The German economy

Macroeconomic situation

Steep rise in German economic output in Q3 2021

German economic activity continued to see a substantial recovery in the third quarter of 2021. According to the Federal Statistical Office's flash estimate, real gross domestic product (GDP) was up 1.8% on the quarter after seasonal adjustment,[1] which was still 1.1% short of its pre-crisis level in the fourth quarter of 2019. This recovery was buoyed by strong growth in the services sector. The easing of measures to protect against the coronavirus in some parts of this sector brought about robust catch-up effects, although these waned considerably over the summer months. By contrast, industrial output continued to decline, chiefly due to the worsening shortages of intermediate goods and raw materials in the third quarter.[2] Once again, this hit the automotive industry particularly hard. The construction sector also suffered from materials shortages. Furthermore, there was a particularly sharp increase in the extent to which output in this sector was hampered by a lack of labour. Overall, although the economy exited the second quarter with considerable momentum, it is unlikely to have picked up any more speed over the third quarter.[3] It is possible that aggregate economic output will merely stagnate in the current quarter, too. The recovery in the services sectors is likely to be significantly slower than the average of the previous quarter. In industry, bottlenecks in the supply of intermediate products are expected to continue to hamper production.

Private consumption main driver of growth

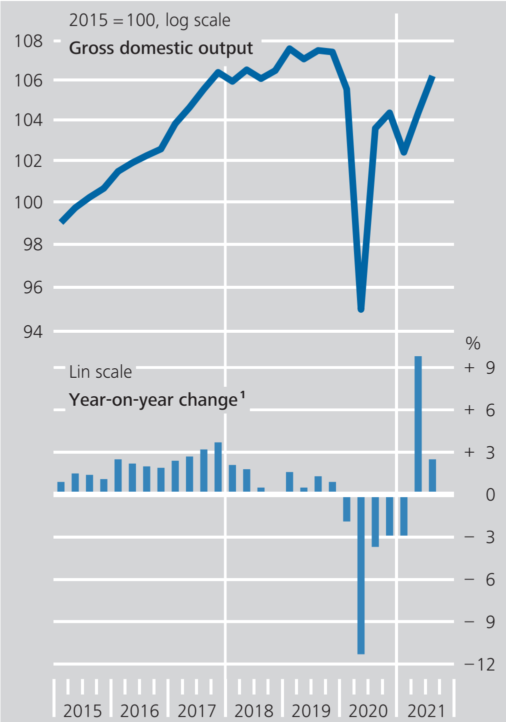
On the demand side, private consumption was the main driver of growth for the recovery in the third quarter, just as it had been in the preceding quarter. Strong catch-up effects associated with the easing of most containment measures had an impact here in particular. By contrast, investment and exports were severely impaired by supply problems in the industrial sector. Business investment in new machinery and equipment is therefore likely to have gone down significantly. Exports of goods fell considerably despite continuing high demand from abroad. By contrast, exports of services are likely to have risen sharply, but these constitute only a relatively small share of total German exports.

Exports of goods and …

Exports of goods in the third quarter of 2021 declined significantly on the previous quarter in price-adjusted terms. Supply problems in the industrial sector are likely to have been the main contributor. Broken down by region,

Aggregate output

Adjusted for price, seasonal and calendar effects



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

Deutsche Bundesbank

1 Seasonal adjustment in this text also includes adjustment for calendar variations, provided they can be verified and quantified.
2 See ifo Institute (2021a).
3 This is implied by Bundesbank estimates of a monthly GDP path, which show estimated real GDP in May and June went up steeply on the month, but did not rise any further in July, August and September. For a description of the method used, see Deutsche Bundesbank (2021a).

Foreign trade

Seasonally and calendar adjusted, quarterly data

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

there was a distinct fall in exports to euro area countries and significantly fewer exports to non-euro area countries. The value of exports to China, the newly industrialised economies in Asia and the OPEC countries experienced a particularly steep decrease. By contrast, the value of exports to the United States and the United Kingdom was higher. Broken down by category of goods, exports of capital goods were down strongly according to the price-adjusted data available up to August. This was mainly attributable to exports of motor vehicles, the manufacture of which is being impacted particularly strongly by problems in the supply of intermediate products. Exports of consumer goods were down only slightly, with exports of pharmaceutical products showing a further steep rise. Exports of intermediate goods likewise fell.

