Global and European setting

Global economic developments

Moderate global growth

The global economy saw moderate growth in the final quarter of 2023, with regional differences in global activity persisting. Economic activity stagnated in the euro area and declined again in the United Kingdom and Japan. Growth remained subdued in China, too, in light of the ongoing downturn in its real estate market. By contrast, the economy of the United States continued to see brisk expansion. Overall, the global economy remained solid in spite of strain from sources including the still relatively high prices of energy and food, the tightening of monetary policy in many regions, heightened geopolitical risks and a variety of structural challenges.

Weak industrial activity in advanced economies

Global industrial output increased moderately in the fourth quarter of 2023, again driven by the emerging market economies. In the advanced economies, by contrast, output has tended downwards for more than a year, with weak industrial activity in the euro area being a key factor. Imports of goods by advanced economies declined even more sharply. Global goods trade thus remained weak overall last year. According to business surveys, industry and global trade also got off to a subdued start in 2024. The services sector, on the other hand, appears to be gaining momentum.

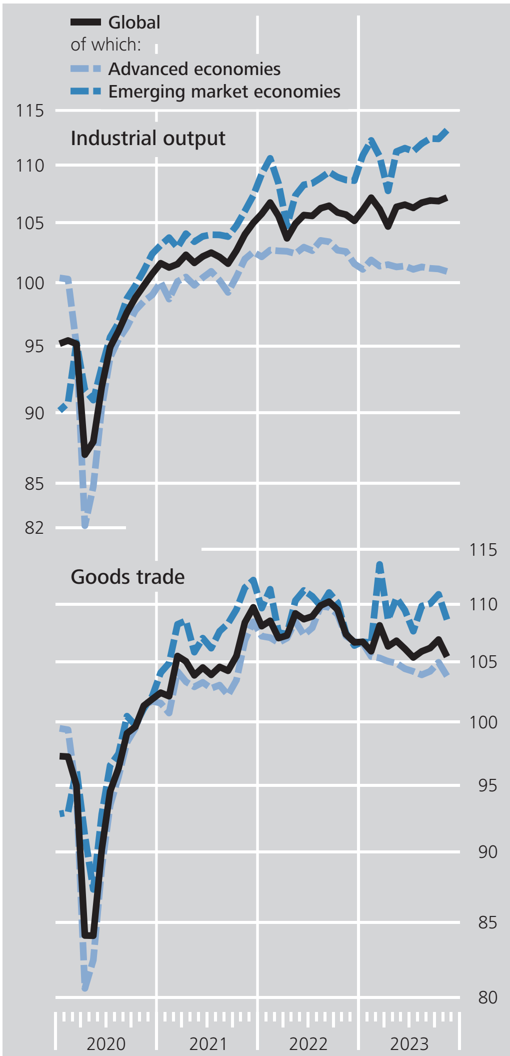
Commodity prices for energy recently mixed

Commodity prices for energy have seen mixed growth in recent times. European gas prices fell significantly against the backdrop of persistently weak industrial activity in the euro area, the at times mild winter temperatures, and stable gas imports. As this report went to press, one megawatt hour of gas cost approximately €25 in Europe and thus around 40% less than at the beginning of December. Over the same period, crude oil prices rose marginally. Concerns surrounding a further escalation of the conflicts in the Middle East bolstered price developments. As this report went to press, a barrel of Brent crude oil cost US$85, a similar price to one year earlier. Forward rates, however, are indicative of falling prices over the coming months. This is consistent with the International Energy Agency's assessment that global oil markets are likely to be oversupplied in 2024.[1]

Recently, consumer price inflation has eased somewhat more slowly. Among the industrial

Global industrial output and goods trade

December 2019 = 100, log scale, seasonally and price adjusted

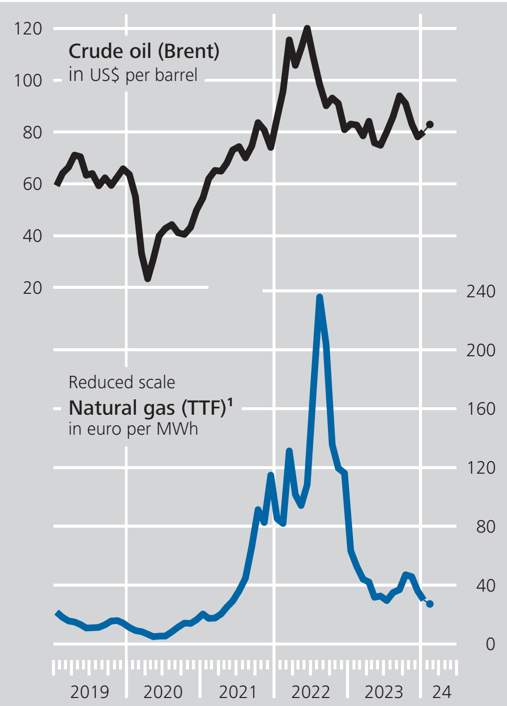


Sources: CPB and Bundesbank calculations.
Deutsche Bundesbank

1 See International Energy Agency (2024).

Energy prices

Monthly averages

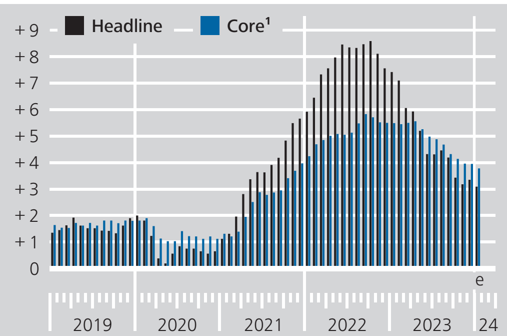


Sources: Bloomberg Finance L.P. and Haver Analytics. • Latest figures: Average of 1 to 15 February 2024. **1** Price for the front-month futures contract.

