

GERMAN Q4 2023 ECONOMIC DATA SHOWS CONTINUED WEAKNESS.

[Destatis](#) the German department of national statistics has just released fourth quarter data for the economy and for the non-financial corporate sector. The prospects for German capital remain grim.

German GDP in real terms fell again in the fourth quarter. This represented three quarters of contracting growth resulting in a real fall in GDP of 0.3% over the year. *“In the first three quarters, [GDP largely stagnated](#) amidst a still challenging global economic environment. For the whole year of 2023, the most recent calculations have confirmed the year-on-year decline in economic performance of 0.3% (calendar adjusted: -0.1%).”* Since the war in the Ukraine and the loss of Russian Gas, the German economy at best has been flatlining. The resulting loss in global competitiveness has weighed heavily on this exporting powerhouse: *“In the 4th quarter of 2023, exports of goods and services were down 1.6% in total on the 3rd quarter of 2023, after price, seasonal and calendar adjustment. The decline in imports was somewhat larger, at -1.7%. Subdued foreign demand, ongoing geopolitical tensions and high energy prices were particularly reflected in the weaker trade in goods.”* Predictably, manufacturing production fell by 1.4%

Graph 1.

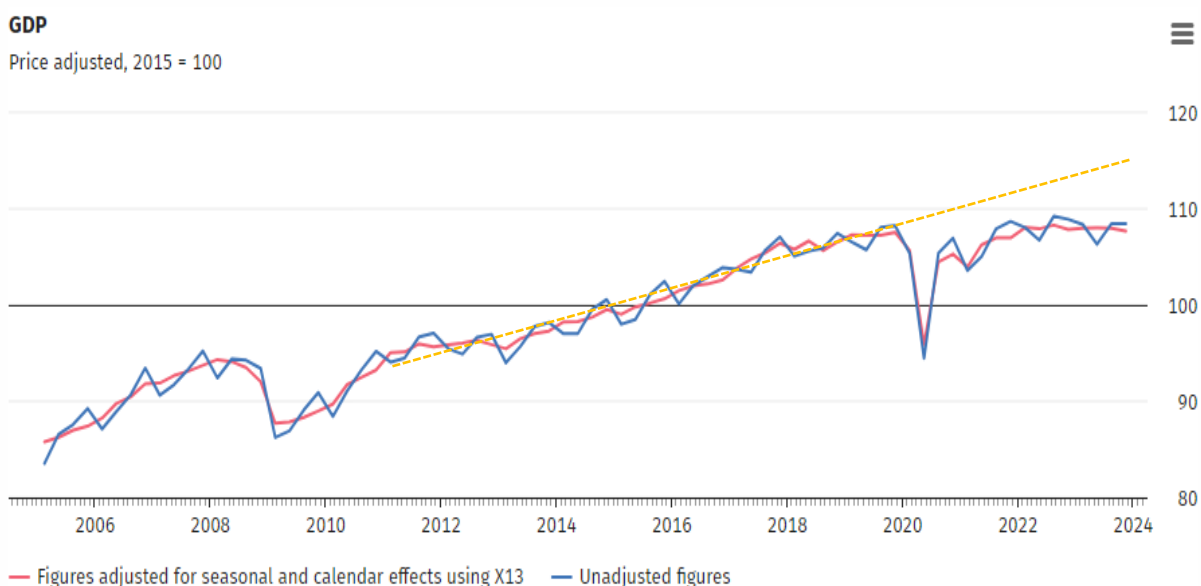


Table 1.

Gross domestic product (GDP)

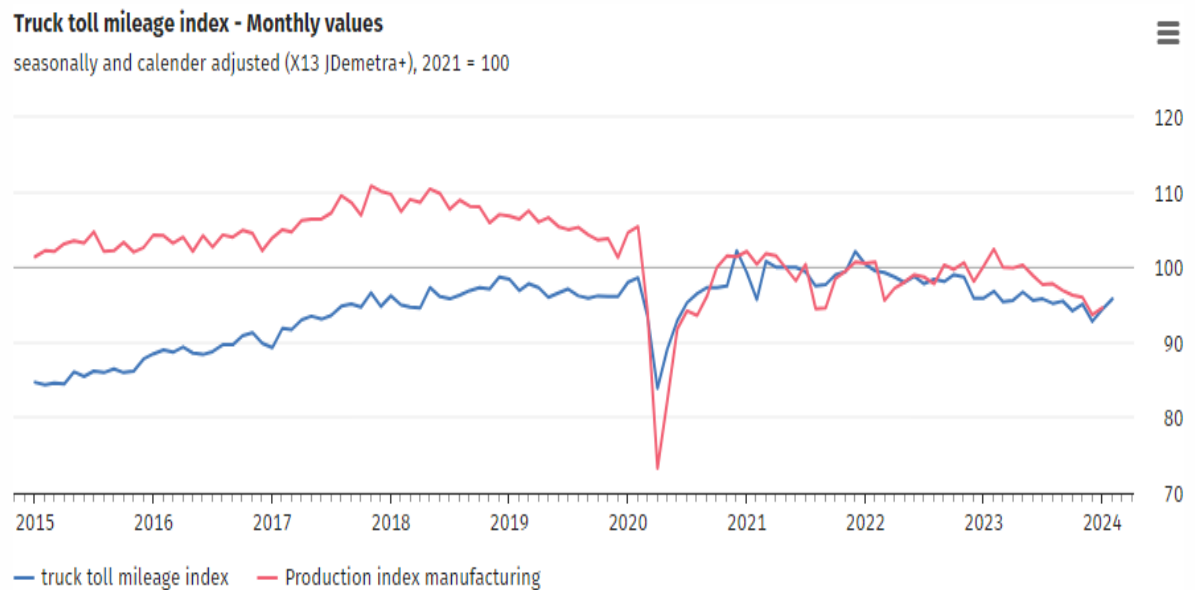
Specification	Unit	2023	2023			
			1st qtr	2nd qtr	3rd qtr	4th qtr
Gross domestic product (GDP)						
price adjusted ¹	%	-0.3	0.3	-0.4	-0.7	-0.4
price and calendar adjusted ²	%	-0.1	0.1	0.0	0.0	-0.3

(Source: [Destatis](#))

The loss of potential output compared to the pre-pandemic trend is now running at over 7% p.a. (See brown dotted trend above). As I wrote in the previous article, 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 suffering the consequences of the pandemic. The German ruling class like any of the other capitalist classes has shown themselves to be unfit to rule.

Unlike the USA where freight movements and GDP do not appear to correlate, they do so in Germany. Below we see a sharp contraction in freight coinciding with the fall in GDP. Trucking freight improved over January and February but despite this improvement freight movements were still below the levels found a year ago and remain below 2019 or pre-pandemic levels. Nonetheless it may be the case that Germany will avoid a recession this quarter.

Graph 2.