… probably also business investment in new machinery and equipment significantly lower due to supply bottlenecks

Business investment in new machinery and equipment is likely to have gone down significantly in the third quarter of 2021. This is indicated not only by the value of capital goods imports, which declined distinctly on an average of July and August compared with the second quarter. Indeed, manufacturers of capital goods also experienced a steep drop in domestic sales in the third quarter, with the automotive sector recording the largest losses here. The fact that registrations of commercial passenger cars and commercial vehicles were down strongly is consistent with this. Manufacturers of machinery likewise saw a marked decline in revenue, and sales of computers and electronic and optical products were slightly lower. By contrast, domestic sales of other transport equipment increased steeply. Overall, business investment in machinery and equipment is also likely to have been hit hard by the supply bottlenecks for intermediate goods.

Probable marked drop in construction investment

Construction investment is likely to have dropped markedly in the third quarter of 2021. Nominal sales in the main construction sector – data for which are available up to August – were down slightly on the previous quarter in spite of considerable price increases. Revenue in commercial construction declined distinctly. Sales in private housing construction were clearly higher but after price adjustment private housing investment might have fallen as well.

Strong rise in private consumption

Private consumption is likely to have undergone a substantial increase in the third quarter of 2021. The key factor in this was the easing of containment measures, which had lasted longer than in the second quarter. As a result, sales were up extremely sharply in the hotel and restaurant sector, in particular. Motor vehicle trade is also likely to have bolstered private consumption. According to data provided by the German Association of the Automotive Industry (VDA), the number of new private car registrations was up significantly on the level of the second quarter, which had been very low, however. Bricks-and-mortar retailers of textiles, clothing and footwear, as well as of information and communication technologies, also reported robust sales growth. By contrast, online and mail order sales, which had previously benefited from the containment measures, decreased strongly. They were still up considerably on their pre-crisis level, however. Retail sales of food, beverages and tobacco products saw a significant decline, too, which meant that retail sales remained virtually unchanged overall.

Sharp decrease in imports of goods

In real terms, German imports of goods decreased sharply in the third quarter of 2021, with supply bottlenecks probably playing a role here, too. Imports from non-euro area countries, in particular, declined substantially, but also significantly fewer goods were imported from the euro area than in the previous quarter. Broken down by category of goods, imports of intermediate goods decreased strongly according to the price-adjusted data available up to August. Consumer goods imports also fell steeply, with imports of pharmaceutical products considerably lower, probably in connection with fewer coronavirus vaccinations and tests. These imports had surged in the previous quarter. Imports of capital goods went down strongly, largely on account of a considerable decline in motor vehicle imports.

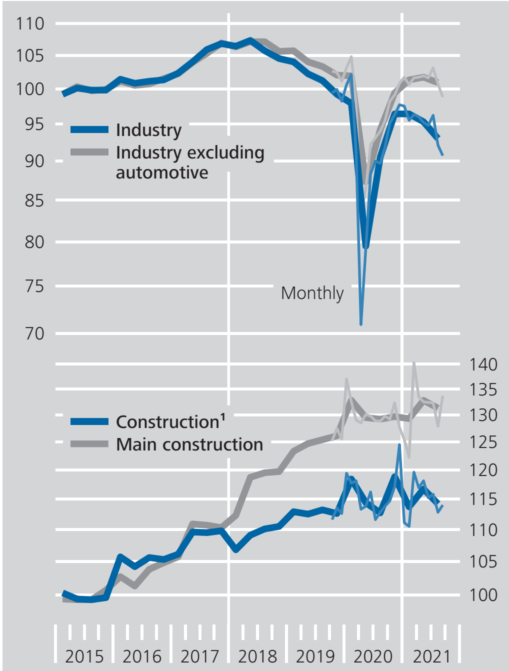
Sectoral trends

Industrial output down due to supply bottlenecks

Industrial output continued its downward movement in the third quarter. After seasonal adjustment, it was distinctly lower compared with the previous quarter in spite of the high level of demand for industrial products (-2½%). As in the second quarter, the decline is probably due to renewed intensification of supply bottlenecks for intermediate goods and raw materials in the main. The automotive industry, where output once again dropped considerably (-13¾%), was hit particularly hard,[4] which meant a sharp drop in the production of capital goods. The production of intermediate goods also declined substantially, contrasting with the steep increase in consumer goods output. The shortfall in industrial output against the pre-crisis level of the fourth quarter of 2019 widened to 6¼%.

Output in industry and in construction

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



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

Decline in industrial capacity utilisation

According to the ifo Institute, utilisation of tangible fixed assets in manufacturing declined significantly between the surveys in July and October, which is consistent with the drop in industrial output. It continued to distinctly exceed its long-term average, however.

