# Global and European setting

## Global economic developments

*Solid start to year for global economy*

The global economy got off to a solid start in 2023. Stimuli for growth came primarily from China, where real gross domestic product (GDP) rose significantly after the end of the country's zero-COVID policy. At the same time, economic activity in the euro area picked up again, partly thanks to a distinct easing of the situation in the energy markets. In the United Kingdom, economic output also improved slightly in the first quarter. Fears of a recession have so far proven unfounded in the United States, too, with moderate economic growth continuing, driven by consumers' readiness to spend.

*Global economic activity remains subdued, with elevated downside risks*

Despite the solid start to the year, the global economic environment is likely to remain challenging. While the upturn in China is set to continue at a moderate pace, stubbornly high inflation and tighter monetary policy are putting the brakes on activity in almost all advanced economies. The recent turmoil in the banking system, particularly in the United States, introduced another element of uncertainty lately. Initial indicators suggest that the financial system and the real economy may prove resilient. Surveys of international banks have so far not shown a material tightening of their lending policies. Sentiment among consumers and enterprises did not deteriorate significantly, either. According to purchasing managers, global business conditions have even improved somewhat since February, and they continue to assess the outlook as favourable. Overall, however, the risks to the global economic outlook are likely to be tilted even further to the downside in the light of the turmoil in the banking industry.

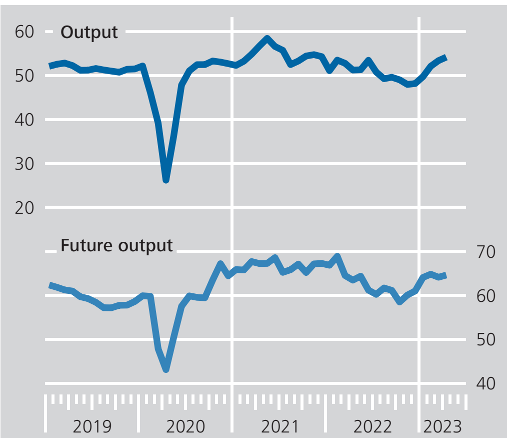
*IMF likewise emphasises cyclical risks*

The International Monetary Fund (IMF) presented a similar economic picture in April.[1] In its projection, it assumes that the impact of the turmoil in the banking industry will be very limited. The revisions compared with the January projection were accordingly small. Global GDP is therefore expected to grow moderately by 2.8% this year. The expansion could be a little bit more vigorous in the coming year. In most economies, consumer price inflation is likely to remain markedly above monetary policy target in 2024, too. At the same time, the IMF stressed the dangers of more adverse developments. According to an alternative scenario classified as plausible, real GDP growth in the major advanced economies could be almost ½ percentage point lower this year given a moderate additional tightening of financing conditions. In the rather unlikely event of a dramatic escalation of financial market stress, much larger losses would have to be expected. With regard to consumer prices, the IMF emphasised the upside risks. Substantial wage increases and higher commodity prices could dampen the expected decline in inflation rates.

That said, commodity prices have continued to fall recently. The price reductions for industrial

**Global purchasing managers' indices***

Diffusion indices, seasonally adjusted




Source: S&P Global. * For the economy as a whole.
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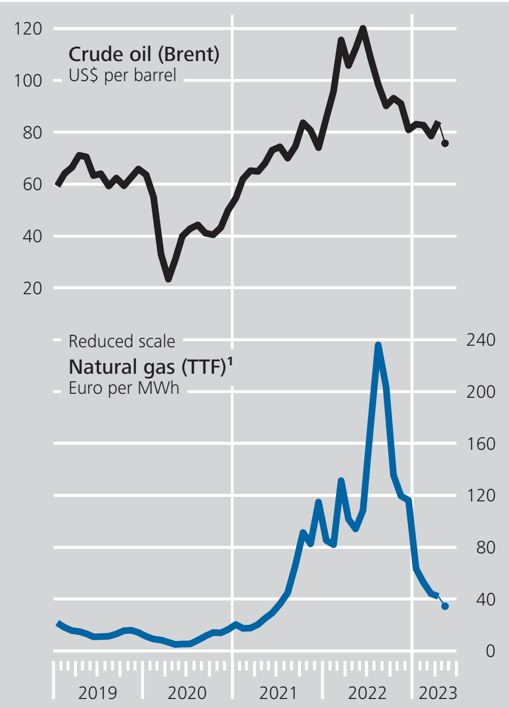
1 See International Monetary Fund (2023).

