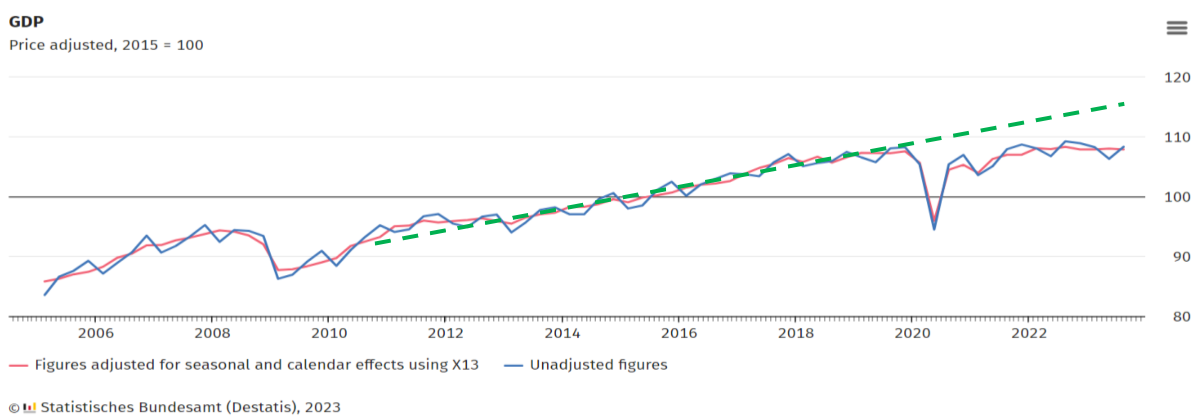
GERMAN Q3 ECONOMIC DATA SHOWS CONTINUED WEAKNESS.

Destatis the German department of national statistics has just released third quarter data for the economy and for the non-financial corporate sector. The prospects for German capital remain grim.

"The gross domestic product (GDP) fell by 0.1% in the third quarter of 2023 compared with the second quarter of 2023 after adjustment for price, seasonal and calendar variations." "After the weak economic development seen in the first half of 2023, the German economy began the second half of the year with a slight drop in performance," says Ruth Brand, President of the Federal Statistical Office. Effectively in real terms the German economy has not grown since the Ukrainian war and the loss of Russian piped gas. In more detail: "*GDP in the third quarter of 2023 was down a price adjusted 0.8% compared with the third quarter of 2022. After price and calendar adjustment, the decrease was smaller (-0.4%), as there was one working day less than in the same period a year earlier."*

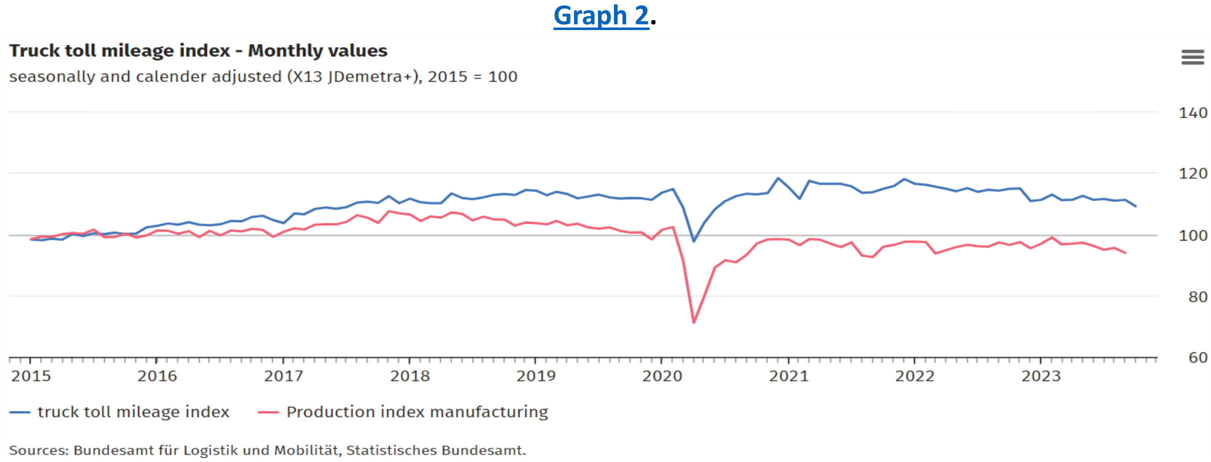
The loss of potential output compared to the pre-pandemic trend is now running at 7% p.a. (See green dotted trend below). Like the UK the aggregate loss in GDP adjusted for the uplift created by the infusion of Covid assistance funds, would be close to half a year's lost output. So, why oh why. provoke a war on your borders when your economy is still reeling from the pandemic. The German ruling class like any of the other capitalist classes has shown themselves to be unfit to rule.

Graph 1.



And unlike the USA this fall in overall consumption was reflected in less freight movements as below.

Graph 2.

