



In the midst of a perfect storm

Germany's macro outlook

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Several crises at the price of one

German central bank chief Joachim Nagel warns inflation to hit 70-year high

Is the energy crisis the final nail in Germany's export-dependent economic model?

Russia-Ukraine war: what we know on day 173 of the invasion

TODAY'S WORLDVIEW
Record heat wave deepens Europe's energy crisis

German environment minister warns of 'species crisis'

Reuters
German recession increasingly likely, Bundesbank says

Ukraine's grain exports halve year on year

GERMANY

Drought: Germany's rivers dying of thirst

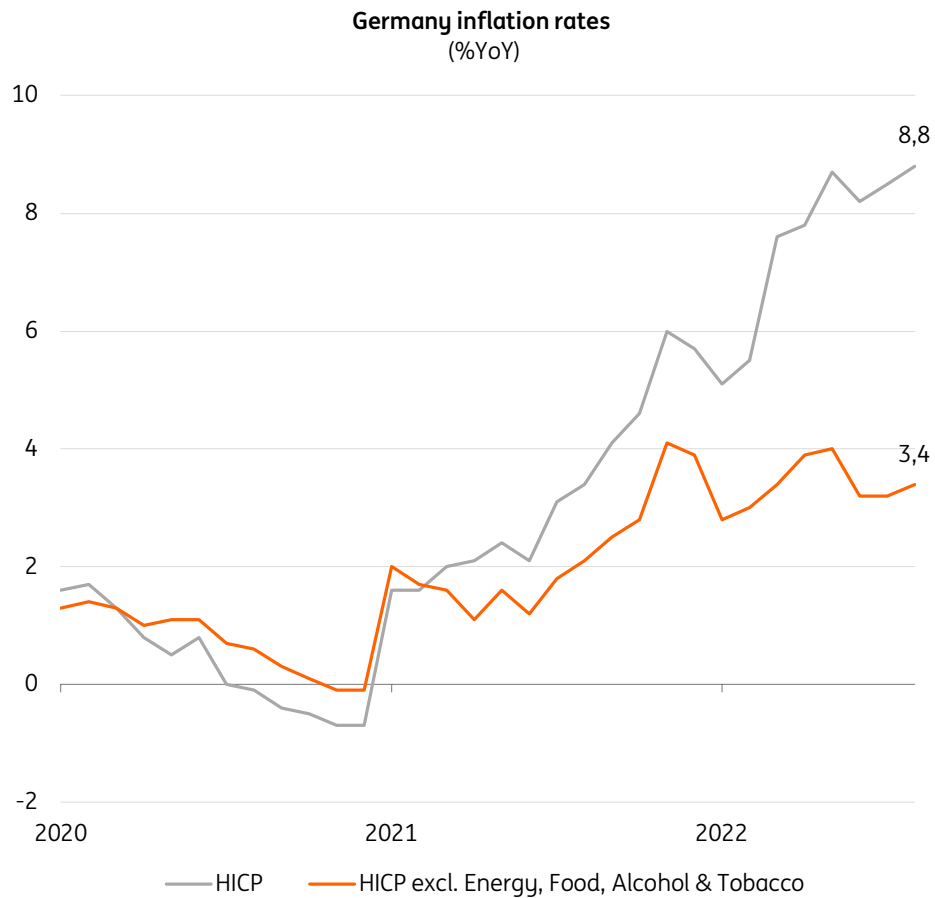
Gas crisis raises recession risk for inflation-hit eurozone economy

The background image shows a busy port scene. In the upper half, a large red shipping container is being hoisted by a blue gantry crane. The container is suspended in the air, and the crane's complex steel structure is visible. In the lower half, a blue truck with the number 32456 is parked on a paved area. A worker in a high-visibility orange suit stands near the truck. In the background, there are stacks of other containers and more port infrastructure.

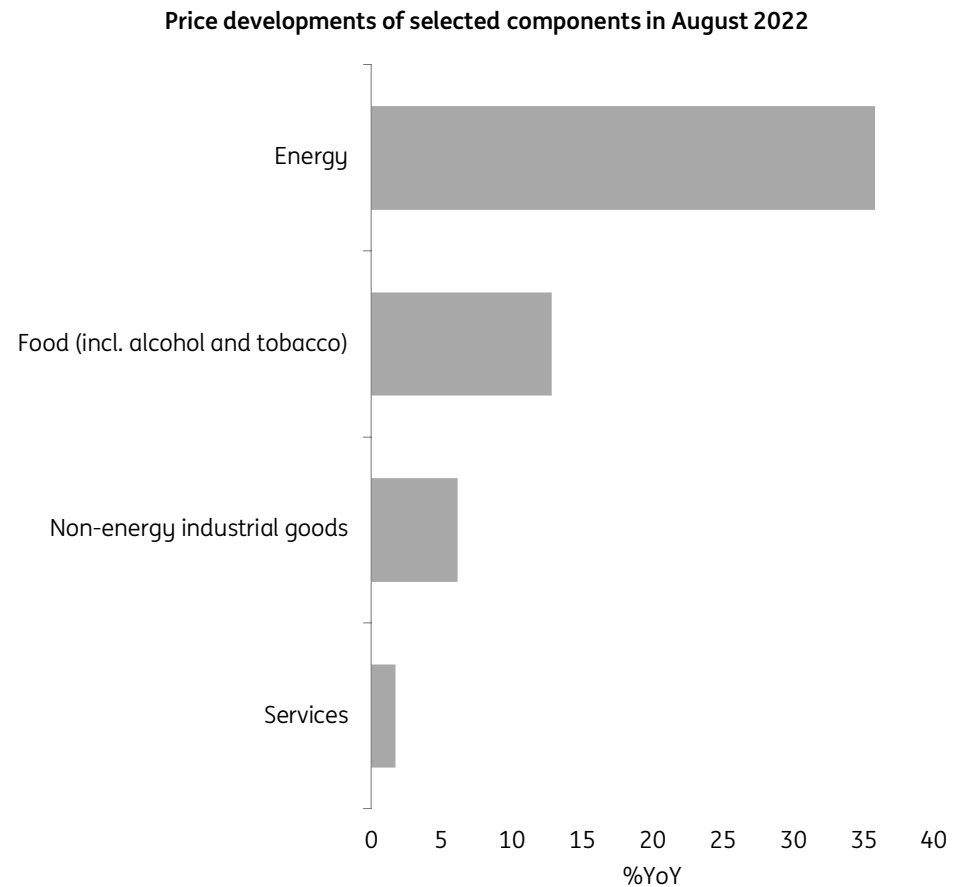
Near-term challenges for Germany

High inflation, rattled supply chains, a lack of workers and the heat wave

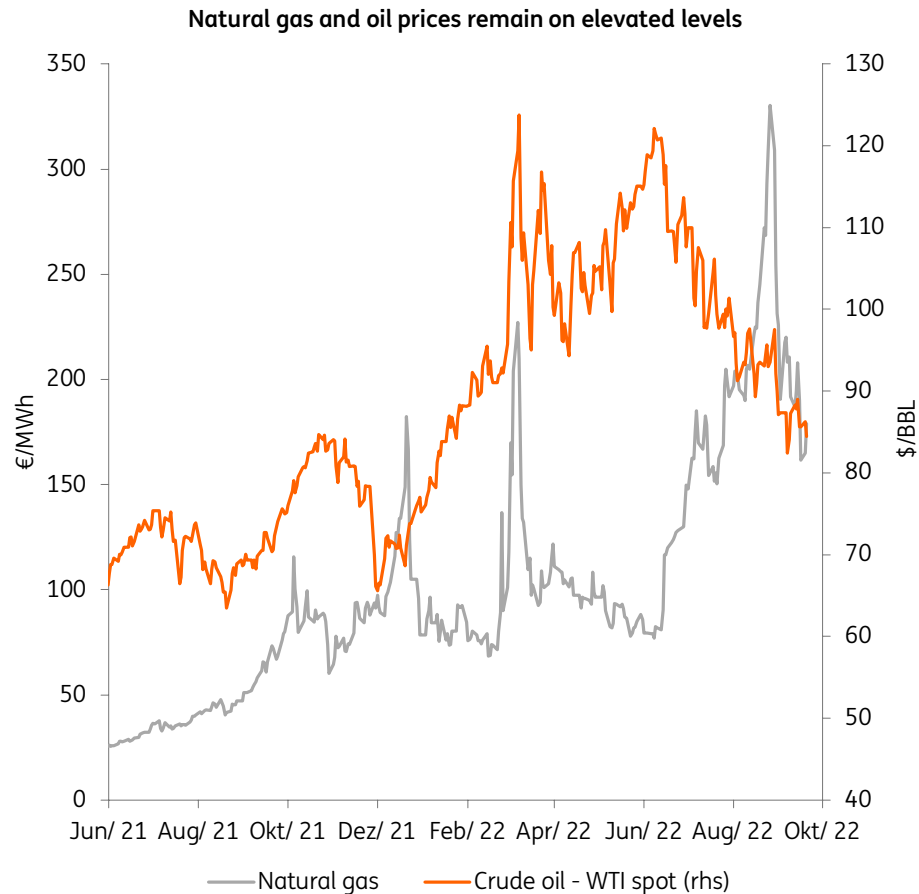
Inflation has not yet peaked



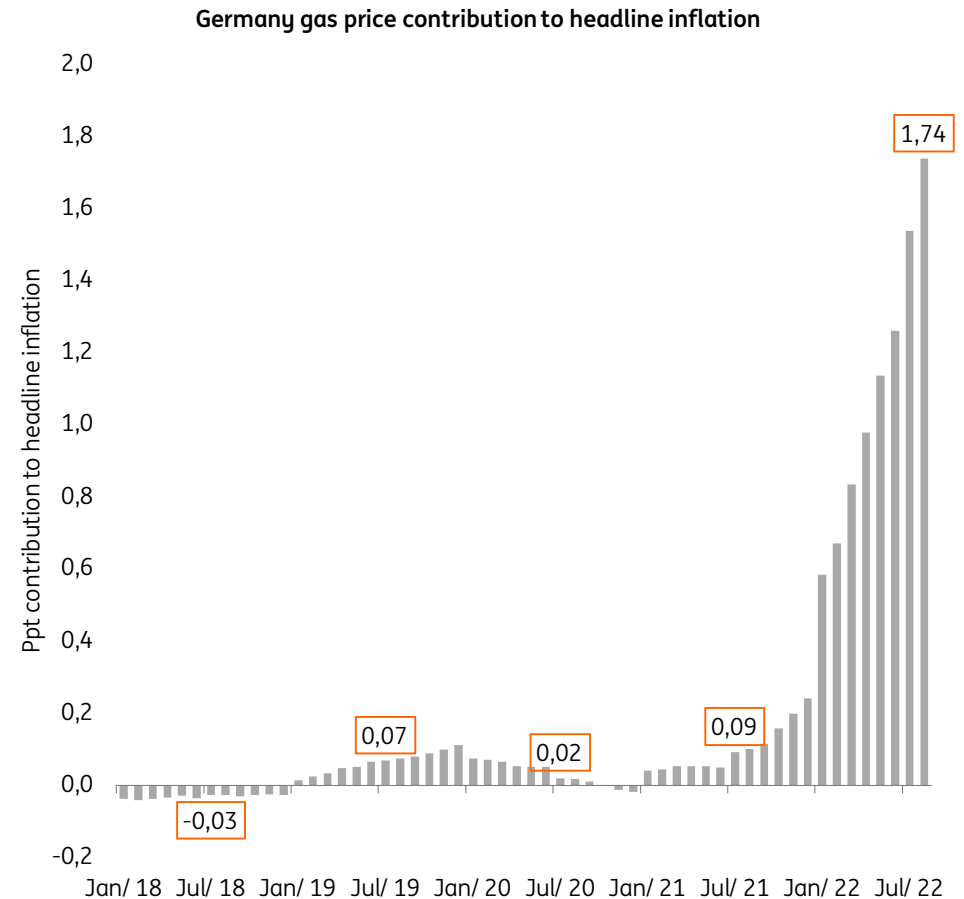
Source: Refinitiv, ING Economic & Financial Analysis



And high energy and commodity prices will cause inflation to stay elevated for longer