Deutsche Bundesbank

Consumer prices in industrial countries*

Year-on-year percentage change



Sources: Bundesbank calculations based on national data. * EU, Canada, Japan, Norway, Switzerland, the United Kingdom and the United States. **1** Consumer prices excluding energy and food; additionally excluding alcoholic beverages and tobacco products for the EU, Norway, Switzerland and the United Kingdom.

Deutsche Bundesbank

Consumer price inflation continuing to ease in advanced economies

countries, the year-on-year rate of consumer prices has decreased by a total of 0.3 percentage point since October 2023 to 3.1% in January, while the core rate excluding energy and food has fallen to 3.8%. Risks with regard to future consumer price developments are likely to remain largely tilted to the upside. The recent obstacles to shipping in the Red Sea are unlikely to have any significant impact on consumer prices (see the box on pp. 16 f.). However, should the conflicts in the Middle East spread to the oil-producing countries, energy and consumer prices would again be driven up. Moreover, the tight labour markets in many areas and persistently high wage growth could jeopardise the continuation of the disinflationary process.

IMF global economic outlook remains subdued

Given the brisk economic activity in the United States and the economic policy support measures in China, the staff of the International Monetary Fund (IMF) had a somewhat more optimistic outlook for the future.[2] In its regular update of its World Economic Outlook, the IMF staff revised its projection for global economic growth in 2024 slightly upwards to 3.1%. It kept its projection for next year unchanged at 3.2%. According to the IMF's projections, the global economy is thus likely to continue on its path of moderate growth. Furthermore, the IMF now expects inflation to decline more rapidly in the industrial countries. Inflation is likely to recede to 2.3% by the final quarter of 2024.

China

Muted economic activity in China

Chinese economic activity remained muted at the end of 2023. According to the official estimate, China's gross domestic product (GDP) grew by just 1.0% on the quarter after price and seasonal adjustment. As a result, the government's growth target of 5% for the year as a whole was only barely exceeded. In particular, the persistent weakness in the real estate market weighed on the economy. Most recently, private consumption also lost momentum. Moderate rises in sales figures in foreign markets were only partially able to offset this. Recent economic stimuli appear to be having an initial impact. Investment in infrastructure increased considerably in recent months.

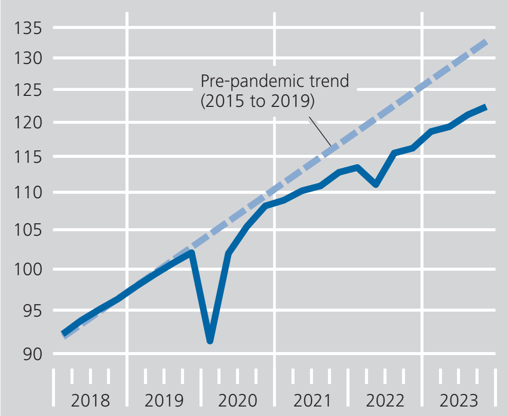
2 See International Monetary Fund (2024).

Further easing in economic policy

This year, the Chinese economy is likely to continue to be supported by expansionary fiscal and monetary policy. It seems that China will post a large government deficit once again.[3] In addition, the People's Bank of China reactivated a liquidity provision programme for state-owned banks at the turn of the year. The minimum reserve ratio was also lowered markedly. This represented, not least, the central bank's response to consumer price inflation, which remained exceptionally sluggish. In January, consumer prices were actually noticeably below their level from the previous year. The core inflation rate excluding energy and food persisted just barely in positive territory, at 0.4%.

Real GDP in China

2019 = 100, log scale, seasonally adjusted



Sources: China National Bureau of Statistics, Haver Analytics and Bundesbank calculations.
Deutsche Bundesbank

Other selected emerging market economies

India pauses for breath

In the final quarter of 2023, India's economy is unlikely to have maintained its high pace of growth from the preceding quarters. A dampener in industry is likely to have been a key factor in this development. In the services sector, by contrast, surveys among purchasing managers suggest that the boom continued. The good consumer sentiment was probably attributable, in part, to the fact that consumer price inflation was recently back within the target corridor set by the Reserve Bank of India. In January 2024, consumer price inflation fell to 5.1%. The core inflation rate excluding energy and food decreased to 3.5%. The central bank left its policy rate unchanged at 6.5%.