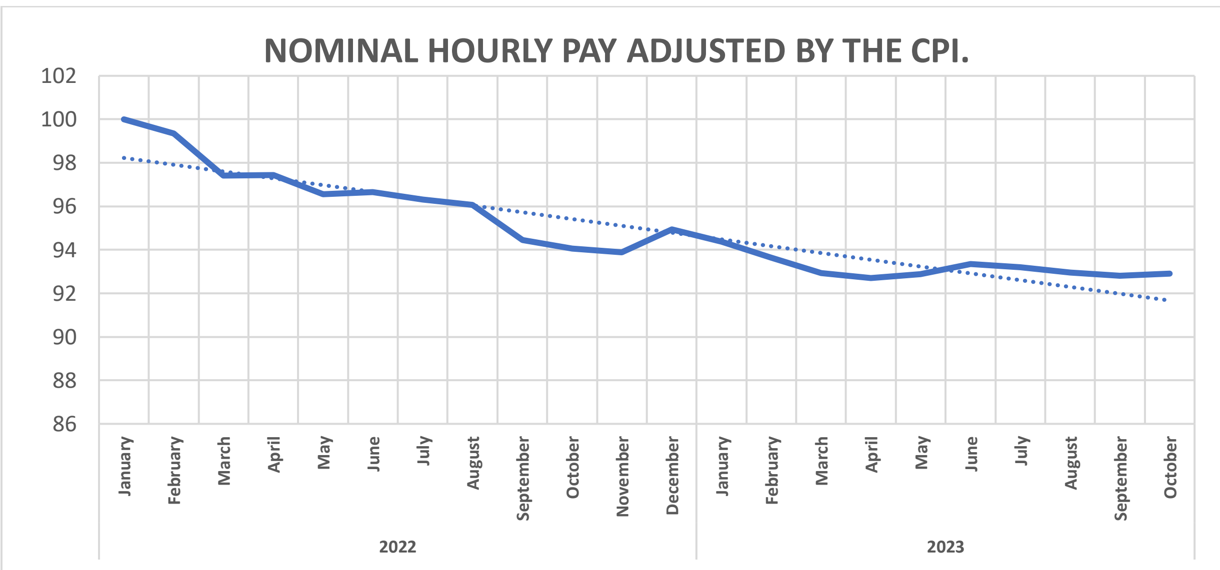


In fact, latterly freight movements have fallen below 2019 levels. This also reflects softer foreign trade, including both imports and exports. "*Foreign trade decreased in the third quarter of 2023 on a price, calendar and seasonally adjusted basis. Total exports of goods and services fell by 0.8% compared with the second quarter of 2023. Imports declined even more (-1.3%).*"

Living standards.

The graph below is composed of nominal hourly wages in industry and services divided by the Consumer Price Index. Since the outbreak of the war real earnings have been stuck at about 93% of their 2020 levels, signifying an ongoing real cut in wages of about 7%. This fall in income has led to a fall in consumption, especially on basics: "*Price adjusted household final consumption expenditure was 2.0% lower compared with a year earlier. Here, the persistently high prices continued to have a noticeable effect especially on food and beverages, restaurant and accommodation services and semi-durables such as clothing. In each of these categories, considerably less was spent than in the previous year, after adjustment for price variations*." No wonder the right is making a comeback.

Graph 3.



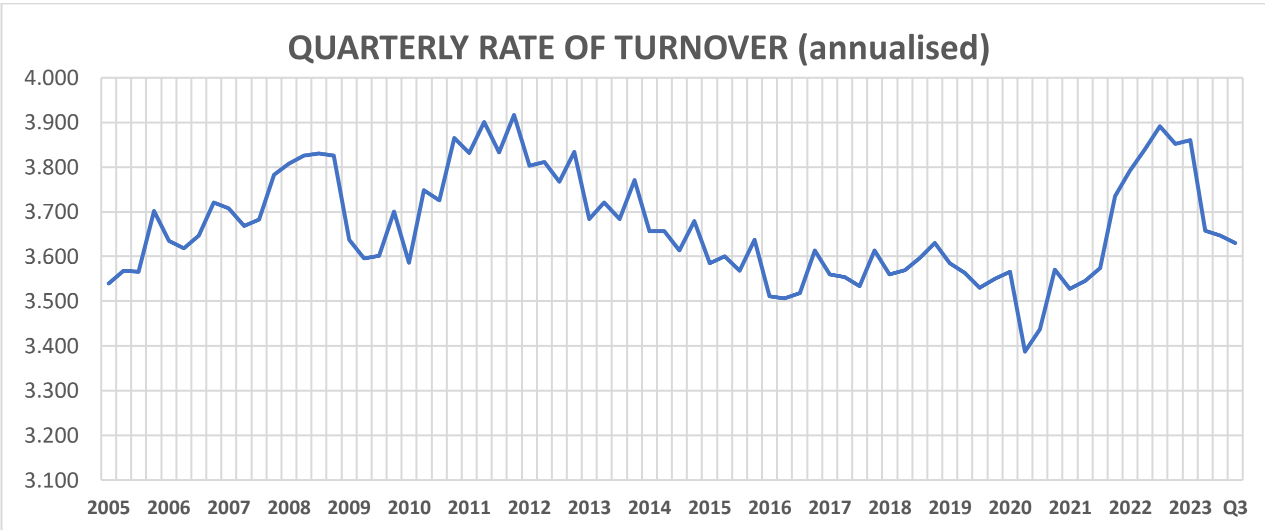
Employment, unlike consumption, was largely unchanged though weakness at the end of the quarter was detected. "*The economic performance in the third quarter of 2023 was achieved by roughly 46.0 million persons in employment whose place of employment was in Germany. This represented an increase of 337,000, or 0.7%, compared with the third quarter of 2022. At +0.3% (not seasonally adjusted), the usual autumn upturn on the previous quarter was however somewhat lower than a year earlier.*"

Non-financial corporations.

A benign labour market reinforced by a treacherous labour bureaucracy has helped support investment. "*Positive contributions came from gross fixed capital formation. Compared with the previous quarter, gross fixed capital formation in machinery and equipment in the third quarter increased by 1.1% and gross fixed capital formation in construction by 0.4% after price, seasonal and calendar adjustment.*" However as we are about to see in the following graphs, at a fundamental level the German economy remains vulnerable.