**Energy prices**

Monthly averages




Sources: Bloomberg Finance L.P. and Haver Analytics. • Latest figures: Average of 1 to 19 May 2023. **1** Price for the front-month futures contract.

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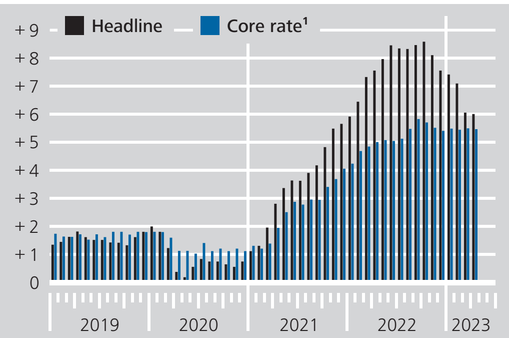
**Consumer prices in industrial countries***

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

*Further decline in commodity prices recently*

commodities and food products tended to be small. Crude oil prices fell somewhat more sharply. As this report went to press, the price of a barrel of Brent crude oil stood at US$76. This was mainly due to uncertain demand prospects and high Russian crude oil exports. By contrast, the surprise decision by OPEC and its partners to cut production distinctly as from May propped up prices. Forward quotations currently suggest that oil prices will continue to fall. However, the prospect of a distinctly undersupplied oil market in the second half of 2023 could also cause prices to rise.[2] International gas prices likewise fell in the reporting period, mainly because global demand for liquefied natural gas (LNG) fell short of expectations. A megawatt hour of gas in Europe (TTF) currently costs €29, which is around 45% less than in February. This represents a decline by about three-quarters from its previous year's average, which had been marked by concerns about supply.

*Inflation rates coming down, but underlying price pressures still high*

Falling energy prices and base effects led to a decline in consumer inflation rates around the world. Annual inflation in the group of advanced economies dropped to 6.0% by April. This is just under 1.5 percentage points lower than three months earlier. However, underlying price pressures have barely subsided thus far. In April, the annual rate of change in consumer prices excluding energy and food stood at 5.5%. Price growth remained high in the services sector, in particular, where costs are strongly influenced by wage developments.

## China

*Considerable economic recovery …*

In China, economic activity rebounded substantially following the end of the zero-COVID policy. In the first quarter of 2023, real GDP rose by a seasonally adjusted 2.2% on the quarter. Consumption of services, in particular, rose sharply. However, household consumption expenditure has remained well below its pre-pandemic trend. Exports to South-East Asia and, in particular, to Russia rose considerably on the year. By contrast, sales to the major advanced economies tended to remain weak.

In the current quarter, the recovery is likely to continue at a moderate pace. Surveys point to

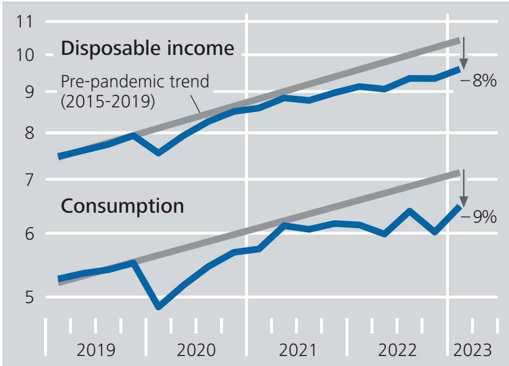
**2** See International Energy Agency (2023).

*… is likely to continue at a moderate pace*

persistent optimism in the services sector. Consumers are also benefiting from exceptionally low inflation rates. Both headline consumer price inflation and core inflation were below 1% in April. By contrast, the situation in Chinese industry appears to have deteriorated significantly as of late. As private consumption is likely to remain at the heart of the recovery, no major economic stimulus is expected to radiate to the rest of the world.

**China: Household consumption and disposable income***

Thousands of yuan, per capita basis, log scale




Sources: National Bureau of Statistics of China and Bundesbank calculations. * Original data decumulated and seasonally adjusted.