Marked fall in construction output

In the summer of 2021, construction output fell markedly on the quarter in seasonally adjusted terms (-2%). A strong decline in the finishing trades was one chief reason for this. By con-

4 According to the ifo Institute, 97% of enterprises in the automotive industry reported shortages of intermediate products in September. See ifo Institute (2021a).

trast, output in the main construction sector saw only a slight fall, with building construction and civil engineering decreasing at similar rates. Construction output had risen significantly in the previous quarter, after a number of dampening special factors had disappeared. Similar to the situation in industry, supply-side constraints are likely to have been the main dampening factor for construction output in the third quarter. On average over the summer months, the percentage of enterprises in the main construction sector reporting a disruption to production due to materials shortages distinctly surpassed the already high level of the spring, according to surveys by the ifo Institute. In addition, labour shortages grew considerably. Utilisation of equipment remained high on a multi-year average, however.

Steep growth likely in services sector

The services sector is likely to have expanded its economic output substantially in the third quarter of 2021. The areas previously hit hard by containment measures registered extremely steep growth, reflecting the fact that the easing of protective measures had a longer impact than in the previous quarter. The hotel and restaurant sector, for example, saw a substantial rise in price-adjusted sales in seasonally adjusted terms. Business in other service activities is also expected to have seen strong growth. This is suggested by the substantially improved assessment of the business situation in this sector in the third quarter, according to the ifo Institute. By contrast, real retail sales remained virtually stable overall in the third quarter, after having been well above pre-crisis levels in the previous quarter. In addition, complaints about supply problems have recently been accumulating in the retail trade, too (including motor vehicle trade).[5] Car dealers reported a steep decline in sales in July and August compared with the previous quarter. According to data provided by the German Association of the Automotive Industry (VDA), new passenger car registrations were likewise down significantly on the second quarter. This was attributable to a strong decrease in commercial vehicle registrations. Wholesale sales were slightly lower on an average of July and August – the latest months for which statistical data are available.

Labour market

Substantial labour market recovery in Q3, but momentum waning recently

The labour market saw a very substantial recovery in the months of June and July. This momentum waned over the third quarter, however, mainly as a result of sustained supply difficulties in the industrial sector and the fading boost from the easing of pandemic-related restrictions in the services sector. Even so, the level of employment increased quite considerably on the quarter, unemployment fell substantially and the use of short-time work was scaled back significantly. Nevertheless, the situation on the labour market is not expected to continue to improve to the same extent over the next few months.

Significant increase in employment overall, but recovery still not complete

On an average of the summer months, employment was up significantly on the second quarter. Mainly as a result of the easing of restrictions for high-contact services, employment rose very steeply in June and July. It was already rising at a clearly more moderate pace again in August and September, however. On an average of the third quarter of 2021, overall employment was just under 170,000 persons higher than the level of the previous quarter, representing an increase of 0.4%. Nonetheless, this meant only around one-half of the jobs lost during the coronavirus crisis had been restaffed by the third quarter. The situation for jobs subject to social security contributions looks much better. Not only did their numbers fall comparatively little during the crisis, supported considerably by the use of short-time work, but the jobs being filled during the current recovery are primarily those subject to social security contributions. On an average of July and August – more recent data are not yet available – the number of these jobs therefore already surpassed the pre-crisis level by around

5 According to the ifo Institute, this affected 74% of enterprises in September. See ifo Institute (2021b).

¾%. This is not the case for exclusively low-paid part-time jobs. Numbers were up by 1.7% compared with the previous quarter (mainly in the hotel and restaurant sector and in the wholesale and retail trade) but one in ten of such jobs had been shed earlier in the course of the pandemic. Both exclusively low-paid part-time employment and self-employment already showed a negative trend before the crisis and a full return to the previous level is therefore unlikely for these two forms of employment. Furthermore, the decline in self-employment continued until recently, albeit at a slower pace.