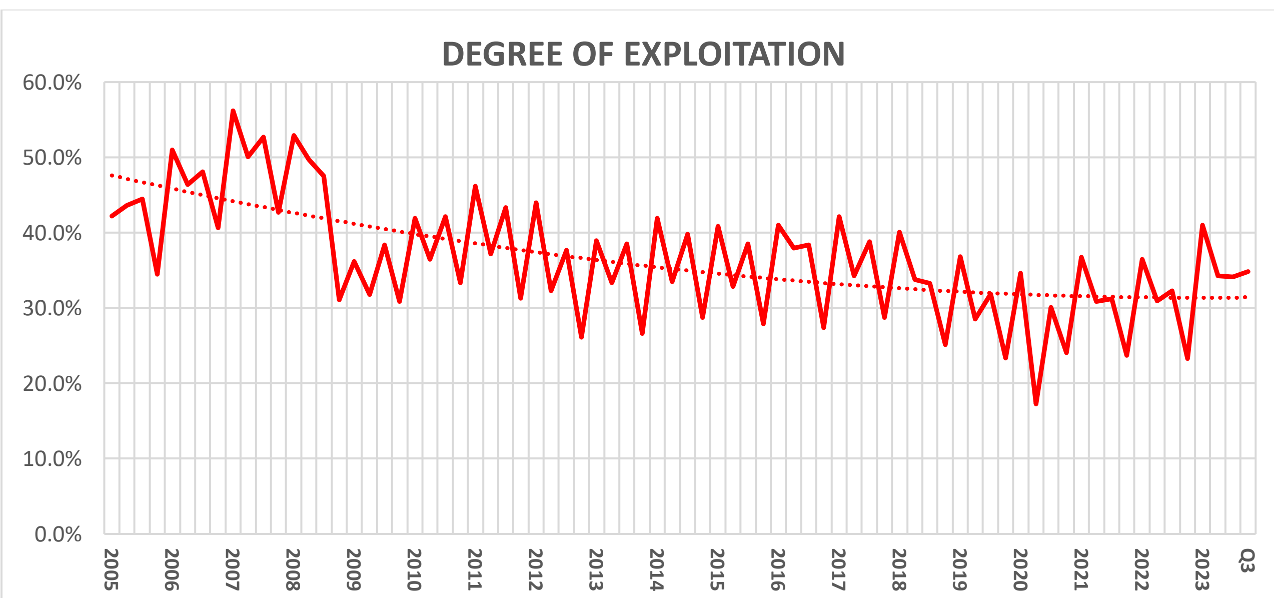
(All data and graphs can be found in the accompanying spreadsheet titled: 'GERMAN DATA WORKBOOK up to Q3'.) In line with a stagnant to falling GDP, turnover decelerated back to pre-pandemic averages. The steep fall from the artificially high levels due to Covid funds in 2022 has given way to a more subdued but continuous fall in 2023.

Graph 4.



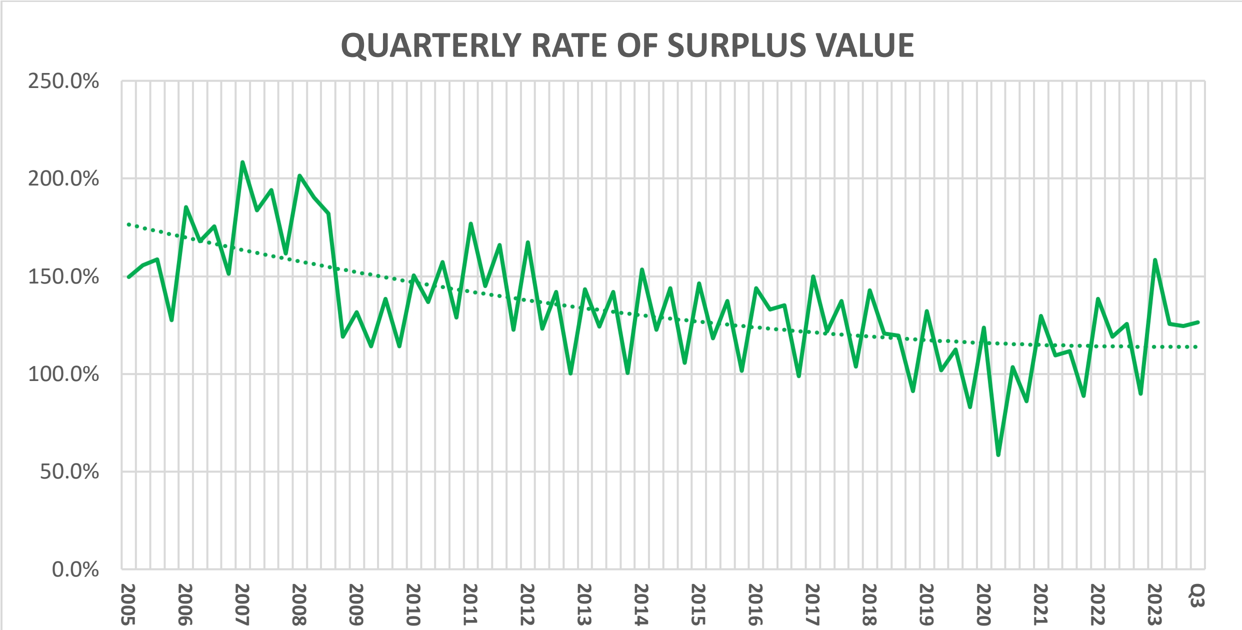
On the other hand the degree of exploitation improved. It is now higher than in 2018 & 2019 and on par with 2015 – 2017. The rise in the degree of exploitation should offset the fall in turnover when determining the rate of surplus value, which is the degree of exploitation x annual rates of turnover. (NVA less workers' compensation = net surplus then when divided by workers' compensation = degree of exploitation.)

Graph 5.