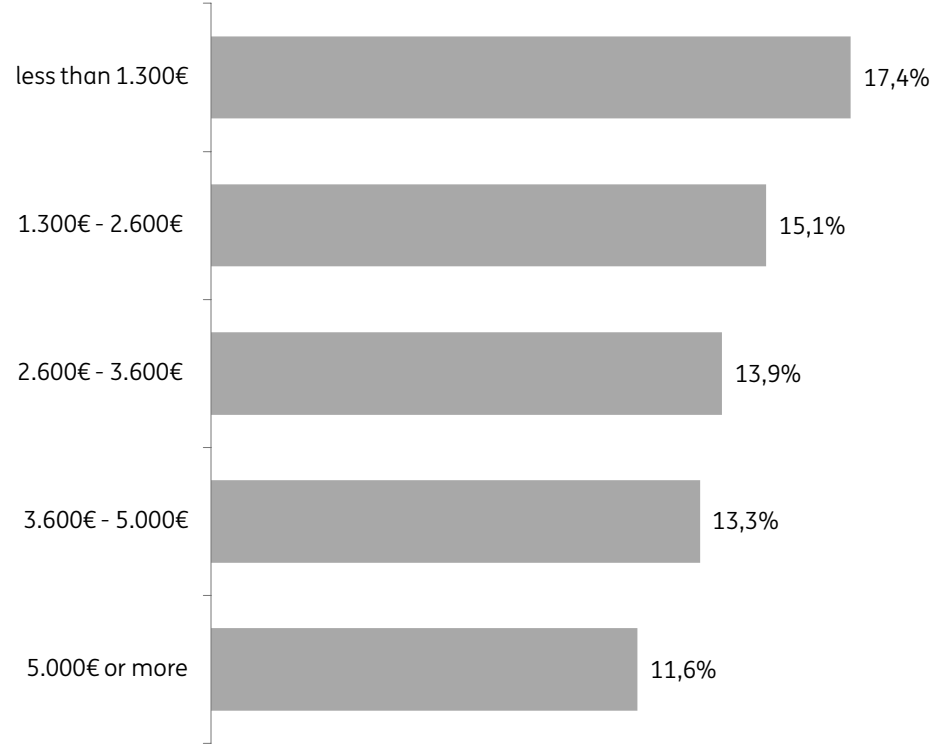


Source: Refinitiv; ING Economic & Financial Analysis

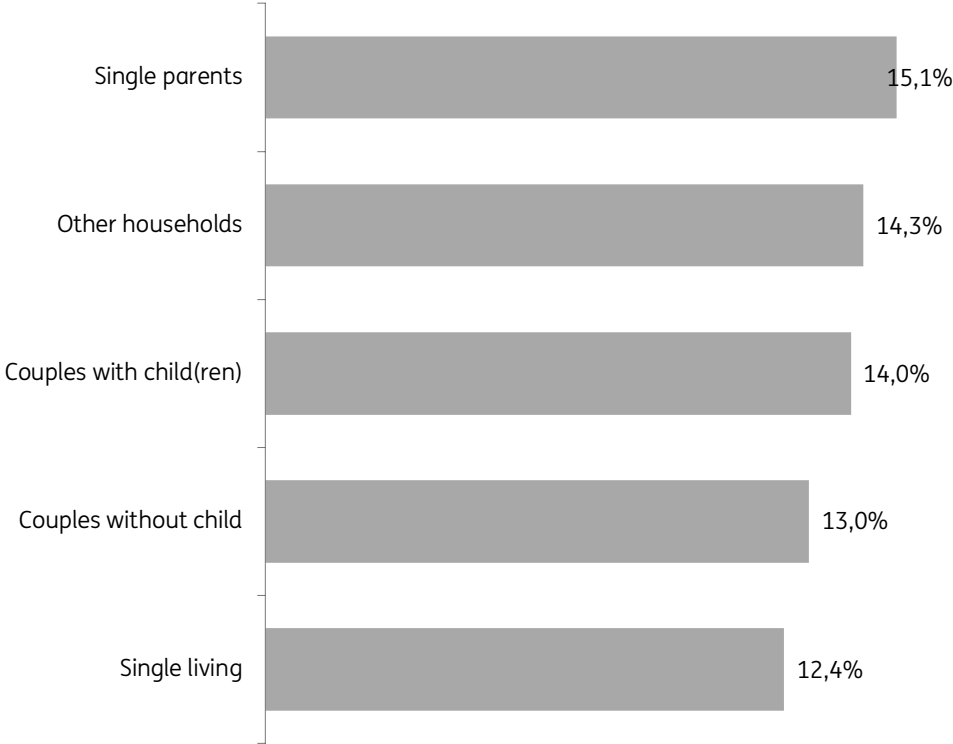


Increased food prices weigh particularly on low-income earners and single parents

Share of expenditure on food, beverages and tobacco in private consumption expenditure by net household income (Germany)

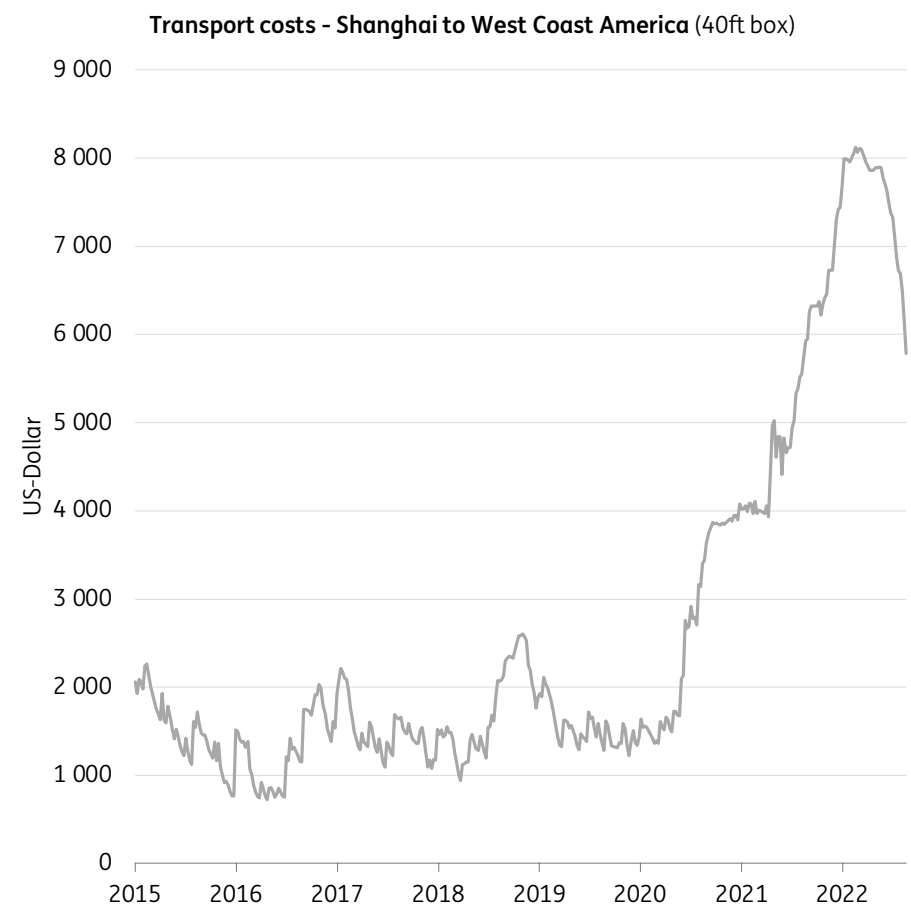
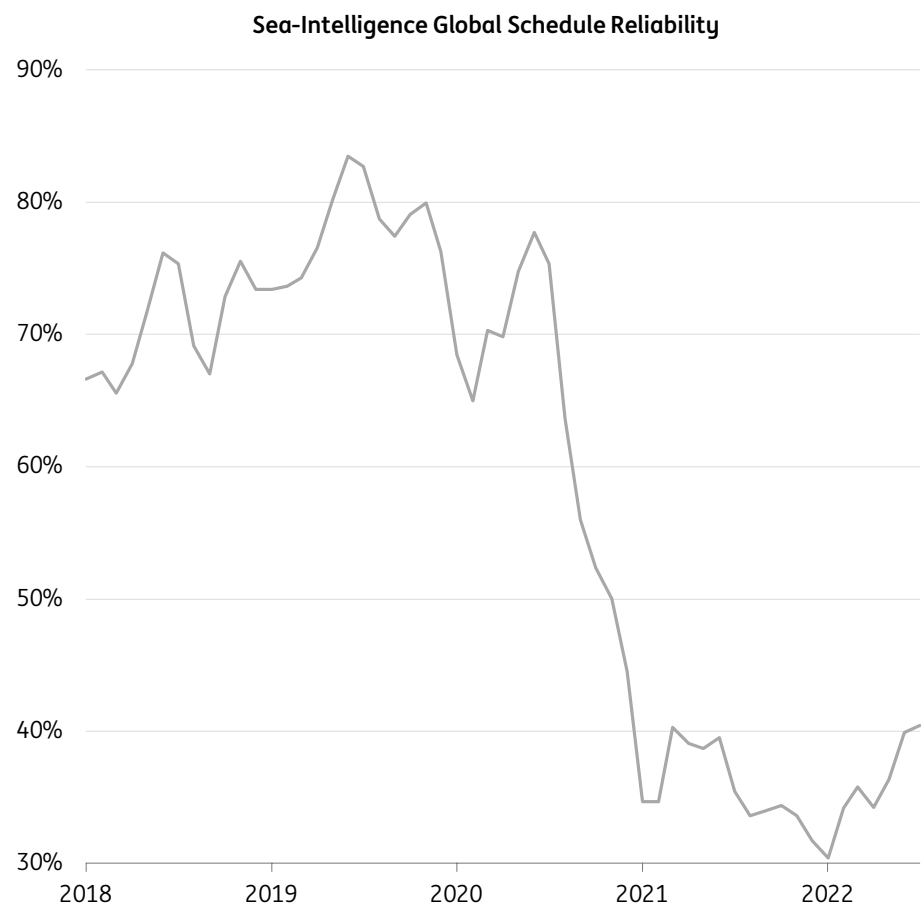


Share of expenditure on food, beverages and tobacco in private consumption expenditure by household type (Germany)



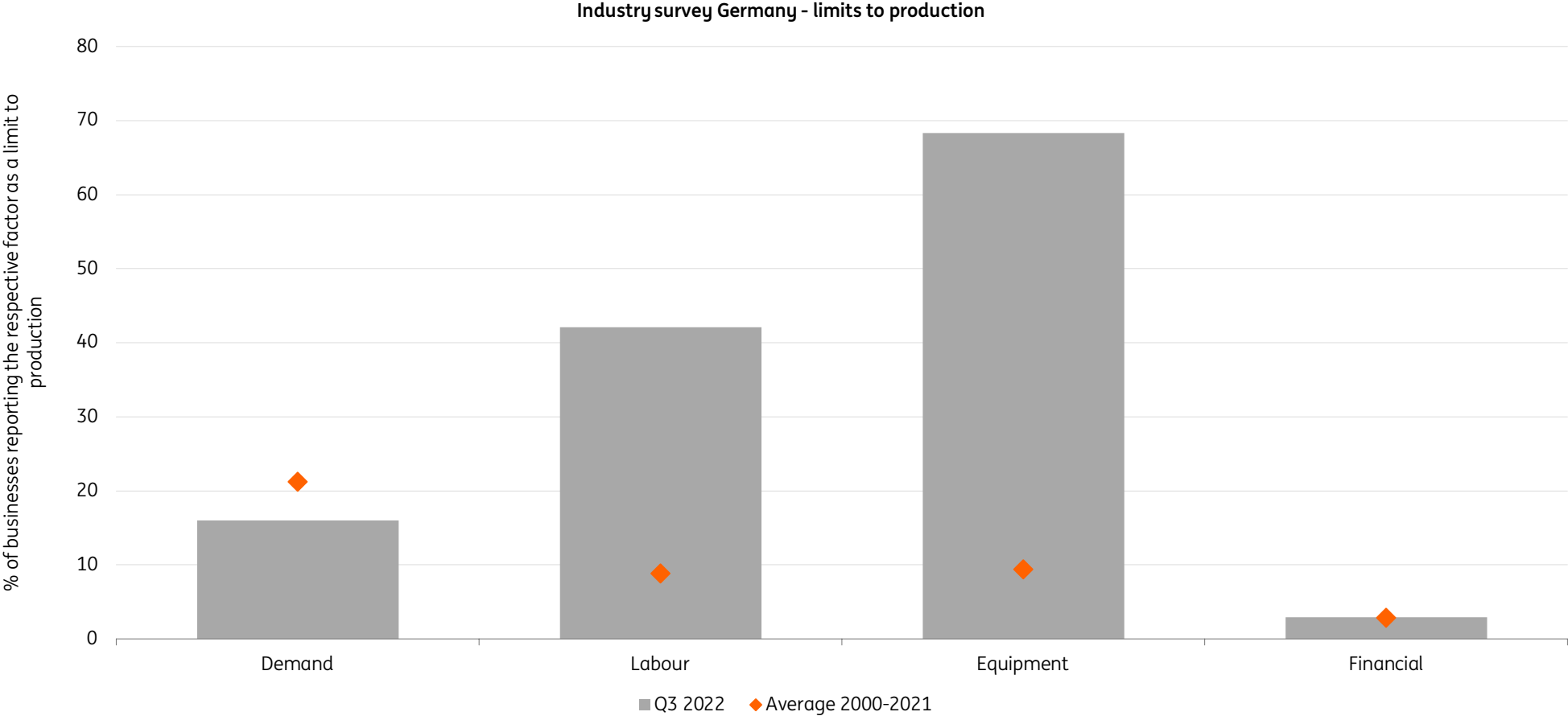
Source: Destatis; Income and consumer sample 2018

