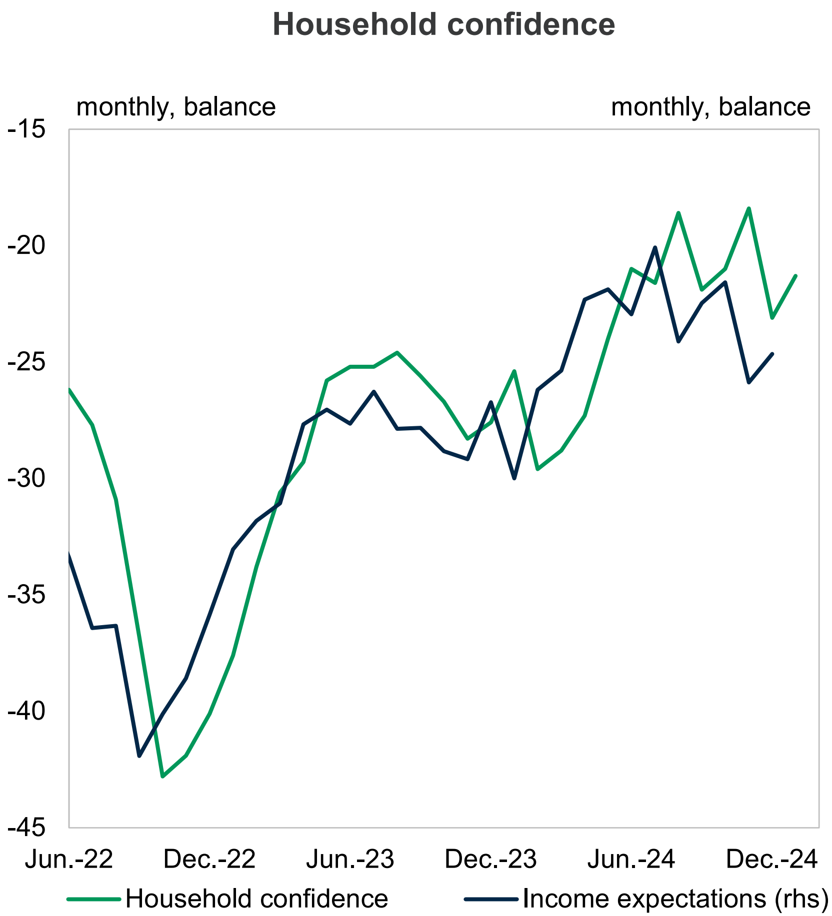
Consumer price inflation



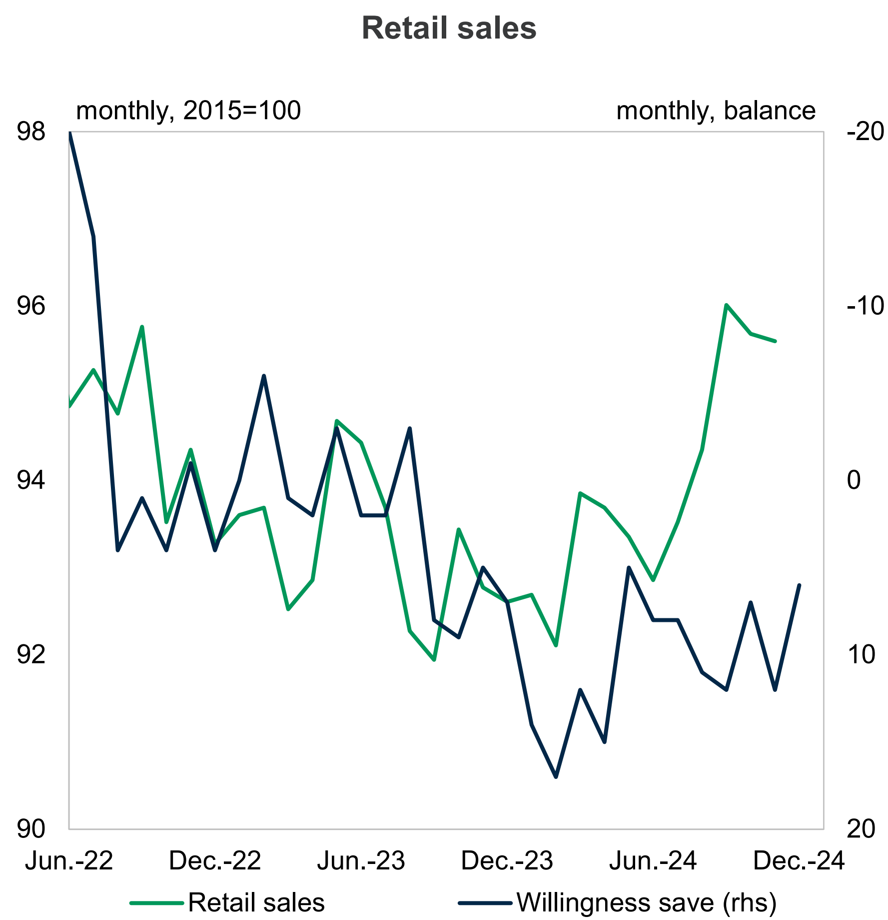
Sources: Eurostat, Crédit Agricole SA / ECO