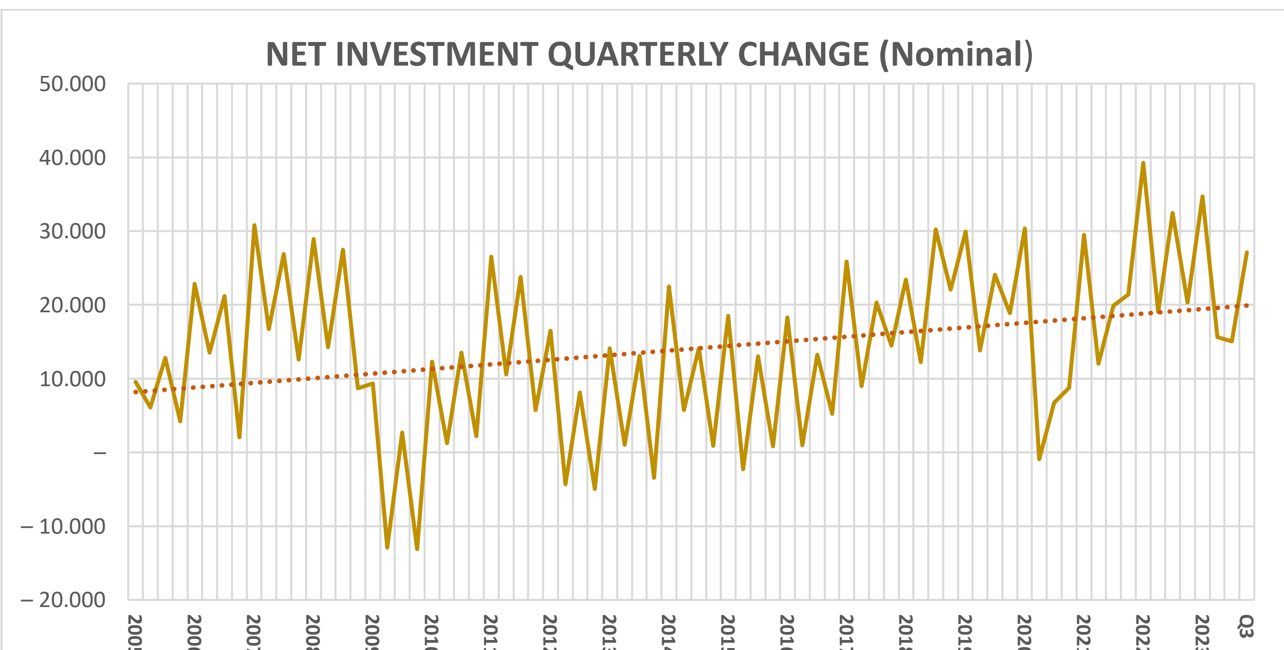
And indeed it does, there is an upward trend in the rate of surplus value back to pre-pandemic levels.

Graph 6.



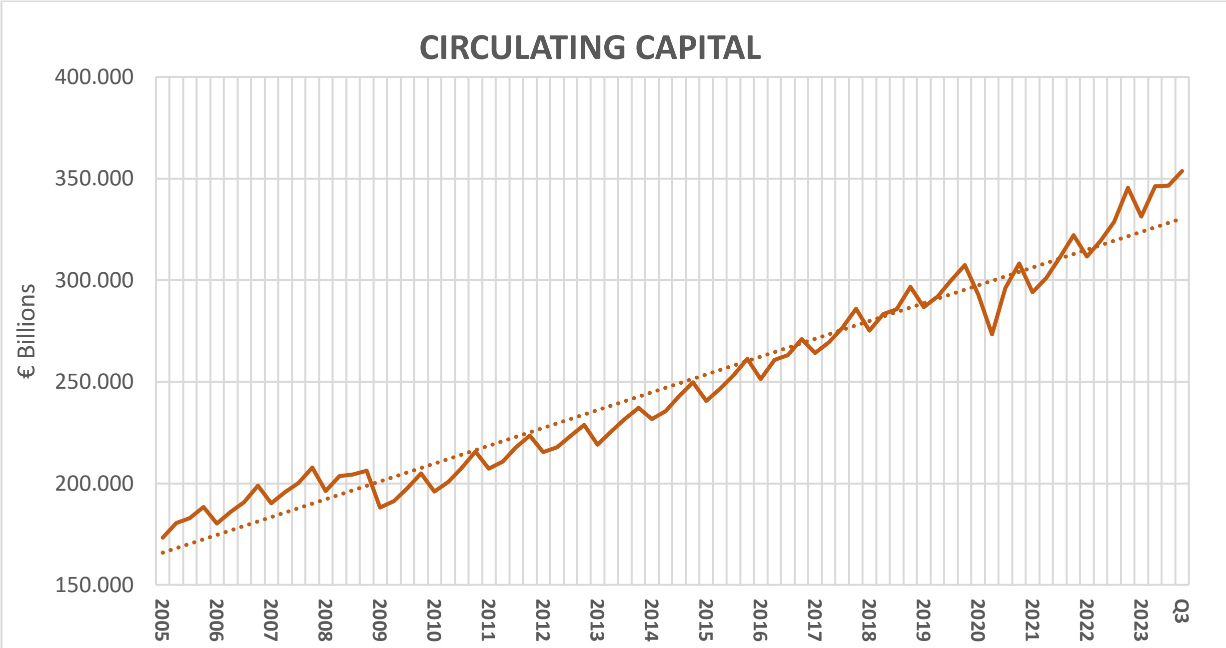
The rate of surplus value in so far as it determines the mass of profits provides one side of the rate of profit equation. The other side is provided by the movement of capital, in this case both fixed and circulating. Net nominal investment, as we have already seen in the GDP data, improved over the quarter. However, in real terms net investment is much lower than pre-pandemic. Nonetheless, the nominal or current price is used to measure capital and is therefore the more important metric when dealing with the rate of profit.

Graph 7.