Supply chains are still disrupted, albeit slowly improving



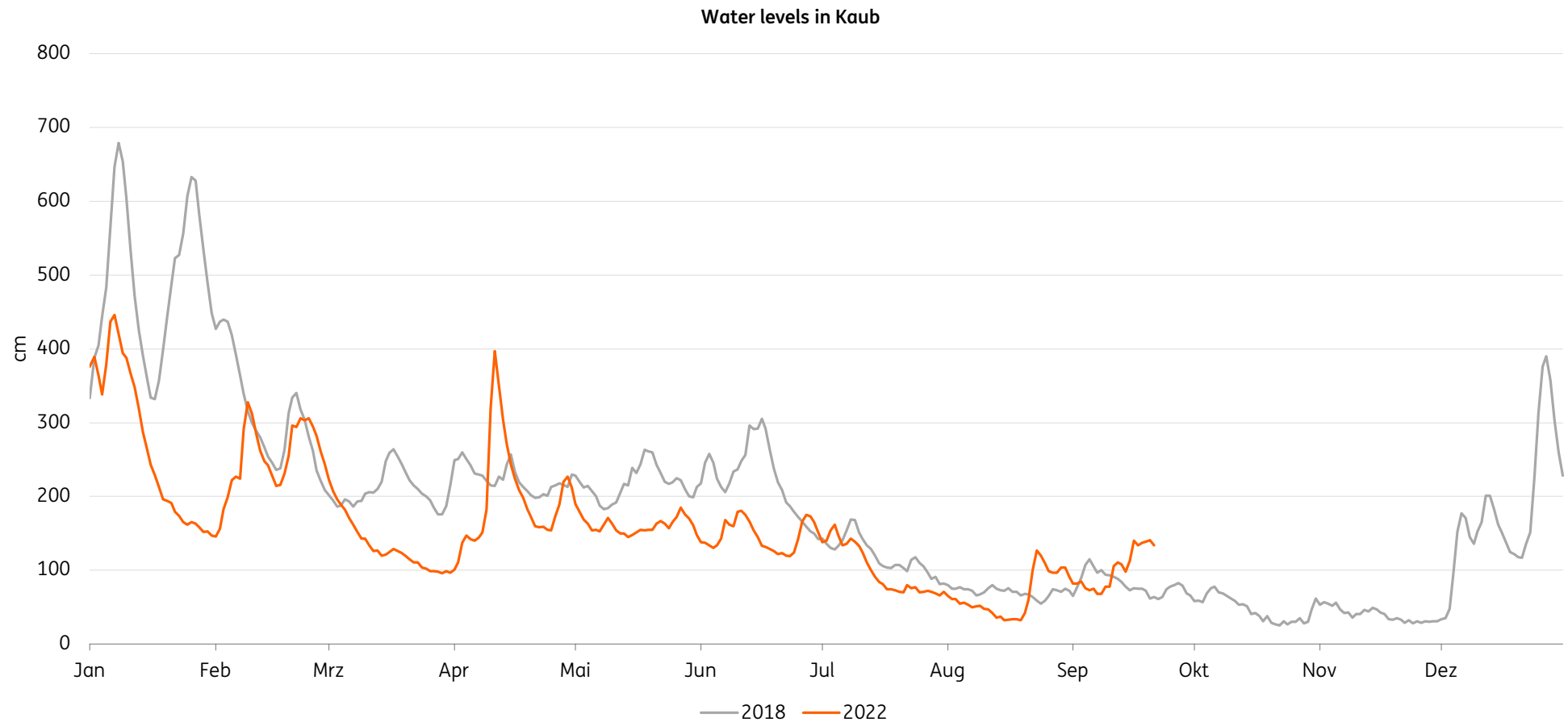
Source: Sea Intelligence, Shanghai Shipping Exchange, Clarksons. Spot and port based, i.e. surcharges such as peak surcharge or bunker fuel surcharge are excluded

The lack of equipment and labour is limiting production but demand is still solid



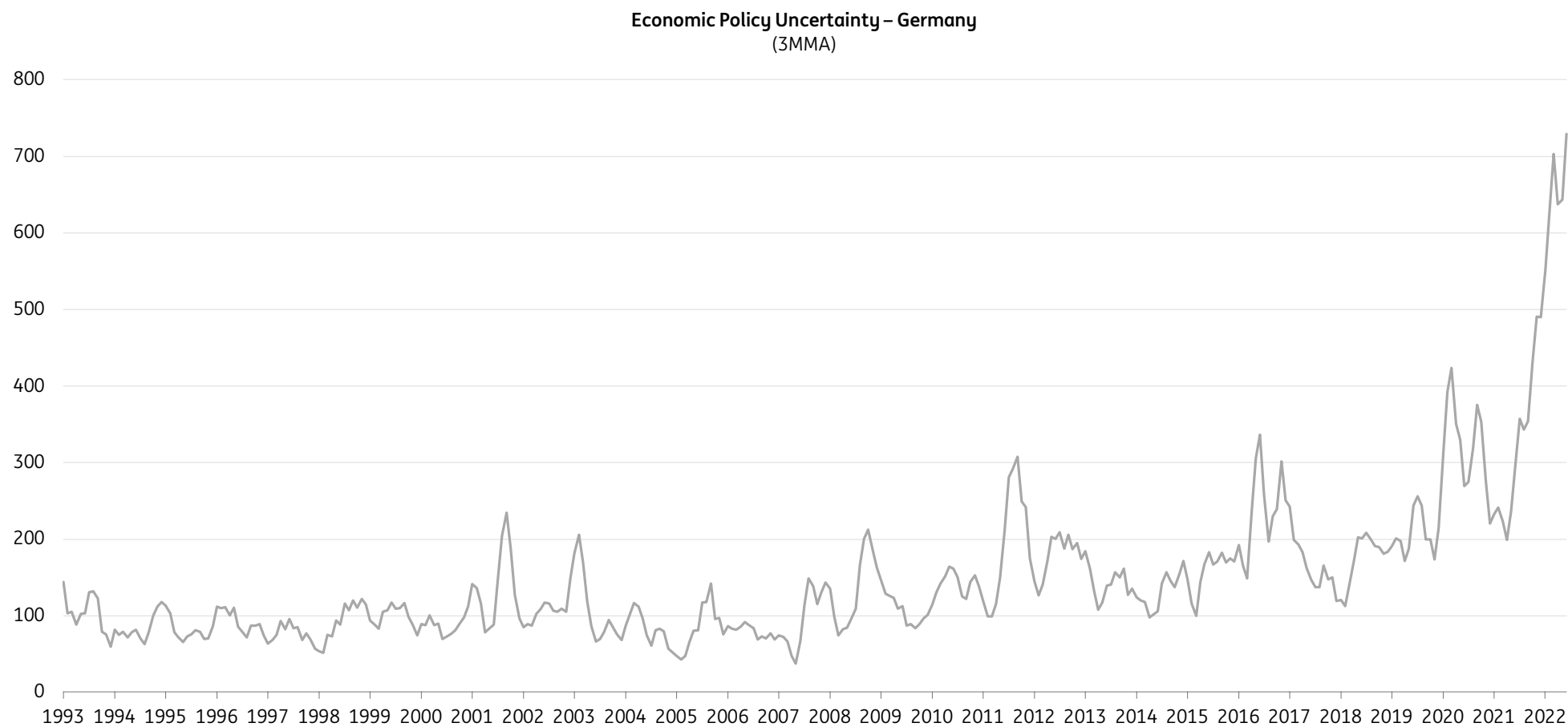
Source: Refinitiv; ING Economic & Financial Analysis

The dry weather may add more problems for transportation and energy



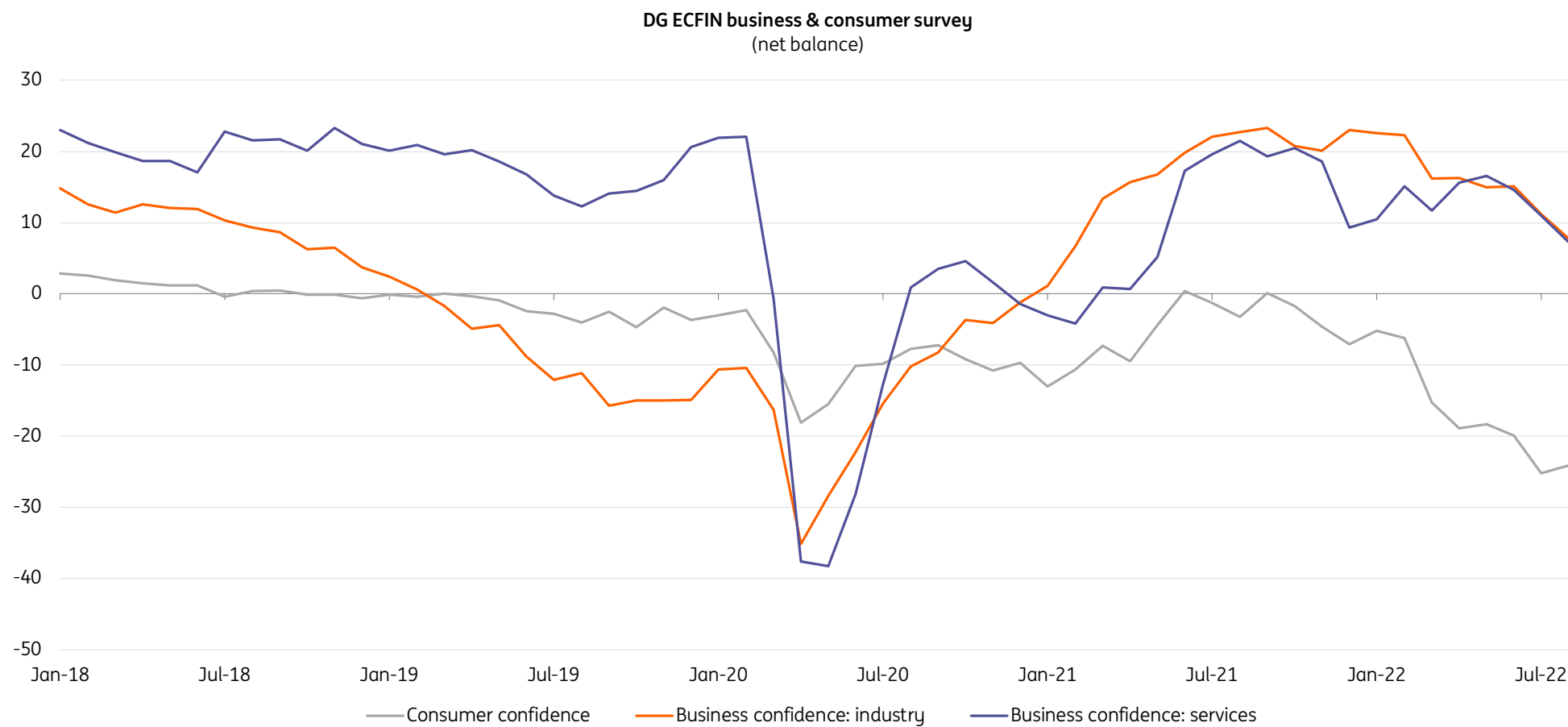
Source: Federal Waterways and Shipping Administration (WSV), provided by the Federal Institute of Hydrology (BfG)

Uncertainty is at new all-time highs in Germany



Source: Refinitiv; ING Economic & Financial Analysis

Not a surprise that economic sentiment has weakened



Source: Refinitiv; ING Economic & Financial Analysis



War in Ukraine

More of a game-changer for Germany and Europe
than Covid-19

The war in Ukraine has completely reshuffled the cards in terms of security, supply chains and energy provision



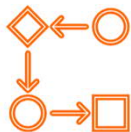
Say goodbye to the peace dividend

- An increase in defence spending means that money for other, more productive, investments is missing
- Therefore, the **long-term growth potential** in these countries **will be impacted**