Clear sectoral shifts reflect structural change during pandemic

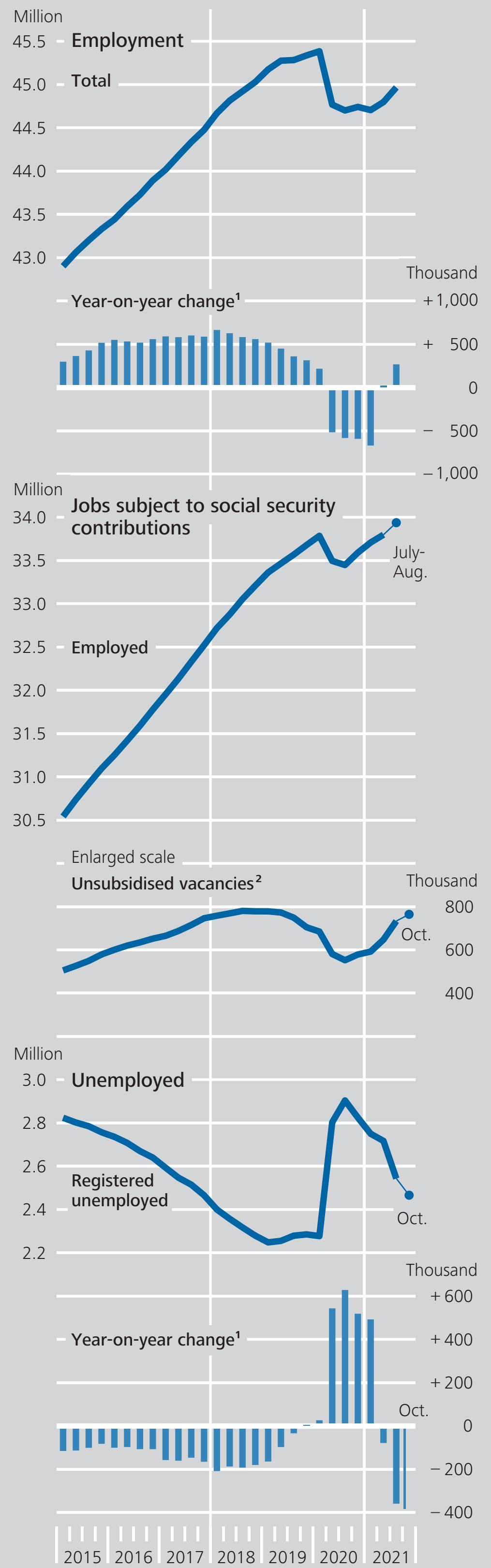
The share of jobs subject to social security contributions in total employment thus grew during the pandemic as well. Developments across the economic sectors give an idea of the structural change during this period. Since the fourth quarter of 2019, the number of jobs in the IT sector and public administration went up the most in relative terms (5½% each). Other areas of the public services sector, such as health and social services as well as training and education, now register around 4% more jobs subject to social security contributions. Far above average growth was also recorded in construction (+3¼%), which was barely affected by the pandemic, and in logistics (+2¼%), where more demand has been seen of late. In spite of the current recovery, more than one in ten jobs have been cut in the hotel and restaurant sector since the start of the pandemic. There were slightly fewer jobs in the arts, entertainment and recreation and in other personal service activities (-1½%). The manufacturing sector, due to its importance, recorded the most job cuts (-3%) in absolute terms during the past 18 months. Employment has barely recovered in this sector so far, which may well partly be due to the current supply bottlenecks for raw materials and intermediate goods.

Short-time working scaled back massively

The average working hours per employee went up considerably in the third quarter, as cyclical short-time working was scaled back massively. This also led to a sharp rise in total hours

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.
Deutsche Bundesbank

worked in the third quarter after seasonal adjustment. The number of short-time workers declined to 760,000 up to August – estimates by the Federal Employment Agency are currently available up to this month. This represents a decrease of more than two-thirds within only three months and is connected with the large-scale reopening of high-contact services. Some 2.2% of all employees subject to social security contributions were thus still in economically induced short-time work in August. Due to supply bottlenecks, short-time working in the manufacturing sector receded at a considerably slower pace than in other areas. The number of short-time workers even increased again slightly in automotive manufacturing.

Steep decline in unemployment

The official unemployment figure was in steep decline in the reporting quarter. It went down by 173,000 persons in seasonally adjusted terms, with the unemployment rate falling by 0.4 percentage point. Unemployment continued to drop in October to a new total of 2.47 million persons, or 5.4%. A large part of the unemployment brought on by the crisis has now receded again. The rate is only 0.4 percentage point above the level at the beginning of 2020. Unemployment covered by the statutory insurance scheme already returned to the pre-pandemic level. The higher level of unemployed persons receiving a basic welfare allowance can partly be explained by the relatively small scope of active labour market policy measures. Participants in such measures are not counted as unemployed. For some of those employees laid off during the crisis, however, there is the danger that their unemployment might become entrenched.

