



„Zeitenwende“ for the German economy

The war in Ukraine as the big game-changer

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# Several crises at the price of one

ECB again Eyes Jumbo Rate Hike to 'Tame Inflation Beast'

Q2 2022: Business registrations down, bankruptcies up

Europe risks 'deeper recessions' on war and inflation: IMF

Russia-Ukraine war at a glance: what we know on day 271 of the invasion

TODAY'S WORLDVIEW

Record heat wave deepens Europe's energy crisis

New Omicron sub-lineage likely to cause further increase in covid-19 cases

Brussels warns of EU recession as German output slides

Lane Says ECB Won't Be Done Raising Rates in December, MNI Says

China's Lockdowns Surge in Week Since Covid Policy Adjusted

Ukraine's grain exports halve year on year

Global labour market to deteriorate further as Ukraine conflict and other crises continue

Gas crisis raises recession risk for inflation-hit eurozone economy

# The war in Ukraine has completely reshuffled the cards in terms of security, supply chains and energy provision



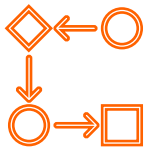
## Say goodbye to the peace dividend

- An increase in defence spending means that money for other, more productive, investments is missing
- Therefore, the **long-term growth potential** in these countries **will be impacted**



## Expensive energy

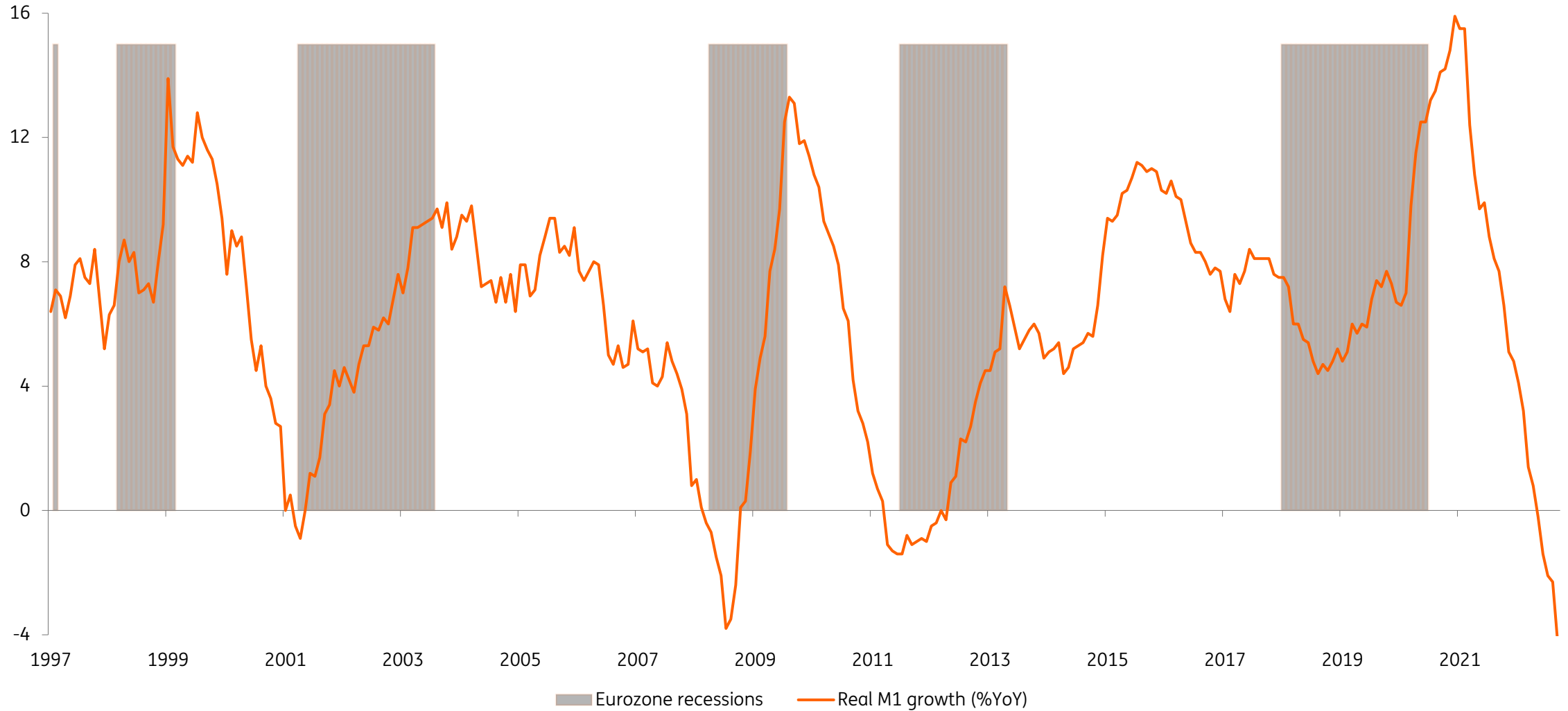
- While speeding up the development of renewable energy is probably a good thing for the European economy, it will still come at a cost in the transitional period, especially if Europe were to boycott one of the top exporters of fossil fuels
- Substitutes for Russian gas will likely be more expensive or necessitate additional investments, thereby **crowding out other productive investments**