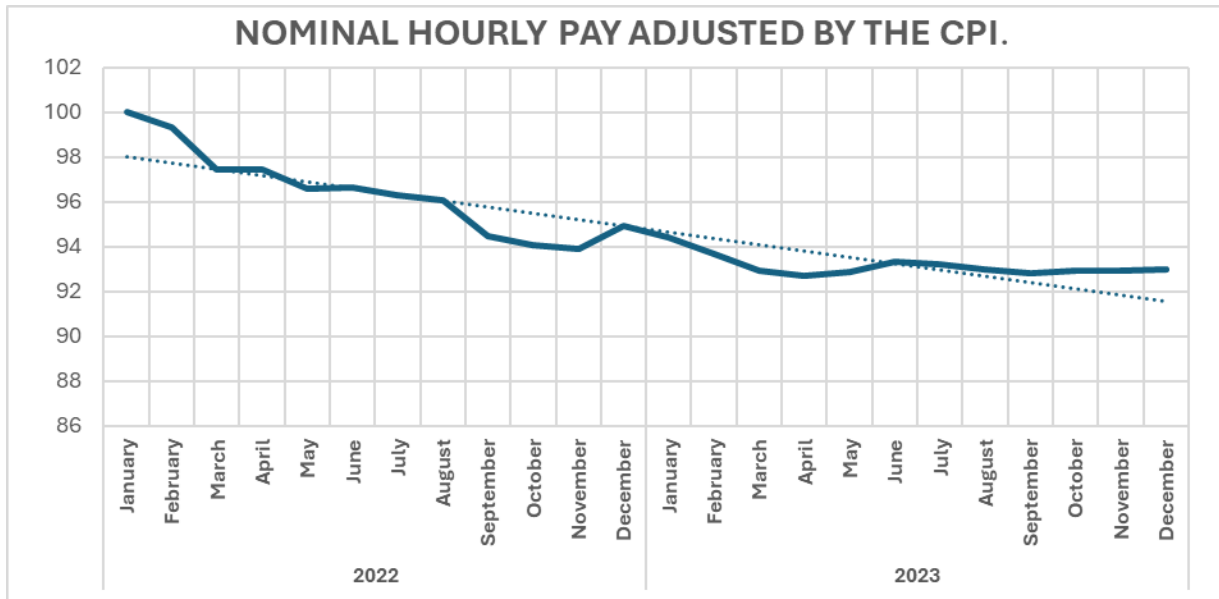


Sources: Bundesamt für Logistik und Mobilität, Statistisches Bundesamt.

Living standards.

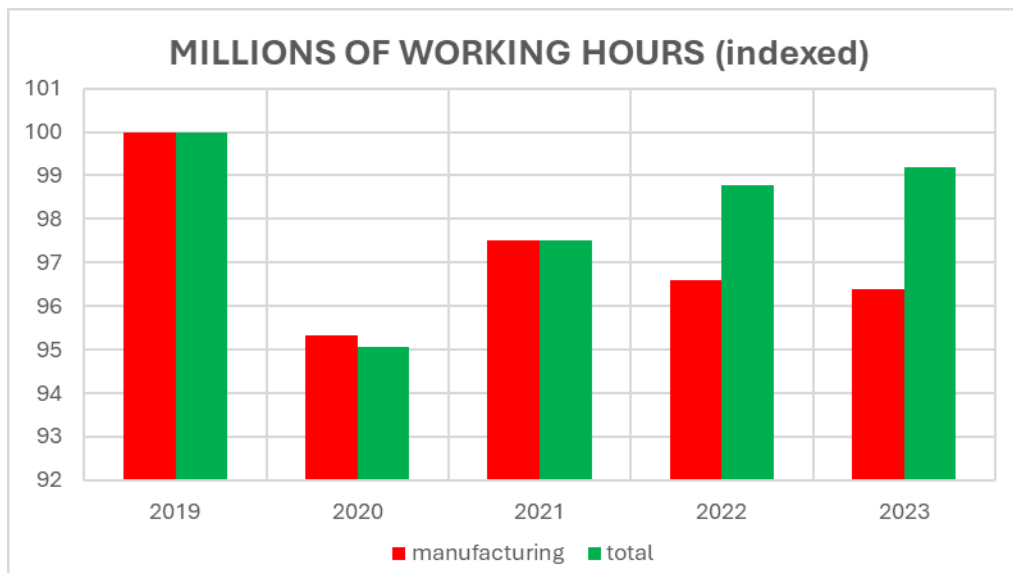
The graph below is composed of [nominal hourly wages in industry](#) and services divided by the [Consumer Price Index](#). Since the outbreak of the war real earnings have been stuck at around 93% of their 2020 levels, signifying an ongoing real cut in wages of about 7%. Wages held steady over the course of the quarter. In the 4th quarter despite the stagnation in worker income, consumption rose marginally: *[“In the 4th quarter of 2023, private final consumption expenditure rose slightly by 0.2% \(price, seasonally and calendar adjusted\) compared with the previous quarter. Positive impetus came from the increased demand for services.”](#)* This growth in consumption was most likely positively influenced by the downward trend in inflation and expectations it would fall further as well as the fall in energy prices.

Graph 3.



[Employment stagnated](#) over the second half of the year and fell in January. Over the second half of the year total employment was up 0.1% but if we include this January it fell by 0.5% annualized due to the 0.6% fall in January. As the more accurate graph below shows, [measuring working hours](#), the total expenditure of hours still lags behind 2019.

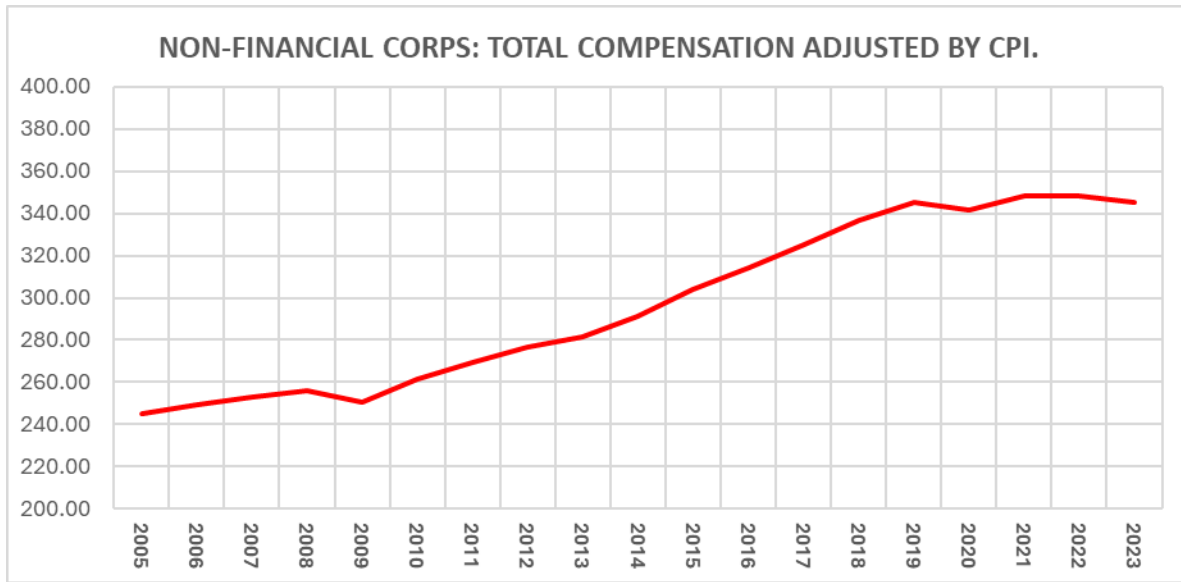
Graph 4.