Brazil remains weak, policy rate lowered

The Brazilian economy is likely to have remained weak in the final quarter of 2023. Although industrial output rose noticeably compared with the previous quarter, surveys show that growth in the services sector was once again subdued. Against this backdrop, there was a distinct decline in consumer confidence, and retail sales fell slightly in price-adjusted terms. One contributing factor to this was the still fairly strong rise in consumer prices. Following the surge in energy prices last summer, the rate of inflation fell slowly, reaching 4.5% by January 2024. By contrast, further progress was made in reducing underlying inflation. Against this backdrop, the Central Bank of Brazil lowered its policy rate by a total of 150 basis points over three steps from the beginning of November to 11.25%.

Russia's economy showing signs of overheating at the end of 2023

Russia's war economy is likely to have held up quite well until recently, but appears to be increasingly reaching supply-side limits. According to initial official estimates, economic output increased by 3.6% in 2023 as a whole. In the final quarter of 2023, domestic demand is likely to have continued to benefit from the sharp expansion in defence spending. The shortage of intermediate goods in industry that prevailed during the first few months of the war appears to have largely subsided and is no longer impairing production to any significant degree. Western sanctions are being circumvented through deliveries from China and other neighbouring countries. The labour market is faced with much greater bottlenecks. In particular, the shortage of skilled workers, in conjunction with an extremely low unemployment rate of around 3%, made itself increasingly apparent. Accordingly, the already strong wage growth

3 China's high levels of private and government debt harbour considerable macroeconomic risks that could also spill over to the German economy. For more information, see Deutsche Bundesbank (2024).

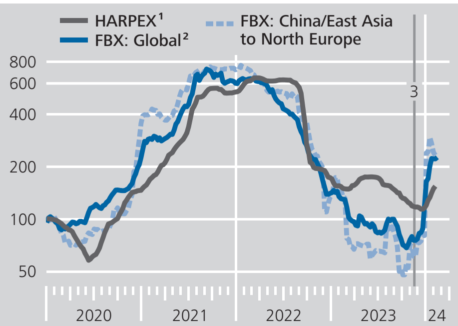
The economic impact of shipping disruptions in the Red Sea

The maritime route through the Red Sea and the Suez Canal is one of the world's most important trade routes.[1] Since November 2023, Yemen's Houthi rebels have been attacking cargo ships in the region. Owing to these attacks, shipping traffic on the route has fallen by around one-half.[2] Many shipping companies are currently opting instead for the route around the southern tip of Africa, which takes 10 to 20 days longer.

As a result, global spot rates for chartering containers on cargo ships have increased. Since November 2023, the Freightos Baltic Index has almost tripled. This was mainly due to increases on the routes between Asia and Europe, which have seen freight rates climb by up to 350%. Shipping rates on other routes have risen much less strongly, however. To date, there has also been barely any reaction in terms of rates for new charters of container ships and freight rates for other forms of transport, such as bulk cargo, oil and gas tankers, or air freight.

International container freight rates

January 2020=100, weekly data, log scale



Sources: Baltic Exchange, Harper Petersen Holding, Haver Analytics, LSEG and Bundesbank calculations. **1** Spot rates for new charters of container ships. **2** Freightos Baltic Index. Spot rates for new charters of 40' containers on 12 major trade routes. **3** Start of Houthi attacks on shipping in the Red Sea.

Deutsche Bundesbank

Diverting trade flows from the Red Sea to the longer route around Africa is likely to exert only a small impact on global production. Since the COVID-19 pandemic, global shipping capacity has been expanded significantly, and international trade is, in any case, muted due to the prevailing economic conditions at present. This means that supply bottlenecks – such as those occasionally being seen in Germany in connection with the escalation of the situation in the Red Sea – are likely to subside quickly once enterprises adjust their procurement and production plans. Furthermore, surveys among purchasing managers do not yet point to any broad-based increase in delivery times. The Global Supply Chain Pressure Index, which is compiled by the Federal Reserve Bank of New York and combines a large number of indicators, has not signalled any unusual tension in global supply chains so far.

The impact on global consumer price developments is also likely to be limited. First, despite the marked rises in prices, spot rates for container freight are still well below the peaks that were seen in the wake of the pandemic. Second, the average transport costs for container freight are likely to have risen far less sharply than spot rates, as freight capacity is often booked through

1 The route through the Red Sea is used by around 30% of global shipping container traffic and for just under 15% of all European imports; see S&P Global (2023). It is also of great importance for the international energy trade, with 12% of the world's total seaborne-traded oil and 8% of the world's total seaborne-traded liquefied natural gas passing through the Bab el-Mandeb strait; see U.S. Energy Information Administration (2023).
2 See UN Global Platform and PortWatch (2024).