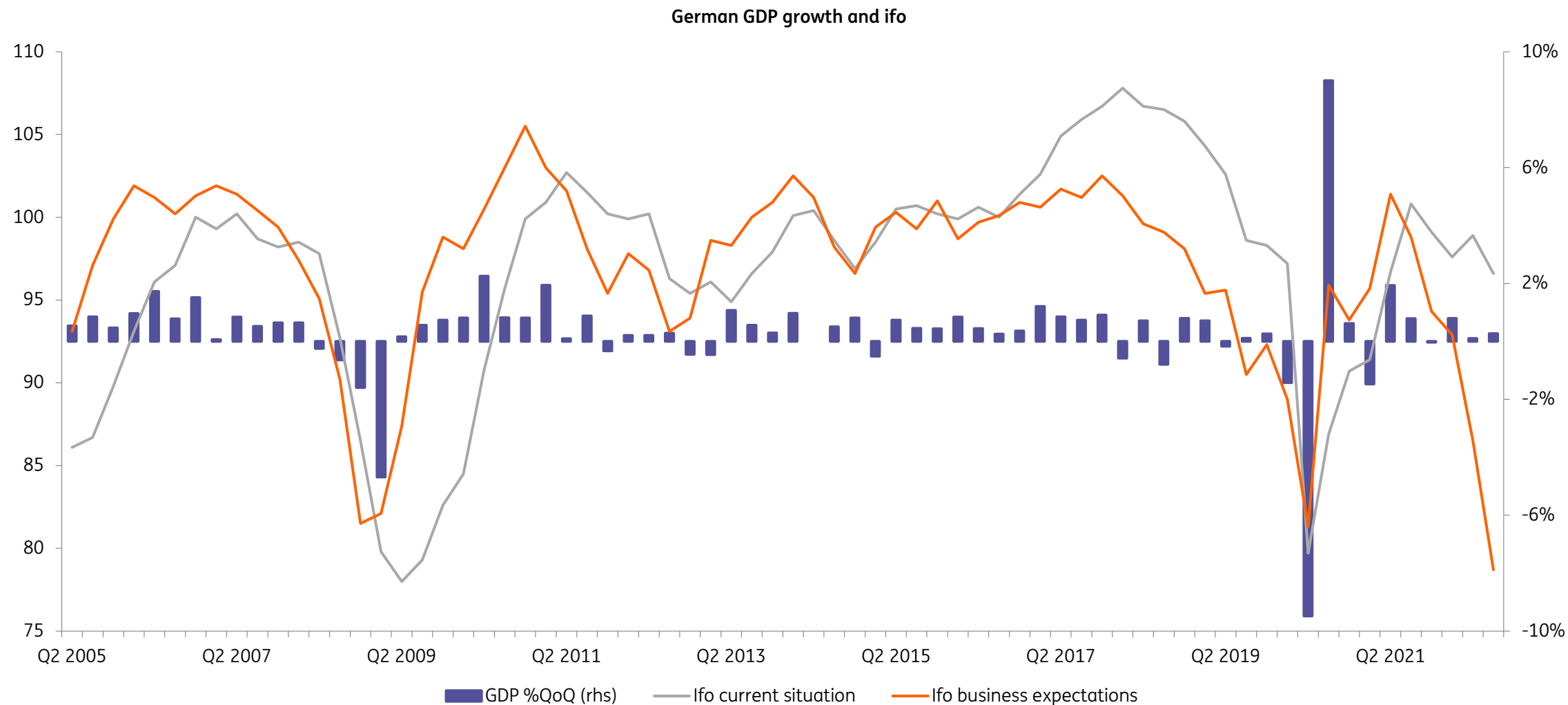
## David Ricardo in reverse

- Supply chains are no longer “only” disrupted but they could be destroyed for good
- The fear of having a lack of crucial inputs in a more uncertain world might even be an argument for reshoring; bringing back the production of crucial inputs closer to home
- However, bringing back industries where we don’t have a competitive advantage in **will not increase Europe’s growth potential but instead lead to higher prices**

