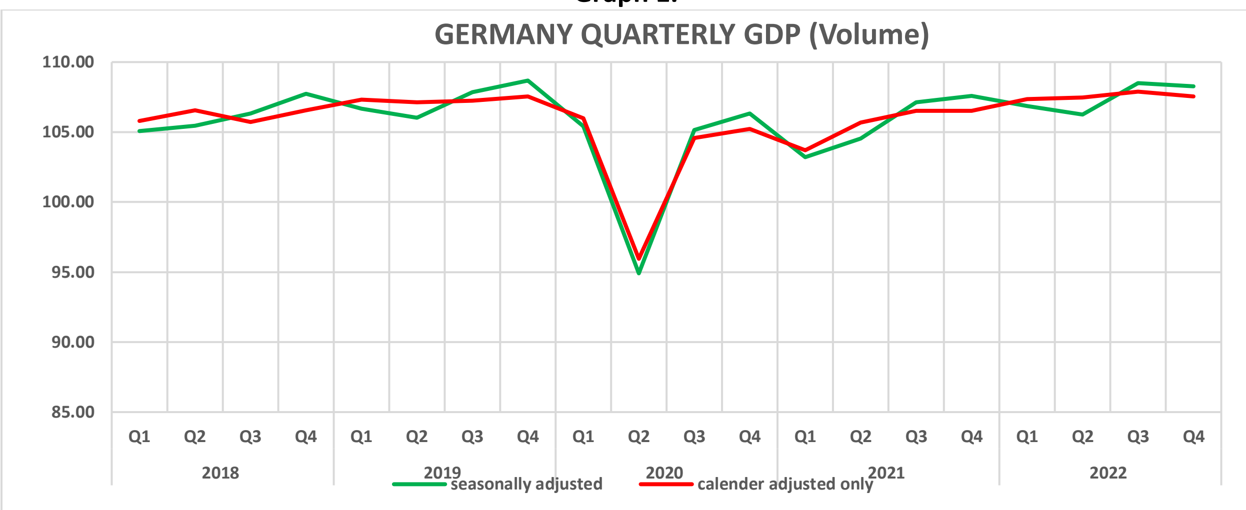
# THE GERMAN ECONOMY FOLLOWING THE INVASION OF THE UKRAINE.

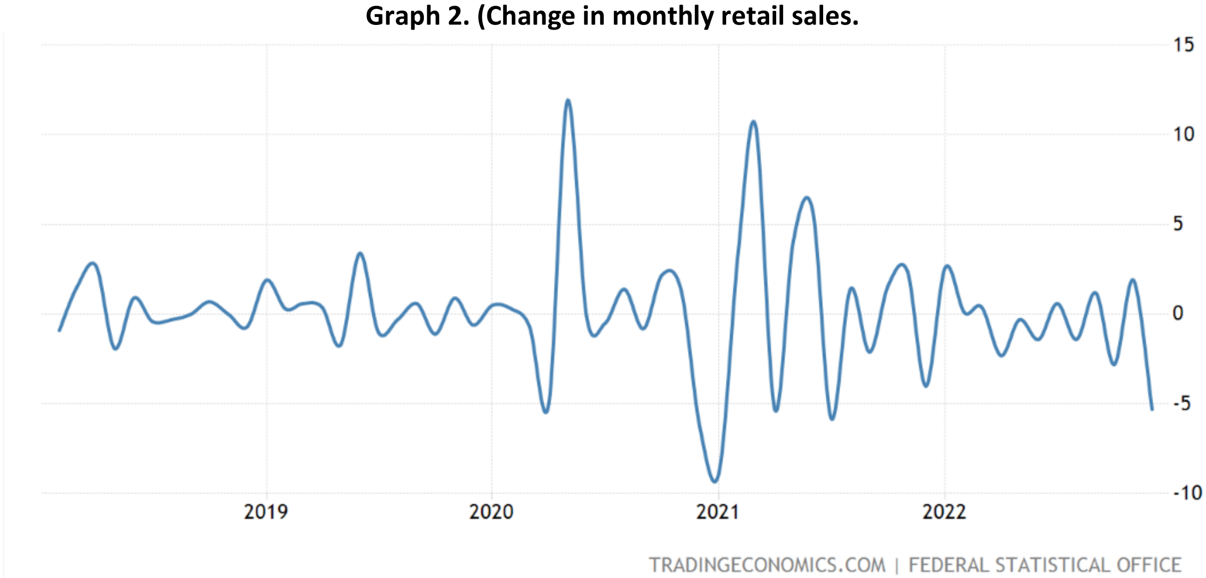
*Germany has placed itself center stage in the NATO war against Russia and through Russia against China itself. That it has done so is due to its greater fear of competition from a rising China rather than competition from across the Atlantic. And it has done so knowing full well that this will incur short-term economic pain. This article looks at data up to Q3 to determine the extent of this pain.*