THE SCENARIO IN PICTURES

EUROPE'S LOCOMOTIVE AT A STANDSTILL



Sources: GFK, Crédit Agricole SA / ECO

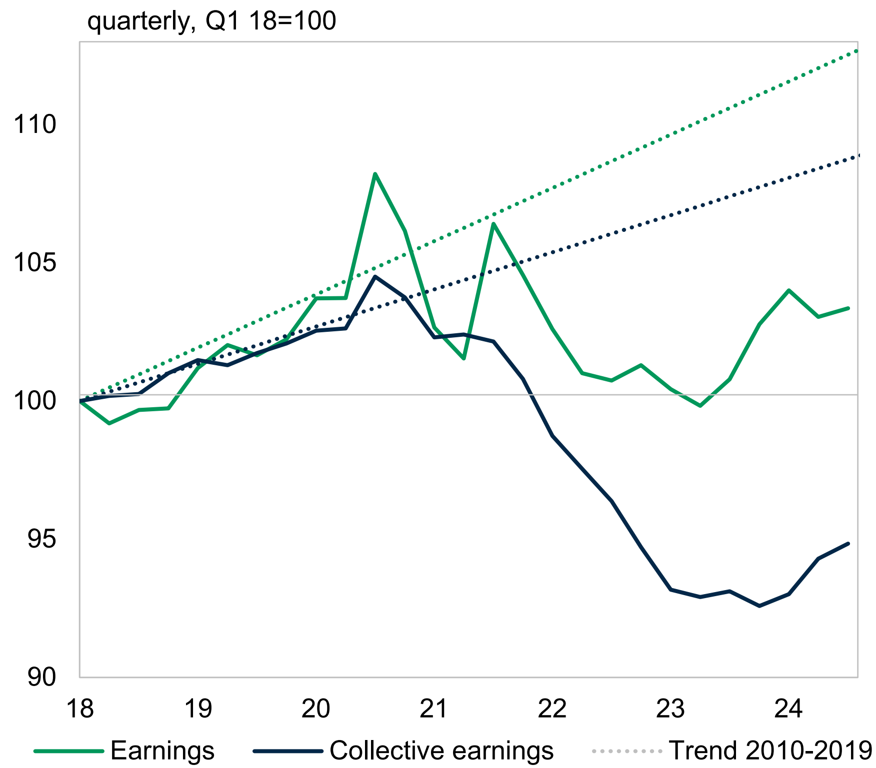


Sources: Destatis, GFK, Crédit Agricole SA / ECO

THE SCENARIO IN PICTURES

EUROPE'S LOCOMOTIVE AT A STANDSTILL

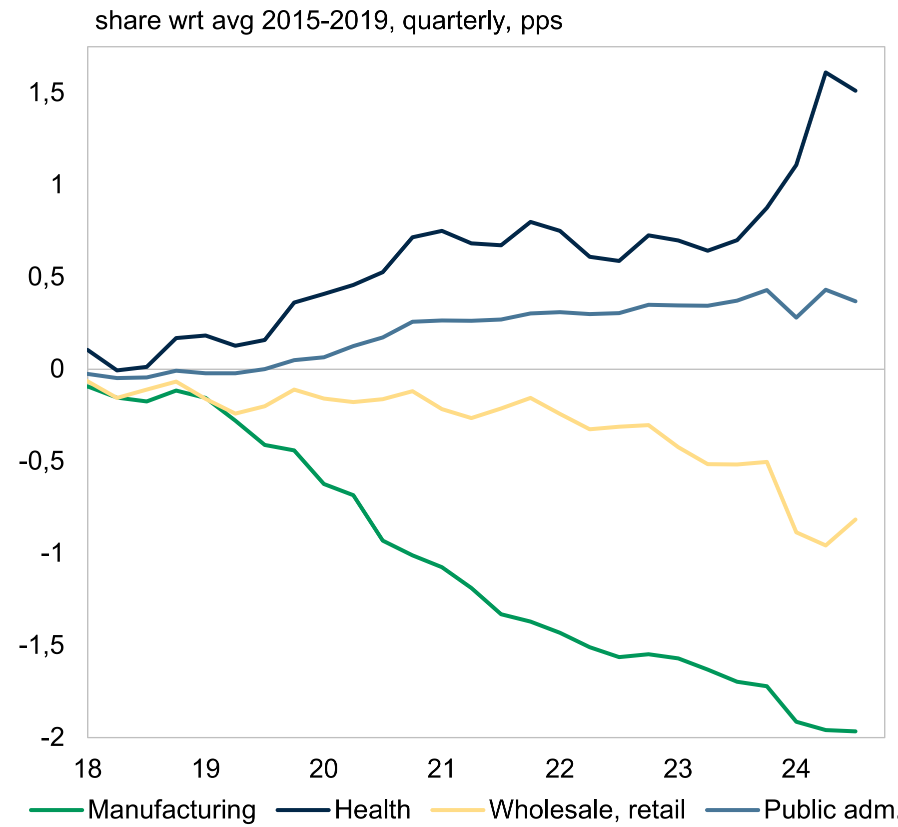
Real earnings



Notes: (1) harmonised gross hourly earnings; (2) collective gross hourly earnings excluding bonuses.