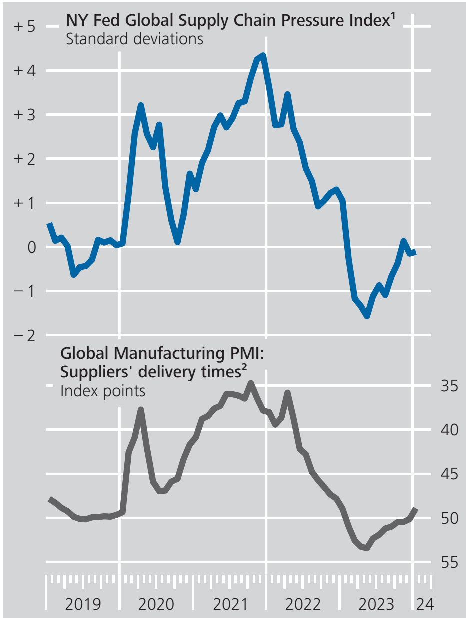
longer-term contracts.[3] Furthermore, goods that are not transported by container are barely affected at all. Transport costs also generally account for only small shares of the final prices of goods.[4]

The risk to consumer prices and global economic activity would be much greater if the conflicts in the Middle East were to spread to the oil-producing countries in the region. This could significantly drive up oil, gas and consumer prices as well as jeopardise the global disinflation process.

3 For example, Stumpner (2022) shows that the average transport costs for container freight rose by 64% between January 2019 and December 2021, while spot rates rose by around 700% over the same period.
4 On the basis of the World Input-Output tables, the ECB estimates that shipping costs make up less than 1% of the total cost of manufacturing output; see European Central Bank (2021).

Global supply chain indicators

Seasonally adjusted, monthly data



Sources: Federal Reserve Bank of New York, S&P Global and Haver Analytics. **1** Zero corresponds to the historical mean of the index. **2** Inverted scale; values higher than 50 correspond to shorter delivery times and values lower than 50 correspond to longer delivery times.

Deutsche Bundesbank

continued to pick up. Against this backdrop, consumer price inflation rose further over recent months, climbing to 7.4% in January. Core inflation was similarly high, at 7.2%. In light of the growing supply-side bottlenecks, the Bank of Russia warned of the risks of overheating and raised its policy rate to 16%.

United States

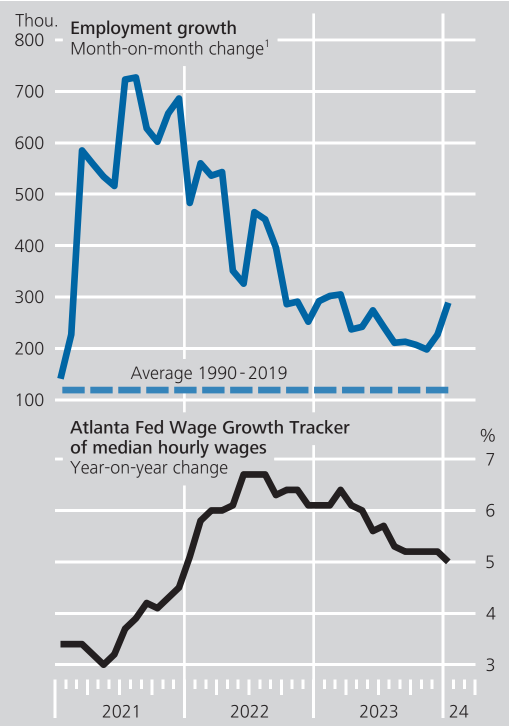
Brisk GDP growth

The US economy saw brisk growth at the end of the year. According to initial estimates, real GDP grew by 0.8% on the quarter in seasonally adjusted terms, rounding out a year with high GDP growth overall. The main driver of this was domestic demand. Rising real incomes and the persistently robust labour market bolstered consumer sentiment among households, which increased their consumption significantly again in the autumn. In addition, a noticeable contribution to GDP growth was once again made by government consumption and investment. Private investment in non-residential construction, which, partly owing to fiscal support, had seen strong growth during the past two years, continued to expand markedly at the end of 2023.[4] In this cyclical environment, investment in machinery and equipment as well as in housing construction also increased slightly, despite unfavourable financing conditions. The upswing in the US economy could lose some momentum this year if fiscal policy is potentially more restrictive.[5] A looming government shutdown from the beginning of March would likely have only minor macroeconomic repercussions.[6]

4 See Deutsche Bundesbank (2023).
5 The Fiscal Responsibility Act of 2023 of May 2023 limits discretionary spending to a level below that of 2023; see Congressional Budget Office (2023). The preliminary budget for the current fiscal year is very close to meeting these requirements. However, a sufficient majority in Congress has not yet been found for the specific details of the budget.
6 Past government shutdowns only marginally dampened GDP growth. Following the end of a potential shutdown, rapid normalisation and, to a limited extent, catch-up effects would be expected. See Deutsche Bundesbank (2019).

US labour market indicators

Three-month moving averages



Sources: Bureau of Labor Statistics, Federal Reserve Bank of Atlanta and Bundesbank calculations. **1** Seasonally adjusted.
Deutsche Bundesbank

Slower decline in consumer price inflation

Against the backdrop of robust domestic activity, consumer price inflation in the United States declined more slowly in recent times. The annual rate of the consumer price index (CPI) fell only slightly in the autumn. In January, it stood at 3.1%. Core inflation excluding energy and food hardly declined at all and stood at 3.9%. Wage growth and employment growth, which both remain strong, could make the disinflation process more difficult going forward. The US Federal Reserve System therefore left its policy rate unchanged.