The current assessment is that Germany has suffered less pain from the fall-out of the war than was anticipated in Autumn. Much of this was due to a warmer than expected winter. Nevertheless, the uptick in German GDP ended in the final quarter of 2022 when the economy contracted by 0.2%. This first estimate is likely to be revised further down given the collapse in personal consumption in December when retail sales fell by over 5% while industrial production fell 3.1%. The trends can be seen in the first two graphs. Graph 1 provides real growth in GDP, while Graph 2 provides the change to retail sales. (Total European sales fell 2.7% in December.)

**Graph 1.**

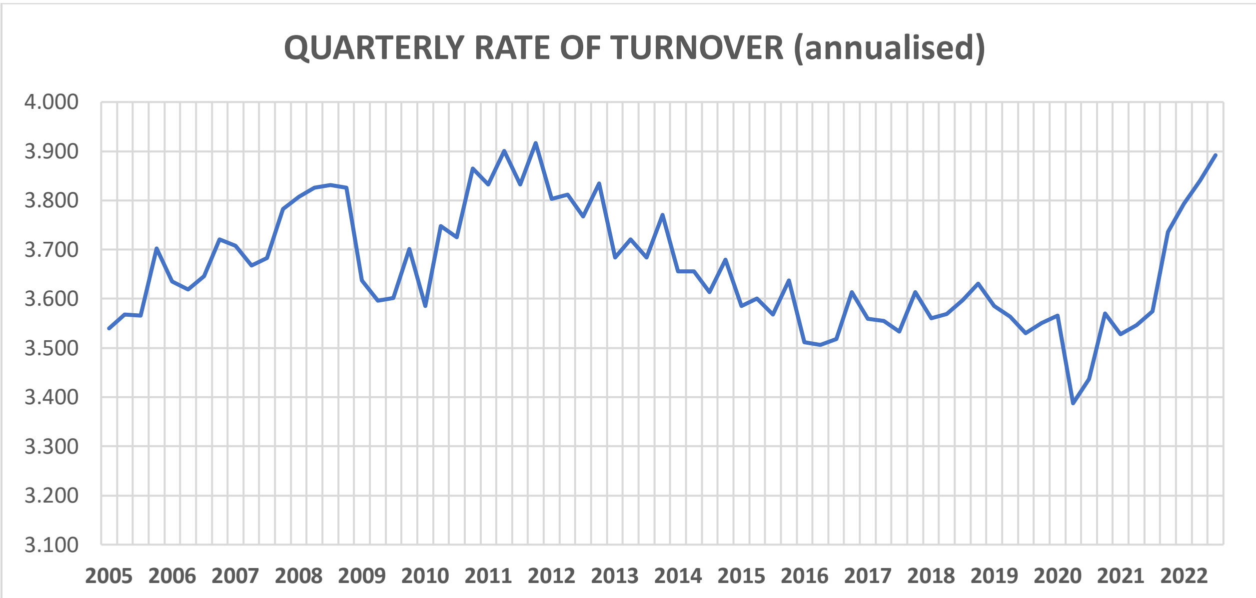



**Graph 2. (Change in monthly retail sales.**



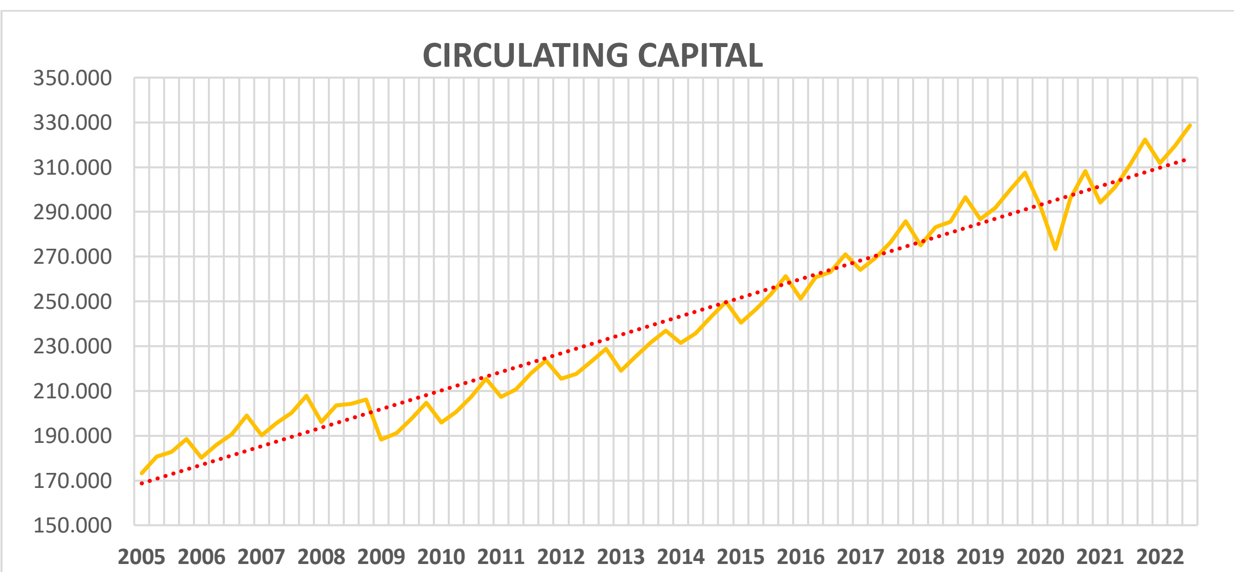
The following graphs go up to Q3 and cover the non-financial corporate sector. As the data becomes available for Q4 I will update the graphs. Taking Q3 into account, there was an improvement in the sector compared to Q2 which I covered in my previous post on Germany. I expect a sharp deterioration in Q4.