# Recession ahead? According to real M1 growth...



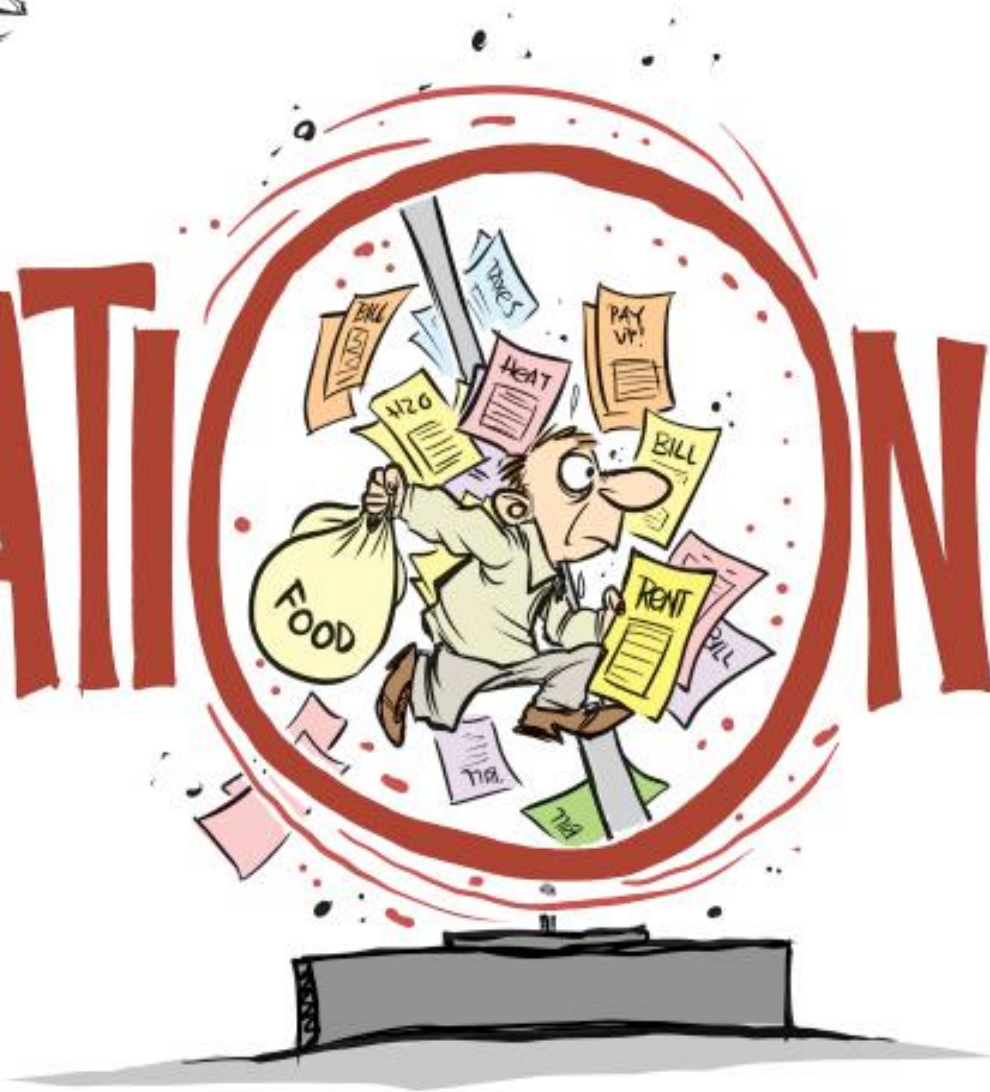
# ...and other leading indicators



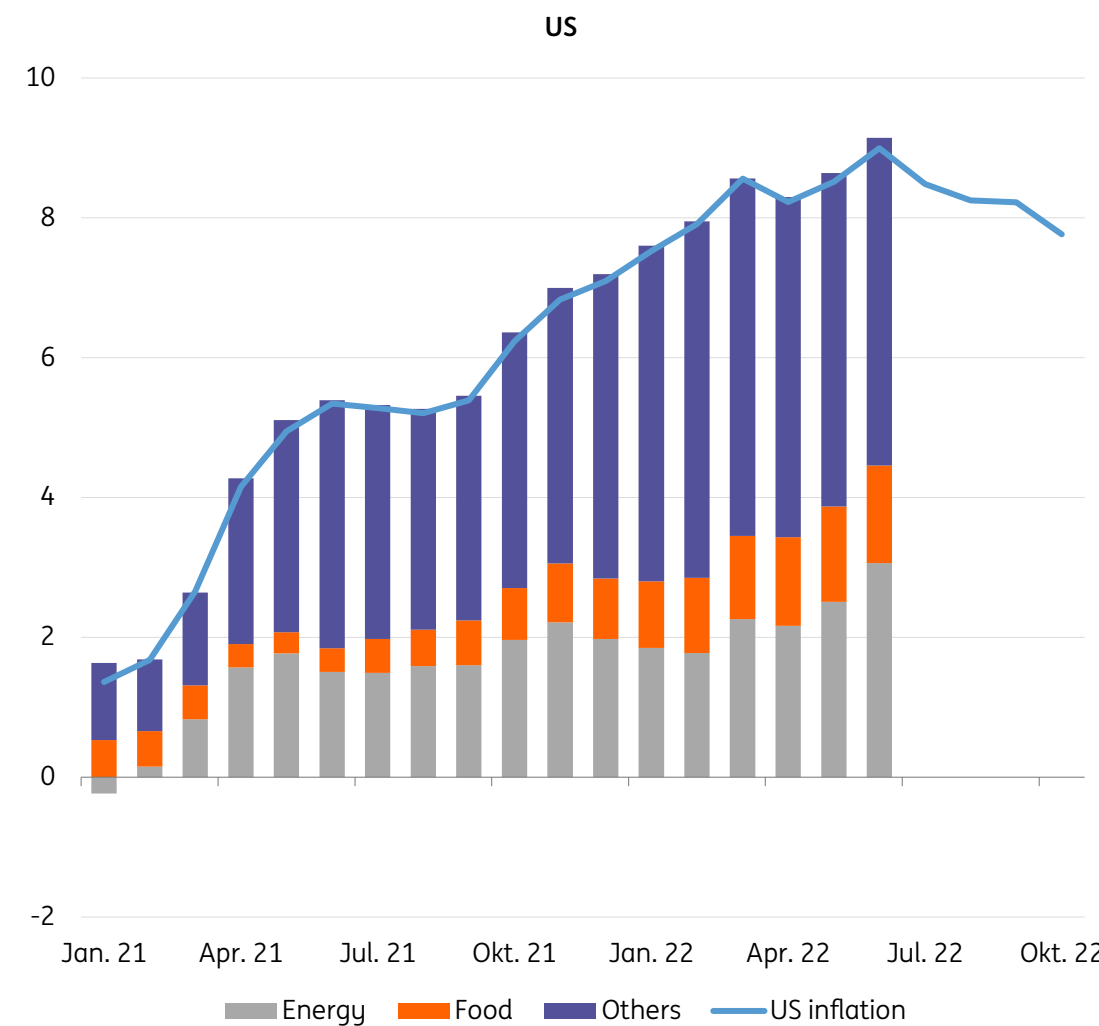
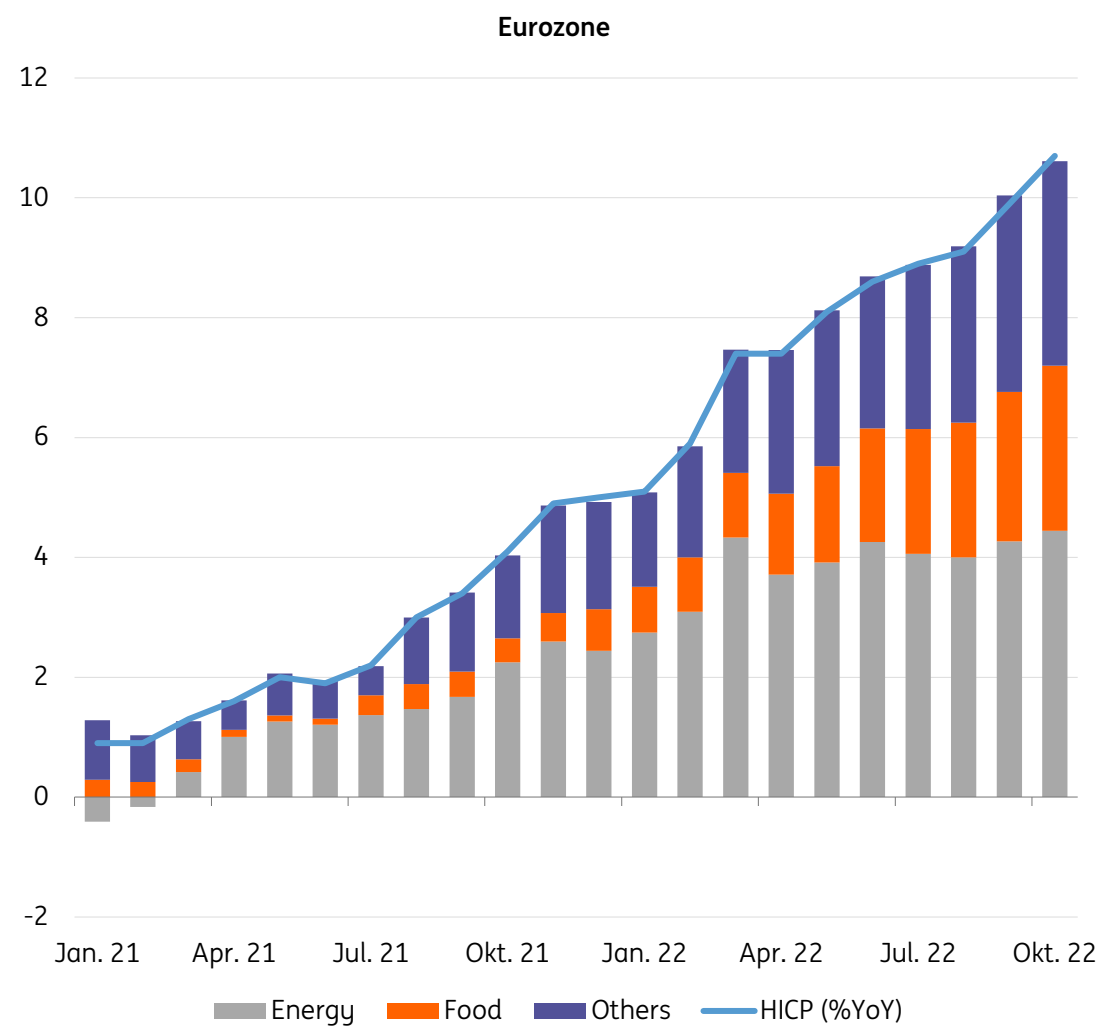
Source: Refinitiv