Non-financial corporations.

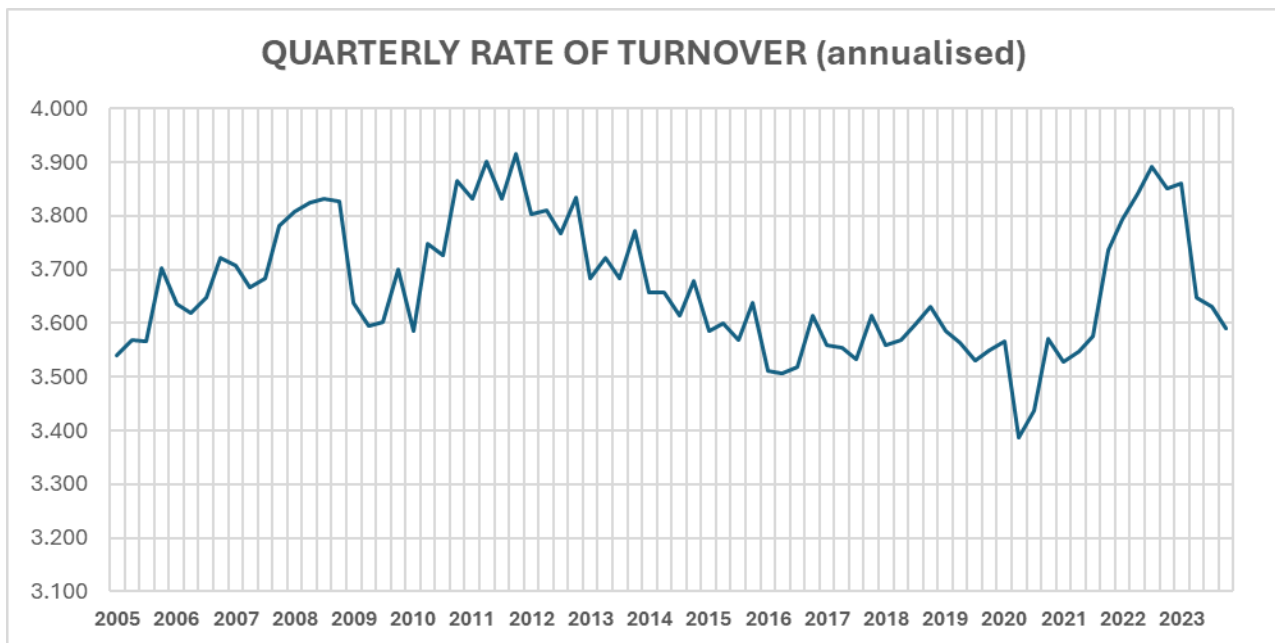
Not only have hours fallen, but so too has total compensation amongst workers employed in the non-financial corporations. As elsewhere wages are flattered by the fact that senior managers are also included in this category and no doubt they enjoy more rapid increases in salaries. In the non-financial corporate sector the fall in total compensation it appears has been less severe than in the overall economy.

Graph 5.



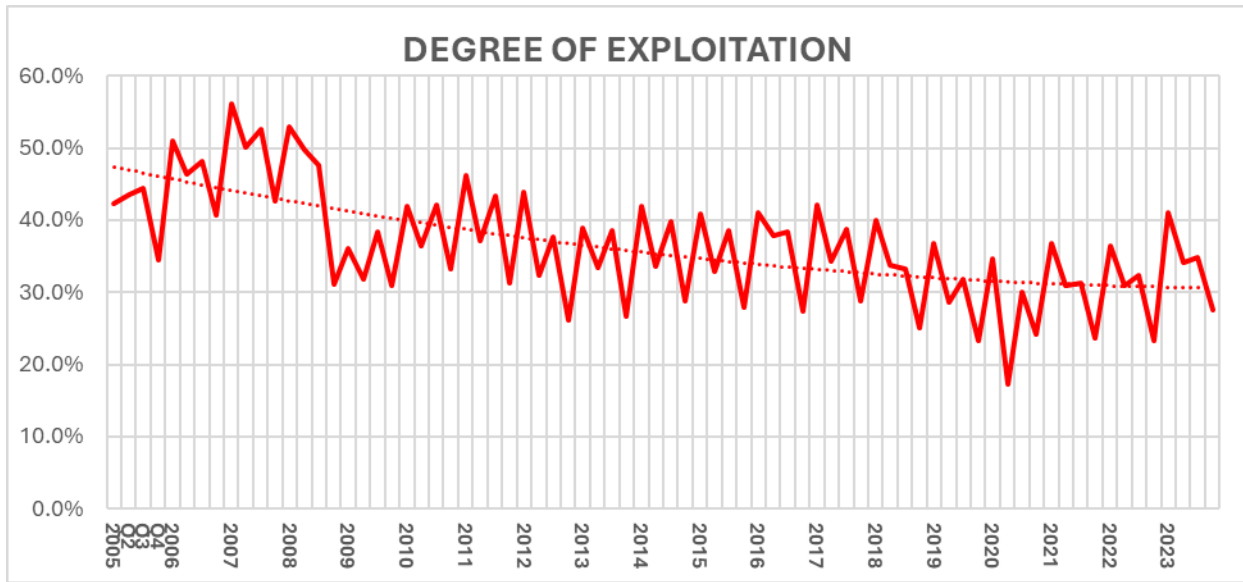
In line with recessionary market conditions, the rate of turnover decelerated once more in the fourth quarter. A decelerating rate of turnover is always indicative of subsiding demand and deteriorating market conditions. The rate of turnover has now fallen back to the 2017-9 band.

Graph 6.



