The German economy

Macroeconomic situation

German economic output down strongly in Q1 2021

Aggregate output in Germany fell strongly in the first quarter of 2021. According to the Federal Statistical Office's flash estimate, real gross domestic product (GDP) was 1.7% down on the quarter after seasonal and calendar adjustment. This meant that economic activity again fell short of the pre-crisis level of the fourth quarter of 2019 by almost 5%. The setback can be attributed in large part to the stricter and more prolonged measures to protect against coronavirus compared with the preceding quarter. In particular, this hit a number of services sectors hard. Moreover, industrial output stagnated, and construction output even declined, after both sectors had provided considerable support to the economy in the previous quarter. Various factors were at work here. In the construction sector, the return of the VAT rates to their higher levels at the start of the year and the unfavourable weather conditions in January and February had a dampening effect. In industry, bottlenecks in the supply of intermediate goods led to the recovery stalling, despite a further increase in demand. The automotive sector experienced delays in production owing to a lack of semiconductors. In the second quarter of 2021, GDP could pick up again significantly, in spite of potentially even tighter bottlenecks in the supply of intermediate goods for industry. The extent of the increase largely hinges on how quickly and sustainably the pandemic can be quashed and containment measures eased.

Strong signs of slowdown, mainly in private consumption

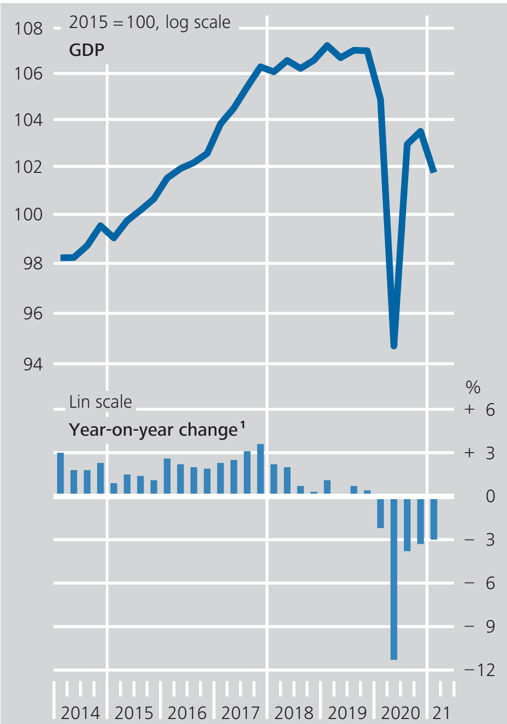
On the demand side, it was probably, above all, private consumption which declined strongly in the first quarter. A host of opportunities for consumption of services were either partially or entirely unavailable owing to the coronavirus mitigation measures. In addition, the return of VAT rates to their higher level dampened demand for consumer durables such as motor vehicles. Purchases of such goods had been brought forward to the second half of the previous year. Businesses probably reduced investment in new machinery and equipment in the first quarter as well, albeit on a much smaller scale. On the other hand, German enterprises continued to benefit from dynamic foreign demand and significantly increased their exports.

Exports of goods up steeply

German enterprises' exports of goods rose steeply in real terms in the first quarter of 2021. In a regional breakdown, exports to non-euro area countries saw stronger growth than exports to euro area countries. In geographical terms, the value of exports increased across the board. Deliveries to the United Kingdom were one exception, with quite a considerable quarter-on-quarter fall recorded after the end of the transition period ensuring reciprocal market access under EU Single Market rules. Broken down by category of goods, price-

Overall output

Price and seasonally adjusted



Source of unadjusted figures: Federal Statistical Office. **1** Price and calendar adjusted.

Deutsche Bundesbank

Foreign trade

Seasonally adjusted, quarterly data

Source of unadjusted figures: Federal Statistical Office. **1** Adjusted using the price indices for foreign trade.
Deutsche Bundesbank

adjusted exports of intermediate goods recorded a significant increase, according to the figures available up to February. Exports of capital goods still rose markedly, despite a decrease in motor vehicle exports. Exports of consumer goods were also distinctly higher.