Sources: Destatis, Crédit Agricole SA / ECO

Employment by sector

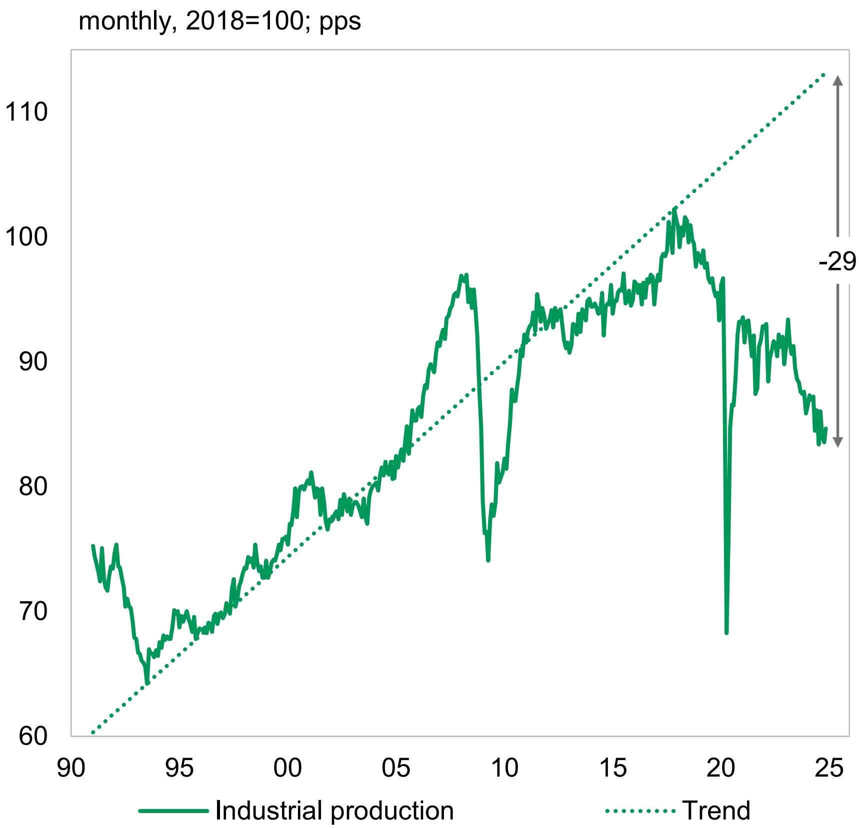


Sources: Destatis, Eurostat, Crédit Agricole SA / ECO

THE SCENARIO IN PICTURES

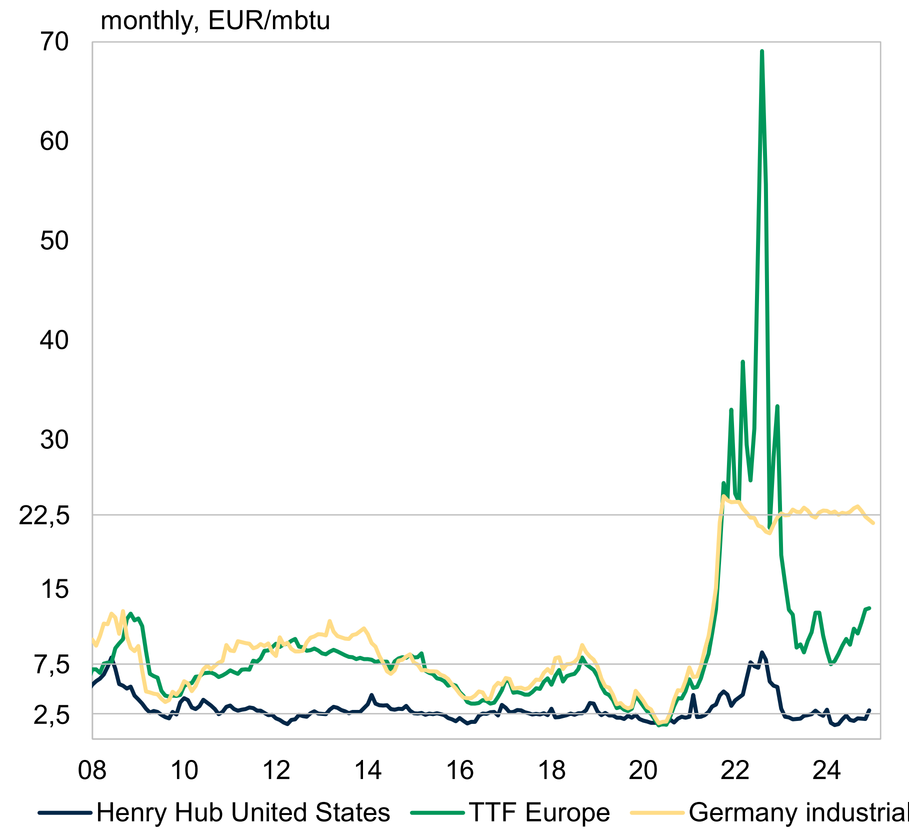
EUROPE'S LOCOMOTIVE AT A STANDSTILL

Industrial production



Sources: Destatis, Crédit Agricole SA / ECO

Gas prices



Sources: Bloomberg, Refinitiv, Crédit Agricole SA / ECO

APPENDIX

ABBREVIATIONS AND ACRONYMS

%: percentage.
adm.: administration, administrative.
avg: average.
BA-X: vacancy index calculated by the Federal Employment Agency (BFA).
BEA: Bureau of Economic Analysis, the United States federal agency for economic analysis.
BFA: *Bundesagentur für Arbeit*, the Federal Employment Agency.
BMF: *Bundesministerium der Finanzen*, the German Federal Ministry of Finance.
BRH: *Bundesrechnungshof*, the Federal Court of Audit, responsible for controlling public finances.
Bundesbank: *Deutsche Bundesbank*, the German Federal Bank, that is, the central bank of Germany.
Destatis: *Statistisches Bundesamt*, the German National Statistical Service.
DIHK: *Deutscher Industrie und Handelskammertag*, the German Network of Chambers of Commerce and Industry.
DGB: *Deutscher Gewerkschaftsbund*, the German Trade Union Confederation.
EC: European Commission.
ECB: European Central Bank.
EUR: euro.
Eurostat: the Directorate General of the European Commission (EC) responsible for statistics.
FED: *Federal Reserve System*, the central bank of the United States.
GDP: gross domestic product.