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## Other selected emerging market economies

*Growth in India more dynamic*

India's economy picked up steam again after cooling off slightly in the final quarter of 2022. Industrial production was up by 4% on the year in the first quarter. In addition, surveys show that services sector activity has remained very buoyant. Consumer price inflation stayed virtually unchanged at 6.2% in the first quarter, thus holding steady above the Reserve Bank of India's target corridor. Following a 25 basis point increase in February, the central bank left its policy rate at 6.5%.

*Macroeconomic slowdown probably continued in Brazil*

In Brazil, economic activity at the beginning of the year was probably listless. In the fourth quarter of 2022, real GDP fell by 0.2% on the quarter. This was probably due, not least, to the strong tightening of monetary policy. Industrial output continued to stagnate in the first quarter. Adjusted for changes in prices, retail sales, by contrast, were markedly higher than their previous quarter's level. Annual consumer price inflation continued to decelerate to 5.3%. The central bank left its policy rate unchanged at 13.75%.

*Russia's economy probably recovering somewhat*

Russia's economy appears to have recovered to some degree from the sharp slump at the outbreak of the war against Ukraine. According to the flash estimate prepared by Rosstat, real GDP in the first quarter was 1.9% lower on the year, compared with a gap of 2.7% in the fourth quarter of 2022. An expansionary fiscal policy designed to jump-start arms production is likely to have been a factor here. Moreover, the availability of foreign intermediate goods appears to have improved again. At all events, deliveries of goods to Russia by China and Russia's neighbours have risen sharply in recent months.[3] Lastly, Russian oil exports continued to hold up surprisingly well despite the tightening of western energy sanctions, particularly owing to persistently high deliveries to China and India. Consumer price inflation slowed substantially to 2.3% by April. This was due, among other things, to a strong base effect, following a massive rise in inflation immediately after the start of the war. The central bank left its policy rate unchanged at 7.5%.

## United States

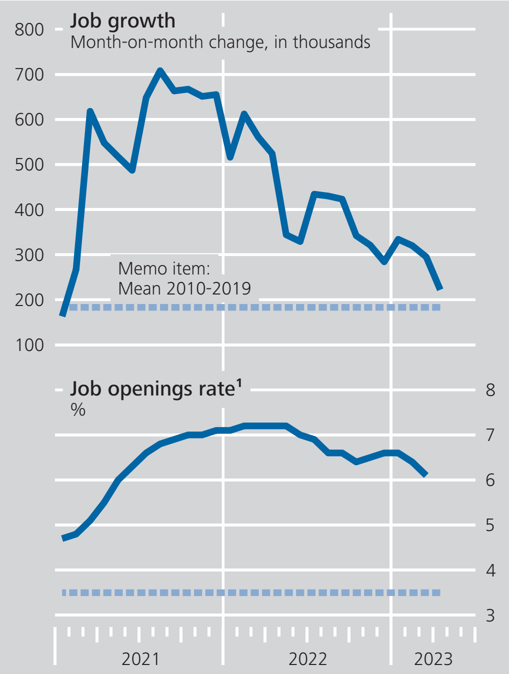
*Moderate GDP growth*

The US economy remained on a moderate growth path at the beginning of the year. According to a preliminary estimate, in the first quarter real GDP rose by a seasonally adjusted 0.3% on the quarter. Domestic final demand, which is often used as a measure of economic activity, expanded even more vigorously. This was mainly due to strong growth in private consumption. Households took advantage of

3 Re-exports of western products may also have contributed to the substantial exports by Russia's neighbours.

**Labour market indicators for the United States**

Three-month moving averages, seasonally adjusted




Source: Bureau of Labor Statistics and Bundesbank calculations. **1** Number of job openings as a percentage of the total number of occupied posts and number of job openings.
Deutsche Bundesbank

the scope for spending afforded by robust growth in disposable income. The renewed marked expansion in government demand also contributed markedly to GDP growth. The investment picture was less favourable, especially in view of slumping industrial activity and the ongoing tightening of monetary policy. Nevertheless, gross fixed capital formation in industrial sectors increased slightly and the downturn in housing investment, which is particularly sensitive to interest rates, lost momentum. Private sector inventory management dampened GDP growth considerably. The process of restocking retail inventories that had been heavily depleted by the pandemic now appears to be all but finished.