Japan

Economic output decreasing once again

Japan's economic output contracted once again in the final quarter of 2023. According to initial estimates, GDP declined by 0.1% in seasonally and price adjusted terms over the third quarter. Above all, domestic economic activity remained listless. Against the background of persistently high inflation, there was a slight decline in private consumption. Gross fixed capital formation continued on its downward trajectory. Exports, by contrast, picked up somewhat more briskly again. Imports also continued to rise. Despite the weak economic developments, the labour market improved. The unemployment rate fell to 2.3%. Consumer price inflation declined further to 2.6% in December. By contrast, core inflation persisted at 2.8%. In light of this, the Bank of Japan maintained its monetary policy stance.

United Kingdom

Declining GDP growth

The economic downturn in the United Kingdom continued. Initial estimates show that, in the autumn, real GDP fell by 0.3% over the preceding period after seasonal adjustment. Activity in the manufacturing sector and in construction contracted to an especially noteworthy degree. Services output also declined further. This was particularly true of consumer-related sectors such as trade. Despite the broad-based downturn, business sentiment differed from sector to sector at the end of the period under review. In particular, an improved outlook in the services sector raised the Purchasing Managers' Index for the economy as a whole above the expansion threshold. At the same time, labour market tightness eased somewhat. In line with this, there was a slowdown in wage growth. The year-on-year rate of the Harmonised Index of Consumer Prices (HICP) fell to 4.0% in January. The unemployment rate most recently remained at 5.1%. The Bank of England left its policy rate unchanged in December and January.

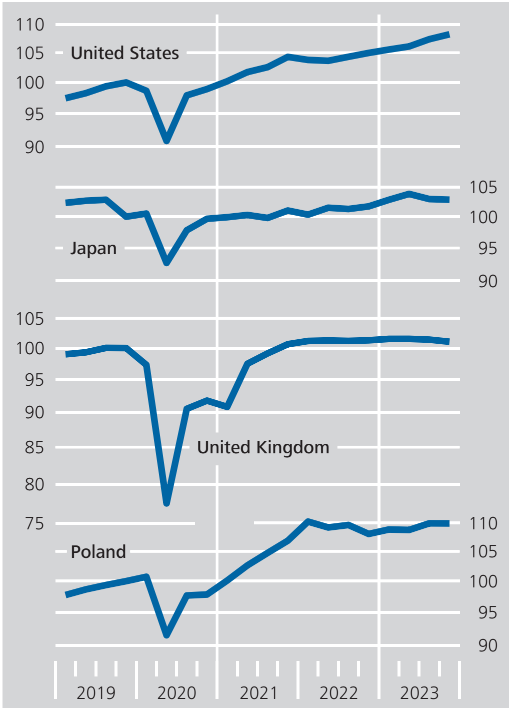
Poland

Upswing remains muted, inflation still persistent

According to the flash estimate, economic output in Poland remained unchanged in the autumn. On average over the year, economic growth totalled 0.2%. This was – with the exception of 2020, when the COVID-19 crisis broke out – Poland's weakest year of macroeconomic growth since its economic transition during the 1990s. Overall, however, the economy appears to have recently overcome the burdens resulting from inflation. Industrial output rose markedly in the autumn. There was also a distinct increase in retail sales in price-adjusted terms. One reason for this was the renewed rise in household purchasing power given the declining inflation, high rate of employment, and strong wage increases. The unemployment rate fell back to 2.7% in December, and gross average wages rose by 9.6% on the year. Consumer price inflation decreased to 6.2%. By contrast, the core rate excluding energy and food persisted at 6.9%. The Polish central bank has therefore refrained from further interest rate cuts since mid-October and left its policy rate at 5.75%.

Real GDP in selected industrial countries

Q4 2019 = 100, seasonally and calendar adjusted, log scale



Sources: Bureau of Economic Analysis, Cabinet Office of Japan, Office for National Statistics, Statistics Poland and Bundesbank calculations.
Deutsche Bundesbank

Macroeconomic trends in the euro area

Euro area economic activity persistently weak

Economic activity in the euro area remained weak in the fourth quarter of 2023. According to Eurostat's flash estimate, GDP stagnated in price and seasonally adjusted terms. Economic output also remained virtually unchanged compared with the same quarter of the previous year. On an annual average, real GDP still rose slightly compared with 2022, largely driven by catch-up effects following the pandemic.

At the end of the year, the economic slowdown was broadly spread across sectors, although it continued to have the strongest impact on the manufacturing sector. Nevertheless, the labour market situation remained favourable. The unemployment rate continued to hover at an all-time low. The macroeconomic outlook is still subdued. It appears that weak global trade, geopolitical uncertainty and the impact of tighter monetary policy are continuing to weigh on activity, further delaying the anticipated economic recovery.

Private consumption still lacklustre

Once again, private consumption is likely to have expanded only moderately in the final quarter. Households' purchasing power increased somewhat in the context of rising labour income and easing price pressures. Consumer confidence also brightened slightly over the course of the quarter. Despite this, retail sales fell again in price-adjusted terms, and the number of new motor vehicle registrations declined. The saving ratio was probably still significantly above its pre-pandemic level.