Probable marked reduction in business investment in machinery and equipment

Business investment in machinery and equipment is likely to have fallen distinctly in the first quarter of 2021, as signalled by the value of capital goods imports, which saw a sharp quarter-on-quarter decrease averaged across January and February. In addition, manufacturers of capital goods experienced a steep drop in domestic sales in the first quarter. This was due chiefly to the automotive sector. Enterprises probably distinctly scaled back investment in their fleets of vehicles, as indicated by the substantial decline in new registrations of commercial passenger vehicles. Manufacturers' delivery difficulties are likely to have played a part in this. New registrations of commercial vehicles were also down markedly. Excluding motor vehicles, however, domestic sales increased significantly. Other transport equipment experienced a particularly strong rise in turnover, though producers of computer, electronic and optical products as well as mechanical engineering firms also saw significant sales growth.

Construction investment probably down

Construction investment is likely to have fallen in the first quarter of 2021. Turnover in the main construction sector, the figures for which are available up to February, fell considerably short of the average of the previous quarter, implying a strong decrease in both housing investment and commercial construction activity. The downturn in construction investment is likely to be attributable primarily to the VAT rates going back up to their previous level at the start of the year and the exceptionally poor weather conditions in January and February. A countermovement can therefore be expected in March, but the quarter as a whole will probably remain under strain.

Private consumption probably down steeply in Q1

In the first quarter of 2021, private consumption suffered quite considerably from the second wave of the pandemic and went down substantially. Compared with the preceding quarter, the coronavirus mitigation measures were even stricter and, above all, were more prolonged. This led to sharply depressed sales, particularly in the hotel and restaurant sector, for which statistics are available up to February. Bricks-and-mortar retail outlets were also hit hard by the measures, despite initial easing in March, with sales of textiles, clothing and footwear in the quarter under review dropping dramatically compared with the previous quarter. Sales of furniture, furnishings, household appliances and home improvement materials as well as information and communication technology devices also slumped. Food retailers generated a major increase in sales, however. As was the case during the first wave of the pandemic, they benefited from the restrictions placed on restaurants and canteens. Online and mail order trade likewise posted further sizeable growth in sales. Nonetheless, retail sales dropped sharply overall. In the motor vehicle trade, in particular, the return to the higher VAT rates had a significant impact, alongside mandatory closures of sales floors and supply bottlenecks. New private passenger car registrations were down sharply in the first quarter of 2021, for example.

Price-adjusted goods imports distinctly lower

In price-adjusted terms, German imports of goods fell distinctly in the first quarter of 2021. Imports from euro area countries and from non-euro area countries decreased on roughly the same scale. In nominal terms, however, imports of goods were up substantially. A key reason for the strong disparity between developments in nominal and price-adjusted terms is the extremely sharp increase in energy prices. This also contributed to the steep rise in nominal imports of goods from OPEC countries and Russia. The value of imports from China, newly industrialised Asian countries and Switzerland likewise went up. By contrast, imports from the United Kingdom, much like exports, fell considerably after the end of the transition period. Broken down by category of goods, price-adjusted imports of capital goods and of consumer goods declined steeply, according to the figures available up to February. The volume of imported intermediate goods decreased significantly.