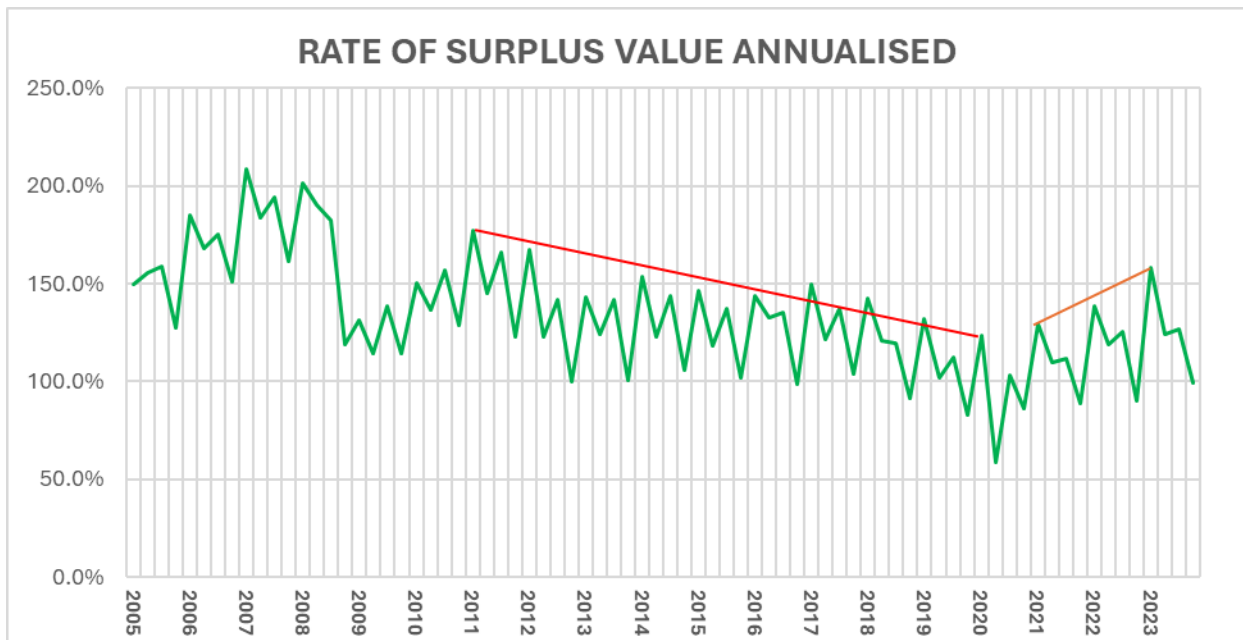
Alongside the fall in the rate of turnover, the rate of exploitation also fell. In the case of the rate of exploitation, where nominal compensation is compared to the nominal net surplus, inflation is neutralized as both metrics are similarly affected by current price inflation. The rate of exploitation is now no higher than in 2018 & 2019. The long term trend unusually, is also down, which is ominous for the prospects of the capitalist economy unless it is corrected, which appears to be the case recently.

Graph 7.



The fall in the rate of turnover always amplifies any fall in the rate of exploitation, and this is verified by the graph below. The fall in the rate of exploitation from its recent peak to trough was 33.7% compared to 38.5% for the rate of surplus value. (Methodological note. The rate of surplus value is equal to the rate of exploitation times the number of turnovers. To determine the rate of exploitation, workers' compensation is subtracted from Net Value Added yielding the net surplus which when divided by workers' compensation equals the degree of exploitation.) The long term fall in the rate of surplus value has decelerated recently.

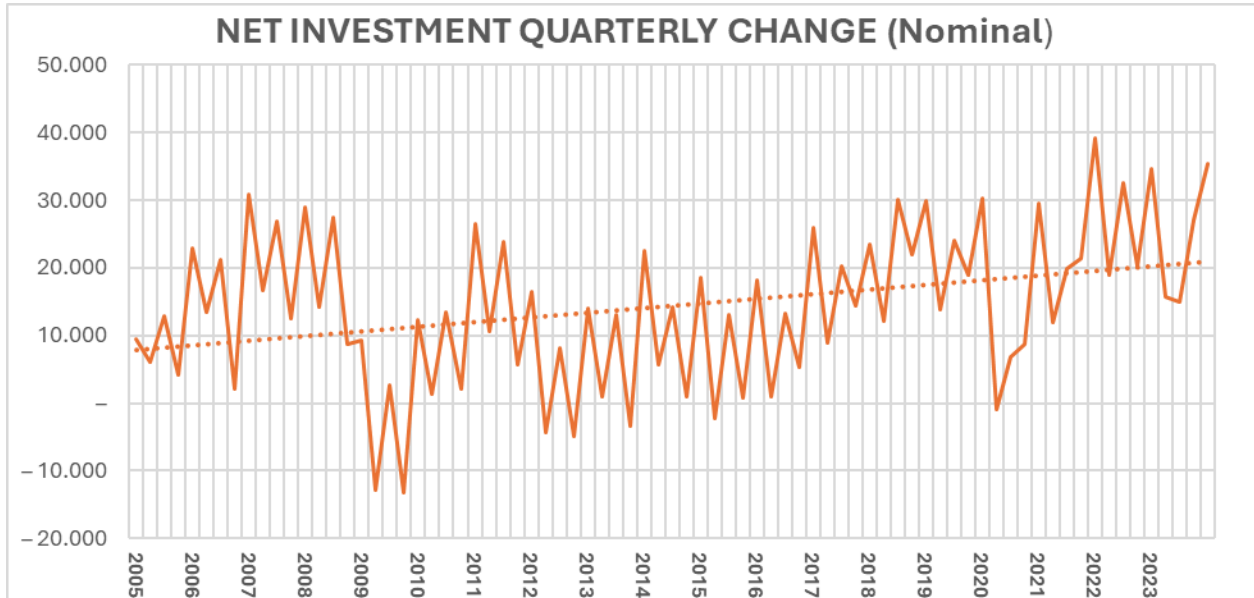
Graph 8.



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.