**Graph 3.**



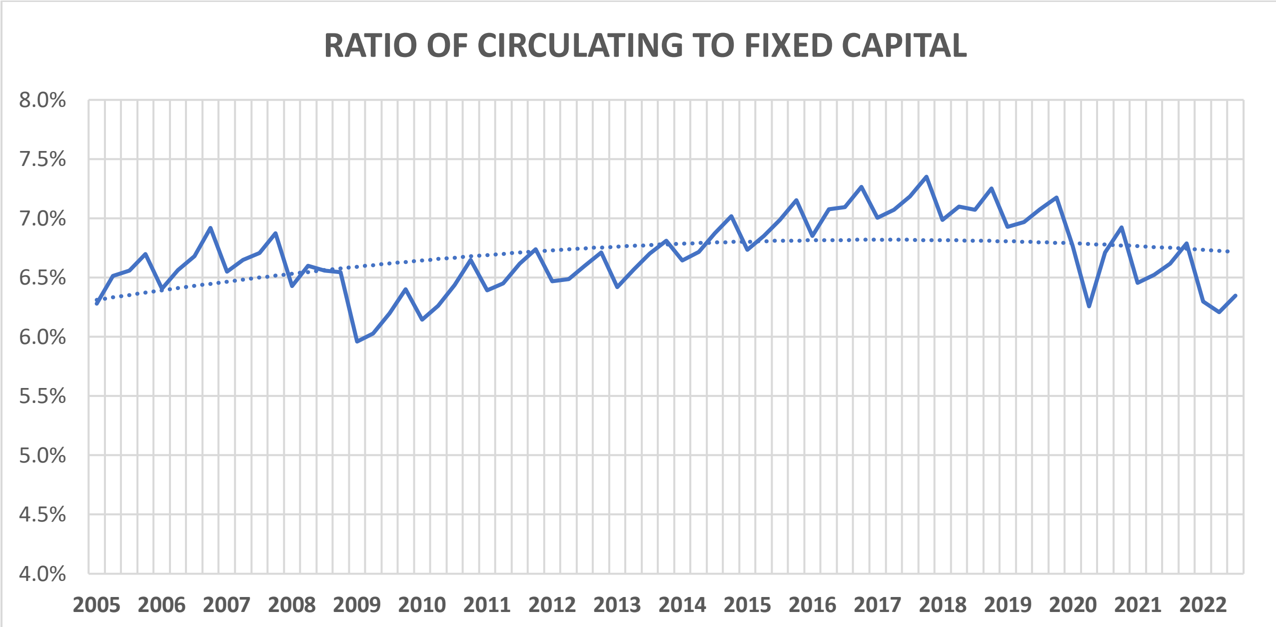

Quarterly turnover accelerated to reach levels last seen in 2011. This acceleration reduced the turnover time from 100 days in 2019 to under 94 days currently. This saving of 6 days in working capital helped offset the rise in nominal working (circulating) capital due to high inflation during the quarter.

**Graph 4.**



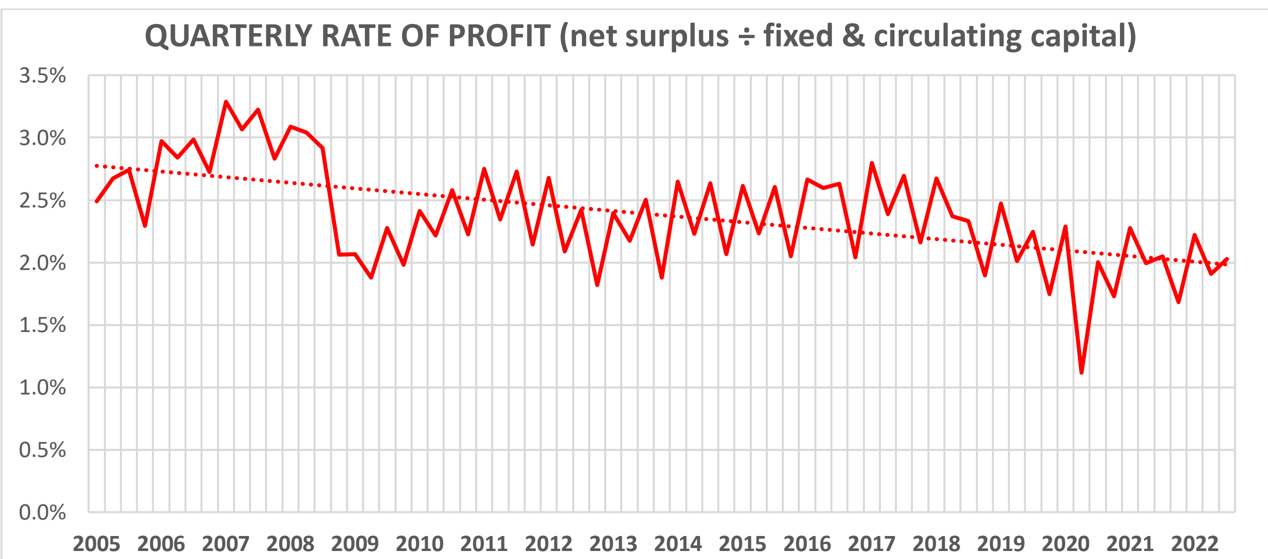

Which in turn inhibited the growth of circulating capital compared to the growth of fixed capital. During periods of high inflation circulating capital tends to grow relatively faster than fixed capital.

**Graph 5.**




And the effect of turnover inhibiting the rise in circulating capital, and therefore on total capital, was positive for the rate of profit. Nonetheless the long term trend in profitability continues downwards with the current rate of profit down by a quarter compared to 2017 and by two-fifths compared to 2007.

**Graph 6.**




All the data and calculations can be found in the accompanying spreadsheet titled *'GERMAN DATA 2022 Q3 WORKPAGE WITH GRAPHS'.* Original data derived from Destatis Statistiches Bundesamt National Accounts, Sectoral Account.

The data for Q4 will be released at the end of February at which pointI will update the graphs, provide full year data and a more comprehensive analysis of the German economy and its prospects.