Expensive energy

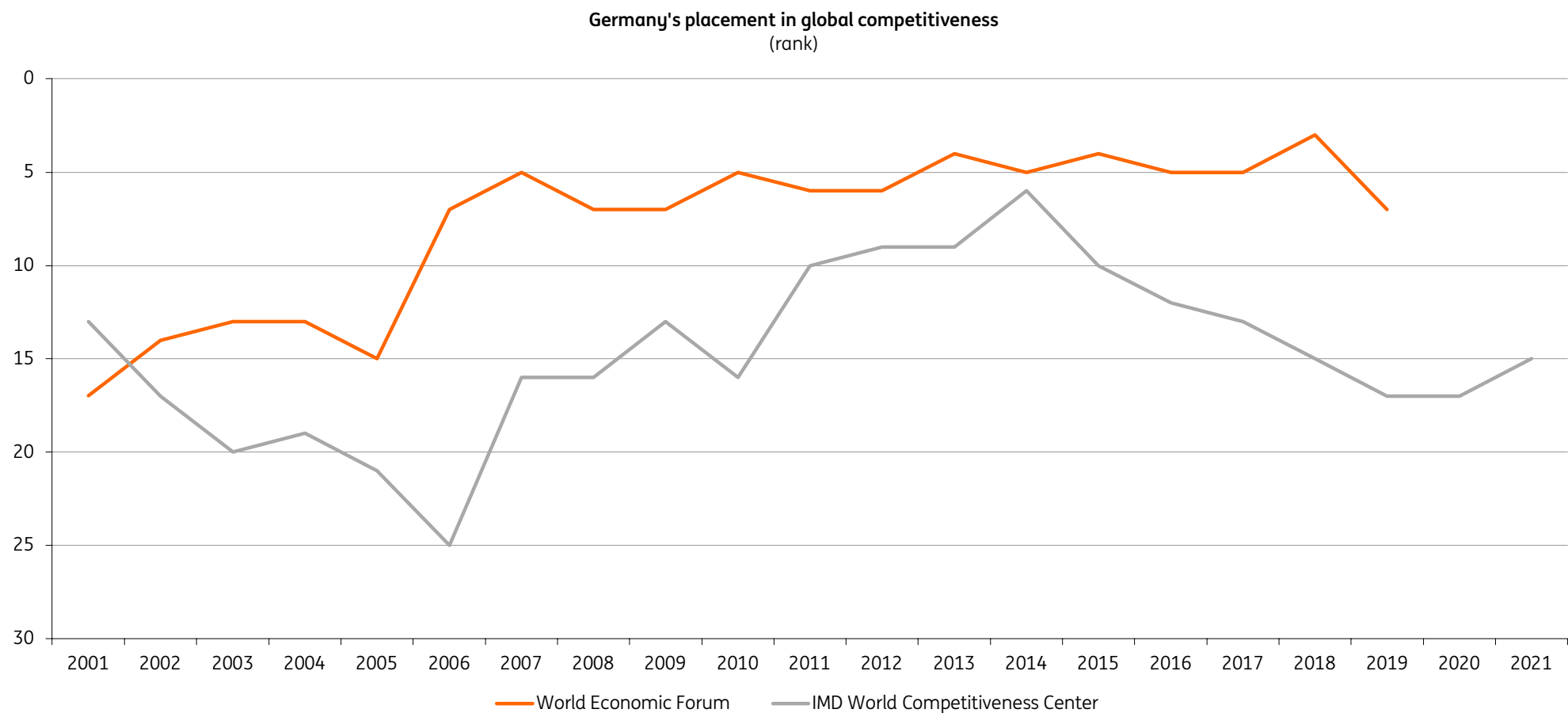
- While speeding up the development of renewable energy is probably a good thing for the European economy, it will still come at a cost in the transitional period, especially if Europe were to boycott one of the top exporters of fossil fuels
- Substitutes for Russian gas will likely be more expensive or necessitate additional investments, thereby **crowding out other productive investments**



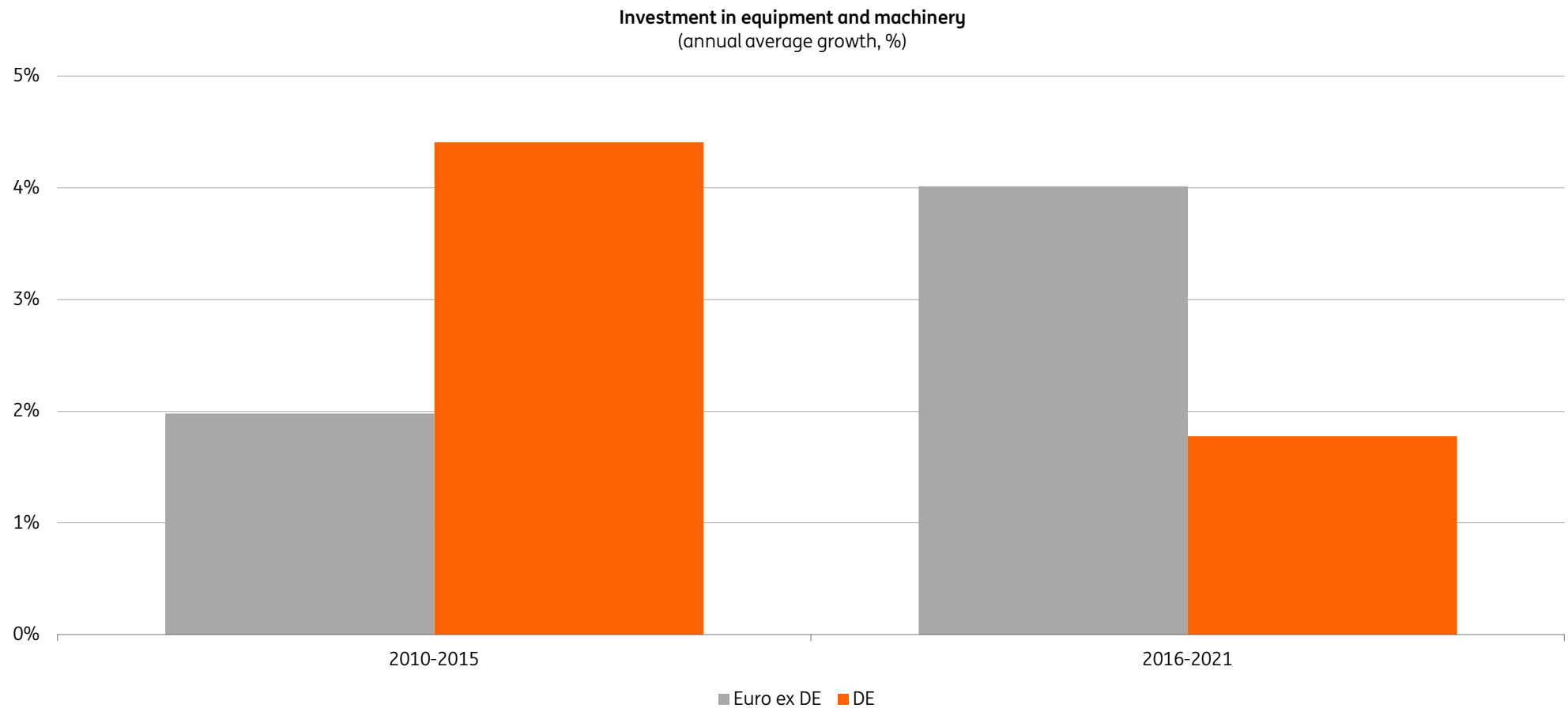
David Ricardo in reverse

- Supply chains are no longer “only” disrupted but they could be destroyed for good
- The fear of having a lack of crucial inputs in a more uncertain world might even be an argument for reshoring; bringing back the production of crucial inputs closer to home
- However, bringing back industries where we don't have a competitive advantage in **will not increase Europe's growth potential but instead lead to higher prices**

Opinions on Germany's competitiveness differ, but...

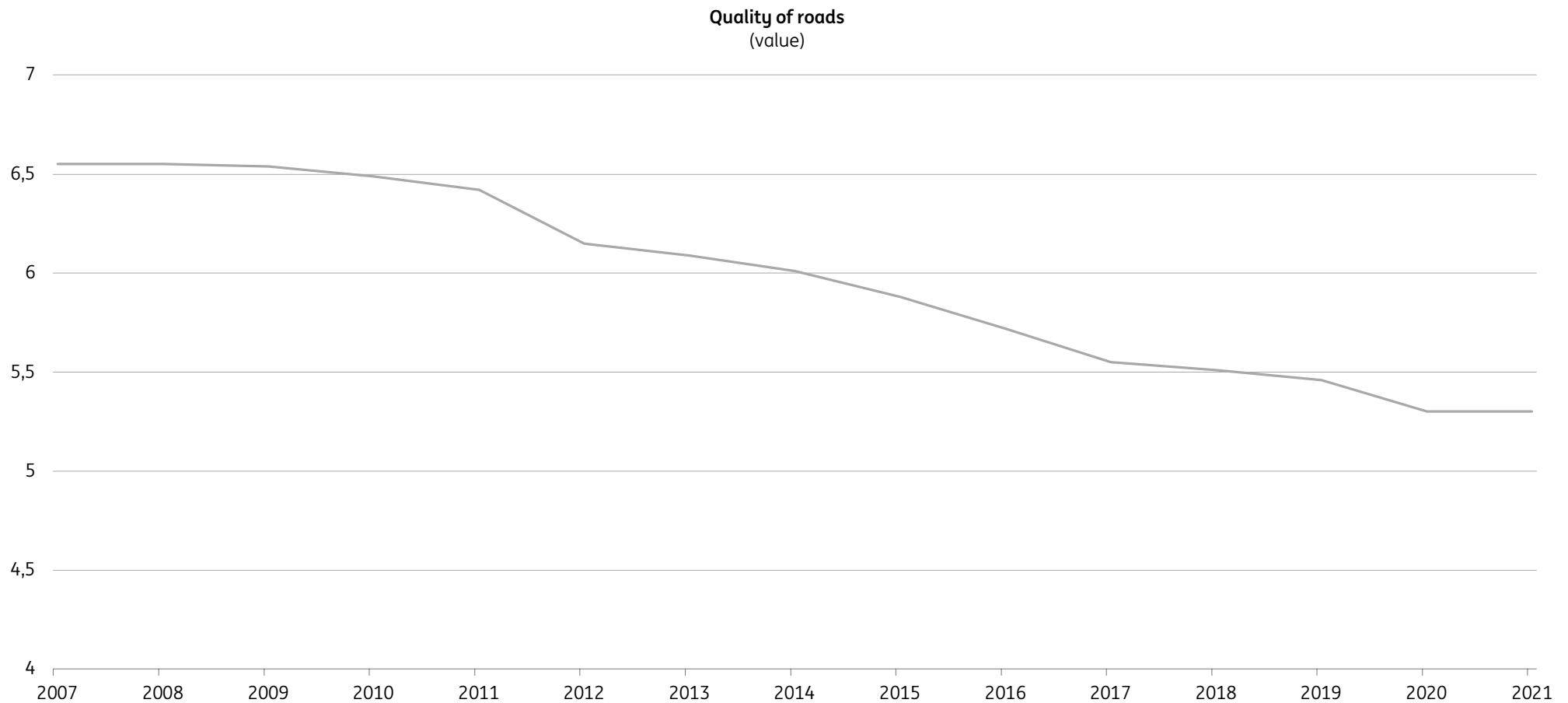


...investment remained low over the last years...