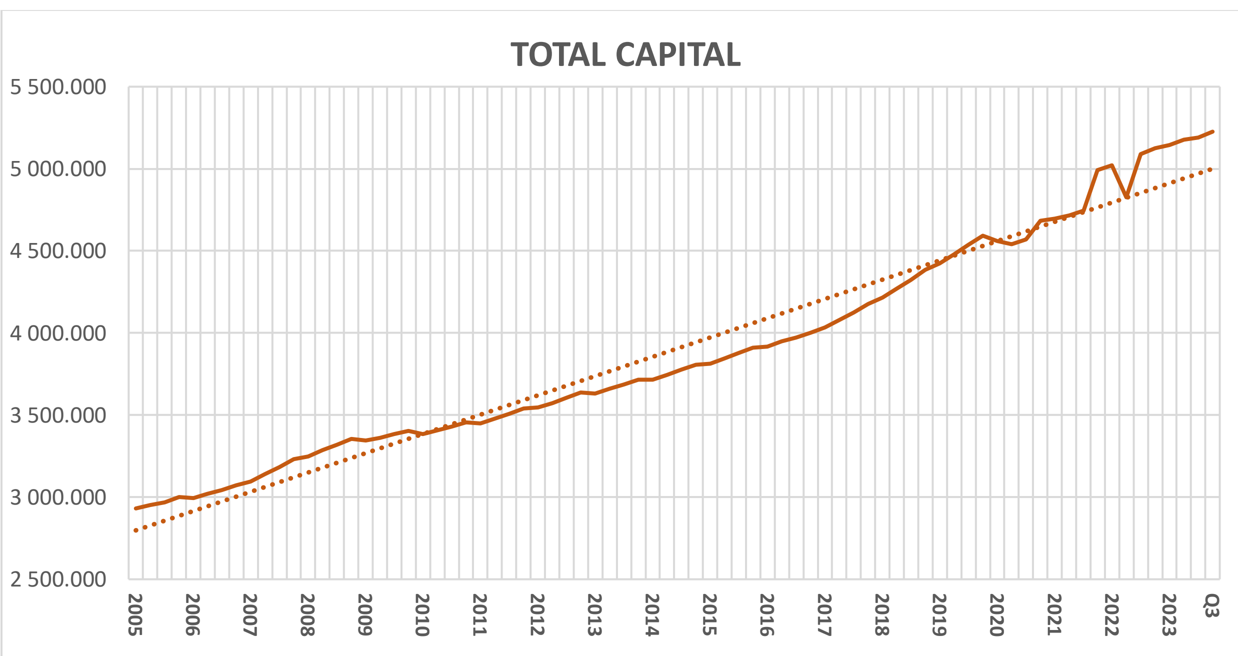
Circulating capital too was boosted by inflation.

Graph 8.



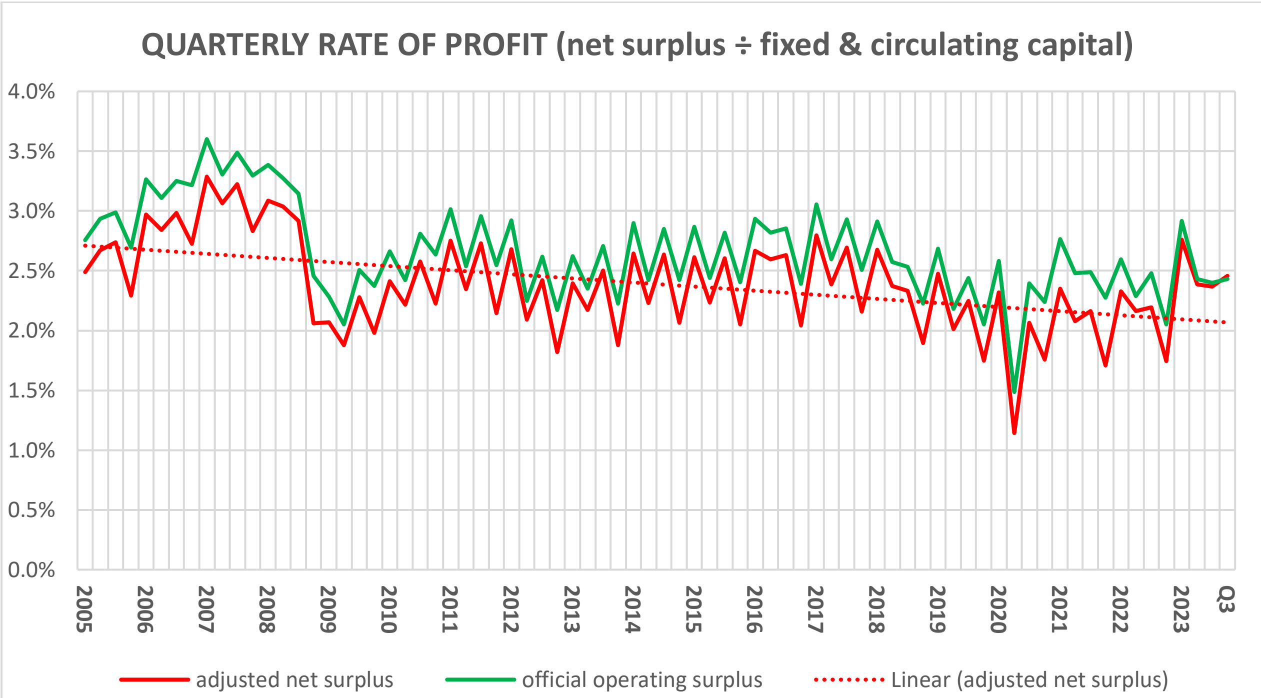
Resulting in the rise in total capital in nominal terms which masked the fall in real terms. It is only price rises which make it appear that the total capital is rising above trend currently, but in so doing it does modulate the rate of profit. (There are more graphs in the worksheet.)

Graph 9.



By combining the rate of surplus value with the mass of capital (fixed + circulating) we arrive at the all important rate of profit.