*Slow normalisation of labour market, continued steep inflation*

The tighter monetary policy has started to leave marks on the labour market. Although the unemployment rate remained exceptionally low up until April, employment growth was down recently and the number of job openings fell. In addition, wage growth declined to some degree but remained high by longer-term standards. Against this backdrop, underlying consumer price inflation was persistently steep. Core consumer price inflation fell only slightly to 5.5% up until April. Nevertheless, thanks to cheaper energy, annual headline inflation fell to 4.9%.

*Monetary policy tightening continued up to May*

Against this background, the Federal Reserve continued to tighten monetary policy with interest rate hikes of 25 basis points in March and May. It declared that the monetary policy stance would be "data dependent" going forward. The extent to which credit conditions for households and businesses are tightening as a result of the recent strains in the US banking sector was also a factor.[4]

## Japan

*Economy grew again*

The Japanese economy regained its dynamism in the first quarter. Seasonally and price-adjusted real GDP rose by 0.4% quarter-on-quarter after having still stagnated in the final quarter of 2022. Private consumption continued to recover. In addition to catching-up effects following the end of the pandemic, government support measures to cushion the high energy costs played a role. Business investment increased markedly. By contrast, exports fell significantly amidst subdued demand. Imports also contracted markedly. The labour market situation remained favourable, although the unemployment rate rose to 2.8% in March. This year's spring pay rounds are likely to result in far greater wage growth than in previous years, which could cause the steep boost, by Japanese standards, in consumer prices to become entrenched. The year-on-year increase in the CPI, at 3.5% in April, was markedly lower than at the beginning of the year, yet this was mainly due to government energy support measures. Despite the still relatively high inflation rate, the Bank of Japan maintained its ex-

4 See Board of Governors of the Federal Reserve System (2023).

tremely accommodative stance at the end of April.

## United Kingdom

*Economy still subdued*

The United Kingdom's economic situation remained subdued at the beginning of the year. According to a preliminary estimate, real GDP increased by only 0.1% on the quarter. In particular, the services sector, which is important for the economy as a whole, remained listless, with strikes by, amongst others, public workers also playing a role. By contrast, the manufacturing and construction sectors saw distinct growth. Against the backdrop of the weakening of economic activity, the unemployment rate continued to rise to 3.9%. Wage growth declined slightly but, at around 6% on the year, was still quite high. The annual rate of the Harmonised Index of Consumer Prices (HICP) remained in double digits in March, at +10.1%. Against this background, the Bank of England maintained its restrictive stance, raising its policy rate in March and May by a total of 50 basis points to 4.50%.

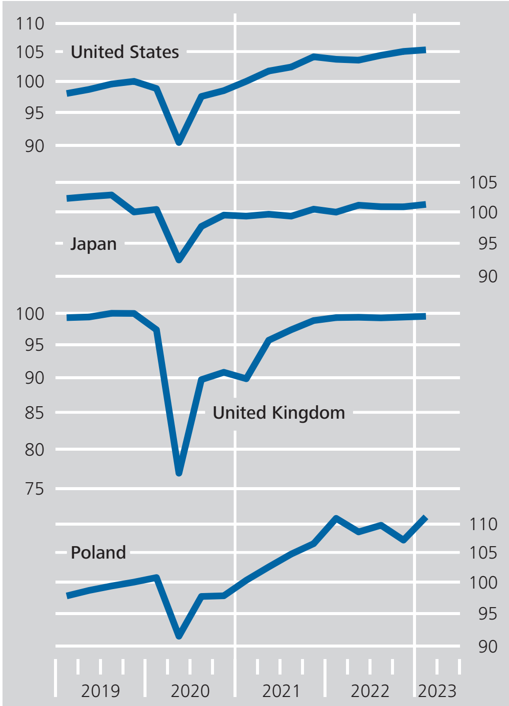
## Poland

*Recovery in economic output*

The Polish economy expanded again slightly in the first quarter of 2023. Seasonally adjusted real GDP rose by 3.9% quarter-on-quarter, following a 2.3% contraction a quarter earlier. However, inflation remained strong, causing purchasing power to continue to decline; this weighed on domestic demand. The volume of retail sales declined markedly in the first quarter, and industrial output fell very significantly. Sentiment indicators also improved only marginally and remained well below their longer-term average. On the other hand, the labour market held up well. Unemployment, at 2.8% in March, remained near its all-time low. Wages grew substantially again, up by 12.6% in year-on-year terms. Consumer price inflation declined only slightly, to 14.7%. Food prices, in particular, continued to surge. Core inflation excluding energy and food fell only slightly to 12.2%. The central bank left its policy rate unchanged at 6.75%.