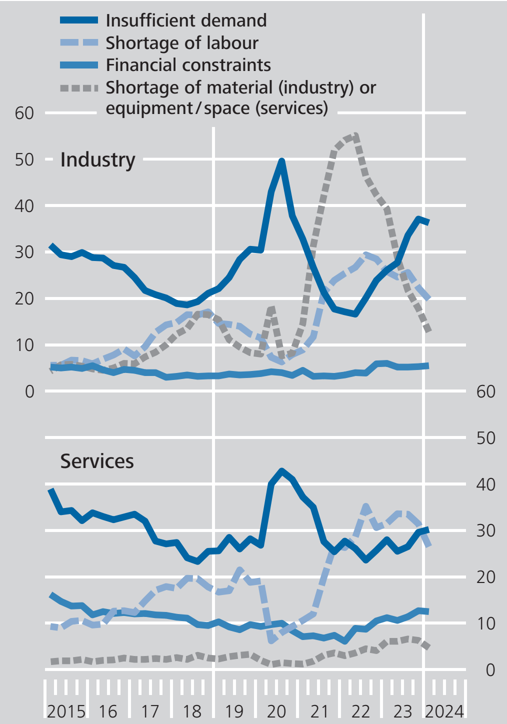
Investment declining

Investment is likely to have fallen, having stagnated in the previous quarter.[7] Construction investment probably declined substantially. In any case, construction output continued to drop in October and November. The rise in financing costs had an impact on housing construction in particular. The number of residential building permits fell significantly by the

7 Excluding Ireland. For several years now, the statistical recording of investment as a whole, and of investment in intellectual property in particular, has been strongly influenced by the strategic activities of multinational enterprises in that country. See Deutsche Bundesbank (2018).

Factors limiting production

Percentage of surveyed firms[1]



Sources: European Commission, business and consumer surveys. **1** Multiple answers possible.
Deutsche Bundesbank

third quarter. Investment in machinery and equipment probably also went down. Capital goods producers' domestic sales decreased perceptibly in October and November after price adjustment. By contrast, investment in information and communication technologies and intellectual property is likely to have expanded further owing to the trend towards digitalisation.

Decline in trade in goods with third countries comes to an end

In the final quarter of the year, euro area countries' exports of goods to third countries expanded again markedly for the first time in a long while. Alongside the weak euro, this was probably due to the slight increase in foreign demand. In addition, there was probably some degree of normalisation after the especially weak second and third quarters. According to balance of payments data, exports of services probably also rose. Buoyed by vibrant activity in tourism, they had performed significantly better than trade in goods over the course of the year. Imports of goods from third countries fell significantly in the fourth quarter.

Weak industrial activity …

The slowdown in the manufacturing sector continued. Consumer goods production and the production of intermediate goods fell markedly. Energy-dependent sectors such as the chemical industry showed the first signs of a bottoming-out in this regard, and motor vehicle production also recovered somewhat. European Commission surveys suggest that the sluggish industrial activity was due mainly to a lack of domestic and foreign demand. Enterprises were also concerned about their competitiveness. By contrast, factors limiting production owing to a shortage of materials and labour have become less relevant in the meantime. Above and beyond that, price pressures at the producer level eased considerably. Producer and import prices fell significantly on the year, mainly owing to falling energy prices but also to declining prices for intermediate goods. Capacity utilisation continued to decrease between October and January, standing slightly below its long-term average.

… and further deterioration in services

The services sector continued to deteriorate in the fourth quarter. Only the information and communication sector is likely to have continued to expand, albeit at a slower pace. By contrast, activity in the hotel and restaurant sector and in some business-related services appears to have declined after showing strong growth in the preceding quarters. According to the European Commission's surveys, demand shortages played an increasingly important role here, too. In addition, a growing number of enterprises cited financial reasons as a factor limiting their business activities.

Considerable differences between Member States

In most euro area Member States, the economic situation remained subdued in the fourth quarter. Even so, economic growth increased markedly in several Member States. The main factors that produced this mixed picture were differences in households' purchasing power and the strength of the stimulus provided by public infrastructure projects. Moreover, the lull in the manufacturing sector affected different countries to varying degrees. It had a particularly strong impact in Germany.[8]

French economy stagnates again

According to a preliminary estimate, real GDP in France stagnated again in the fourth quarter. The French economy thus moved sideways in the second half of 2023. Nonetheless, growth for 2023 as a whole comes to 0.9%. In the fourth quarter, domestic final demand, in particular, fell off markedly compared with the previous quarter. Investment was significantly curtailed and private consumption also declined somewhat. Imports were down substantially. By contrast, exports remained broadly unchanged following the decline in the previous quarter. Inventory changes made a significantly negative contribution to growth. On the output side, industrial production increased somewhat, while service providers' activity stagnated. The construction sector recorded another substantial decline.