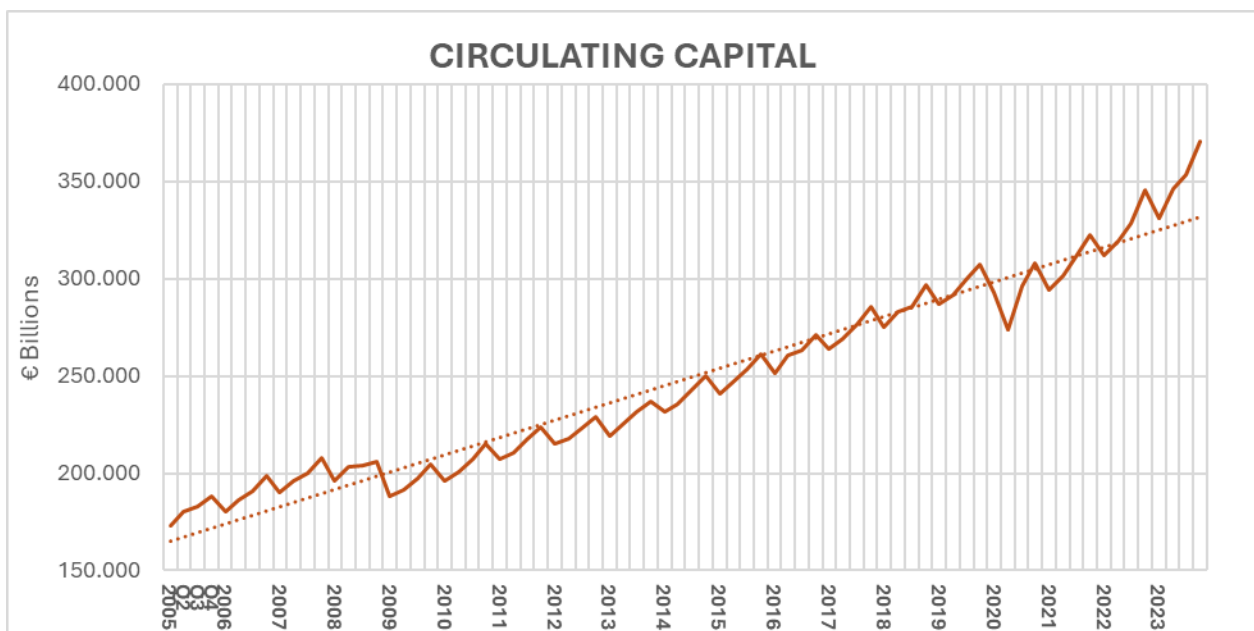
Net nominal investment, as we have already seen in the GDP data, improved over the quarter. However, in real terms net investment is much lower than pre-pandemic. Nonetheless, it is the nominal or current price of capital which is used for the purposes of measuring the rate of profit.

Graph 9.



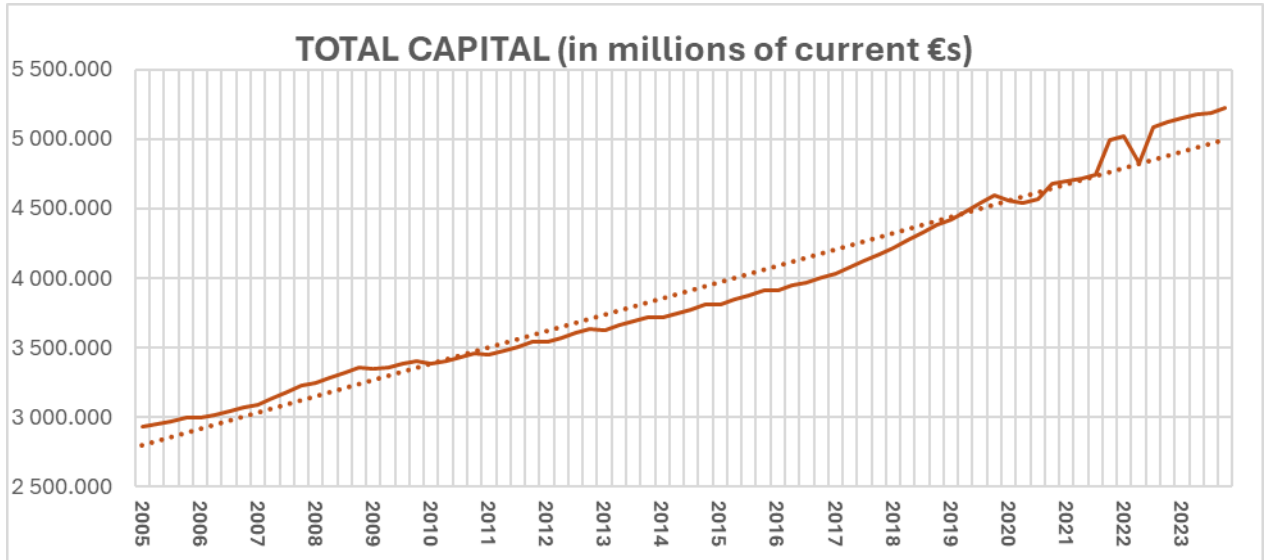
Circulating capital too was boosted by inflation and by the continuing slowdown in the rate of turnover, which by extending the period between cash going out and returning in the form of sales revenue, requires an increase in working capital to compensate.

Graph 10.



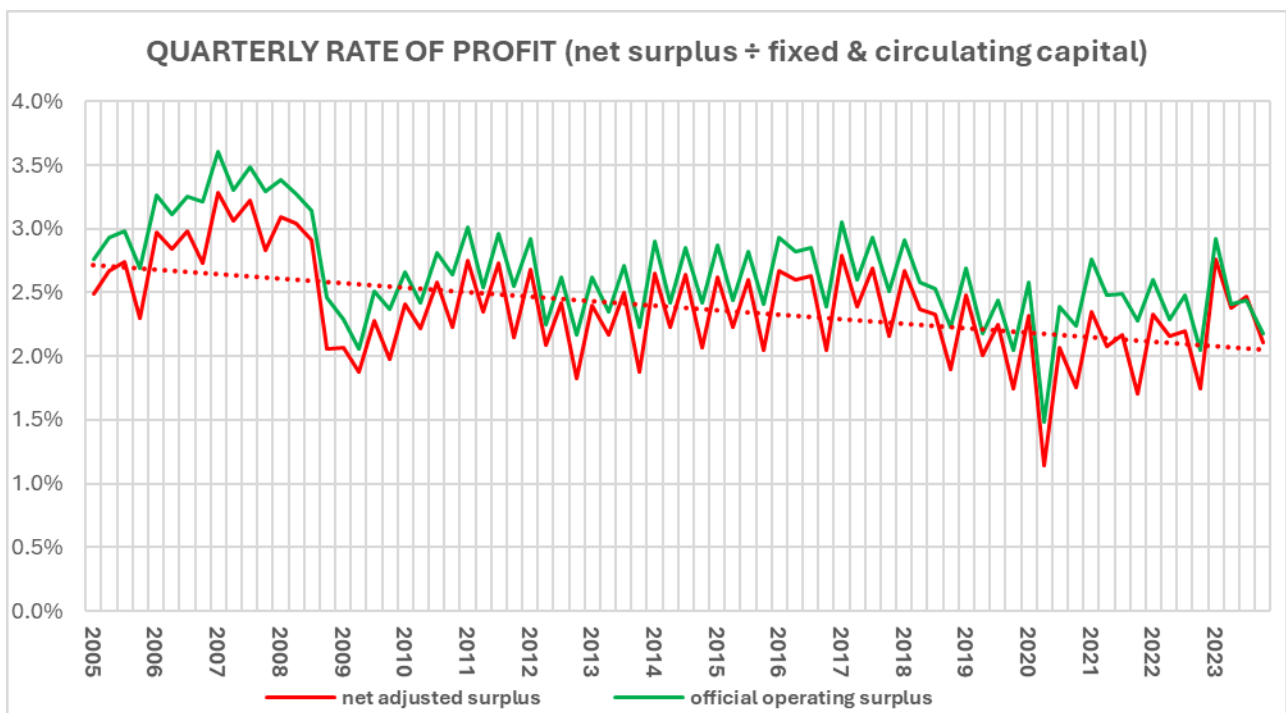
The net effects of a rise in the nominal value of fixed as well as circulating capital is to increase the total capital which forms the denominator in the rate of profit calculation. (There are more graphs in the worksheet.)