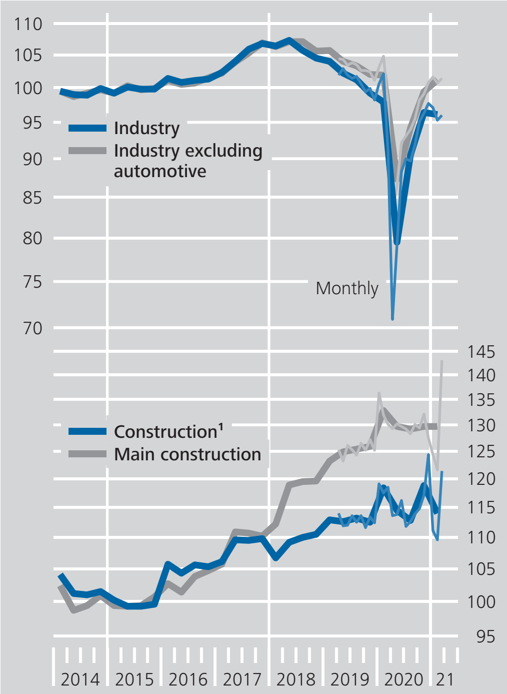
Sectoral trends

Recovery in industrial output stalled due to supply bottlenecks

The industrial recovery stalled in the first quarter of 2021 owing to bottlenecks in the supply of intermediate goods, primarily in the automotive sector. This situation arose, on the one hand, because of strong global demand for some industrial raw materials and hence large quantities purchased. On the other hand, supply-side factors also played a role. There were, for instance, bottlenecks with cargo ships and containers.[1] Moreover, there were quantitative restrictions on a number of industrial raw materials and semiconductor products. The latter caused problems chiefly for motor vehicle manufacturers. Besides temporary disruptions at some production sites, the shortage of semiconductors is also likely to be connected with the fact that motor vehicle manufacturers had significantly cut their orders in the second quarter of 2020 and other sectors had absorbed the capacity created. On top of this, setting up new production capacities in this area takes a certain amount of time, and motor vehicle manufacturers had not adjusted their orders in time for the subsequent strong resurgence in demand. Overall, despite brisk demand, seasonally adjusted German industrial

Output in industry and in construction

2015 = 100, seasonally adjusted, quarterly data, log scale



Source of unadjusted figures: Federal Statistical Office. **1** Main construction sector and finishing trades.
Deutsche Bundesbank

1 See Association for Supply Chain Management, Procurement and Logistics (BME) (2021).

output in the first quarter of 2021 failed to surpass the level of the previous quarter, in which it had risen steeply. This was mainly due to a sizeable decrease in the production of capital goods, caused by the automotive sector. Given the prominent role of the automotive sector in Germany's economy, this distinctly depressed aggregate output. Excluding motor vehicles, industrial output was clearly above the previous quarter's level. Manufacturers of machinery and equipment and of computer, electronic and optical products saw a major increase in production. The pharmaceutical industry likewise ramped up production sharply, which is likely to have been helped by a rise in vaccine manufacture. Even so, production of consumer goods was markedly lower overall, whereas output of intermediate goods grew significantly.

Much greater capacity utilisation in the industrial sector

According to the ifo Institute, capacity utilisation of tangible fixed assets in the manufacturing sector has continued to rise considerably in seasonally adjusted terms since the start of the year and in April exceeded its long-term average again for the first time in two years. There is a certain disparity between this and the virtually unchanged level of production in the first quarter, especially given that producers of capital goods, whose output had actually clearly contracted, are reporting a particularly high increase in capacity utilisation. Capacity utilisation in the intermediate goods and consumer goods sectors also picked up significantly.

Construction output down sharply, mainly due to one-off effects

Construction output in the first quarter of 2021 fell sharply on the quarter in seasonally adjusted terms. This was mainly down to one-off factors. The temporary VAT cut in the second half of 2020 had produced anticipatory effects in the construction sector, which depressed construction output at the start of this year. In addition, the weather was unconducive to construction activity because of the exceptional amount of rain in January and unusually high number of ice days in February. Output dropped substantially in the finishing trades, in particular, while stagnating in the main construction sector. Output in building construction increased somewhat, whereas it declined markedly in civil engineering. Overall, however, construction activity is still intact. This is indicated, for example, by the exceptionally steep growth in construction output in March, following declines in January and February. Moreover, according to the ifo Institute, the level of equipment utilisation in the main construction sector was well above its long-term average in the reporting period.

Services sectors severely affected

Economic activity in some areas of the services sector was severely affected by the measures to contain the pandemic. Hotel and restaurant services were hit especially hard, with sales experiencing an exceptionally sharp drop, according to the seasonally adjusted data available up to February. Trade in motor vehicles was also affected by the mandatory closures of sales floors. In addition, unit sales of passenger cars were dampened by the return to the higher VAT rates and probably also by manufacturers' delivery difficulties. The motor vehicle trade is thus likely to have recorded a considerable drop in sales, as also indicated by new passenger car registrations, which were appreciably lower. Sales were likewise down significantly in the retail trade and – according to the figures available up to February – in the wholesale trade. By contrast, activity in business and support services is likely to have risen, with the ifo Institute's survey results indicating a slight improvement in the situation in the reporting period.

Labour market

Labour market robust

The labour market responded robustly to the prolonged mitigation measures in the first quarter. Both employment and unemployment held nearly steady at the level of the fourth quarter of last year. The effects of the lower level of economic output were largely cushioned by short-time work, which was again taken up on a much larger scale after the decline in the second half of 2020. As the mitigation measures first began to be eased in March and progress on vaccinations advanced, the labour market also saw a return of confidence in developments over the next few months.