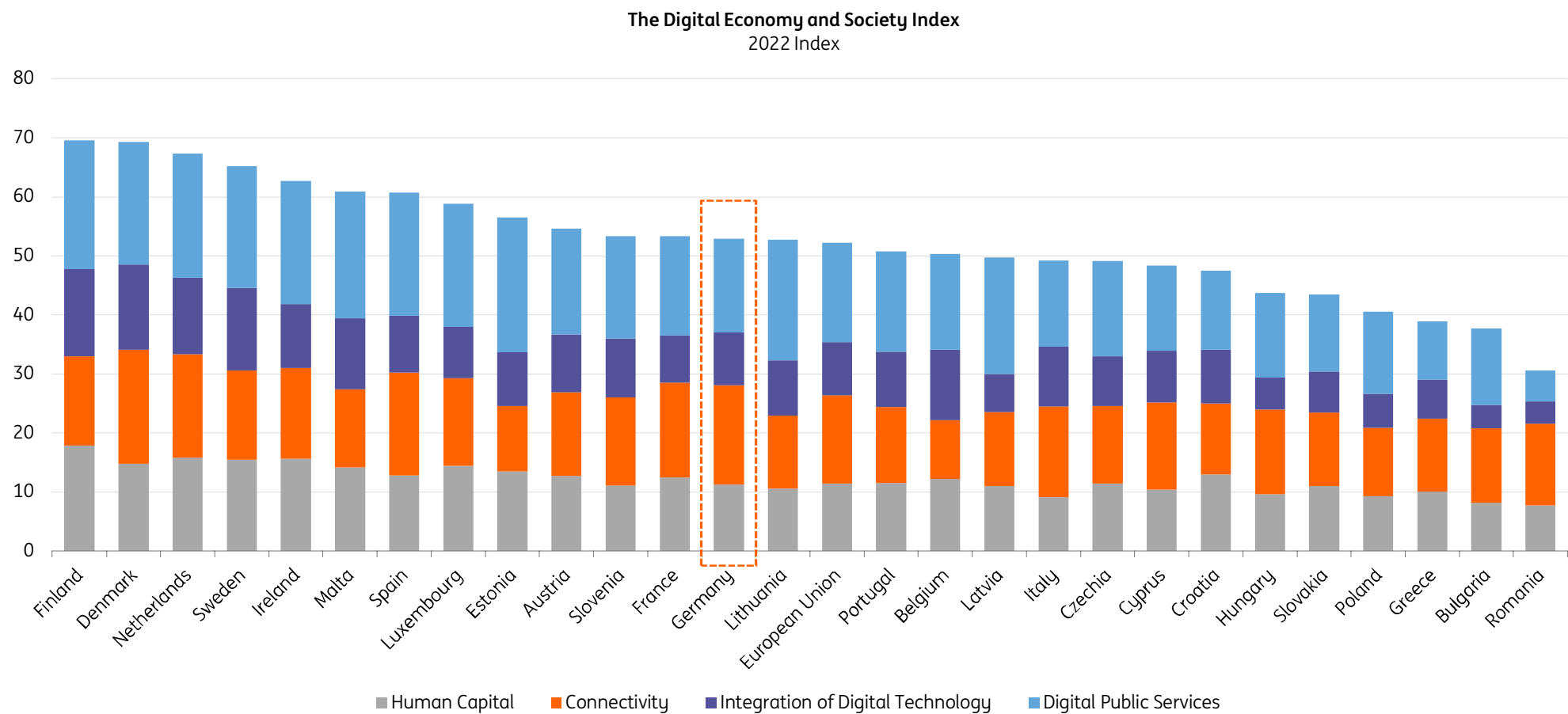
Source: Refinitiv Datastream, ING Economic & Financial Analysis

...also leading to a crumbling infrastructure



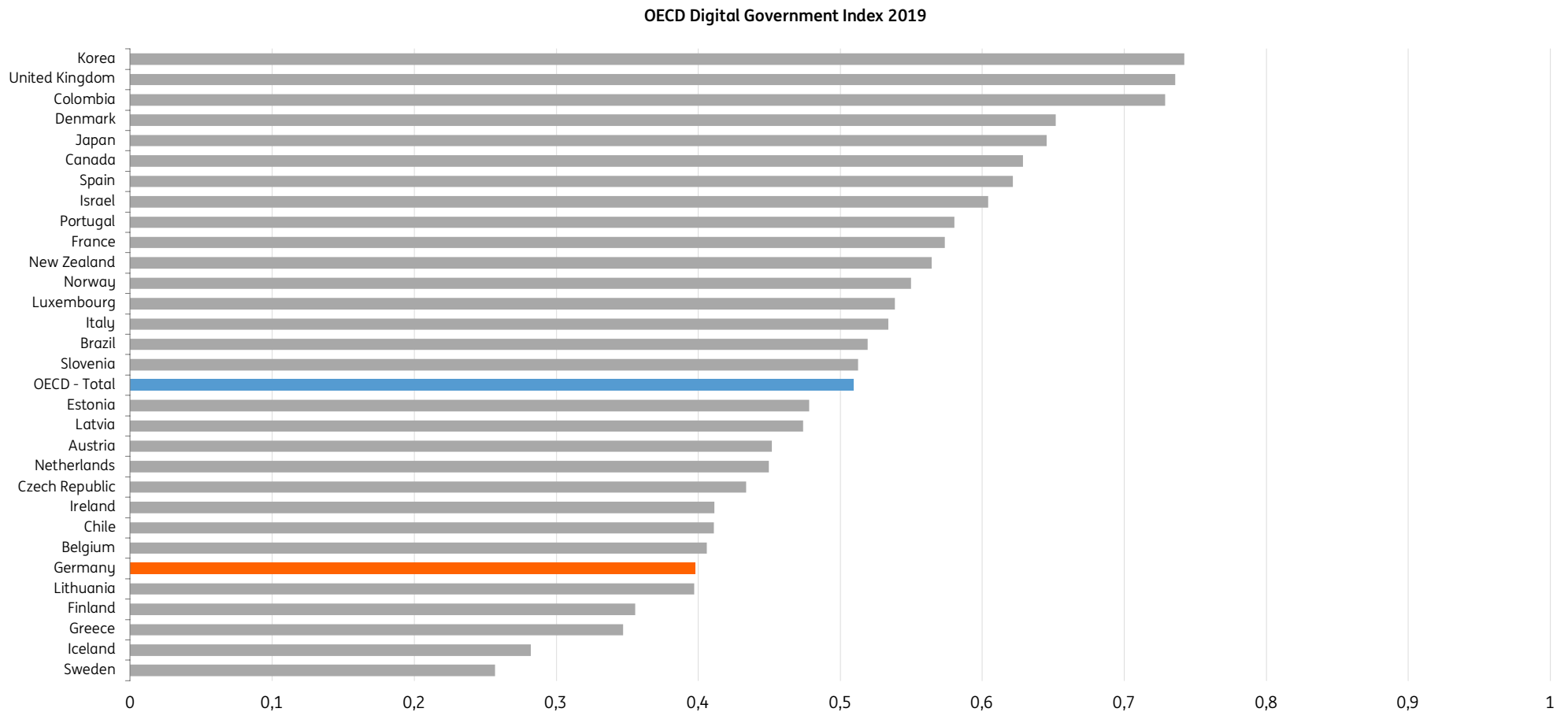
Source: Refinitiv, ING Economic & Financial Analysis

Digitisation efforts could be expanded...



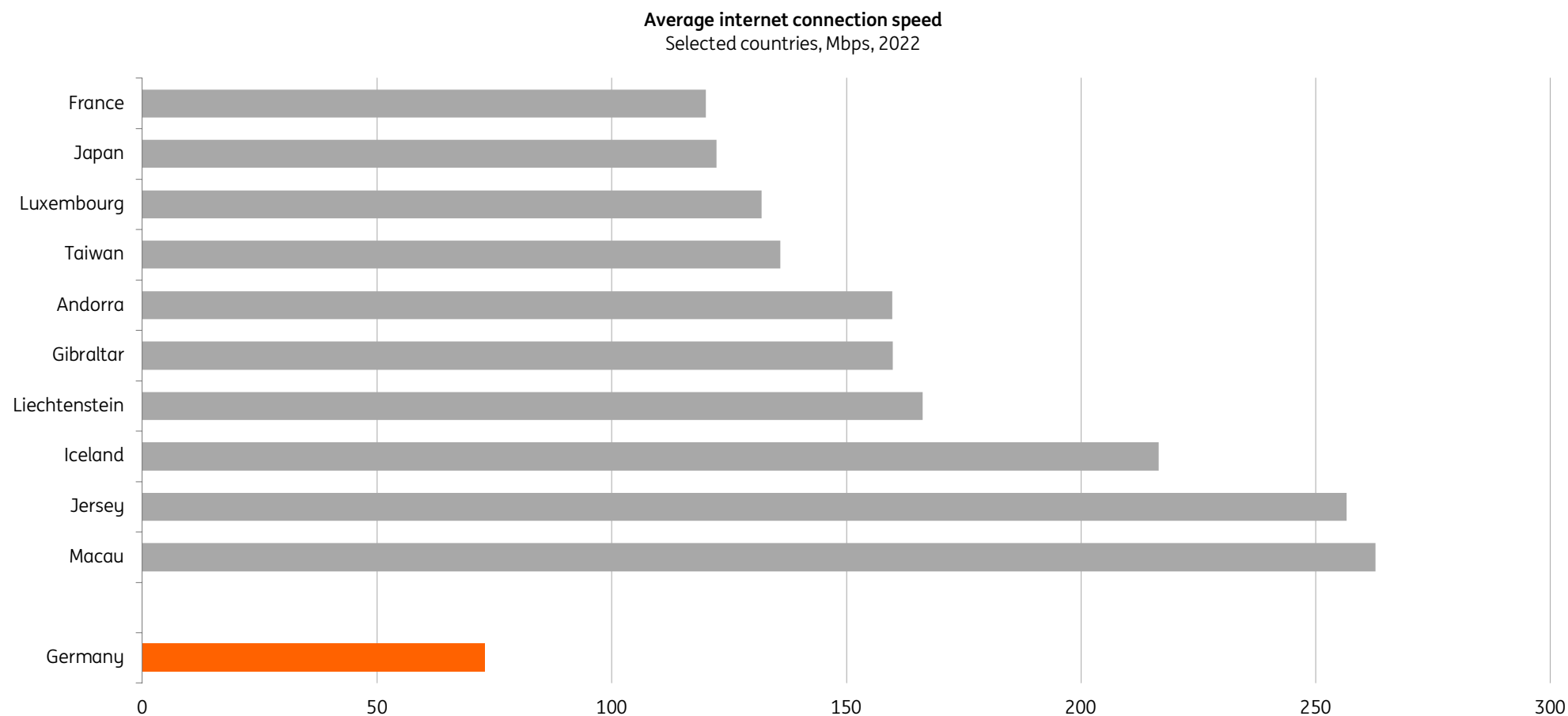
Source: European Commission

...especially, when it comes to the German government



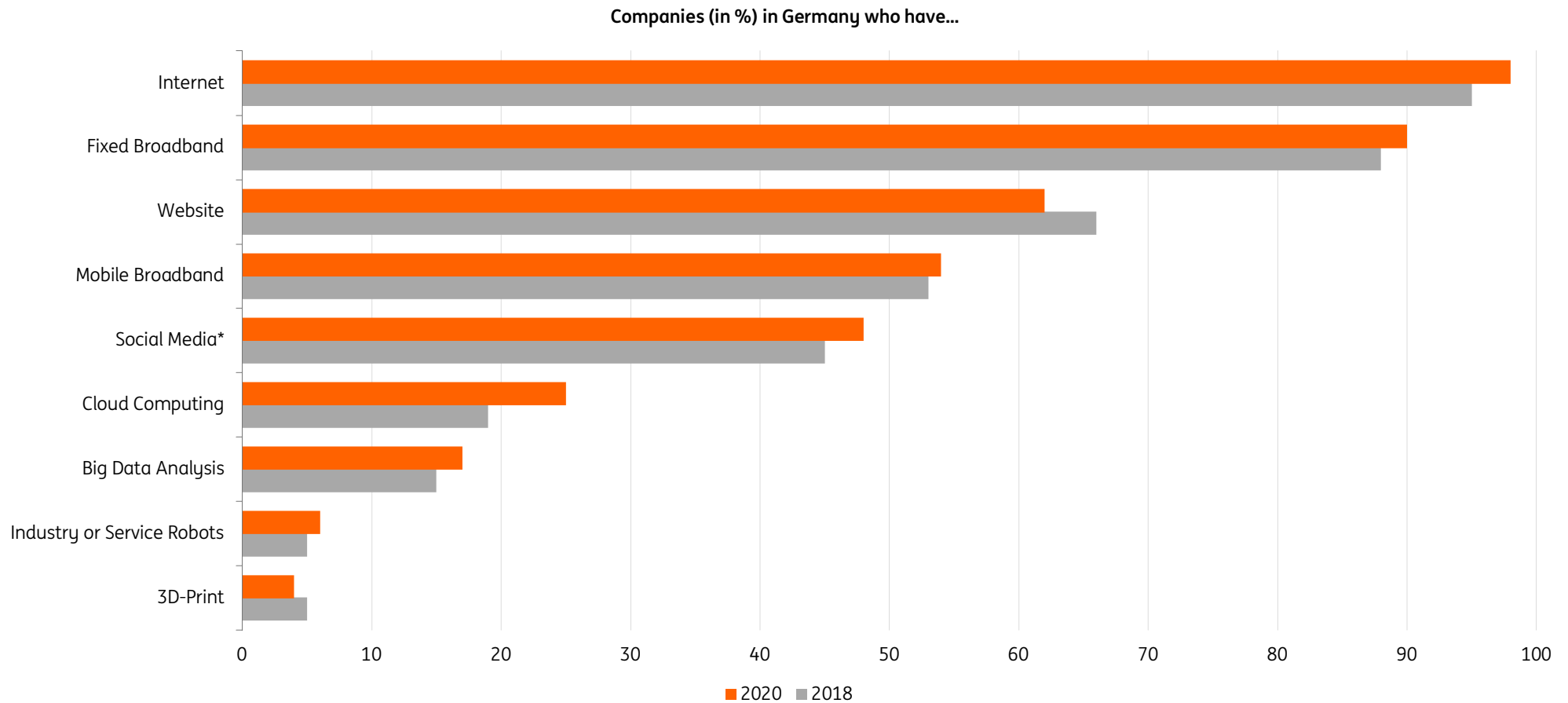
Source: OECD

Internet speed is too slow for the top...