Leading indicators show subdued optimism

Enterprises' willingness to recruit new staff remains high. Both the ifo employment barometer, which reflects recruitment plans in trade and industry for the next three months, and the labour market barometer of the Institute for Employment Research (IAB) largely held steady at the optimistic level reached in the spring. At the same time, employment growth recently ground to a halt. On the one hand, a rapidly rising number of firms are reporting increasing labour shortages. One of the reasons for this is likely to be that suitably qualified personnel are not always available as a result of the acceleration in structural change brought about by the crisis. On the other hand, there are firms with full order books which are reluctant to hire new staff or which are even reintroducing short-time work arrangements due to the supply shortages for intermediate products. This is why the number of registrations for short-time work remains at a slightly elevated level. It is unlikely that the decline in short-time working will continue at the pace seen in the last few months. Furthermore, the IAB's leading indicator for unemployment dropped sharply recently and is now only just in positive territory. It is therefore unlikely that unemployment will fall very much over the coming months.

Wages and prices

Negotiated wages up only slightly in Q3, actual earnings continue to rise markedly

Negotiated wages recorded only a slight rise in the third quarter. Including additional benefits, they were up by 1.0% on the year, compared with 2.3% in the quarter before. One of the main factors behind this muted increase was the timing of the fixed special payment in the metal and electrical engineering industry, with the lump sum of approximately €400 being paid out in October this year, rather than July as it had been in 2020. This base effect depressed the year-on-year rate for the third quarter. Added to this, there were several months with no pay rises in sectors such as the steel industry as well as the metal and electrical engineering industry. Basic rates of pay, which are less prone to fluctuation, were increased by 1.4% on the previous year in the third quarter, compared with 1.5% in the second quarter. Actual earnings are likely to have risen to a markedly greater extent than negotiated wages over the same period. The main reason for this is the decrease in short-time working. The employees concerned extended their working hours again and thereby saw their earnings rise considerably from the level of the previous year, which had been pushed down by short-time work.

Somewhat higher wage agreements of late

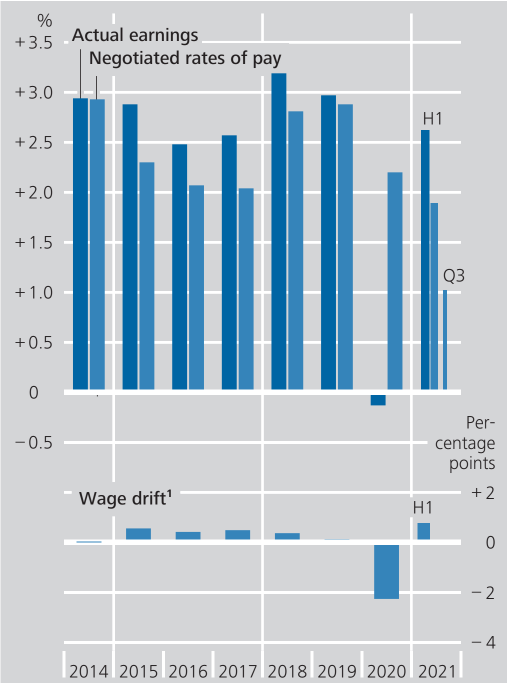
The recovery of the German economy was reflected in higher new wage agreements in the third quarter compared with the previous year. In addition to this, higher inflation rates and impetus from resurgent labour market tightness had an effect. Most new collective wage agreements start with several zero months followed by permanent pay rises implemented in two or three stages. With durations of 24 months or more, the agreements are back to covering similar periods of time as before the pandemic. In some sectors, wage bargainers also agreed on large coronavirus special payments as a way of financially acknowledging employees' exceptional efforts during the COVID-19 crisis. Based on a notional duration of 12 months, the pay increase in the retail sector and wholesale and foreign trade is set to amount to 2.2%. In the main construction sector, employers and unions in western Germany agreed on a wage increase of 3.4% on a 12-month basis. The underlying macroeconomic conditions also point to stronger wage growth for collective wage agreements coming up for renewal.

Political objective of minimum wage of €12 an hour questionable

The general statutory minimum wage has stood at €9.60 per hour since 1 July 2021; that is set to increase to €9.82 from 1 January 2022 and then to €10.45 per hour from 1 July 2022. In the ongoing coalition talks to form a new Federal Government, the idea of raising the minimum wage to €12 by the end of 2022 is being considered. Such a political objective threatens to undermine the independent Minimum Wage Commission. The significant minimum wage increase that is planned would affect the lower wage brackets markedly, causing knock-on effects for the higher wage brackets which could not be ignored. It is also likely to amplify wage pressures in future. The negative impact on employment was small when the general statutory minimum wage was introduced in 2015: effects were primarily