Major increase in short-time work up to February

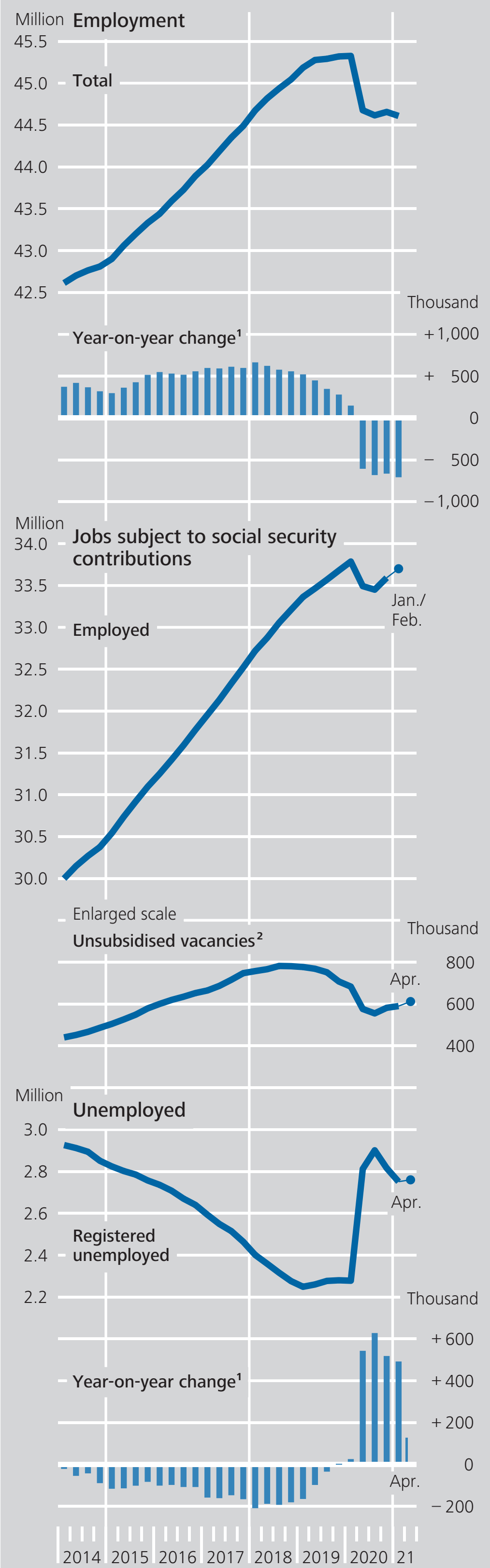
On account of declining economic activity in the first quarter of 2021, there was a major increase in short-time work for economic reasons. According to the initial estimate by the Federal Employment Agency, 3.27 million people received short-time working benefits to compensate for economic difficulties in February of this year. This equates to almost one in ten employees subject to social security contributions in Germany. Compared with October 2020, the provisional low point after the recovery last summer, the number of persons affected thus rose again by more than three-fifths. The volume of labour lost through short-time work saw an even larger increase (+164%). This is because the average working hours lost per short-time worker were also much higher in February than in October of last year. In the main, this is connected with mandatory closures in services sectors, affecting wholesale and retail trade, hotel and restaurant services and other services including arts, entertainment and recreation as well as other personal service activities. In October, these sectors employed one in four of the then two million short-time workers, while in January – the sectoral data do not yet extend beyond that point – it was one in two. By contrast, the number of short-time workers in the manufacturing sector decreased over this period, albeit at a slower pace than in the summer.

Overall employment virtually unchanged, employment subject to social security contributions up further

The intensive take-up of short-time work stabilised the level of employment in the first quarter. On average in the first three months of 2021, overall employment was only around 48,000 persons – or 0.1% – lower, after seasonal adjustment, than the level of the preceding quarter. This decrease can be almost fully ascribed to the reduced number of self-employed persons, while the number of employees remained stable. In the first two months of the reporting period (the latest data

Labour market

Seasonally adjusted, quarterly data



Sources of unadjusted figures: Federal Statistical Office and Federal Employment Agency. **1** Not seasonally adjusted. **2** Excluding seasonal jobs and jobs located abroad.

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from the Federal Employment Agency do not yet go beyond that) there were actually more jobs subject to social security contributions than in the fourth quarter of 2020 (+0.3%). Additional positions were filled mainly in business and support services (including temporary agency work), health and social services, public administration, the IT sector and in construction. By contrast, the ongoing closures in restaurants and hotels and other services led to job cuts, despite increasing take-up of short-time work. In the manufacturing sector, too, the number of filled jobs subject to social security contributions continued to fall. In this case, staffing adjustments do not appear to be complete, in spite of the relatively favourable pattern of industrial activity and declining use of short-time work. The level of employment remained broadly constant in the wholesale and retail trade. Exclusively low-paid part-time employment saw another considerable contraction up to February owing to the ongoing restrictions on catering and accommodation services and in retail.