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# INFLATION

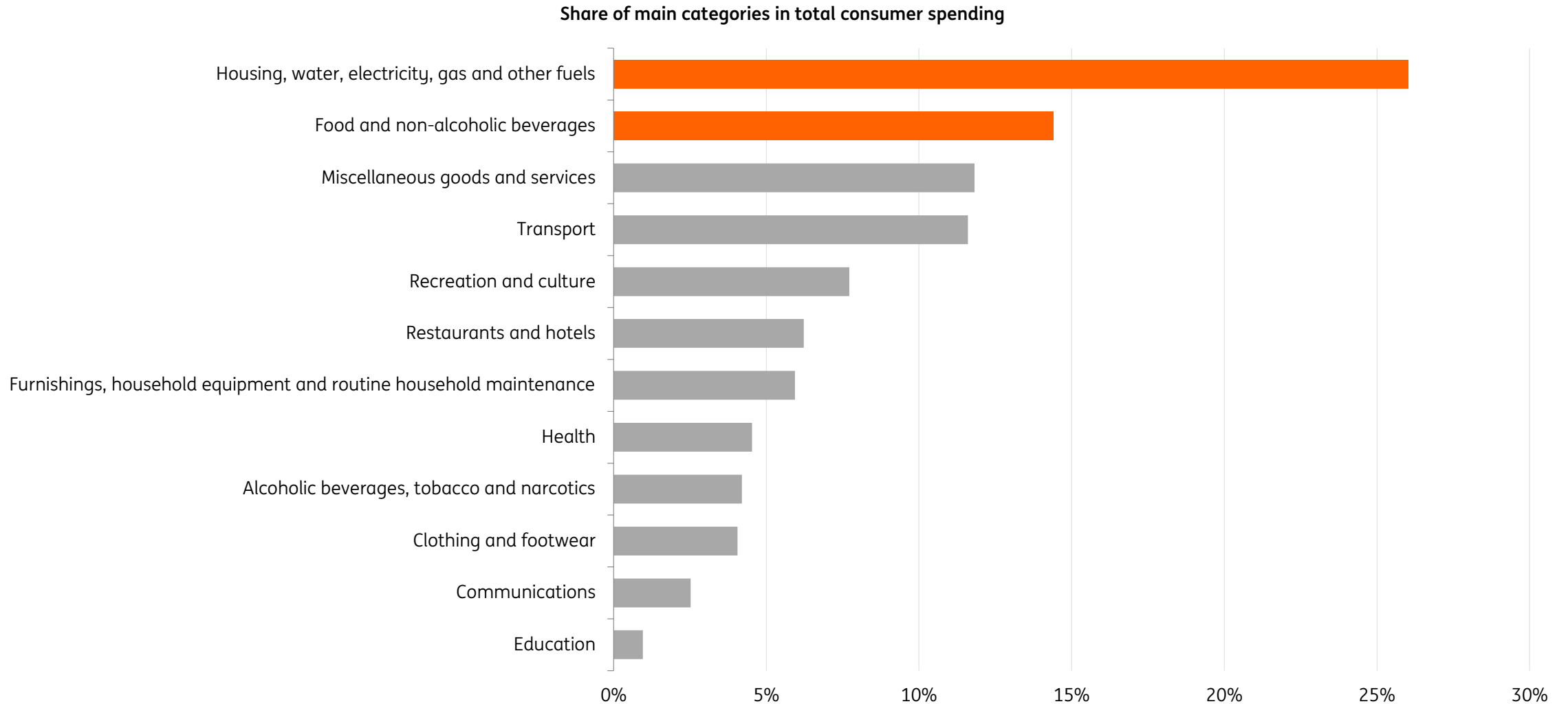


# Inflation is much more demand-driven in the US than in the eurozone...



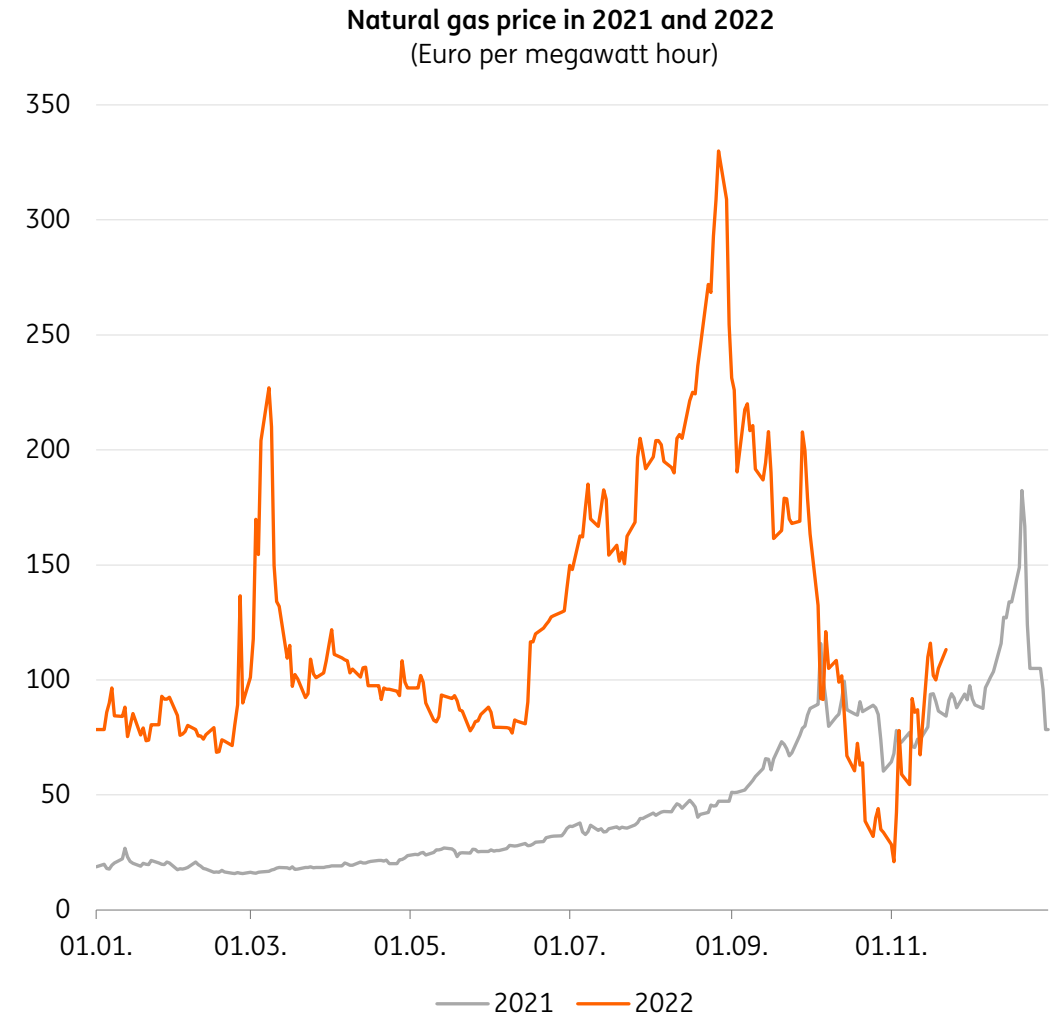
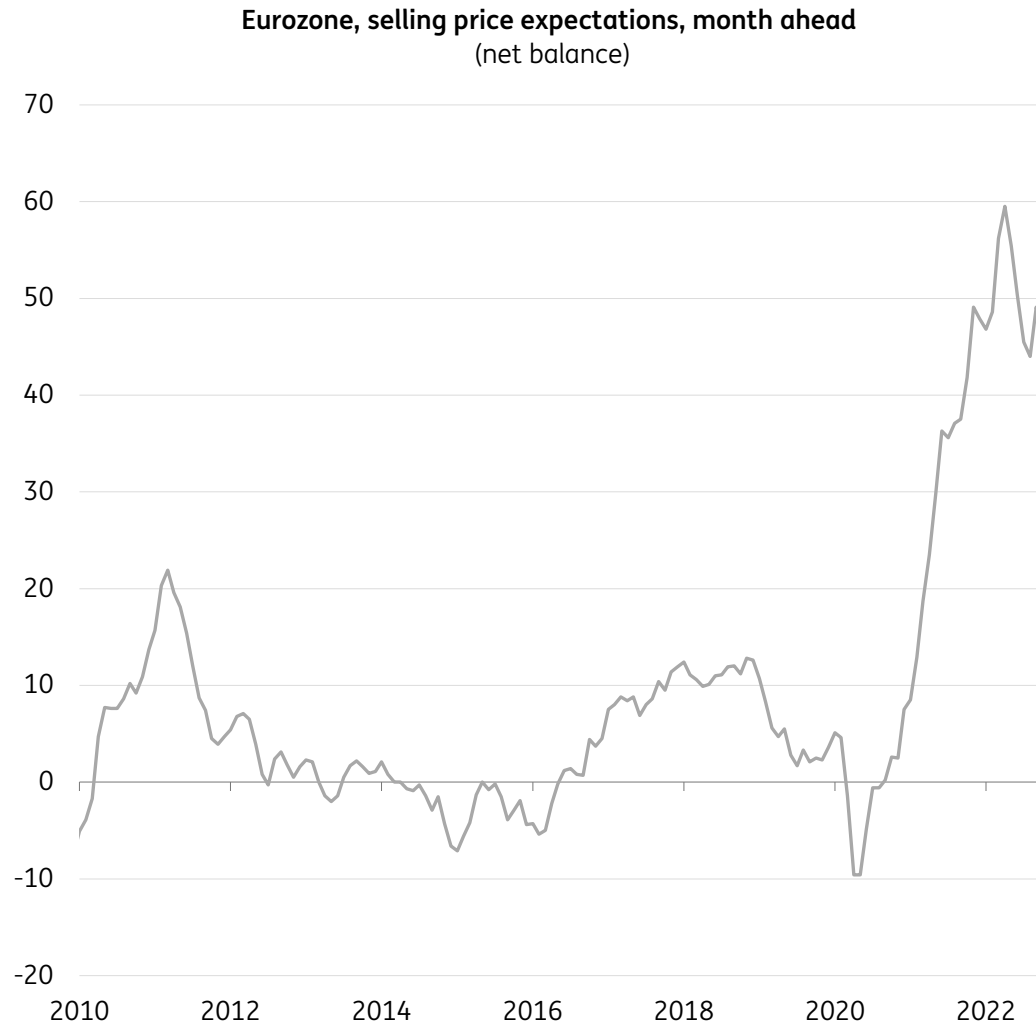
Source: Refinitiv