**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.

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# Macroeconomic trends in the euro area

*Real GDP rose again slightly*

The euro area economy expanded again slightly in the first quarter of 2023. According to Eurostat's flash estimate, seasonally and price-adjusted GDP rose by 0.1% compared with the preceding quarter, in which it had declined somewhat. Excluding Ireland, whose GDP is heavily influenced by the strategic activities of multinationals, the increase came to 0.2%.[5] At the beginning of the year, the euro area economy thus proved more robust than had been anticipated just a few weeks earlier. One major

5 Ireland's GDP fell by 2.7% on the quarter. For more information on the issues surrounding Ireland's GDP, see Deutsche Bundesbank (2018).

reason for this was the easing of tensions in the European energy markets, which caused energy prices to fall. However, the increase in GDP at the beginning of the year was probably also partly due to a process of normalisation – in some sectors, factors such as spells of cold winter weather and high levels of sick leave had led to a sharp decline in activity in December. The weakening of these adverse factors was particularly beneficial to the construction sector. Industry benefited mainly from the improved availability of intermediate inputs and the easing on energy markets. Investment is likely to have increased, too.

*Private consumption fell again, …*

Private consumption, on the other hand, continued to suffer at the start of the year from the sharp rise in consumer prices and the associated losses in purchasing power. Consumer confidence remained depressed and precautionary saving gained further ground. Private consumption therefore probably fell again. In any case, retail sales once again declined in price-adjusted terms and new car registrations also decreased markedly. Only the accommodation and food services sector is likely to have recorded growth.

*… but investment increased*

Gross fixed capital formation grew again somewhat in the first quarter,[6] probably driven largely by investment in machinery and equipment. In January and February, capital goods producers' domestic sales once again expanded on the quarter after price adjustment. The prolonged upward trend in investment in information and communication technologies and intellectual property seems to have continued. Construction investment is likely to have risen, too. In any case, construction activity expanded vigorously in January and February, probably mainly due to the continuation of projects that were already under way. Rising financing costs are increasingly dampening new construction activity. The number of building permits for residential buildings declined up to the end of last year, and demand for housing loans fell once again in the first quarter.

*Goods trade with third countries up again in price-adjusted terms*

Euro area exports of goods to third countries probably increased slightly in the first quarter after price adjustment. The easing of various burdens on industry is likely to have played a role here. However, falling export prices saw export revenue decline somewhat. Broken down by region, exports to China increased considerably in line with the economic recovery taking place there. By contrast, exports to the United Kingdom – and especially to the United States – were noticeably more subdued. According to balance of payments data, exports of services rose very significantly at the beginning of the year. One major reason for this growth is likely to be the ongoing recovery in international tourism. Imports of goods from third countries decreased markedly in the first quarter in price-adjusted terms. In view of falling prices for energy products and other intermediate inputs, expenditure on imports decreased even more significantly.

*Manufacturing output increased in the euro area (excluding Ireland)*

Output in the manufacturing sector diminished somewhat in the first quarter. This was mainly due to a sharp decline in Ireland, although the other countries saw an increase overall. Falling energy prices improved the profitability of output in the chemicals industry and other energy-intensive sectors. The easing of supply bottlenecks stimulated production, especially in the automotive industry. By contrast, production of consumer goods slackened slightly in line with weak consumer demand. Capacity utilisation remained close to its long-term average. Industrial producer prices eased in some cases. Prices for intermediate goods even fell fairly significantly on the quarter. By contrast, producer prices for capital and consumer goods continued to rise almost unabated.

*Rebound for service providers*

Activity in the services sector is likely to have improved somewhat at the beginning of the year. The hotel and restaurant sector, in par-

6 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 planning of multinational enterprises in that country. See Deutsche Bundesbank (2018).

ticular, continued to recover. Following a decline in the previous quarter, a number of business-related service providers also appear to have stepped up their business activity again in the wake of the increase in industrial activity. The growth seen in the information and communication sector in the previous quarters is likely to have continued.