Slightly stronger growth in Italy

Macroeconomic activity in Italy increased slightly at the end of 2023. According to preliminary data, real GDP increased by 0.2% after rising by 0.1% in the previous quarter. Real GDP grew by 0.7% for the year as a whole. Exports, which are likely to have expanded markedly, provided the main impetus in the final quarter. Imports probably declined, as they had done in the previous quarter. Weak domestic demand weighed on economic activity, by contrast. Investment activity is likely to have fallen again, partly as a result of tighter financing conditions, and private consumption will probably only have stagnated despite the easing of inflationary pressures. On the output side, both industrial production and service providers' activity picked up somewhat.

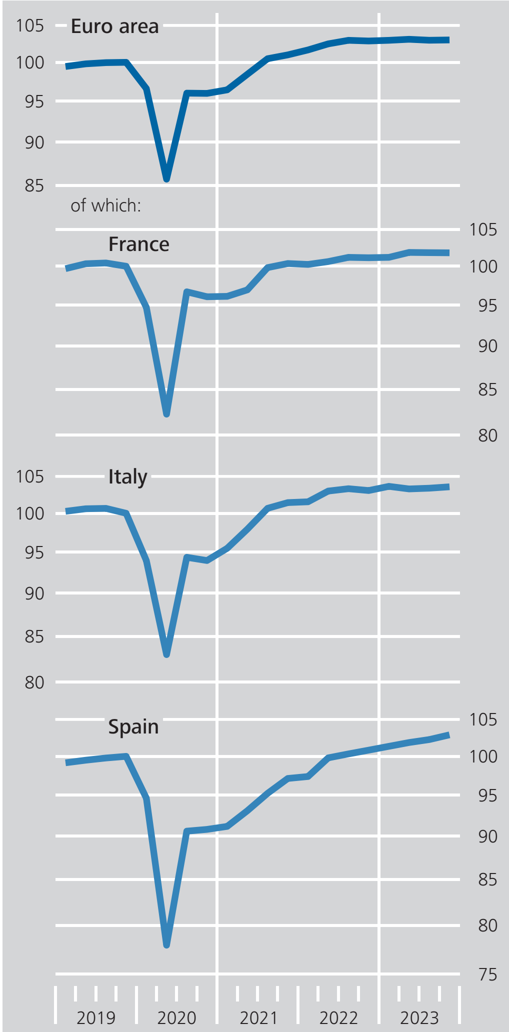
Economic activity in Spain continues upward trend

In Spain, economic activity, which has been expanding for several quarters now, remained brisk in the fourth quarter. According to a preliminary estimate, real GDP rose by 0.6% on the quarter. Economic output rose by 2.5% in 2023 as a whole. Growth was driven by a slight increase in private consumption and a surge in exports, particularly of goods. By contrast, investment activity fell markedly in price-adjusted terms, with machinery and equipment recording a much steeper decline than construction. On the output side, activity in the manufacturing, information and communication services and business services sectors increased significantly.

Portugal and Cyprus also posted strong growth in economic output, while Belgium and Slovakia saw another moderate increase. In the

Aggregate output in the euro area

Real GDP, Q4 2019 = 100, seasonally and calendar adjusted, log scale

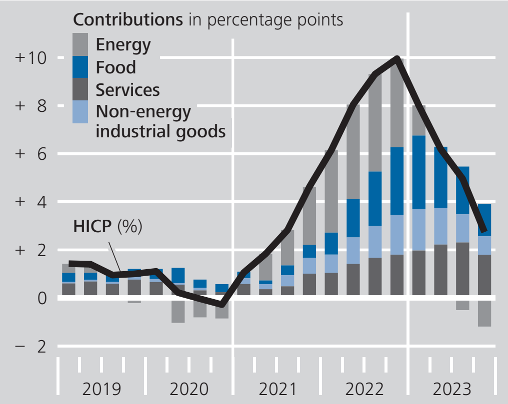


Sources: Eurostat and Bundesbank calculations.
Deutsche Bundesbank

8 For more details, see pp. 43 ff.

Contributions to the euro area inflation rate (HICP)

Year-on-year change, quarterly data



Sources: Eurostat, ECB and Bundesbank calculations.
Deutsche Bundesbank

Marked differences between smaller euro area countries, too

Netherlands and Austria, real GDP picked up again somewhat after a prolonged period of weakness. The economic situation in the Baltic countries and Finland remained tense, although Latvia, at least, saw economic output rise again somewhat. In Ireland, real GDP fell for the fifth consecutive quarter.

Labour market situation remains upbeat

The labour market situation in the euro area remained upbeat in the fourth quarter of 2023. Unemployment stayed at its low of 6.4%, and the number of people in employment rose again markedly. So far, the weak economy has mainly been reflected in a slight deterioration in the employment outlook. According to European Commission surveys, labour shortages in industry and among service providers eased but remained high by long-term standards. This is consistent with the fact that the share of firms that employ workers although they do not need them directly is markedly higher than its long-term average.[9] Wage growth is likely to have been comparatively high in the fourth quarter, too, at between 4% and 5% on the year. Given stagnating labour productivity, wage cost pressures thus remained considerable.