Graph 10.



The rate of profit has stabilized so far this year at around 2.43% which is slightly up from 2018-9 and just below the levels found in 2012 – 2017. However it is down 25% from the levels pre the financial crisis. In addition the long term trend continues downwards. It is likely that once the fourth quarter results are in, the rate of profit will dip below 2.4%.

In terms of distress, the stabilization of the rate of profit due to depressed wages has been supportive of business. So far this year insolvencies have been moderate. There has been no rise in insolvencies up to August 2023.

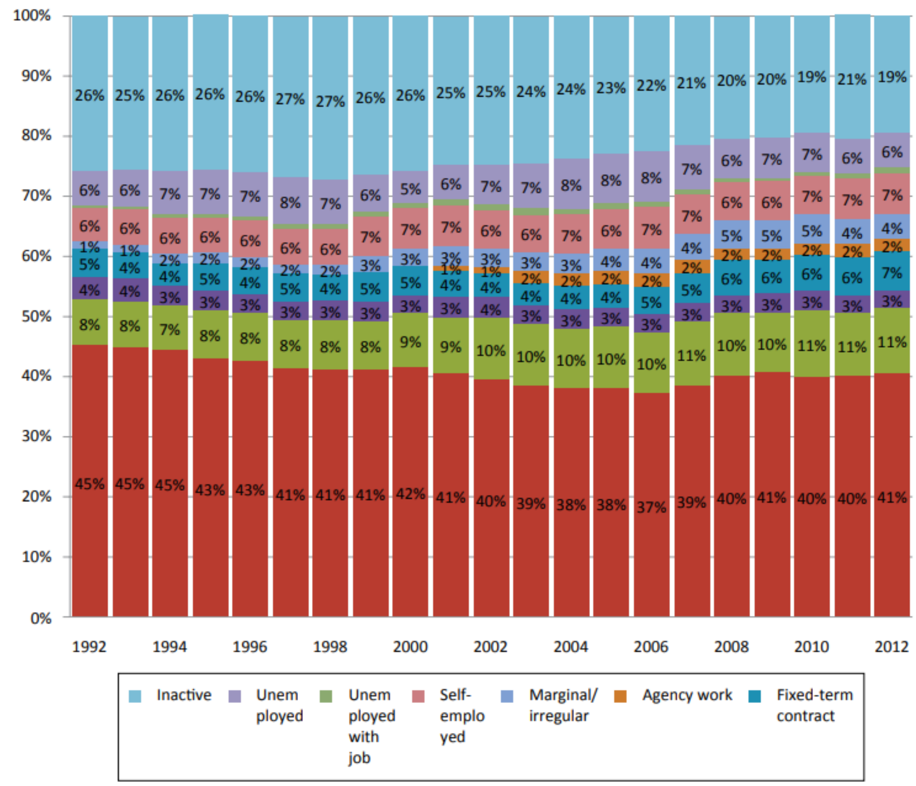
Why did the 1990s sick man of Europe become the sick man once again in the 2020s?

There were a number of factors which helped rejuvenate the German economy thirty years ago. The first was reunification. This expanded the reserve army of labour in Germany tilting the balance of forces in favour of the employers. This also created the opportunity for the German government to enforce, oops pass, harsher employment legislation. In particular it led to a two tier employment structure with newer entrants or re-entrants obtaining jobs which were less secure, with fewer benefits and protections, and which were lower paid. The shift in employment patterns can be seen in the graph below.

In addition, with the opening up of Eastern Europe, once legal systems were set in place and accession (disciplinary) rules adhered to, Germany took advantage of lower wages there by setting up numerous factories and facilities. Such was the scope of this inward direct investment by Germany and others, that it amounted to a restructuring of the European workforce which was only moderated by the free movement of labour within the EU which weighed on wages in Germany itself. And of course to pay for the massive bill for re-unification without taxing the rich, state spending on workers and infrastructure was slashed.

Graph 11.