*GDP growth higher than expected in a number of member countries*

In a number of euro area countries, GDP growth exceeded expectations in the first quarter. Some of these countries benefited particularly strongly from the ongoing recovery in tourism. In other countries, the burdens resulting from Russia's war on Ukraine continued to have an impact. The erosion of purchasing power weighed on households throughout the euro area.

*Moderate growth in the French economy*

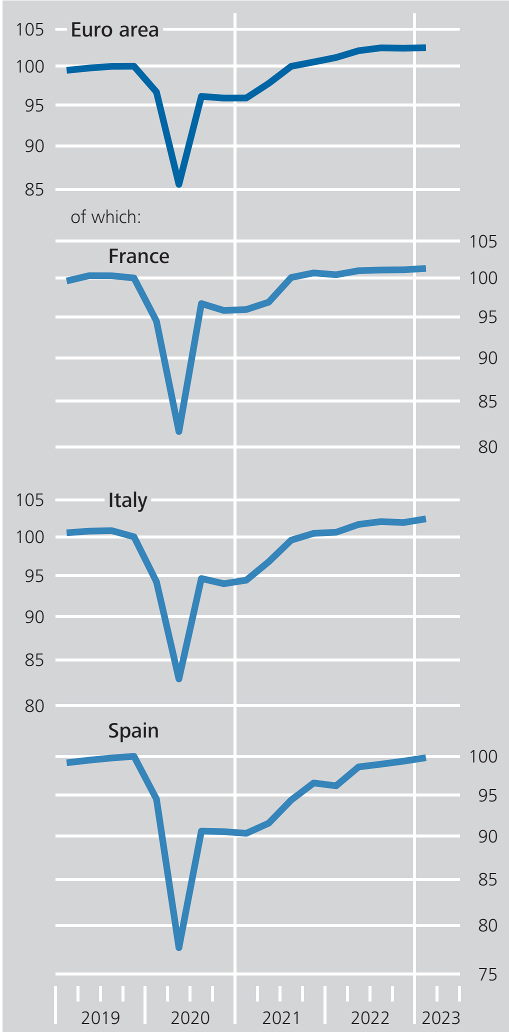
According to the preliminary estimate, real GDP in France rose by 0.2% in the first quarter, having stagnated in the previous quarter. This growth was mainly driven by buoyant foreign trade resulting from the renewed pick-up in international tourism. Exports of transport equipment also rose steeply. Domestic demand remained weak, however. Although private consumption did not fall any further, investment in buildings as well as in machinery and equipment declined markedly. On the supply side, there was robust expansion in industry. Refineries recovered from the strike-related losses in the autumn, and electricity production rose significantly after several nuclear power plants were restarted. The production of transport equipment also saw considerable growth. By contrast, there was a decline in activity among service providers and, above all, in the construction sector.

*Substantial rebound in Italy's real GDP*

Macroeconomic activity in Italy rebounded substantially at the beginning of the year. According to preliminary data, real GDP increased by 0.5%, having fallen slightly in the previous quarter. Impetus came from both domestic demand and foreign trade, which was probably boosted by the revival of international tourism, in particular. Falling energy prices, persistently upbeat labour market conditions and rising wages probably contributed to a slight increase in private consumption. Against this backdrop, industry and service providers both saw an increase in output.

**Aggregate output in the euro area**

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




Sources: Eurostat and Bundesbank calculations.
Deutsche Bundesbank

*Marked rise in GDP in Spain*

According to the preliminary estimate, real GDP in Spain grew by 0.5% in the first quarter of 2023 compared with the previous three months, in which it had expanded by a similar amount. Economic output has now almost returned to its pre-pandemic level. Growth was driven by significantly higher investment and a boost in exports. This was mainly due to exports of services, with tourism playing an im-

**Labour market in the euro area**

Seasonally adjusted


Sources: Eurostat and Bundesbank calculations. **1** Number of vacancies as a percentage of the total number of occupied posts and the number of job vacancies.
Deutsche Bundesbank

portant role. By contrast, private consumption fell again markedly. Despite the relatively positive labour market situation and easing inflation, real wages are likely to have fallen once more. Consumer confidence remained well below its long-term average, and the propensity to save probably rose again. On the supply side, the construction and trade sectors exhibited very substantial expansion.