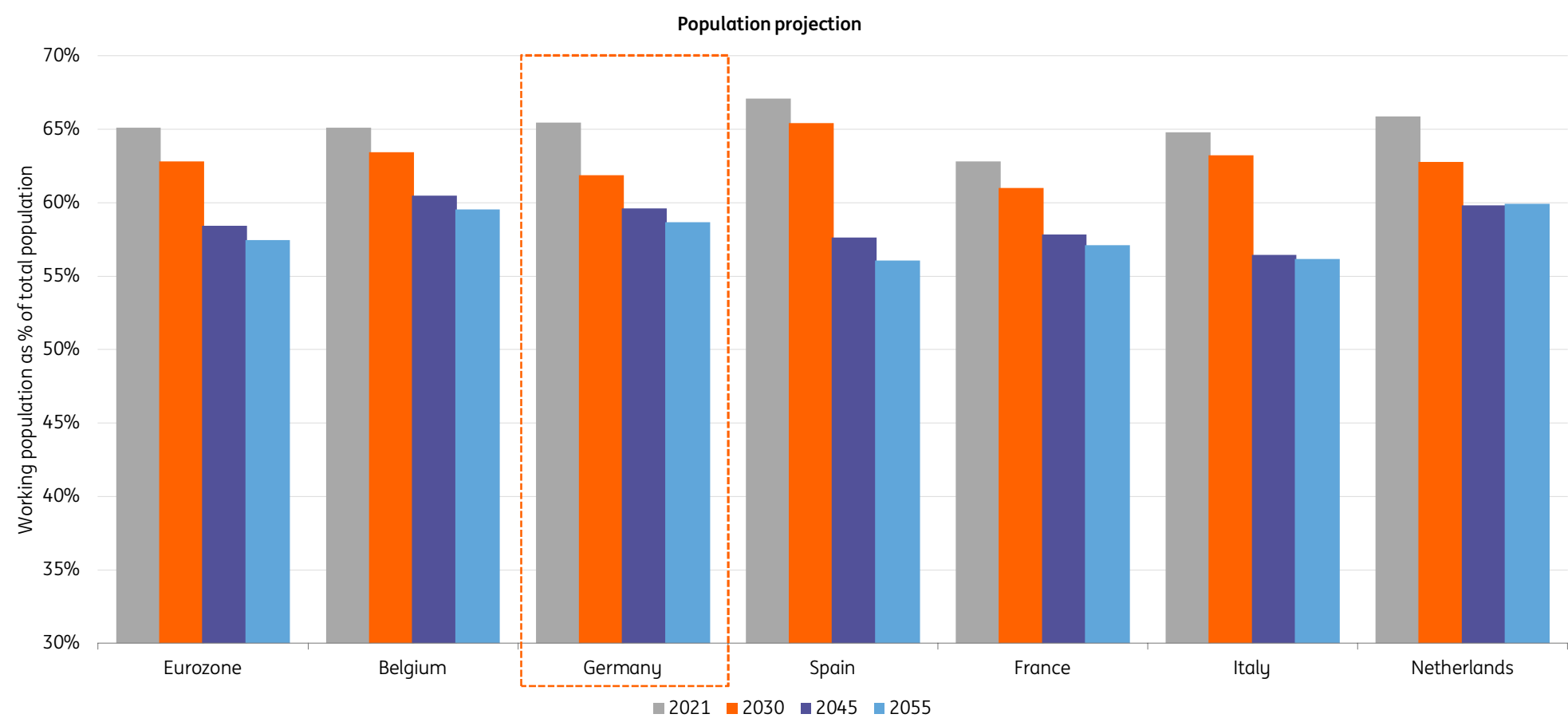
Source: Cable, Worldwide-speed-league

...and big Data, 3DPrint and cloud computing are not widespread



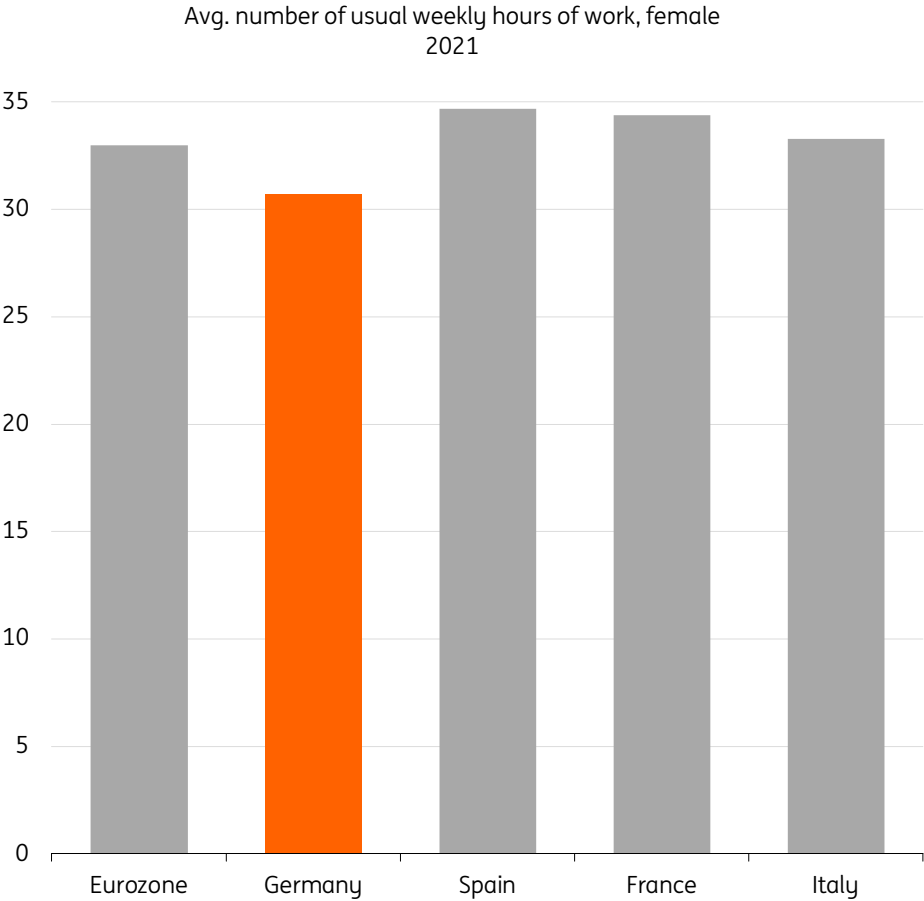
Source: Destatis; *) 2019 and 2017 respectively

The working population will shrink significantly over the next years...

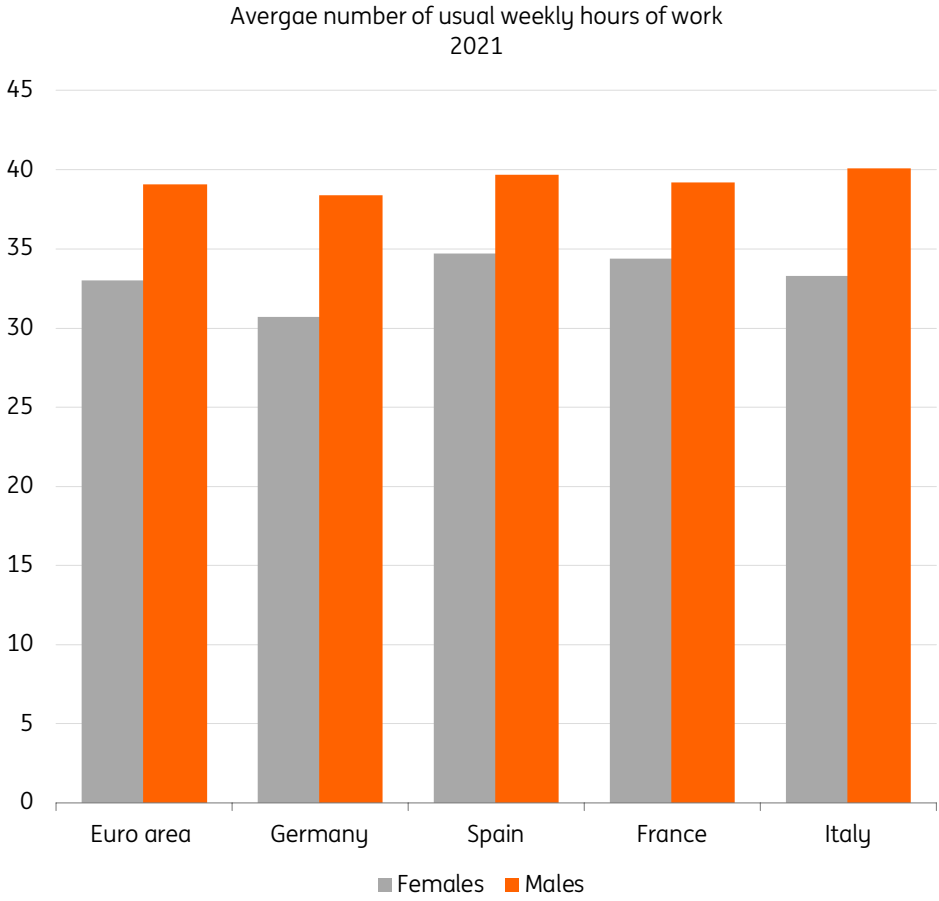


Source: Eurostat; ING Economic & Financial Analysis

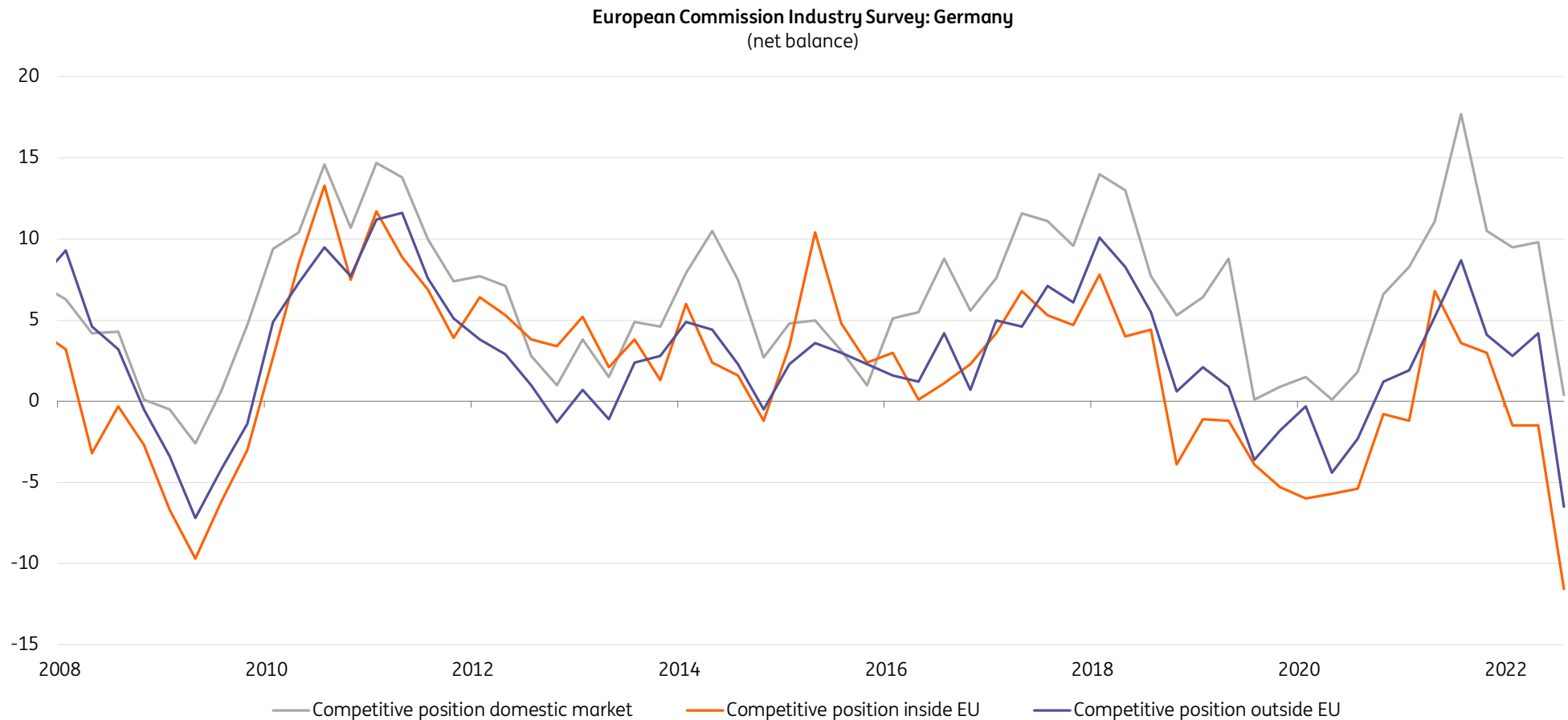
...with female labour market participation already being low