**The Balloon Pops, no not that Balloon, the one made in the USA not China.**

Nothing redeems the USA. Their politicians are scurrilous rogues on both sides of the House, the most twisted one can encounter. The one question that nobody is asking: "*is why the US Air Force did not shoot down the Chinese Weather Balloon when it was entering the USA rather than leaving it*? Answer, political opportunism, (and no it was not due to the fact the USAF had to scurry back to the Ukraine to retrieve a missile because they had given all of them to the Ukrainians). The balloon provided an opportunity to make a national scandal of China spying on the USA thereby threatening the country. The balloon was a gift to the US neocon warmongers and planet destroyers and their agenda of stoking up war with China. It's a wonder they didn't suggest it was carrying a new coronavirus ready to launch over Montana.

US politicians, despite Biden's upbeat 'State of the Union' address, should be focusing on the actual balloon that affects the lives of its citizens, and that is the economic balloon which is so big that when it bursts it will litter the country coast to coast. On Thursday the Congressional Budget Office released Federal Tax receipts and Expenditures for January. There are statistics, then there are US Commerce Department Statistics, then there are Bureau of Labour Statistics and then there are tax receipts. Official Statistics continue to paint a picture of an economy skating around a recession. The clownish GDPNow estimate is for growth of 2.2% this quarter.

So what do the tax receipts have to say? Exactly the opposite. Total tax receipts for the period October to January are down nominally by 3% or in real terms by 10%. In fact tax receipts fell by 4% in January indicating an acceleration in the rate of fall.

MONTHLY BUDGET REVIEW FOR JANUARY 2023 — FEBRUARY 8, 2023

**Table 2.**
**Receipts, October–January**

Billions of Dollars

| Major Program or Category | Actual, FY 2022 | Preliminary, FY 2023 | Estimated Change: Billions of Dollars | Estimated Change: Percent |
|---|---|---|---|---|
| Individual Income Taxes | 825 | 782 | −42 | −5 |
| Payroll Taxes | 469 | 504 | 35 | 7 |
| Corporate Income Taxes | 112 | 112 | −1 | −1 |
| Other Receipts | 111 | 75 | −35 | −32 |
| **Total** | **1,517** | **1,474** | **−43** | **−3** |
| **Memorandum:** Combined Individual Income and Payroll Taxes | | | | |
| Withheld taxes | 1,079 | 1,098 | 19 | 2 |
| Other, net of refunds | 215 | 188 | −27 | −12 |
| **Total** | **1,294** | **1,287** | **−7** | **−1** |

Data sources: Congressional Budget Office; Department of the Treasury.

Total Payroll taxes (including withheld) rose 3.5% or by minus 2.5% when we factor in an increase of 1.5% in payrolls (or 1.35% adjusted for part time workers) and a 4.5% rise in weekly pay which adds up to 6% (January 22 to January to January 2023). If we take the more significant withheld taxes on its own, the fall is equal to 4%. In January alone the fall was 7%, a fall sufficient to overcome the confounding Covid base effects in January 2022. And yet in January the economy allegedly added 894,000 jobs according to the

Household Survey or 517,000 jobs according to the Establishment Data. In total over the 4 month period a million more full-time equivalent jobs were added. I have heard of Seasonal Affective Disorder which is depressing, but this is Seasonal Statistical Disorder which is psychotic.