Slight decline in unemployment

Registered unemployment was down by 65,000 persons in the first quarter after adjustment for seasonal variations. The unemployment rate fell by 0.1 percentage point. Over the course of the reporting quarter as well as in April, however, it remained virtually unchanged at 6.0%. Unemployment covered by the statutory insurance scheme, which is susceptible to cyclical changes, continued to exhibit a downward tendency. By contrast, the fact that the coronavirus crisis has been dragging on for more than a year now is impacting unemployment covered by the basic welfare allowance. Increasingly now, unemployed people are seeing their entitlement to unemployment insurance benefits lapse, forcing them to switch to the basic welfare allowance.

Labour supply stable in 2020 due to robust labour force participation and only moderate decline in immigration

The labour supply has remained virtually constant during the pandemic to date. The preceding years had seen it increase due to growing labour force participation and quite substantial immigration. Labour force participation is also likely to have risen during the past year, albeit at a slower pace than before. Despite the economic slump, the number of persons withdrawing from the labour market has probably been only limited. Self-employed persons or those working in low-paid part-time jobs who have had to give up their employment are probably still most likely to be affected, since these groups generally have no entitlement to unemployment insurance benefits. Nevertheless, the labour supply in the domestic population sank for demographic reasons. This was offset by significant immigration. Although border closures were in force for a time and labour force mobility was reduced, Germany counted a net 209,000 new migrants in 2020 according to the migration statistics published by the Federal Statistical Office. While just over one-third lower than the previous year, the figures are nevertheless striking given the substantial encumbrances that have arisen from the pandemic. Over the past year, net immigration in the period from March to June had fallen to just 15% of the level seen a year earlier. In the second half of 2020, however, it was already close to the level seen in the same period of 2019, with the regions of origin shifting away from third countries towards immigration from other EU Member States to Germany.

Leading indicators for labour market signalling optimism

As the mitigation measures first began to be eased in March and with progress on vaccinations clearly picking up pace of late, the leading indicators for the labour market paint an optimistic picture for the coming months, despite the pandemic still initially going strong. From January to April of this year, the number of registrations for short-time work halved each month, leaving them at a very moderate level as this report went to press. It is likely that less use was being made of short-time working arrangements as early as March. On the basis of its own surveys, the ifo Institute estimates there to have been half a million fewer people in short-time work in April than in February. The ifo employment barometer, which reflects recruitment plans in trade and industry for the next three months, climbed significantly across all sectors of late. The employment barometer of the Institute for Employment Research (IAB) moved into positive territory. The number of vacancies is also gradually rising. Conversely, unemployment is likely to fall in the coming months. The IAB's unemployment barometer is firmly in positive territory.

Wages and prices

Negotiated wages up only moderately due to pandemic; actual earnings possibly even down

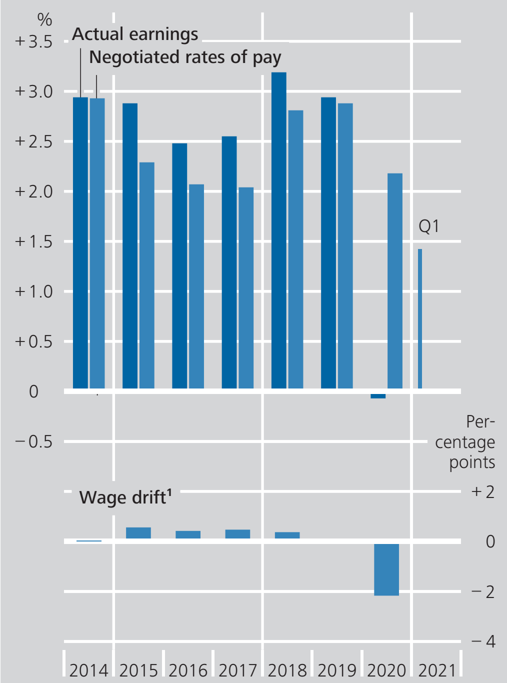
Negotiated wages recorded only a moderate rise in the first three months of 2021, up by just 1.4% on the year when additional benefits are included. In the fourth quarter of 2020, the increase had still stood at 2.6%. The most recently concluded new agreements were a key factor behind this weakening. In addition, one-off coronavirus special payments had been made in a number of sectors last autumn. Wage bargainers restricted agreed wage increases in order to protect jobs. With short-time work having gone back up in the first quarter, actual earnings may even have fallen. As in the previous three quarters, wage drift is likely to have been clearly negative.