Rates of pay and wage drift

Year-on-year change, on monthly basis



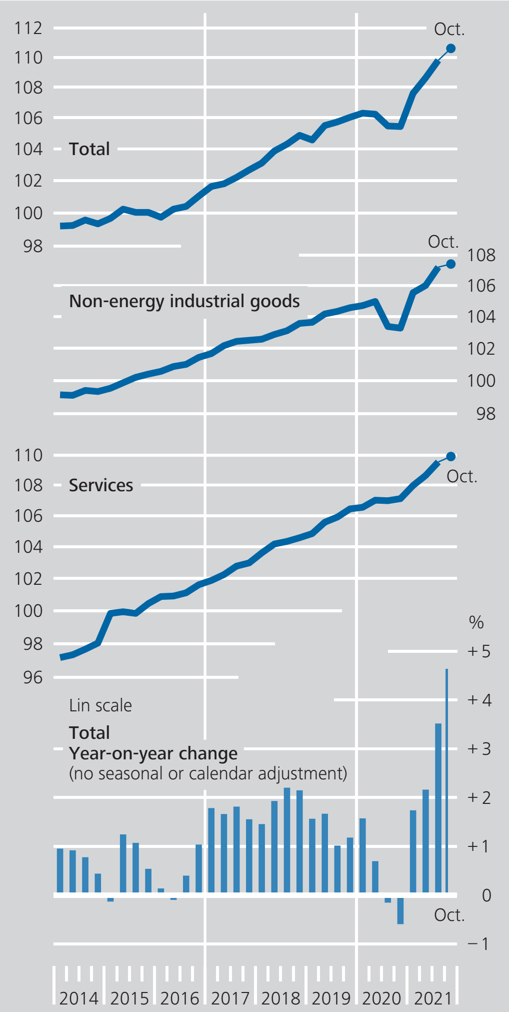
Sources: Federal Statistical Office (actual earnings) and Deutsche Bundesbank (negotiated rates of pay). **1** Wage drift is calculated as the annual change in the ratio of actual earnings to negotiated rates of pay.
Deutsche Bundesbank

limited to low-paid part-time jobs, some of which were converted into positions subject to social security contributions. The potential for a regrouping by form of employment is likely to be smaller this time around, however. This could mean that jobs subject to social security contributions could also be more negatively impacted. That said, the planned intervention in the wage structure is on a smaller scale than that undertaken in 2015. Moreover, shortages in labour supply in the lower wage brackets could play a larger role than they did back then and help to stabilise employment. The fact that the pandemic may have wrought changes in the composition of employment in some cases makes it harder to be any more precise in estimating the impact of the planned increase. There is still too little structural data available on such changes, however.

Consumer prices saw an exceptionally steep rise in the third quarter of 2021. The Harmonised Index of Consumer Prices (HICP) was up by

Consumer prices*

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



Source of unadjusted figures: Federal Statistical Office. * Harmonised Index of Consumer Prices.
Deutsche Bundesbank

Another extremely sharp climb in consumer prices in Q3

1.1% after seasonal adjustment and thus somewhat more strongly than in the preceding quarter. Non-energy industrial goods in particular became markedly more expensive in light of the exacerbated shortage of materials and further rises in freight costs. Prices for these products also went up again at the earlier stages of the pricing chain. The prices of services were also raised somewhat more sharply than in the second quarter. Substantial price adjustments for rental cars, inter alia, played a role in this regard. Yet even services affected by temporary business closures in the first half of the year, such as the catering sector, continued to see distinct mark-ups. Consumer prices for energy rose to a similarly strong extent as they had done in the preceding quarter, as the increase in crude oil prices in euro terms that was seen in the second quarter continued relatively unabated. The high levels of market prices for natural gas, on the other hand, will probably not be passed on to consumers until the beginning of next year for the most part. Food price inflation, meanwhile, slackened; this was partly due to prices for fruit and vegetables, which typically fluctuate strongly.

Inflation rate at high level even excluding one-off effects

Inflation rates expanded substantially in year-on-year terms. Overall, consumer prices rose by 3.5% in the third quarter (compared with 2.2%), and by 2.1% when energy and food are excluded (after 1.3%). The inflation rate was influenced by two opposing one-off effects. On the one hand, it is likely to have been pushed up by 1¼ percentage points owing to the temporary lowering of VAT rates in the second half of 2020, which had dampened price levels back then.[6] On the other hand, the typical seasonal high in package holiday prices in the summer – especially in July and August – was much lower than last year because the weighting of package holidays in the HICP was scaled down.[7] This reduced the inflation rate by just over ½ percentage point. Even without these one-off effects, the headline rate is likely to have stood at almost 3% in the third quarter, and the core rate, which strips out energy and food, at around 2%. The steeper price rises we are currently seeing are chiefly the product of bottlenecks in the supply of intermediate goods and raw materials (including energy) and higher freight costs. However, services previously affected by temporary closures are also exhibiting above average rates of inflation.