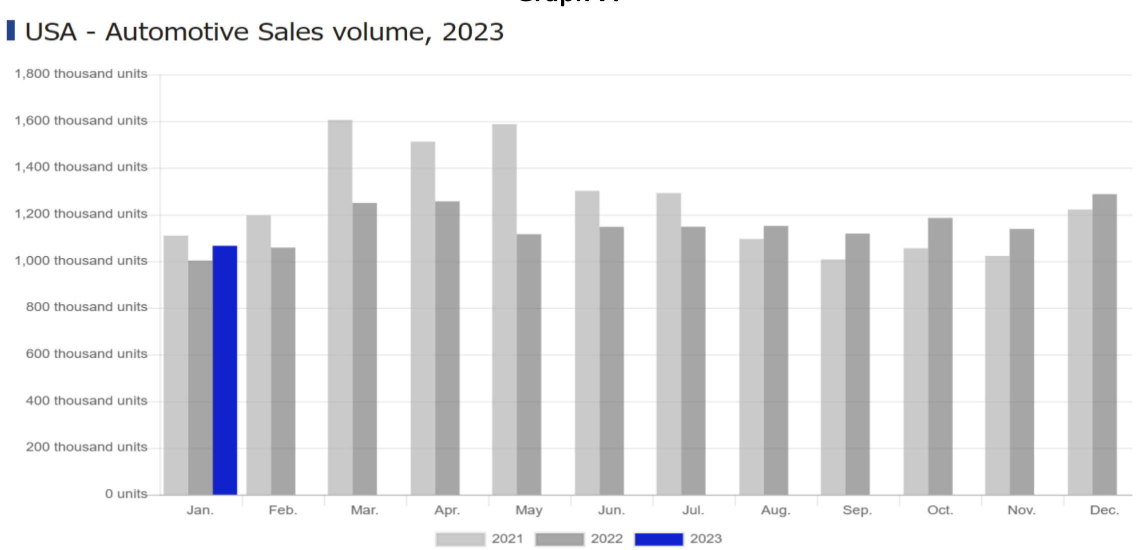
You cannot have an economy growing when its tax receipts are down 10% and the rate of fall is accelerating. In fact, when we add in the 1.0% real growth in GDP to tax receipts which are down 10%, the resulting gap of 11% requires a lot of explaining. On the other side, outlays (spending) jumped 12% helped by soaring interest payments on the Public Debt. Altogether this adds up to a fiscal gap of 15%. This is bound to add some heat to the discussions over raising the debt ceiling or balloon in Congress, given that in this financial year the deficit is likely to exceed 6% of GDP.

While the fall in S&P 500 earnings per share yoy in Q4 2022 rose slightly to -4.9% according to FactSet, in its current report, this was offset by larger falls in future earning prospects during the first half of this year. "*82% of the S&P 500 companies (58 out of 71) that have issued EPS guidance for Q1 2023 have issued negative guidance. This percentage is well above the 5-year average of 59% and the 10-year average of 67%." "For Q1 2023, analysts are projecting an earnings decline of -5.1% and revenue growth of 1.9%. For Q2 2023, analysts are projecting an earnings decline of -3.3% and a revenue decline of -0.1%."* If the revenue growth turns out to be accurate for H1 2023, this portends a US recession in the first half of the year. Of course, FactSet like other analysts expects things to bounce back in the second half of the year.

In case anyone was confused by the recent behaviour of the capitalist class hoarding workers and pretending to be green, don't be. This week markets again rewarded every company laying off workers in order to prop up their sagging profit margins, and they rewarded the energy companies for pumping profits by pumping oil and gas, while leaving all their greenish promises in the ground.

January consumer data is mixed. The *Red Book* Sales data for retail saw December's yoy increase of 7.2% fall to 4.95% in January, a fall in monthly volumes for the first time in over a year. "*Meanwhile, the cardboard industry reported in Q4 that it saw box shipments decline by 8.4% compared to the last three months of 2021. That's the largest downturn since the Great Recession".* While volumes of bubble wrap for general merchandise were down 20% as well. Wonder if *GDPNow* will be popping bubble wrap?

**Graph 7.**




(Source: MarkLines)

On the other hand auto sales were up in January while drink driving went down, as beer sales in December fell by 14.1%. The car industry will pay for gouging its customers forcing them to overpay for cars loaded with extras. The high cost of cars allegedly due to chip shortages means typical trade-in periods will now be extended by years.