Graph 11.



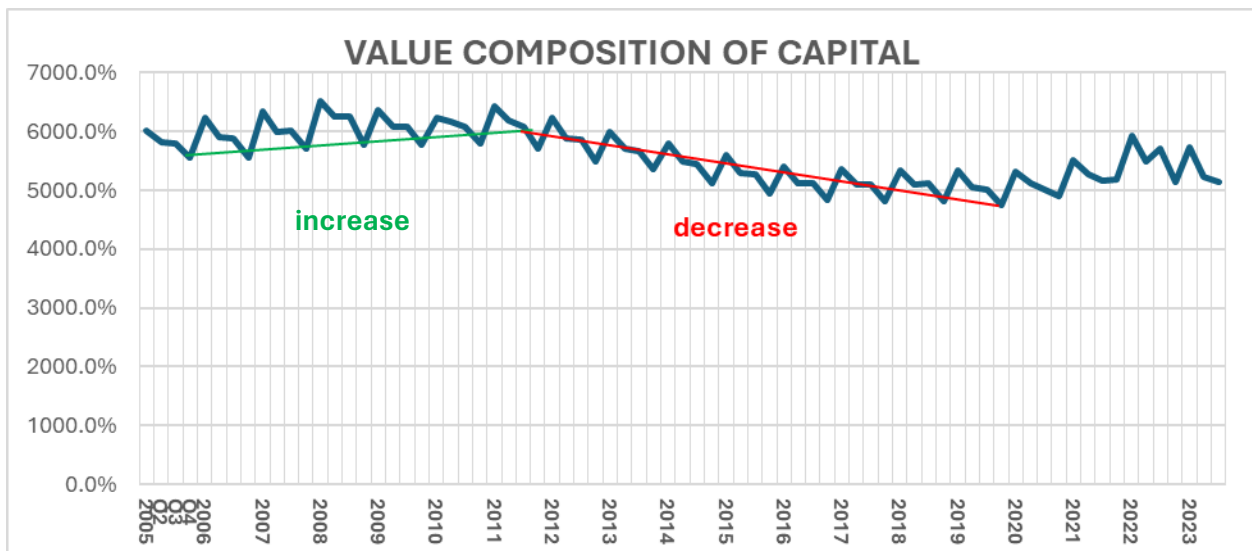
By comparing the fall in the rate of surplus value with the rising mass of capital (fixed + circulating) we arrive at the all important rate of profit. Given this respective fall and rise, the final quarter of 2023 saw a sharp contraction in the rate of profit amounting to 0.5% quarter over quarter bringing the rate down to 2.1%. This figure was better than the figure for Q4 2022 which fell to 1.7%

Graph 12.



The rate of profit has averaged 2.45% this year despite the fall to 2.1% in Q4 which compares to an average of 2.1% for the whole of 2022. It also compares favourably to 2019, which like 2022 averaged 2.1%. However it is down 21% from the levels pre the financial crisis. In addition, the long term trend continues downwards, with Germany confirming once again the often disputed law expressed as *the tendency for the rate of profit to fall*. This law arises from changes to the composition of capital. In the graph below, from 2005 to 2012 we see a gradual rise in the composition of capital, followed by a fall thereafter through to 2019. This was a common feature in the West after the financial crash when fixed investment slowed down and western corporations embarked on sweating their assets to maintain the rate of profit, that is employing more workers to work their assets for longer and harder, thus a ratcheting up the absolute rate of exploitation. (View investment Graph 17.) I tend to avoid commenting on the pandemic period due to the distortions it created.

Graph 13.



In terms of corporate distress, depressed wages has moderated the increase in insolvencies, which while up, remains below the levels found in 2019. “In 2023, according to final results, [local courts reported 17,814 business insolvencies filed](#). This was 22.1% more than in 2022. In 2022, however, the figure was only slightly above the low level of 2021, which was marked by special Corona regulations (+4.3%). Compared with the pre-coronavirus year of 2019, the number of corporate insolvencies in 2023 was 5.0% lower.” However, at this rate of increase, by the end of 2024 insolvencies should exceed the level of insolvencies in 2019 by a wide margin.

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

I thought it would be interesting to reproduce this extract from my [previous article on Germany](#) which covered Q3 of 2023.

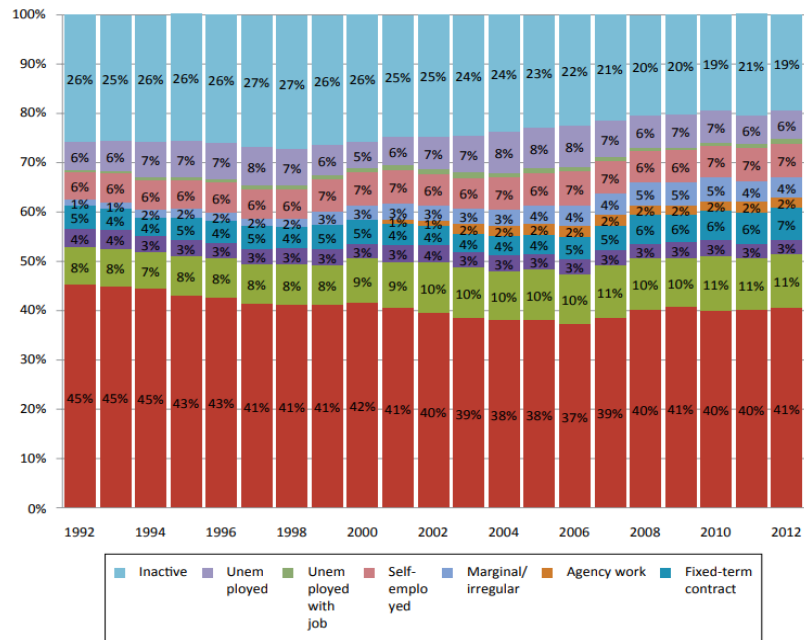
There were a number of factors which helped rejuvenate the German economy thirty years ago. The first was reunification. This expanded the reserve army of labour in Germany tilting the balance of forces in favour of the employers. This also created the opportunity for the German government to enforce, 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 14.