GFK: Growth from Knowledge.
HBS: *Hans Böckler Stiftung*, the research foundation of the German Trade Union Confederation (DGB).
HICP: harmonised index of consumer prices.
IAB: *Institut für Arbeitsmarkt und Berufsforschung*, the Employment Research Institute under the Federal Employment Agency (BFA).
IFO: *Leibniz Institut für Wirtschaftsforschung an der Universität München*, the Leibniz Institute for Economic Research at the University of Munich.
ILO: International Labour Organisation.
IMF: International Monetary Fund.
KBA: *Kraftfahrt-Bundesamt*, the Federal Motor Transport Authority.
KTF: *Klima und Transformationsfonds*, the Climate and Transformation Fund.
kWh: kilowatt-hour.
m: month, monthly.
m/m: month-on-month change.
ma: moving average.
mbtu: million British thermal units.
MIC25: Made in China 2025.
PEEP: Pandemic Emergency Purchase Programme, deployed to counteract the economic effects of the pandemic.
PMI: Purchasing Managers Index, produced by S&P Global.
pps: percentage point(s).
pro: professional.
SA: seasonally adjusted.
SVR: *Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung*, the German Council of Economic Experts, nominated by the federal government.
t: quarter, quarterly.
t/t: quarter-on-quarter change.
USD: United States dollar.
VDA: *Verband der Automobilindustrie*, the German Association of the Automotive Industry, member of the European Automobile Manufacturers Association (ACEA).
WDA: working day adjusted.
wrt: with respect to.
WSF: *Wirtschaftsstabilisierungsfonds*, the Economic Stabilisation Fund.
WSI: *Wirtschafts und Sozialwissenschaftliches Institut*, the Institute for Economic and Social Research of the research foundation (HBS) of the German Trade Union Confederation (DGB).
y: year, yearly.
y/y: year-on-year change.

APPENDIX

NOTES

Unless otherwise stated, data are expressed in volume, real value, or constant prices.

Unless otherwise stated, data are adjusted for seasonal variations and working day effects.

Investment refers to gross fixed capital formation.

Investment in construction refers to investment in housing, and in buildings and civil engineering works.

Productive investment refers to investment in machinery and equipment, and in transport.

Investment in other products refers to investment in other tangible and intangible fixed assets.

Unless otherwise stated, the trade balance, exports and imports include goods and services.

Unless otherwise stated, the consumer price index and inflation are calculated according to Eurostat's harmonised definition, to be comparable across countries.

Core inflation excludes energy and food.

Unless otherwise stated, labour market data are calculated according to the ILO's harmonised definition (national or residence concept), to be comparable across countries.

Public debt is calculated according to the Maastricht criteria and expressed in value, nominal value, or current prices.

Unless otherwise stated, the industrial production index excludes construction.

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