# ...triggering a cost-of-living crisis for eurozone consumers

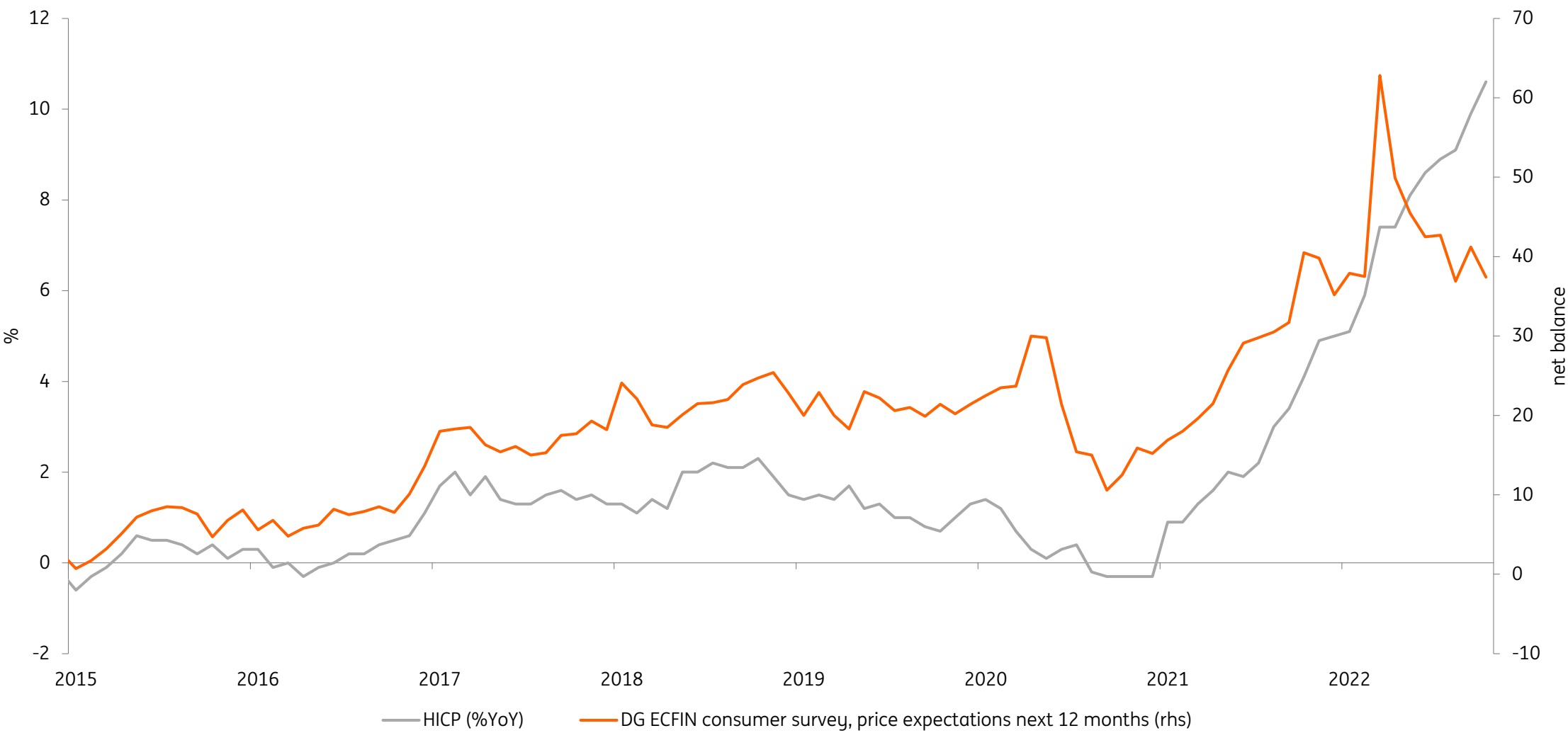




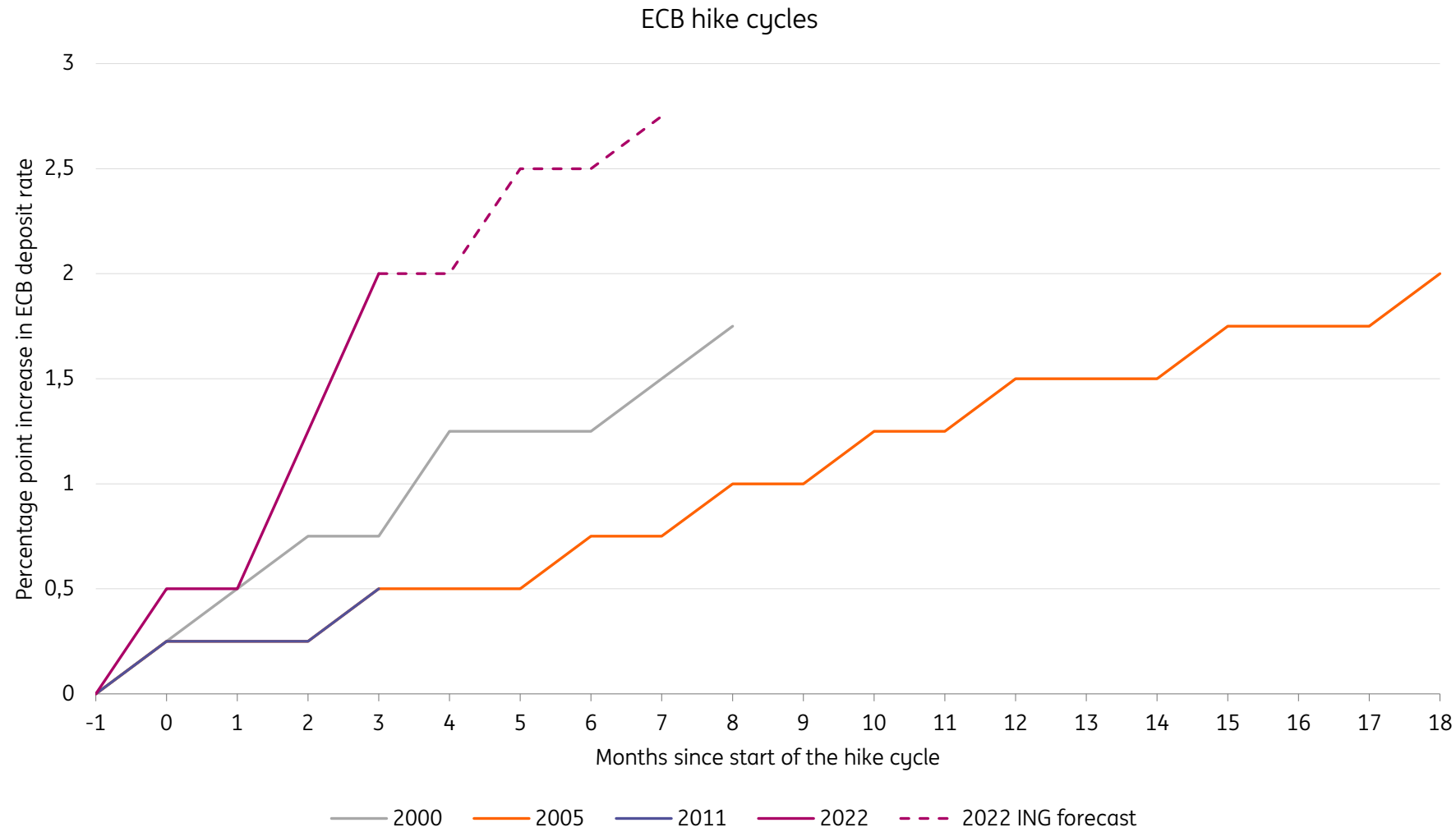
# Although the pass-through will slow