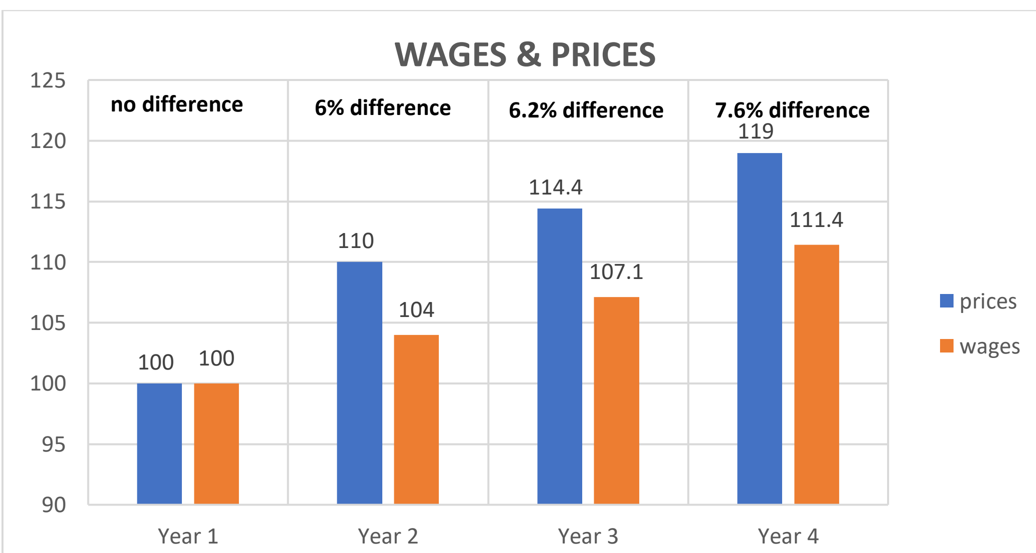
**In Britain the Strike Wave faces its biggest challenge.**

Many on the left consider the pending anti-union law intended to force public sector workers to provide services deemed essential by Ministers in numbers deemed essential by Ministers, to be the biggest threat to the current *cost-of living* strike wave. It is not. The biggest threat to the strike wave is rapidly falling inflation.

When questioned, *Bailey*, the Bank of England Governor said pay negotiations should be forward looking. Everything being equal he expected inflation to have subsided to 4% by year end. Implied in this forward looking perspective was his expectations that wage demands would not be met in full. Of course the government seized on his words to justify their tough stance on their negotiations with public sector unions. Clearly if inflation expectations are falling, then by way of an example, a 5% rise for the past year and a 5% rise for the next year, as has been offered in the railways, becomes more attractive.

However it must be pointed out, as I have done in the graph below, what the consequences of a one-time fall in pay behind inflation are. In year 1 wages have kept up with inflation so both are equal to 100. In year 2, say representing 2022, prices rose by 10% but wages only by 4%, yielding a gap of 6%. In year 3 both prices and wages go up by 4% but this does not stop the gap getting bigger. In year 4 prices and wages again go up in tandem by 4% but this does not stop the gap expanding even further. The only thing which will reduce the gap is wages rising faster than prices.

**Graph 8.**




This is why it is so important to hold the line on pay falling behind prices, and to resist any offer of a lump sum to compensate for a below inflation settlement. In the following years, that lump sum will be recouped by the bosses because the gap will only grow due to year 2 having set the wage-price pattern for future years.

On the left we use the term misleaders to describe the bureaucrats who populate the top of the unions and Labour Party. Predictably they are charged with four failures of leadership. Firstly, for balloting their members too late. Once it became clear a price spiral was occurring at the beginning of 2022 they should have all rushed out ballots to comply with the law so as to have strike agreements in place at the earliest opportunity freeing them to call legal strikes. And they should have done it together as one, coordinated by the TUC. Secondly, they should have recognised that with government coffers bare, the government was bound to dig its heels in. Accordingly, that isolated short duration strikes would bankrupt strike funds long before they hammered the government. Thirdly, they should have combined the strike action. All the unions striking together means the sum of the strikes would rise way beyond their individual components. Fourthly, in estimating the level of struggle needed to win, the unions needed to build organised links with the communities to gain their support, that is participation on the picket lines as a minimum, as well as appealing for strike funds. The large rallies around *Enough is Enough* showed the potential for linking the strikes up together and for linking them with the community. Alas, though again no surprise, *Enough is Enough* soon became *Where is Where* as the initiative died a bureaucratic death.