Source: Eurostat



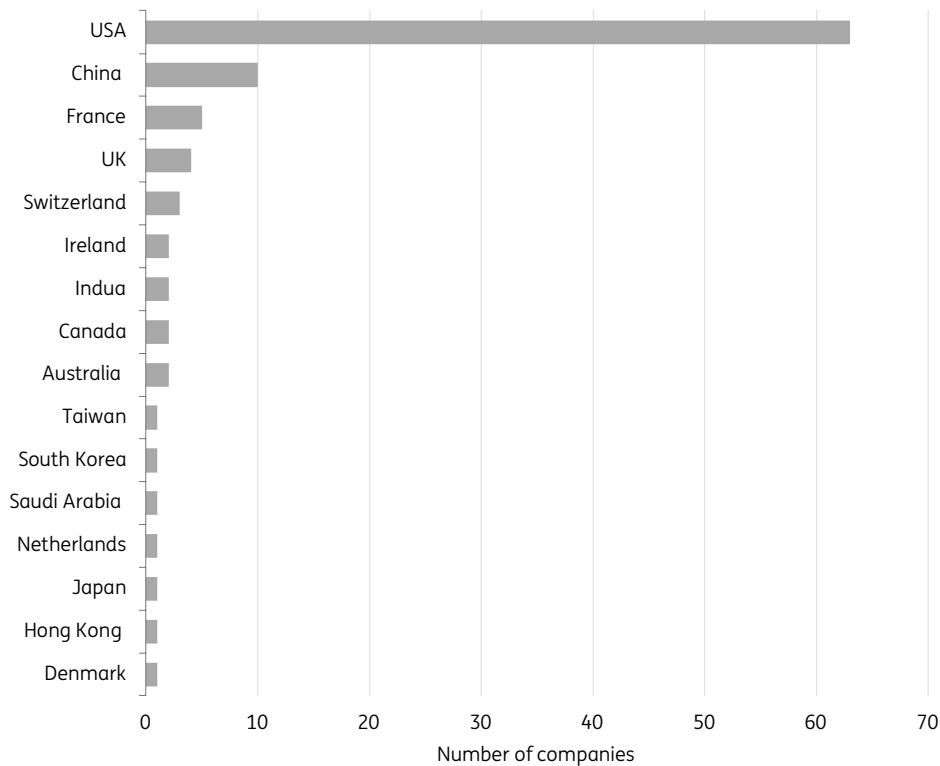
All the structural challenges could ultimately result in a loss of competitiveness, of economic growth and of welfare



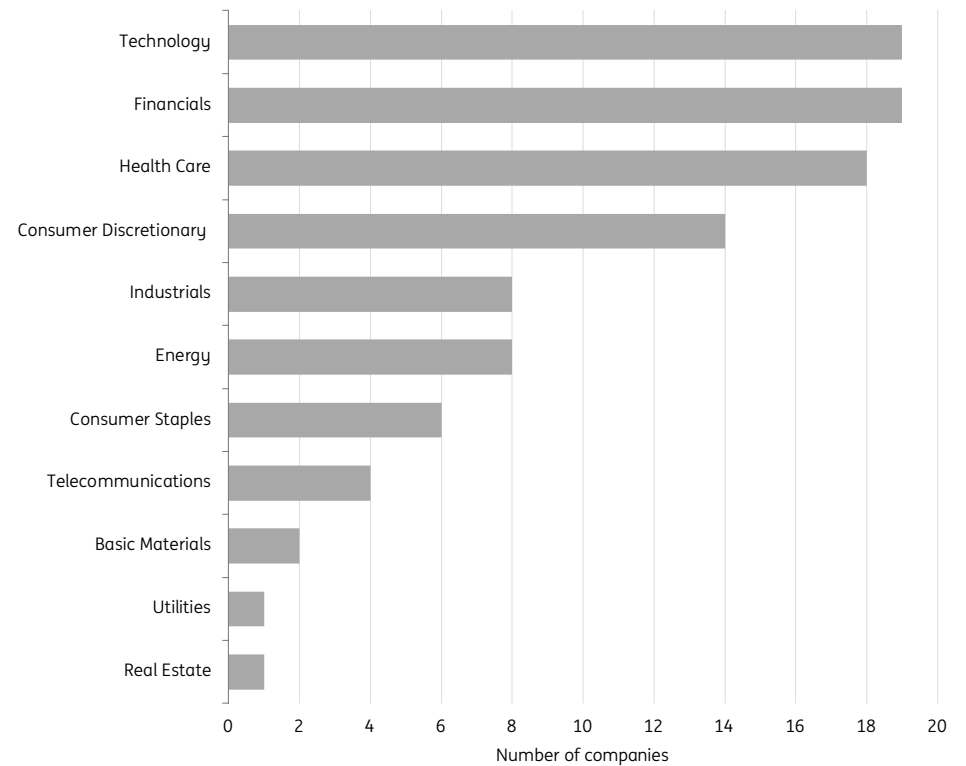
Source: European Commission; Refinitiv

Does size matter?

Out of the 100 largest¹ companies in the world currently none are headquartered in Germany



As regards sectors, being a tech company is an advantage

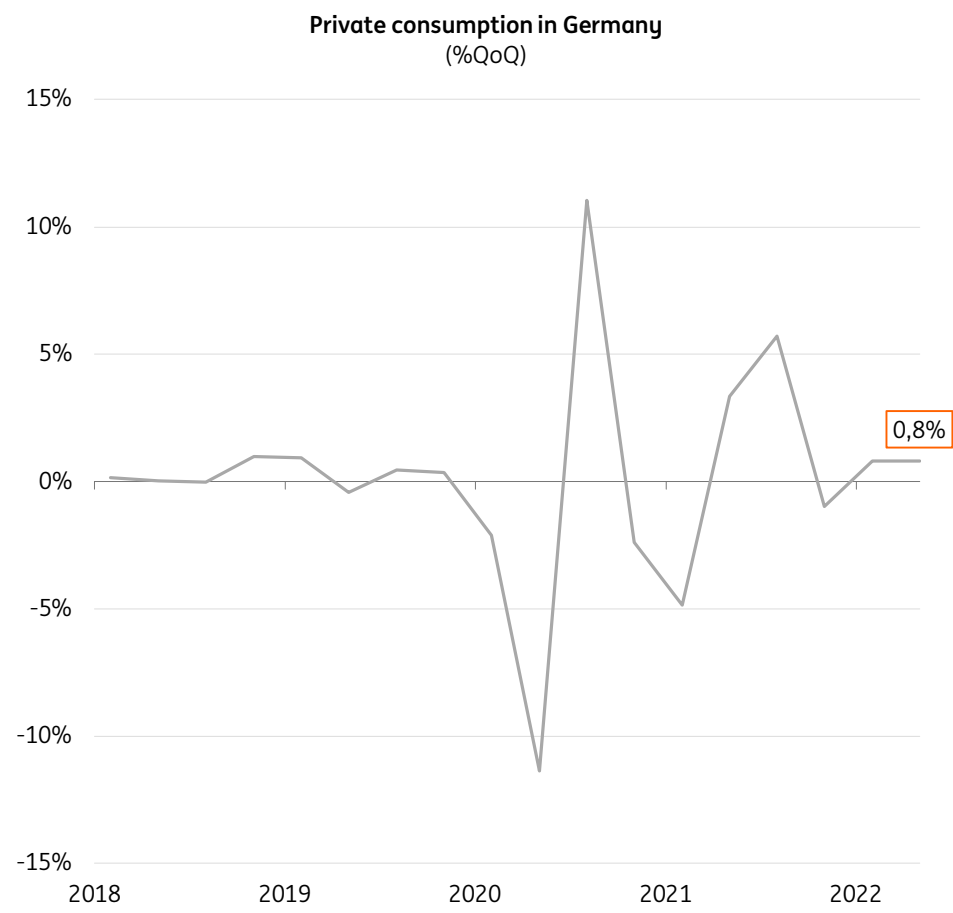


Source: Statista/Forbes as of May 2022; ING Economic & Financial Analysis. ¹Size measured by market capitalization, e.g. based on the closing prices of all common shares outstanding on April 2022

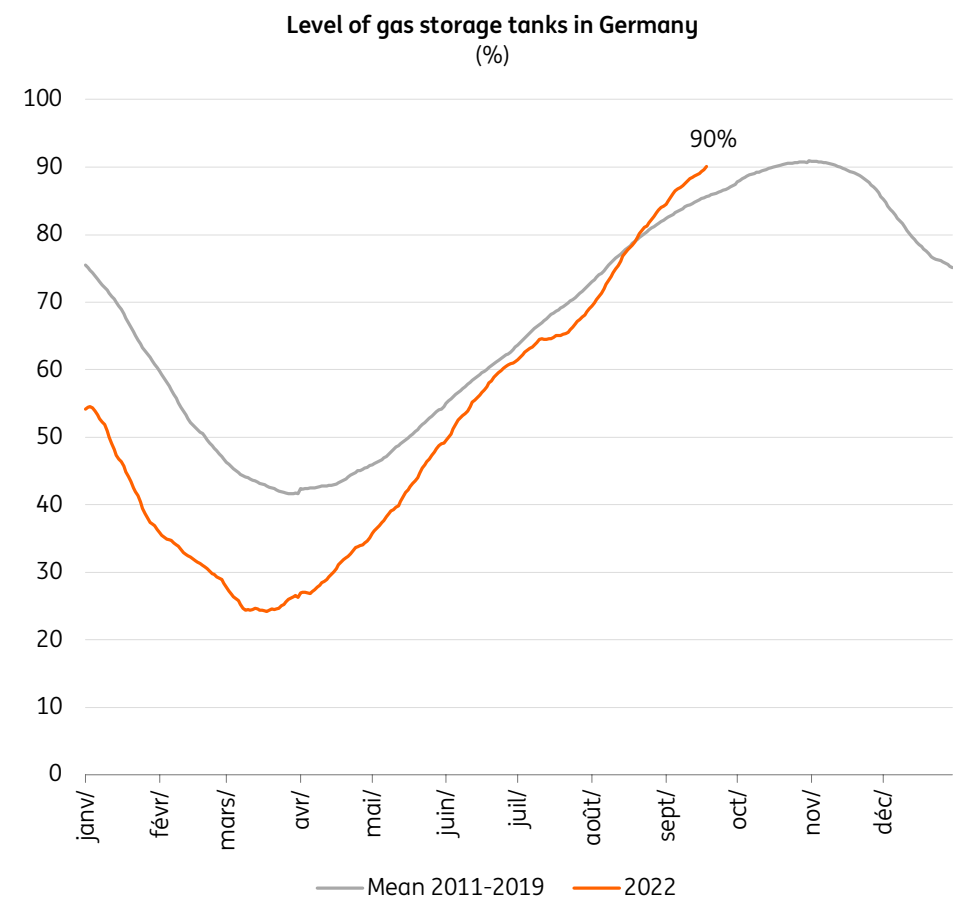
Really All Negative?



Is there also a silver lining?