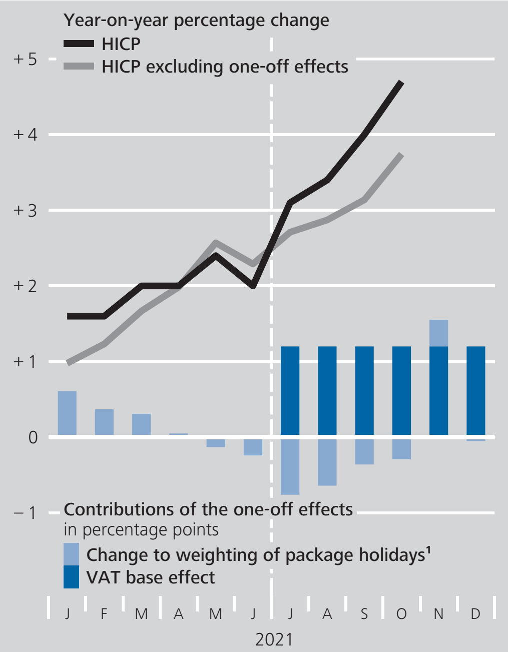
Prices saw a further substantial rise in October, up by a seasonally adjusted 0.5% on the

6 See Deutsche Bundesbank (2020).
7 The weighting is based on the proportion of consumption spending in the previous year. Owing to travel restrictions, the weight of package holidays in 2020 was significantly lower than in 2019. See Deutsche Bundesbank (2021b).

Energy-driven surge in prices in October

month. Energy became considerably more expensive, with refined petroleum products the main driver of the increase. Furthermore, consumer gas prices were raised moderately. Prices for services continued their marked upward trajectory. Although prices for non-energy industrial goods went up only slightly overall, the increase for goods excluding clothing remained significant. By contrast, food prices did not carry on climbing. Annual headline inflation rose from 4.1% in September to 4.6%, while core inflation increased from 2.5% to 2.8%. The statistical effect from the change in the package holiday weighting now dampened the headline rate by just ¼ percentage point. The counteracting VAT base effect remained at +1¼ percentage points, however. The net impact of both one-off effects was to overstate the inflation rate by 1 percentage point. In November, inflation could even reach just under 6%, of which just over 1½ percentage points would be attributable to the two one-off effects. The statistical one-off effect is now working in the opposite direction, increasing the inflation rate by just over ¼ percentage point. This effect will be eliminated in December, and the VAT base effect in January. The inflation rate should then decline perceptibly, although the bulk of the major increase in market prices for natural gas will probably only be passed on to consumers after the turn of the year. While, as things stand, inflation is likely to continue gradually falling in the following months, it could remain significantly above 3% for an extended period of time. It is conceivable that core inflation will be substantially over 2%.

Impact of selected one-off effects on the inflation rate



Sources: Federal Statistical Office and Bundesbank calculations. **1** Change in the contribution of the HICP sub-index for package holidays owing to a change in the weighting of this subcomponent in 2021 compared to 2020.
Deutsche Bundesbank

Order books and outlook

Economic recovery could see a brief pause in Q4 2021

Initially, there will probably be a brief pause in the economic recovery. From today's perspective, GDP could broadly stagnate in the final quarter of 2021, after economic output already stopped rising over the course of the third quarter. The surge in growth coming from the services sector has probably largely come to an end for the time being, having mainly been due to a certain degree of normalisation after coronavirus response measures were eased. Some of the measures to contain the pandemic have already been tightened again, however. The industrial sector will probably continue to dampen aggregate growth in the fourth quarter. While demand for industrial products remains high, supply problems in the industrial sector are likely to continue weighing on growth. According to an ifo Institute survey, firms are anticipating that bottlenecks in intermediate products and raw materials will only be resolved over the course of next year.[8] The construction sector will probably contribute positively to growth despite an increasing shortage of labour in this area, in particular. Business expectations dimmed markedly across the board, with the construction sector alone bucking the trend. Throughout the final quarter of 2021 and the first quarter of 2022, developments will be subject to risks relating to an in-

8 See ifo Institute (2021c).

Demand for industrial goods and construction services

Volumes, 2015 = 100, seasonally and calendar adjusted, quarterly data

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

Deutsche Bundesbank

tensification of the pandemic. As things stand, however, the macroeconomic effects will probably be less severe than in previous waves of the pandemic. The exceptionally high volumes of existing orders in industry and construction suggest that substantial backlog and catch-up effects will emerge once supply bottlenecks perceptibly ease.