*Differences between the smaller member countries*

Real GDP increased markedly, especially in Portugal, but also in Slovenia. It rose moderately in Belgium and Slovakia. In Austria and the Netherlands, macroeconomic activity declined. The situation in Estonia and Lithuania remained strained, whereas economic output in Latvia picked up again somewhat.

*Labour market situation remains favourable*

The economic downturn continued to have little impact on the labour market. The number of people in employment actually rose more sharply in the first quarter than in the previous quarters, and the unemployment rate fell to 6.5% in March. Only in the industrial sector did the labour shortage decline somewhat. At the same time, the employment outlook in this sector deteriorated slightly. Wage growth in the first quarter, at between 4% and 5%, was probably as strong as in previous periods and thus still significantly stronger than in preceding years. The main reasons for this are likely to be high inflation and the resulting loss of purchasing power; at the same time, wages are an important cost factor.

*Decline in inflation thanks to lower energy prices*

The strong consumer price inflation eased significantly in the first quarter. Annual HICP inflation fell by 2 percentage points to 8.0%, chiefly owing to the decrease in energy prices. This was due to lower prices for natural gas, electricity and petroleum products, but also to fiscal relief measures.[7] All the main components of the HICP except energy increased at more or less the same rate as in the previous quarter. For food, this was mainly due to marked increases in the prices of dairy products, fats, meat products and cereals.

*Core inflation reaches record high*

Price growth also remained high for non-energy industrial goods and services. Core inflation excluding energy and food rose by 0.4 percentage point to an average of 5.5% in the first quarter. In March, it reached a new record high of 5.7%. Inflation rates for durable industrial goods such as passenger cars and furniture were particularly high of late. The

**7** Since January, the electricity and gas price brakes have been taken into account when measuring inflation in Germany. In comparison to the previous year, energy price inflation was additionally dampened by a significant decline in HICP weightings in Germany. For more information, see p. 54.

prices of services for recreation activities also rose particularly steeply.

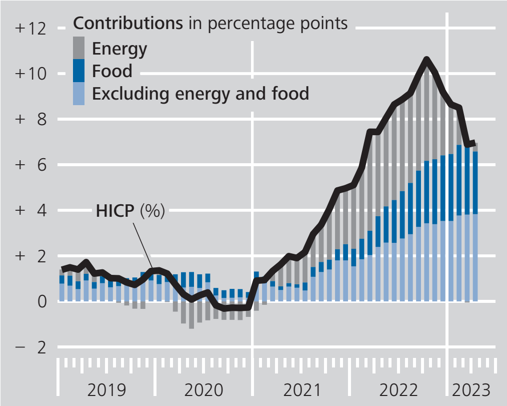
*Inflation remained strong in April*

In April 2023, euro area annual inflation rose by 0.1 percentage point to 7%. A base effect in the case of energy and a somewhat stronger price dynamic for services more than offset the slightly weaker rise in prices for industrial goods and food. Although the core rate fell by 0.1 percentage point to 5.6%, it remained exceptionally high.

*Slight increase in GDP also expected for the current quarter*

Economic output in the euro area is set to expand slightly in the current quarter, too. However, there are no signs of a meaningful improvement in economic activity. Lower prices for intermediate inputs and energy products as well as the rapid easing of supply chains are supporting production on the supply side. However, demand is likely to remain subdued. In addition to downbeat global economic activity, this is due to rising financing costs, which is slowing down investment and construction activity in particular. The significant wage increases on the horizon are likely to offset the losses in household purchasing power. At the same time, however, fiscal support measures are being phased out. Therefore, private consumption is unlikely to provide any major stimulus in the near future. In any case, consumer confidence remained depressed despite some improvement. Surveys for the industrial and services sectors also suggest that there will be only a modest expansion in the second quarter. The business climate in the manufacturing sector even deteriorated again of late. By contrast, sentiment among service providers remained brighter. Labour shortages remained the main obstacle to production here.

**Contributions to the euro area inflation rate (HICP)**




Sources: Eurostat, ECB and Bundesbank calculations.
Deutsche Bundesbank

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