Fig. 3 Working-age population by employment status, 1992–2012

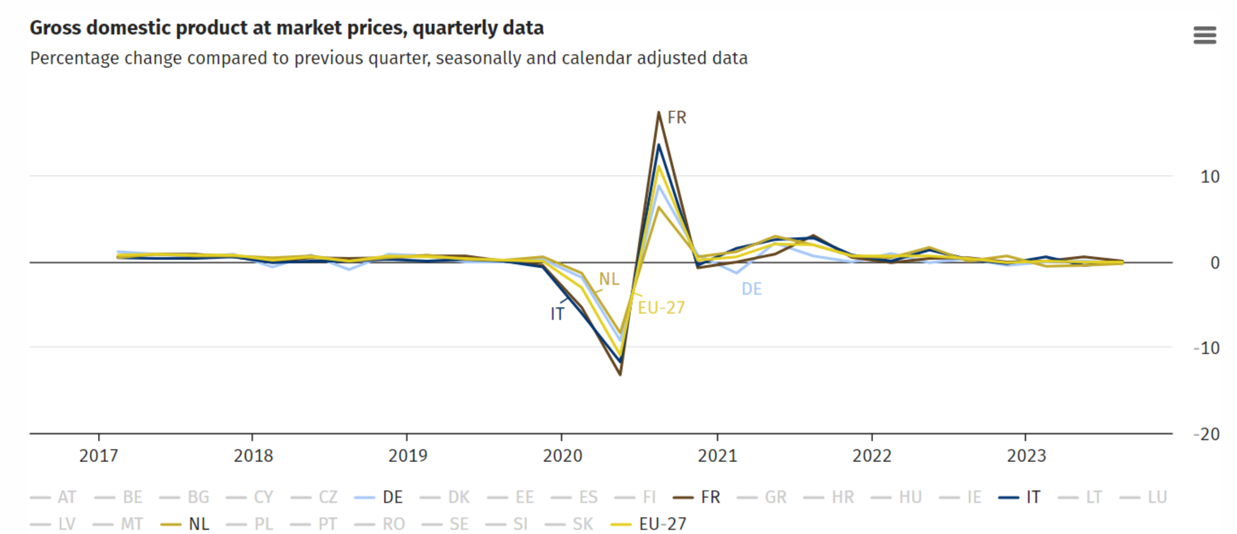


Not only did the Eastern expansion of the EU gifted by the collapse of COMECON (USSR) create additional markets, but so too did the opening up and industrialization of the Chinese Economy. It was Germany with its excellence in engineering as well as scale, who was to provide most of the means of production which over a period of 25 years transformed China into a modern capitalist economy. During those 25 years Germany prospered by supplying these means and taking advantage of the blossoming market in China itself. Indeed, its multinationals got fat on the profits their subsidiaries earned in China. Such was the abundance of riches that Volkswagen, which became China's leading car manufacturer for a time, also became the world's largest car company.

Alas all good things come to an end. By the end of the second decade of the 21st century the period of plenty was coming to an end as China emerged as an international competitor to Germany. In previous articles I pointed out how surveys of German CEOs and CFOs managing large subsidiaries in China concluded that in the near future their biggest competitor would not be the USA, nor Japan but China. The Chinese dream had become a nightmare.

Not only were they losing market share for means of production and articles of consumption, but Germany had no replacement market. Effectively as the graph below shows, the EU was flatlining. The EU, including its major players, has experienced little or no growth since 2017, and the cyclical outlook according to high frequency data, is deteriorating. And as we shall see, the state of the world economy is no better. The most recent high frequency data has confirmed that October was a pivotal month, a month when the world economy took a further step down.

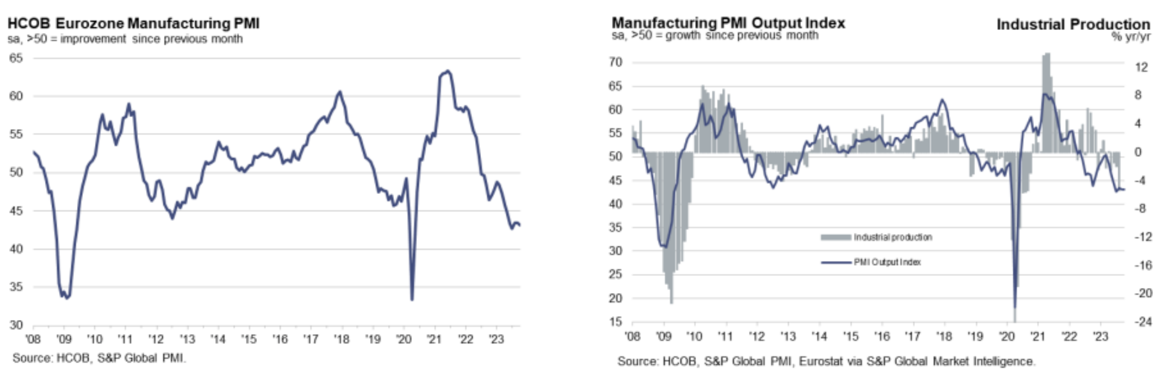
Graph 12.



(Source: Destatis)

As for the overall [Eurozone PMI,](Eurozone PMI) it remains deep in recessionary territory though the fall has stabilized. However, October saw the first EU wide fall in employment. Additionally, the decline in eurozone factory orders is among the sharpest on record in October.

Graph 13.



Nor will relief be found elsewhere. According to the S&P Global PMI which fell to 50 in October: "*Worldwide economic activity stagnated in October, as both the downturn in manufacturing and growth slowdown in services continued. "The J.P.Morgan Global Composite PMI® Output Index – produced by J.P.Morgan and S&P Global in association with ISM and IFPSM – posted 50.0 in October, its lowest reading since January."* And according to the *CPB world trade monitor* global trade momentum in September continued to be negative.

And then of course there is Ukraine. The war has hurt Germany in two ways. The effect on energy prices and the loss of markets in the East. The former is the more important. Many of the industries in Germany were built on the back of cheap Russian piped gas. Many of its industries are energy intensive. For example BASF in Germany uses more energy than the whole of Switzerland. So while the other major imperialist nations are reshoring, Germany is outshoring. There is a definite whiff of de-industrialization taking place as this Financial Times article describes. The great fear is that should sufficient core industries move out of Germany, it will disrupt the whole indu-sphere there, leading to a cascade effect breaking the interconnections between suppliers and customers which has taken generations to build up. The other problem is that while Germany has focused on the hard - its engineering – while it has neglected the soft - its digital industries - which lag behind competitors, and which therefore limits this alternative area of growth and investment. There is no way out for the German economy.

Germany's fiscal crisis.

And of course the ongoing defeat of Ukraine and therefore of NATO will impact Germany politically. It is a myth to assume that Germany was reluctantly dragged into the war against its better judgement. Germany was involved in the Ukraine ever since the beginning of the war which began with the coup in 2014. From that time Germany was Ukraine's largest bi-lateral partner pumping more money into the economy and military than even the USA. This of course need not have prevented Germany stepping back from promoting full scale war in 2022 which has only benefited the USA.

Instead, since the resumption of the war in 2022, Germany has stepped up its financial support for the Ukrainian war effort. German assistance in detail can be found here and here and here. Actual aid is €24 billion and promised aid is €8 billion making up €32 billion in total. Whether the $8 billion promised will ever be forthcoming is in doubt following the constitutional court ruling in Karlsruhe that the government was barred from transferring $60 billion of leftover Pandemic borrowing capacity to its general budget. The court ruled that this breached the so called debt brake legislation passed in 2009 limiting the budget deficit to 0.35% of GDP. For a fuller discussion of this budgetary crisis view this Financial Times article.