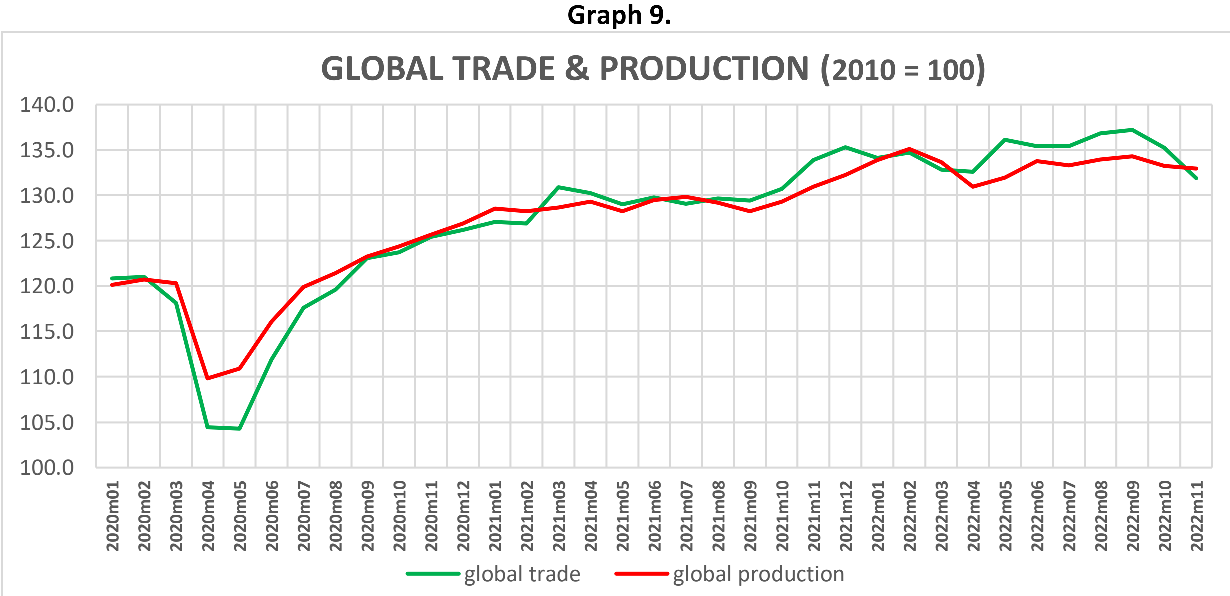
The result is that workers are being worn out by isolated sporadic strikes. Strike funds are being depleted. Repeating the same tactics and failing is beginning to demoralize strikers.

This is what the trade union leaders are guilty of. Even a child would know that nothing less than an indefinite united strike by all the unions would suffice to break this wildly unpopular but determined government. But then no child is paid £150,000 p.a. for sitting at their desk in fear of losing it should the struggle escalate. The strikes are at the cross roads. Another three months of isolated short-term strikes and the tide will have turned decisively in favour of the bosses and their government.

**Yes there is a global industrial recession!**

The *CPB Global Monitor* is one of the best authorities on global industrial production and trade. From having been positive in September, October and Novembers' data was sufficiently negative so as to drive world trade momentum down to -0.8% and global production momentum down to -0.1%

**Graph 9.**




(Source: CPB World Trade Monitor)

And December and January are looking worse. *Maersk* the shipping line and bellwether for the industry "*moved 2.8 million FEUs of cargo in the latest period, down 14% year on year and 7% quarter on quarter." "Maersk CEO Vincent Clerc acknowledged that the company underperformed the overall industry, which saw volumes drop around 10-11% year on year in the fourth quarter*". Containers shipped by the freight industry as whole were below the levels shipped in 2019. Maersk anticipates a fall in global container volumes in 2023 and for its profits to fall by three quarters. Additionally, the forward looking view by *FreightWaves* analysists is equally pessimistic. *"Beyond seasonality, the across-the-board rate weakness in (January) ocean shipping points to worsening recessionary pressures around the globe, and the "China reopening" sales pitch is overblown."* Taiwan's exports were down 21.2% in December reflecting the crisis in the chip industry as was South Korea's, down 16.6% yoy. China's exports also contracted more sharply than the month before to an annual rate of -9.9% in December.

**Conclusion.**

It is likely that Germany's fourth quarter GDP will be revised down in the second release. It is likely that British GDP will be revised down as well despite the fact that the *Office for National Statistics* shares a special relationship with the *Bureau of Economic Analysis* in the USA. It is safe to say, putting aside the official data, that the world is now in an industrial recession whose inflection point was last September. It is also safe to say, that the upbeat view this recession will abate by mid-year giving way to renewed growth in the second half of the year, is without foundation.

Brian Green, 11th February 2023.