New Strengths, Old weaknesses

The German economy has got back a strength that many no longer believed it had. Despite this, with a recent growth rate of 2.7%, the upturn, which is after all entering it’s 4th year, deserves its name. Its base has widened considerably. It is no longer only the demand from abroad that drives and sustains it. In the meantime, German companies are investing again, not only in the replacing of old equipment but also in order to widen the capacity. This is increasing domestic demand but above all is reassuring the confidence that the recovery will continue.

The general population is more sceptical. They have not yet quite found their desire to consume again. It can hardly be blamed because the fruits of the new growth have yet to come by most of the citizens. In the previous year, job owners had to be content with an average wage increase of just one percent. That doesn’t even cover the price increase, let alone the increased social security tax.

Only gradually is the public becoming aware that the monthly bad news from the labour market has given way to more favourable news. The number of official unemployed has fallen way below the 5 million mark and soon it could remain under 4 million. Also, out of fear of their jobs, some have given up consumption and are preferring to save more. Economists are therefore already interpreting the fact that the savings rate did not rise any further last year for the first time since the end of the new economy boom as a sign of new confidence.

The Merkel government has contributed to the fact that citizens do not use the lever so quickly, even though they have been overwhelmed by good economic reports for weeks. The biggest increase in VAT in German history, which took place at the turn of the year is an attack on the purchasing power of the citizens and the investment power of companies. At the moment it looks as if the black and red have chosen the right moment for this audacious access: the economy seems to be so robust that the steaming effect of the additional tax burden may not be clearly visible in the statistics as a shock.