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

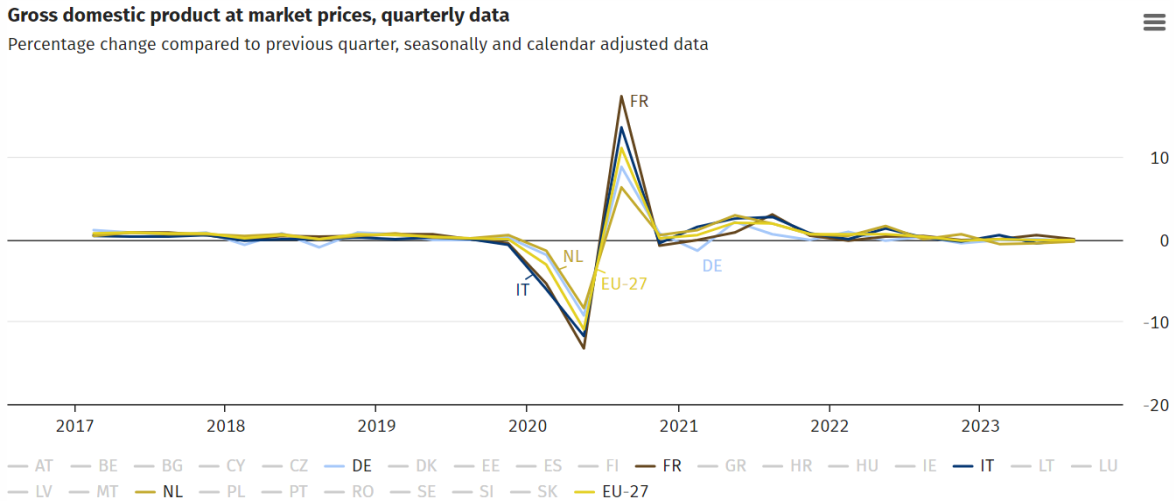


Not only did the Eastern expansion of the EU gifted by the collapse of COMECON (USSR) create additional markets, but so too did the opening up and industrialization of the Chinese Economy. It was Germany with its excellence in engineering as well as scale, who was to provide most of the means of production 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.

Graph 15.



(Source: [Destatis](https://www.destatis.de))

The German Fiscal situation continues to deteriorate.

Fiscal finances are tight around Europe and in Germany which is exposed by the EU commission being forced to reconsider the 2% deficit rule in order to enable European governments facing a [€56 bn shortfall](#) to finance their expanded defense spending, because otherwise Russia will invade Europe, as if. In fact this increase in military spending reflects the division of destruction in NATO whereby Europe will take on more of the Ukrainian burden freeing the USA to focus on the Pacific and China. Yet another case of a US *drive by shooting then scooting*. Amazing is it not, revelatory is it not, how the capitalists always find the money to fight their enemies for markets, but not to spend on their own populations, that is as long as their populations put up with this, which increasingly is not the case in Europe.

German efforts to reconcile its budget deficit is torturous given fiscal rules and differing priorities by the coalition partners. The first deadline to conclude its 2024 budgetary in early [December 2023](#) was missed. The second was met two weeks later after an agreement [to cut the budget by €31 billion](#) and net borrowing by a similar amount. Having just scraped through with the 2024 budget, the government is now trying to tackle the 2025 budget. *“The budget discussions will be much more strenuous compared to 2024 – perhaps even the most difficult that I have experienced so far in my time as a parliamentarian,” said SPD leader Lars Klingbeil.* Compare this to the [upbeat tone](#) when Germany was coming out of the pandemic in 2022 and preparing its fiscal outlook up to 2025.

Of course Scholtz put a positive spin saying the 2024 budget would not impact ordinary Germans. Scholz said: *“We have agreed to prioritize* spending without putting the social security of our country or its transformation at risk.” This seems to be at variance with the [stricter rules](#) which are to be applied to accessing the citizens’ allowance. Green initiatives would be cut, but not more aid to Ukraine if warranted. For a breakdown of the impact of the 2024 budget [follow this link](#). What it does is claw back energy and transport grants, barely raises the minimum wage, raises VAT on entertainment, health care costs will go

up, and finally, the only benefit going up in real terms will be the improvements to maternity and paternity leave and allied payments seeking to address Germany’s falling birthrate.

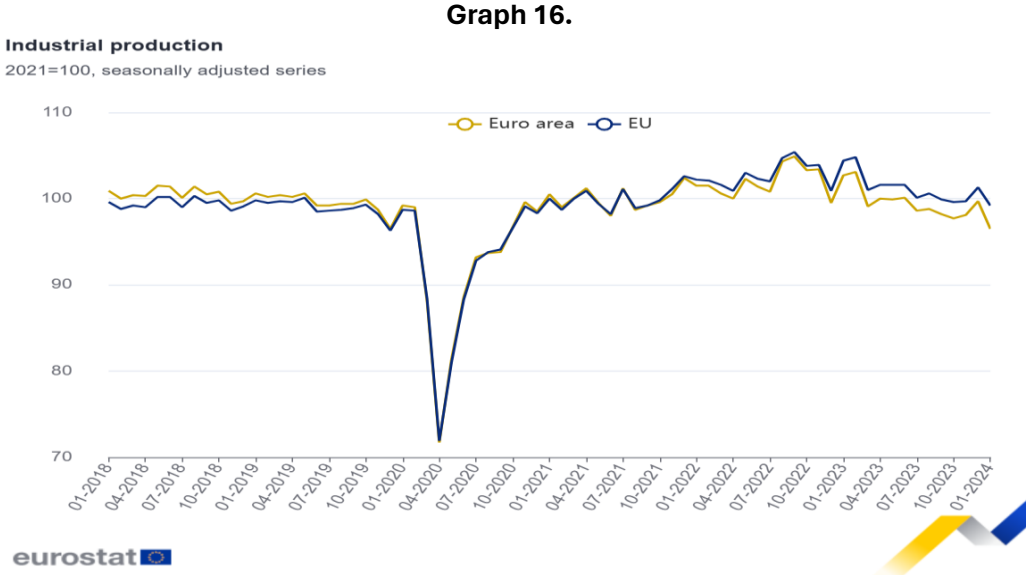
The Ukraine.

I always maintained that in the end the USA which provoked the war in Ukraine, would turn tail when its project failed, leaving Europe to cope with the aftermath. This is happening now. It is clear that the USA is starting to disengage, a disengagement which will end in abandonment should Trump win the Presidency. Even the hypocritical and deceitful, and we may add, childish Western Media is preparing their duped readers for the inevitability of a Ukrainian defeat.

How the tables have turned. At the beginning of the war it was the Kremlin which was unconfident of the outcome of the war, fearing the consequences of the economic sanctions on the Russian economy, unsure of the response of the population to the war and doubtful whether Russian industry could match the military output of its NATO opponents.

Today the Kremlin stands confident and self-assured. Putin won 87% of the votes in a record breaking 74% turnout which means that two out of three Russian endorsed him in what was clearly a patriotic vote at a time of war. This clearly upset the West who predictably and maliciously pooh, poohed the result. Talk about throwing shells in glass houses. They should look in the mirror at their political systems which are in disarray and riven by discord. Unlike the Russian people who appear to be united, the European powers are at each others’ throats as they flail around looking for a solution in Ukraine, behaviour common to those whose malignant project has failed and collapsed. In contrast it is worth adding that China, India, and the Global South, despite Western pressure, in their majority, congratulated Putin on his victory.