Decidedly moderate wage agreements in 2021 pay round to date

In the current wage round, the social partners have so far settled on rather moderate wage agreements in return for provisions for safeguarding jobs. As a result, the annualised wage increases contained in the new agreements for the metal and electronics industry (1%), the steel industry (1.9%) and the textile and clothing industry (1.1%) are distinctly smaller than in the two years prior to the pandemic. The structure of the remuneration laid down in the most recent collective wage agreements is striking: the contractual terms often begin with pay freezes of several months and long-term increases in scheduled rates of pay are not provided for until much later. In addition, there will be one-off coronavirus bonuses this year, plus new and sizeable special payments which can be converted into additional days off. In the metal and electronics industry, for instance, it is possible – by forgoing the special payments and through the interplay of several wage regulations – to cut the working week to 32 hours for up to three years. The idea is to help ensure that qualified core staff are retained during the transformation process taking place in the automotive industry. In a number of sectors, firms experiencing financial difficulty are also being given the chance to postpone regular salary increases or new special payments to a later date.

Rates of pay and wage drift

Year-on-year change, on monthly basis



Sources: Federal Statistical Office (actual earnings) and Deutsche Bundesbank (negotiated rates of pay). **1** Wage drift is calculated as the annual change in the ratio of actual earnings to negotiated rates of pay.

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Ongoing negotiations also with lower wage proposals than before the coronavirus crisis

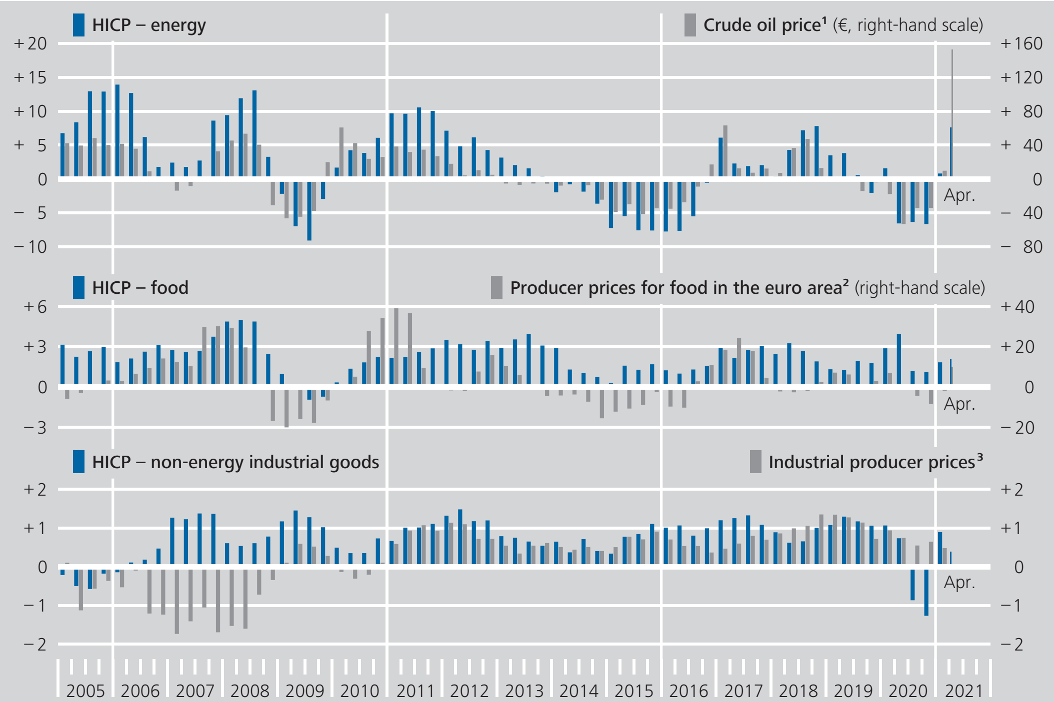
Wage negotiations are currently under way in the retail sector, in wholesale and foreign trade, in the automobile trade and service sector and in the construction industry. Here, too, the wage demands brought to the table by unions have been lower than in previous years.