down, high energy prices keep inflation elevated...



...but some levelling-off is in sight



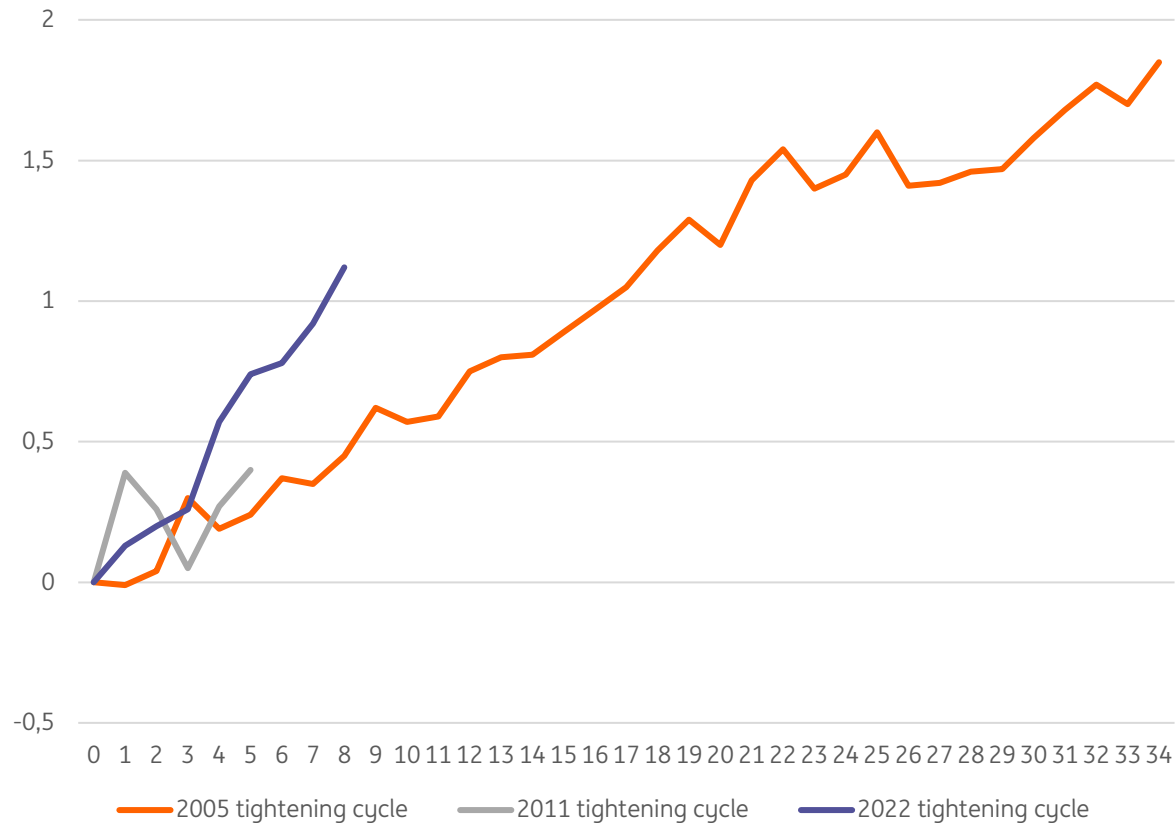
# The ECB has embarked on its fastest hike cycle ever