The current budget deficit at €86 billion is already over 2% of GDP while the Debt to GDP ratio following the pandemic stands at 81%, well above the mandatory limit of 60%, This latitude has not only been condemned by libertarian critics within Germany, but it has undermined Germany's attempt to enforce fiscal rectitude in the rest of Europe. In many ways the difficulty facing Germany as it seeks to support Ukraine, mirrors what is transpiring in the US Congress. Both are overextended. The irony is exquisite, this should have happened to Russia following the embargoes, not the West.

In a sense this could also be used as a face saving pretext to reduce funding the war effort in Ukraine at previous levels given the Ukrainian army has been defeated with its government in disarray. The divisions in the military-civil establishment in Kyiv was demonstrated last week on Ukrainian television when the Chief negotiator David Arakhamia admitted that a Finnish type peace deal had been agreed in March 2022 between Russia and Ukraine but was torpedoed by the arrival of Borish Johnson, the then British Prime Minister, acting as NATO's enforcer.

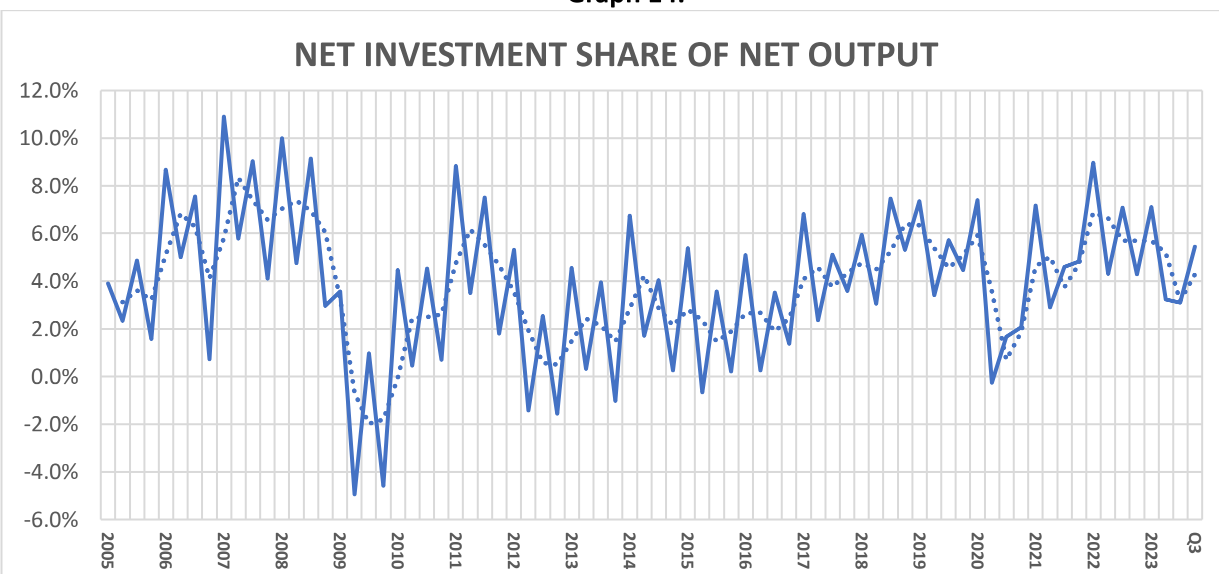
Furthermore, "*Mariana Bezuglaya, the deputy head of the Ukrainian parliament's security, defense and intelligence committee*," acknowledged that the Ukrainian chief of staff had no strategic military plan for 2024. This is stating the obvious, all the depleted Ukrainian military can do now is to go on the defensive fighting trench by trench, that is if they are able to do even that. In addition military stunts like crossing the Dnieper at Krynky to maintain the fable that the Ukrainian army can still advance, continue to backfire. By degrees the Zelensky regime is losing the public with its lies. It is only a matter of time before the chief liar, the delusional Zelensky, apparently the victim of his own lies, departs the political scene to enjoy his ill-gotten gains abroad.

What is interesting is how the western media is covering the situation in Ukraine. One test that things are going badly for the Ukrainians is when they more intensively attribute the problems facing the Ukrainian army to the Russian army. So it is the Russian army not the Ukrainian army falling back, so it is the Russian army which is demoralized and facing desertions, so it is Russian military wives petitioning Putin to bring their men back, and it is Russia that is having weapon and logistics problems. All of this nonsense pervades the entire media including the *Financial Times*. In the case of the *Financial Times* which supposedly briefs the rich rather than the 'ignorant' poor, one would think their briefings would prepare the rich to better cope with changes to the real world. But no.

Conclusion.

The German rate of profit and the rate of investment, despite a weak economy, has held up thanks to depressed wages. This will not endure. The outlook for both the German and world economy is deteriorating. Next year's wage round will be brutal. There are no drivers left for the German economy, which means the capitalists will seek to offload their problems onto the back of German workers.

Graph 14.



I no longer make predictions about the economic future because of the unpredictable climate. If El Nino, for example, currently categorized as strong, becomes super strong, this will impact Northern Europe acutely driving up temperatures and drying out its major rivers, aka its economic lifelines. Germany would be hobbled. This is no exaggeration. We only have to look at what is happening in the Southern Hemisphere where Brazil has recorded its hottest ever temperature at 44.8^{0}C, and it is only November!!

Capitalism, despite the promise of A.I., is entering one of its most challenging periods in a weakened state, just as it did before the Pandemic. However, there are two differences, their exchequers are bankrupt and the heat to come will be more challenging and more damaging to property than even the pandemic was. It will starkly and incontrovertibly confirm that the unprepared capitalist class is unfit to rule, that their economic system is unfit for purpose, and that they are out of time.

Brian Green, 28th November 2023.