Strong increase in consumer prices at start of year, chiefly due to return of higher VAT rates

Consumer prices as measured by the Harmonised Index of Consumer Prices (HICP) rose exceptionally strongly at the beginning of the year. On average for the months of January to March 2021, they increased by a seasonally ad-

Price developments at economic stages as classified for HICP purposes

Year-on-year percentage change



1 Bundesbank calculations based on daily prices in USD as quoted by Bloomberg Finance L.P. **2** ECB calculations of DG AGRI prices based on the European Commission's farm gate and wholesale prices. **3** Analogous to HICP classification "Non-energy industrial goods"; Bundesbank calculations based on data from the Federal Statistical Office.

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justed 2.1% on the quarter, after having previously stagnated. The main reasons for this were the reversal on 1 January of the temporary VAT cut, but also measures contained in the climate package and the higher oil price. Overall, prices for all the main components of the HICP basket rose strongly, with the higher VAT rates in January 2021 being passed on in a more or less inverse manner to their reduction in July 2020.[2] While the inflationary pressures for food, non-energy industrial goods and services normalised again by March, energy prices continued to rise significantly, tracking crude oil prices.

The return to the higher VAT rates also had a clear impact on the annual increase in the HICP, with inflation up from -0.6% in the fourth quarter of 2020 to 1.7% in the first quarter of 2021. Excluding energy and food, inflation increased from -0.1% to 1.8%. A statistical effect in connection with the more extensive pandemic-related updates to the expenditure weights underlying the HICP, particularly in the case of package holiday prices, also played a role here.[3]

Inflation rate in April up further due to energy and food

The annual rate of inflation rose again slightly in April to 2.1%, compared with 2.0% in March. Energy inflation in particular increased sharply of late, but food inflation also picked up significantly, with the latter reflecting higher prices for certain agricultural products. Prices for tobacco products – which are included in the food aggregate – were also raised. By contrast, the core inflation rate – the annual inflation rate excluding energy and food – fell from 1.6% in March to 1.1%. However, a decisive factor here was the reduced contribution of the statistical effect for package holidays, which had pushed up the HICP rate signifi-

2 See Deutsche Bundesbank (2021a), p. 49. Restrictions in connection with the coronavirus pandemic meant that around one-fifth of all prices had to be estimated in the first quarter of 2021, however.
3 See Deutsche Bundesbank (2021b).

cantly in the previous months.[4] The rate excluding energy, food, travel and clothing thus remained unchanged at 1.4% in April.

Inflation rate set to rise further and could reach 4% at end of year

In the coming months the rate of inflation is likely to continue on a slow upward trajectory at first. While the recent strong rise in the prices of non-energy commodities and the increase in transport costs is already having a very significant impact on input prices at the producer level, this development is not feeding through directly to consumer prices, especially those for industrial goods. Consumer prices are more closely related to producer prices for non-food consumer goods, which have thus far risen rather moderately. Furthermore, distribution costs and margins are also major determinants of consumer prices.[5] The upward pressure on prices in the earlier input stages is therefore likely to have merely a weakened and delayed impact on consumer prices.[6] As far as headline HICP inflation is concerned, a significant factor is that the base effect resulting from the temporary VAT cut will raise the annual rate as of July. However, this is likely to be almost completely obscured at first due to the statistical effect for package holidays simultaneously having a dampening impact for several months. At the end of the current year, however, this one-off effect will once again intensify inflationary pressures. As a result, the inflation rate could temporarily rise to 4%, before a distinct normalisation sets in at the start of 2022.

Order books and outlook

Economic output likely to grow considerably in Q2

German economic output is likely to grow again significantly in the second quarter of 2021. The extent of this growth will depend largely on how heavily the containment measures weigh on the economy in comparison to the first quarter. As soon as the measures to protect against the coronavirus are successively loosened, activity in the affected services sectors should pick up again considerably. The industrial sector is benefiting from strong demand, with industrial orders recently seeing a further strong rise from their already elevated levels. Manufacturing firms have recently assessed the business situation as having improved again and have once more raised their production and export expectations. However, industrial output will probably continue to be subdued in the near future owing to bottlenecks in the supply of intermediate goods. Output in the construction sector is likely to rebound once dampening one-off effects cease to apply. Business expectations brightened on a broad cross-sectoral basis. Rapid progress in the vaccination campaign opens the prospect of a considerable loosening of containment measures in the coming months. GDP could then grow strongly in the third quarter and exceed its pre-crisis level as early as the fourth quarter.