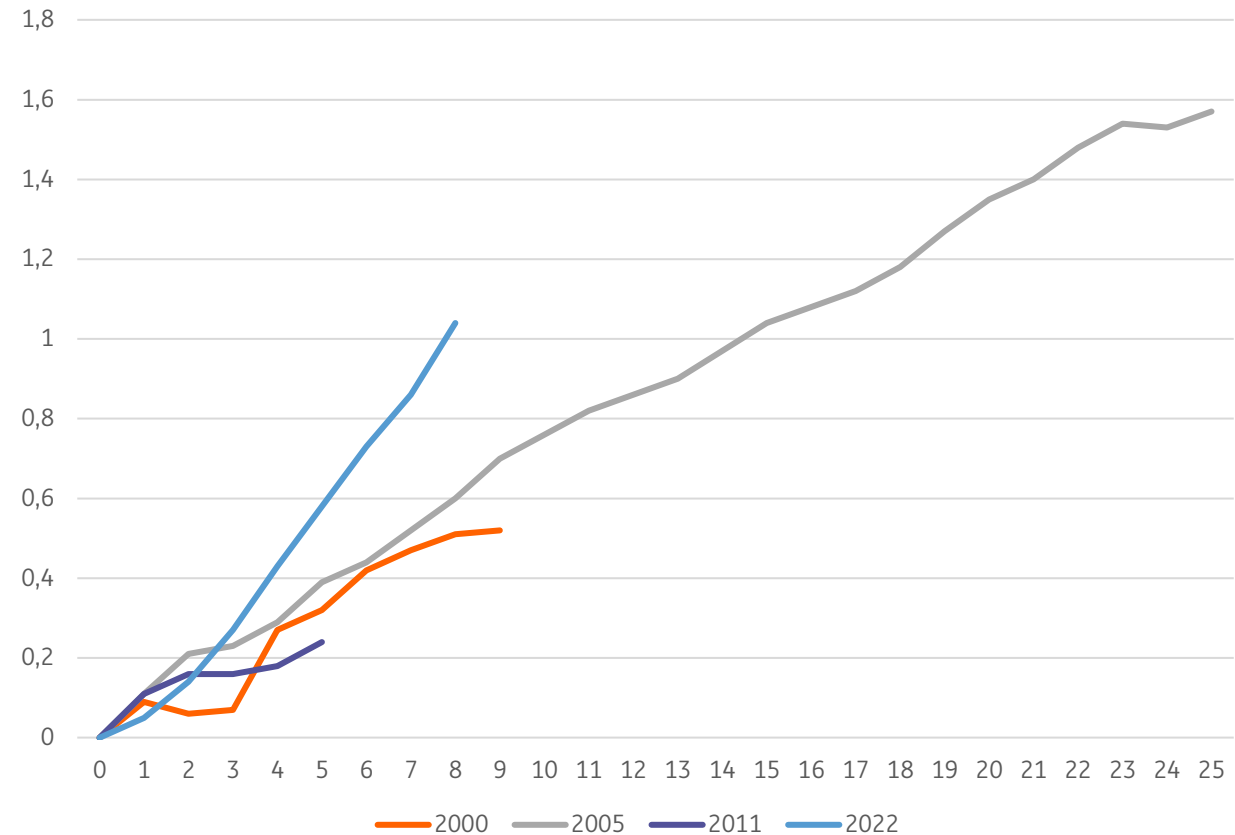
# Fastest tightening of businesses and mortgage rates ever

Given the pace of ECB hikes, the transmission does not seem abnormal. No evidence yet of faster impact after the long period of negative rates