Inflation declined markedly in Q4

In the final quarter of 2023, consumer prices in the euro area rose only slightly. The HICP increased by a seasonally adjusted 0.3% on the quarter, its most modest increase since 2020. One key factor here was the decline in energy prices, which had still been on the rise in the third quarter. Inflation also eased significantly in other areas, but remained noticeable for food and services.

Inflation rate excluding energy still high

Year-on-year price dynamics in the euro area remained high, although the HICP rate almost halved compared with the third quarter, at 2.7%. Around one-third of the decline is attributable to reductions in energy prices. At 9.8%, the annual growth rate fell even deeper into negative territory. By contrast, prices for food and other goods still rose by around 7% and 2.9% on the year, respectively. However, inflation continued to recede here too, partly because the rise in prices at the upstream stages came to a halt. Inflation also declined in the services sector, but remained high at just over 4% compared to the previous year. Ongoing wage pressures contributed to this. The core inflation rate excluding energy and food therefore proved much more persistent than the headline rate, falling merely from 5.1% to 3.7%. The HICP rate averaged 5.4% in 2023 following 8.4% in 2022. The core rate, by contrast, climbed from 3.9% to 4.9%.

According to the flash estimate, price dynamics in January remained high for services, in particular

Eurostat's estimate put euro area inflation at 2.8% in January 2024, 0.1 percentage point lower than in December. Data on short-term movements in key components of the HICP were not yet publicly available at that time.[10] However, preliminary data for the sub-indices suggest that the annual growth rates for processed food and non-energy industrial goods fell slightly. By contrast, the annual inflation rate remained unchanged for services, but rose slightly for unprocessed food and energy. Like the headline rate, the core rate, at 3.3%, was 0.1 percentage point lower than in the previous month. The disinflation process could lose a lit-

9 According to the European Commission's new labour hoarding indicator. For technical details, see European Commission (2023).
10 The HICP weights for 2024 will only be published alongside the final January figures.

tle momentum over the next few months. Energy prices probably moved sideways and consumer goods prices did not fall further at the upstream stages. Moreover, the high wage growth is likely to continue for a while, which should be particularly noticeable in the services sector.

No fundamental cyclical improvement in the short term

The cyclical weakness in the euro area is likely to continue in the current quarter. Leading indicators promise only marginal economic growth at best. According to European Commission surveys, sentiment in the manufacturing sector trended sideways, remaining significantly below its long-term average. In the case of service providers, it recently improved somewhat, slightly exceeding the long-term average once more in January. Consumer confidence remained depressed despite some improvement. Nevertheless, aggregate activity is likely to pick up over the course of the year. The dampening effect of the tighter monetary policy stance should gradually diminish, with gains in purchasing power stimulating private consumption. Global trade is likely to gather momentum as demand for industrial goods picks up again in the advanced economies. However, this outlook is contingent on a lack of new disruptions, for example those stemming from heightened geopolitical tensions. In this respect, future developments remain highly uncertain at the moment; this in itself is a factor curbing economic activity.

Sentiment indicators for the euro area

Deviation from the long-term average, monthly data, seasonally adjusted

Sources: European Commission and Bundesbank calculations.
Deutsche Bundesbank

List of references

Congressional Budget Office (2023), CBO’s Estimate of the Budgetary Effects of H. R. 3746, the Fiscal Responsibility Act of 2023, Letter to Kevin McCarthy, 30 May 2023, https://www.cbo.gov/system/files/2023-05/hr3746_Letter_McCarthy.pdf

Deutsche Bundesbank (2024), Risks facing Germany as a result of its economic ties with China, Monthly Report, January 2024, pp. 11-30.

Deutsche Bundesbank (2023), The construction boom in the US semiconductor industry, Monthly Report, August 2023, pp. 15 f.

Deutsche Bundesbank (2019), The macroeconomic effects of the government shutdown in the United States, Monthly Report, February 2019, pp. 14-15.

Deutsche Bundesbank (2018), Activities of multinational enterprise groups and national economic statistics, Monthly Report, October 2018, pp. 65-78.

European Central Bank (2021), What is driving the recent surge in shipping costs?, Economic Bulletin, Issue 3/2021, pp. 26-32.

European Commission (2023), A new survey-based labour hoarding indicator, European Business Cycle Indicators: 2nd Quarter 2023, European Economy Technical Paper, No 066, pp. 20-29.

International Energy Agency (2024), Oil Market Report, February 2024.

International Monetary Fund (2024), World Economic Outlook Update: Moderating Inflation and Steady Growth Open Path to Soft Landing, January 2024.

S&P Global (2023), Red Sea maritime risk likely to extend beyond Israel-Hamas war, alternative routes entail economic or operational compromises, Supply Chain Strategic Report, 21 December 2023.

Stumpner, S. (2022), How much have rising transport costs affected US import prices?, Banque de France, Publications and statistics: Current economic developments, 11 May 2022, https://www.banque-france.fr/en/publications-and-statistics/publications/how-much-have-rising-transport-costs-affected-us-import-prices

UN Global Platform and PortWatch (2024), https://portwatch.imf.org/, accessed on 15 February 2024.

U.S. Energy Information Administration (2023), Red Sea chokepoints are critical for international oil and natural gas flows, Today in Energy, 4 December 2023.