Source: Refinitiv; ING Economic & Financial Analysis; GIE AGSI

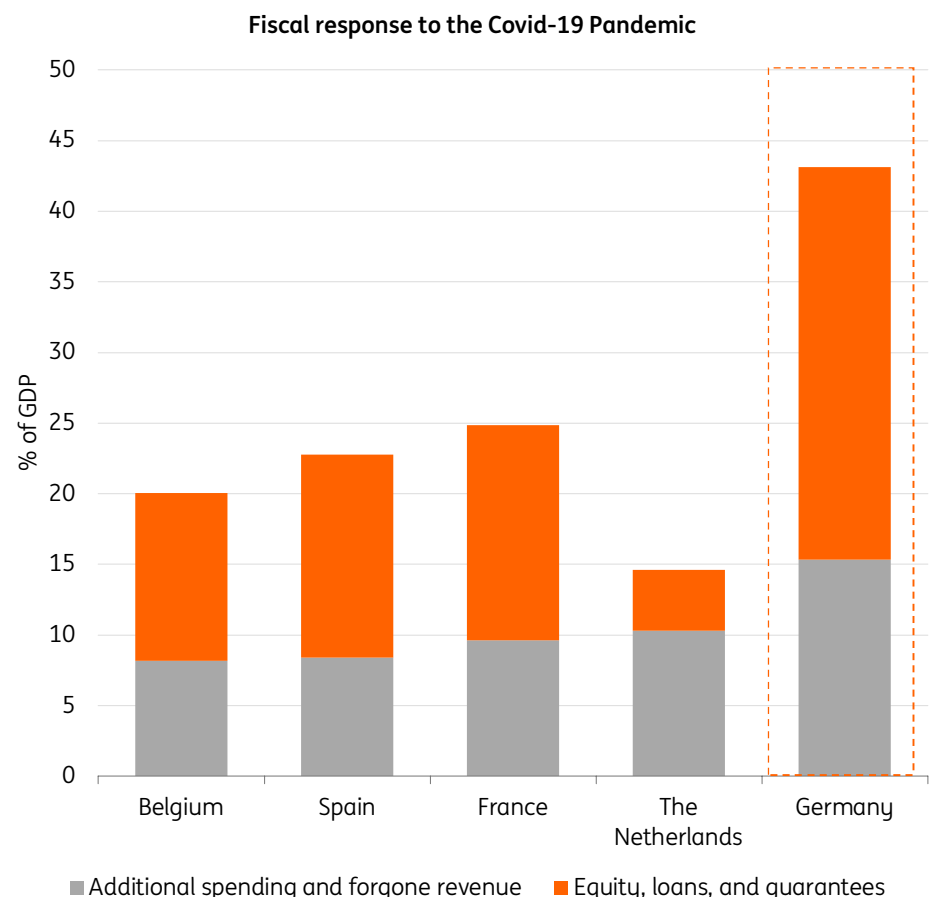
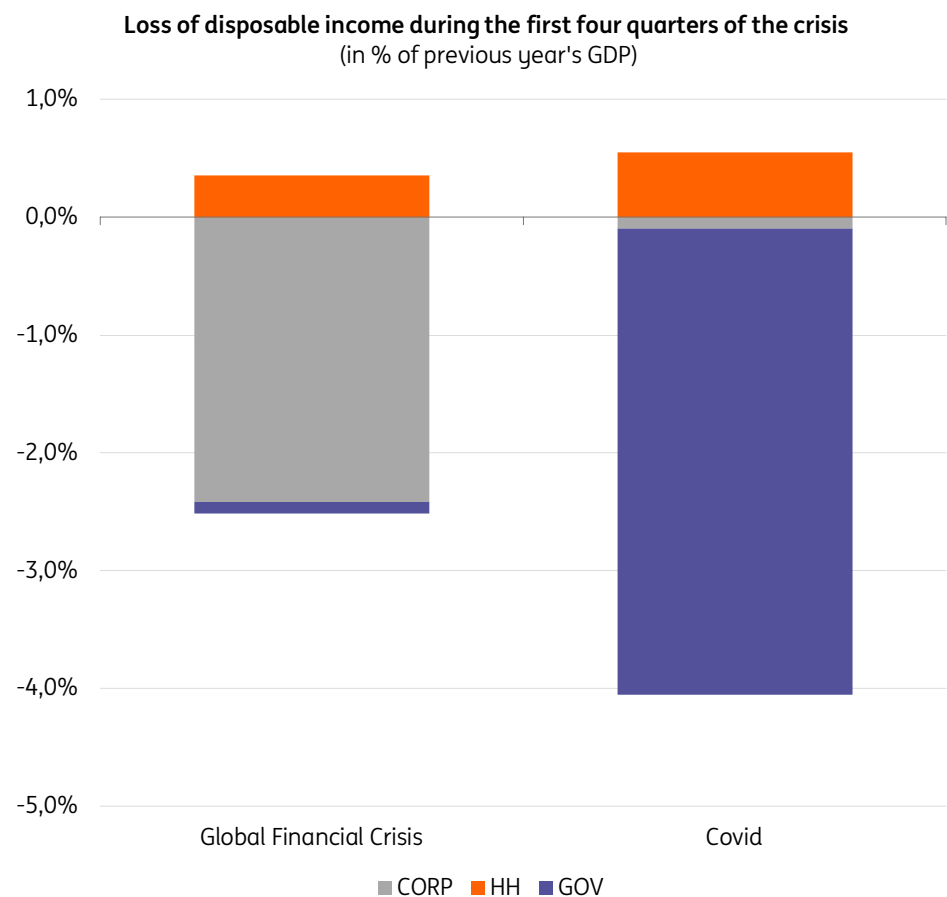


From jobless recoveries to jobrich recessions?



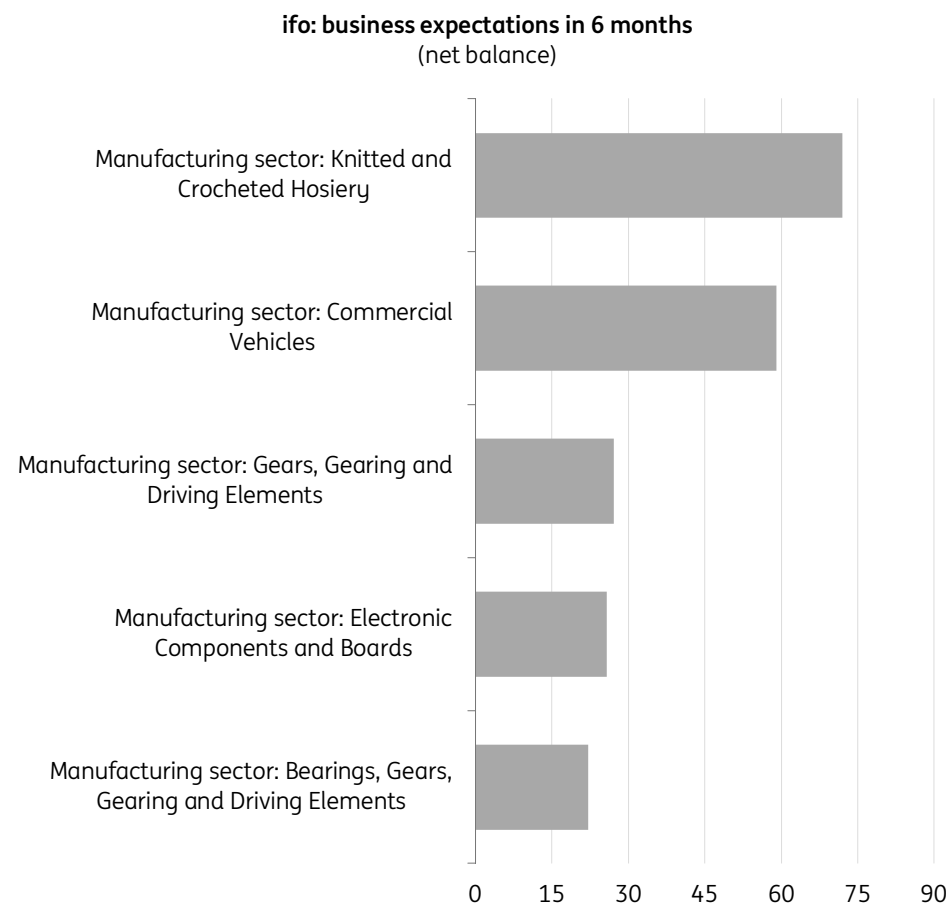
Source: Refinitiv; ING Economic & Financial Analysis

German government has proven to be very supportive in crises



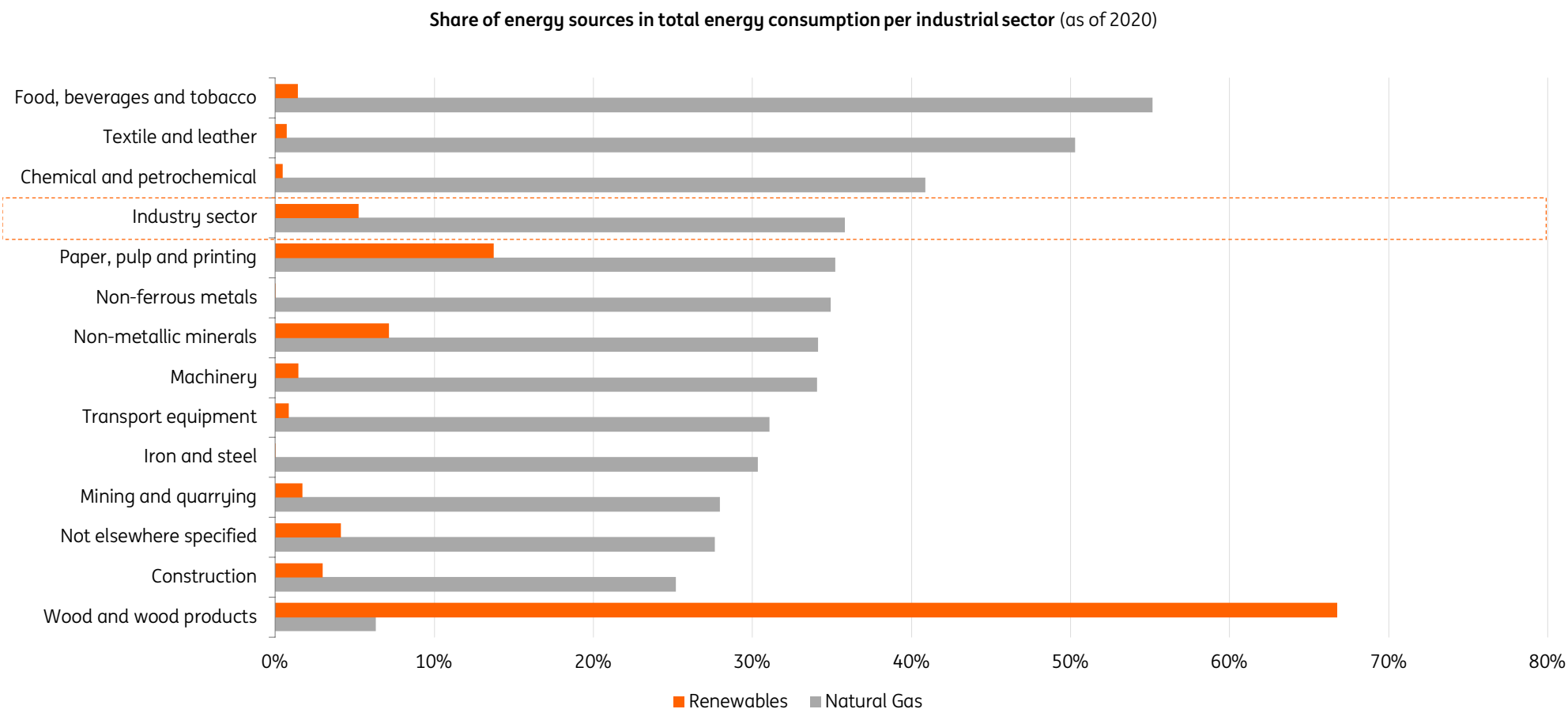
Source: Eurostat; ING Economic & Financial Analysis; IMF

Structural transition has already started



Source: Refinitiv

The green transition will come at higher costs but also offers opportunities



Source: Eurostat; ING Economic & Financial Analysis

Germany enters the turbulent period on a relatively strong footing compared with other EU countries

	GDP per capita (as of 2021; Euro)	Unemployment rate (as of July; %)	Government debt (2021; % of GDP)	Inflation (as of August; %YoY)
Germany	42,920	2.9	69.3	8.8
EU	32,270	6.0	88.1	10.1
Netherlands	49,090	3.6	52.1	13.7
France	36,520	7.5	112.9	6.6
Italy	30,130	9.2	150.9	9.1
Spain	25,410	12.6	118.4	10.5
Belgium	43,740	5.9	108.2	10.5
Ireland	83,990	4.4	56	9
Greece	17,140	11.4	193.3	11.2
Portugal	20,530	5.9	127.4	9.3

Source: Refinitiv; Eurostat

Structural changes ahead





do your thing

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