And further when it comes to economic comparisons they should look to their own economies. The [flash GDP report](#) by Eurostat saw no GDP growth in the Euro area during the final quarter of 2023. The ECB projects growth of only 0.6% for 2024 and even this is wistful thinking, the kind of thinking economists are prone to. Critically the latest report by Eurostat reveals that industrial production slumped in January by 3.2% in Europe and 2.1% in the EU. *In January 2024, compared with January 2023, industrial production decreased by 6.7% in the euro area and by 5.7% in the EU.* Or visually:



Industrial production has fallen back to pre-pandemic levels, and given the 18 month trend, it is likely to continue falling further behind. In contrast [Russian industrial production increased by 3.5%](#) in 2023 primarily due to the rise in the manufacture of military equipment. This is particularly true for that kind of destruction - artillery shells – where [Russia outproduces](#) the entire West by a factor of two. Russia it turns out is a gas station with muscles.

In fact, what the war has shown is how dilapidated and unresponsive manufacturing in the West is, particularly the United States. This explains why the US has sought to restrain the expansion of the war in the Middle East and why it most probably sought to restrain the Ukrainian attack on Belgorod recently fearing an escalation of the Ukraine war. It is already buckling under the strain of providing munitions to both the Ukraine and Israel, which is far removed from the boast by [Yellen the Treasury Secretary](#) that the US could afford to keep two wars going. The Ukraine war has revealed how unprepared the US is industrially for a fight with the Chinese whose industrial base is at least triple that of the US. Nuclear weapons aside, wars are fought and won by industry. Soldiers are merely the sherpas for industry.

On a final note, German support for Israel goes beyond the unconditional. Of all the major imperial powers Germany has cracked down more harshly on public support for the Palestinian cause compared to any other European country. In Germany we see highlighted, how the holocaust is used to excuse and is used as a cover for the genocidal behaviour of the Zionists. To give real meaning to the word, atone, the Germans should be opposing not facilitating war crimes in Gaza.

In common with all the other western Imperialists, the German imperial support for the state of Israel is not done out of love for the Jews, nor because they believe the Jews deserve their own home, but because Israel serves the interests of imperialism in the region. As China gains influence in the Middle East or Western Asia as it now is called, as Israel becomes a pariah state, as it is shunned by more governments, as hatred for Zionism around the world grows, only then will we see the true face of German imperialism. The Zionists are playing with fire, they are stoking anti-Semitism everywhere with their racist behaviour and when they are of little use to the imperialists, they will reap the whirlwind they have sown.

Conclusion.

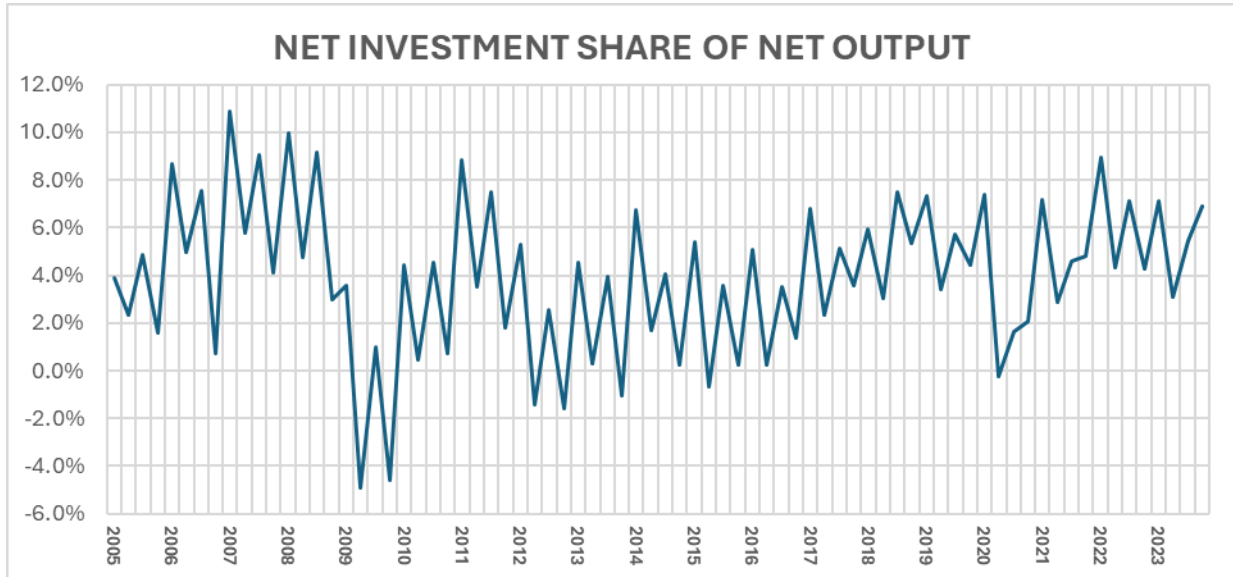
In the fourth quarter the German economy continued to weaken. Of all the large G7 economies, it is faring worst. The economic powerhouse of Europe has literally run out of gas, that is cheap gas. It can be said that instead of the Ukraine and Russia being the victim of US machinations, it turned out that the two victims were the Ukraine and Germany. It seems the old cold war maxim of *keeping Russia out, Germany down and the USA in*, has worked out very well for the USA. When an Empire is collapsing, as the USA is now, to be an ally is risky.

As the geopolitical fissure opens up, the country most likely to fall in, will be Germany. So why in the end did Germany tie itself to the USA rather than forge its own independent Eurocentric path. The answer is clear. Germany does not fear the USA as an economic rival, but it does fear China as its economic nemesis. But, instead of neutralizing China, this Ukrainian exercise in self-harm has made Germany more, not less, vulnerable to China.

Despite all the talk of de-industrialization and German corporations fleeing Germany through accelerating investments abroad, particularly in the US and China, the contrary is the case, confirmed by the final graph below which shows that investment has actually held up. This graph shows how much of the value produced by workers is ploughed back into production, that is recapitalized in the form of fixed asset

investment. It is no lower than the rate found pre-pandemic and certainly higher than the period 2014 – 2018 when the rate of profit plateaued (Graph 12). Furthermore the 2024 federal budget proposed a rise in public investment as well.

Graph 17.



I no longer make predictions about the economic future of any country because of the unpredictable climate. Annualized, global temperatures are running at +1.5°C above historic levels which means that this summer will be challenging if not catastrophic in the northern hemisphere. All that can be said is that capitalism is unprepared, its resilience is low, its financial reserves depleted, which is why war-gaming food shortages in Europe must be seen for what it is, a desperate measure. Rationing could be on the cards.

I will be investigating Japan next whose Q4 data is now available, followed by the USA when its profit data becomes available on the 28th of March. That way the picture of global profitability will become clearer. So far only China has shown an improvement in [the rate of profit](#), but from a very low base.

Brian Green, 20th March 2024.