Materials shortages weighing on business sentiment

Sentiment in the German economy has dipped again of late. The ifo business climate index fell in October for the fourth time in a row, with gloomier business expectations the key contributor. The mood is likely to have been clouded by the supply-side bottlenecks in particular. In manufacturing, the bottlenecks in the supply of intermediate goods eased only slightly in October from the all-time high recorded in the previous month. Along with business expectations, the business situation in the manufacturing sector also deteriorated. Furthermore, short-term export expectations and production plans fell significantly. The retail sector also saw its delivery problems recede to only a minor extent.[9] Both the business situation and business expectations worsened considerably in trade overall. The main construction sector is experiencing problems with materials shortages, too, but the proportion of companies affected has been declining steadily since peaking in June. Here, the shortage of labour – which has worsened significantly – is likely to be acting as the main stumbling block. Despite this, the business situation in the main construction sector continued to brighten, and companies were less pessimistic about the future. In the services sectors (excluding trade), where the impact of supply bottlenecks has been milder, assessments of the business situation held more or less steady at a level considerably higher than they had been in the first half of the year. That said, the outlook did dim of late. According to the most recent autumn survey by the Association of German Chambers of Commerce and Industry (DIHK), firms perceive the shortage of skilled labour and the

9 See ifo Institute (2021d).

evolution of energy and commodity prices as particular risks to business in the coming months.[10]

Industrial orders up slightly only on the back of large orders

The third quarter of 2021 saw industry receive only slightly more new orders than in the previous quarter. If large orders – which typically come in at irregular intervals – are discounted, new industrial orders even went down substantially. Broken down by region, domestic and euro area demand fell significantly. There was a surge in orders from non-euro area countries, but these also dropped sharply if large orders are excluded. Broken down by sector, demand for capital goods grew steeply, with other transport equipment and machinery and equipment the main contributors. Manufacturers of computers and electronic and optical products received considerably fewer orders, meanwhile. The automotive sector experienced a particularly strong decrease in new orders. Demand for consumer goods weakened somewhat. Orders for pharmaceutical products, which includes vaccines, rose steeply, however. Producers of intermediate goods saw a significant decline in order intake.

High stock of orders points to prospect of substantial backlog and catch-up effects in industry once supply bottlenecks ease

Overall, demand for German industrial products remains robust. Order intakes overshot pre-crisis levels by just over 13%. Industrial output recently fell even further short of its level in the fourth quarter of 2019, however. Supply-side bottlenecks prevented fulfilment of many orders, resulting in a large order backlog. At last count, the reach of the order books, as ascertained by the Federal Statistical Office, was more than one and a half months longer than before the outbreak of the pandemic. According to the ifo Institute, the assessment of order books in the manufacturing sector also remained only slightly shy of its highest level since German reunification, which had been reached in the third quarter. This suggests that substantial backlog and catch-up effects may come into play in industrial production once supply bottlenecks ease.

Order situation and capacity utilisation still strong in construction

Construction will likely be able to up its output by only a small margin in the fourth quarter. New orders were significantly higher in July and August – the latest months for which figures are available – than they had been in the second quarter. And the reach of existing orders increased in October from an already elevated level, according to an ifo Institute survey. But shortages of materials and a lack of labour are likely to stand in the way of a significant increase in construction output. According to the ifo Institute’s surveys, materials shortages in the main construction sector did diminish slightly of late, but remain at a high level from a long-term perspective. There was a sizeable jump in the proportion of firms reporting labour shortages.

Private consumption likely to increase only slightly in Q4

Households’ consumption expenditure will probably only increase a little in the fourth quarter. The consumer sentiment indicator forecast by the market research institution Gesellschaft für Konsumforschung (GfK) for the month of November was noticeably higher than the third-quarter level, there having been a distinct increase in propensity to purchase. However, several factors are likely to materially hold back growth in private consumption. The potential for further catch-up effects in consumption of services is considerably smaller than in the third quarter. Rising infection rates are also likely to weigh on household consumption, as containment measures are tightened and consumers voluntarily adjust their behaviour. High inflation and the delivery problems represent additional encumbrances. The latter are likely one reason behind October’s marked drop in new passenger car registrations by private owners.

10 See Association of German Chambers of Commerce and Industry (DIHK) (2021).

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