Sentiment among businesses much improved

According to ifo Institute surveys, the business climate brightened significantly again in the past few months following a temporary low at the start of the year. Enterprises broadly gauged their business situation in April as better than the average of the first quarter, although levels vary considerably between different areas of the economy. While industrial enterprises and construction predominantly judge the situation positively, the retail sector is tending towards a negative assessment. Enterprises in the services sector (excluding trade) are leaning towards a favourable assessment of the situation overall. However there are significant disparities between different sectors, with the situation in the hotel and restaurant industry and business and support services being classed as very poor. Business expectations in April exceeded the first-quarter average in almost all sectors. Production plans and export expectations in industry also improved, far outstripping their respective long-term averages. With almost half of industrial enterprises recently complaining of

4 April's prices for package holidays were again largely extrapolated on the basis of the corresponding monthly inflation rates for 2019. See Federal Statistical Office (2021).
5 See Deutsche Bundesbank (2019).
6 Exceptions here are the energy and food sectors, in which cost surges are usually passed on to consumers without much delay.

Demand for industrial goods and construction services

Volumes, 2015 = 100, seasonally adjusted, quarterly data

Source of unadjusted figures: Federal Statistical Office. **1** Only calendar-adjusted.

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difficulties procuring intermediate goods,[7] the extent to which these plans can actually be realised over the short term remains to be seen.

Orders situation in industry still buoyant

New orders received by German industrial enterprises in the first quarter of 2021 were again up very substantially on the already strong figures for the previous quarter. Disregarding large orders, which are typically prone to fluctuation, the seasonally adjusted increase was even more pronounced. Broken down by region, orders from non-euro area countries rose particularly steeply, reflecting the economic recovery taking place in key partner countries. Orders from the euro area and from Germany also climbed significantly, however. Manufacturers of machinery, the pharmaceuticals industry, producers of electrical products and manufacturers of computer, electronic and optical products posted the strongest order growth. Furthermore, the results of surveys by the ifo Institute on order books in the manufacturing sector indicate that they are in extremely positive shape. According to data available up to February from the Federal Statistical Office, industrial orders significantly exceeded the average of the final quarter of 2020.

Construction output probably set to rise again in Q2

Construction output is likely to rise again in the second quarter of 2021. After having been held back by exceptionally poor weather conditions at the start of the year, the spring months will probably see further catch-up in output. In addition, the return to the higher VAT rates is unlikely to still have any notable dampening effect in the second quarter. Economic indicators also point towards growth in construction output: on an average of January and February – the most recent months for which statistics are available – new orders received by the main construction sector showed a steep increase compared with the previous quarter in seasonally adjusted terms. The reach of the order books rose from an already high level. Further-

7 Ifo business surveys found 45% of enterprises in the manufacturing sector reporting bottlenecks in the supply of intermediate goods in April.

more, according to the ifo Institute, equipment utilisation still stood significantly higher than its long-term average in April. Enterprises in the construction sector also reported serious bottlenecks in materials supplies of late, however.[8]

Upturn in private consumption expected once coronavirus precautions are eased

Private consumption is likely to partially recover in the second quarter of 2021 from its exceptional decline earlier. However, this is contingent on a continued improvement in case numbers allowing for easing of the containment measures and increased uptake of consumption opportunities that were previously closed. The dampening effect stemming from the return of higher VAT rates at the start of the year is likely to gradually wear off. While new private passenger car registrations fell again slightly and were still at a very low level in April, consumers' propensity to purchase rose continuously again in the period from February to April, according to survey results gathered by the market research institution *Gesellschaft für Konsumforschung* (GfK). The downturn in the GfK consumer index forecast for May might have something to do with the tightened containment measures coinciding with the time when the survey was carried out and may prove to be an outlier. The results of the Bundesbank Online Panel Households from March 2021 suggest that consumers will take consumption opportunities that were previously closed as soon as they reopen. As in the third quarter of 2020, private consumption is therefore likely to recover swiftly once restrictions are rolled back on a large-scale and permanent basis. In the medium term, private consumption may receive an additional boost as people use some of the savings which they involuntarily built up during the COVID-19 pandemic.

8 See ifo Institute (2021).

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