Business borrowing rate response since start of policy tightening

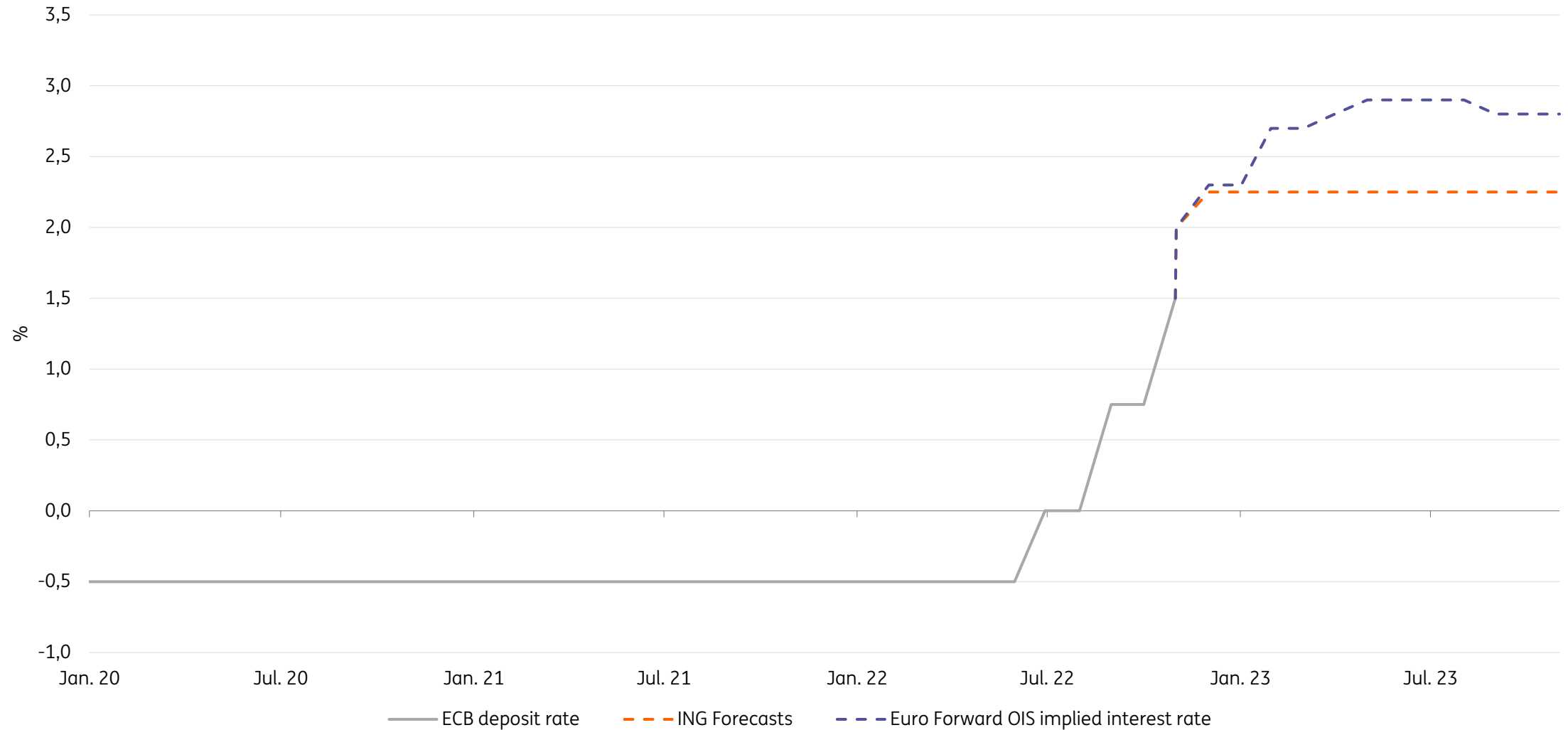


Eurozone mortgage rate response after start of policy tightening

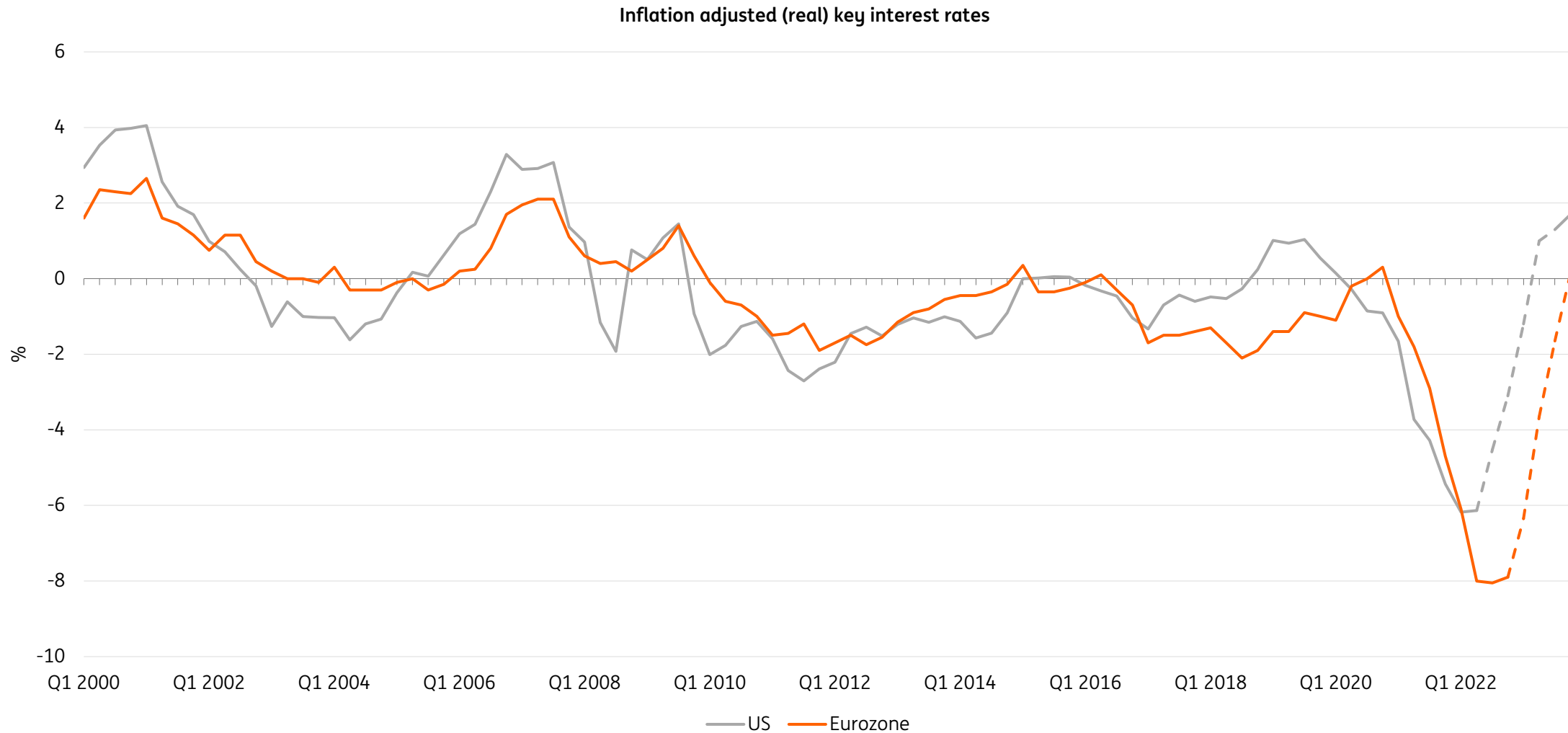




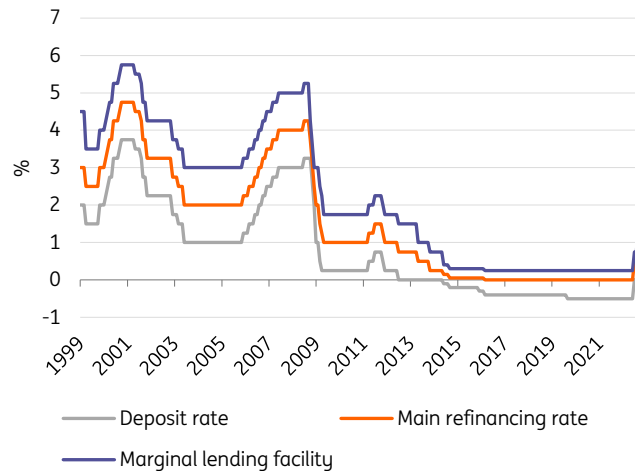
# But the question still is, where the terminal rate will be



With inflation being expected to decline slightly, we could see positive real interest rates at the end of 2023



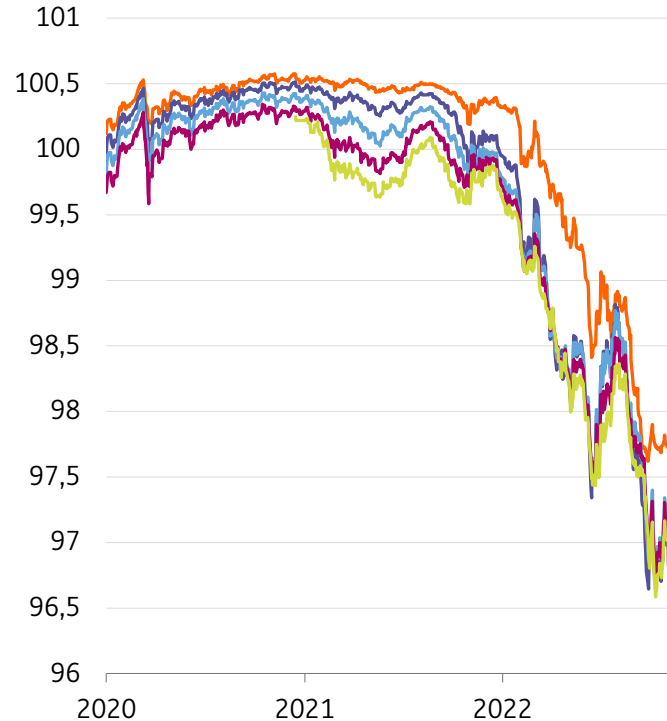
# So, what will the ECB do to contain runaway inflation expectations?



**Global government bond yields**  
Changes, basis points

	Level (percent)	Last 5 days	Last month	YTD
US two-year	4,55	14	4	381
US five-year	4,01	1	-24	275
US ten-year	3,83	-4	-25	233
UK ten-year	3,18	-18	-35	221
Germany ten-year	1,98	-18	-18	216
Italy ten-year	3,92	-27	-40	274
Japan ten-year	0,25	0	0	18
China ten-year	2,83	-1	18	5

Quelle: Refinitiv Datastream, ING Economic and Financial Analysis



## ECB outlook:

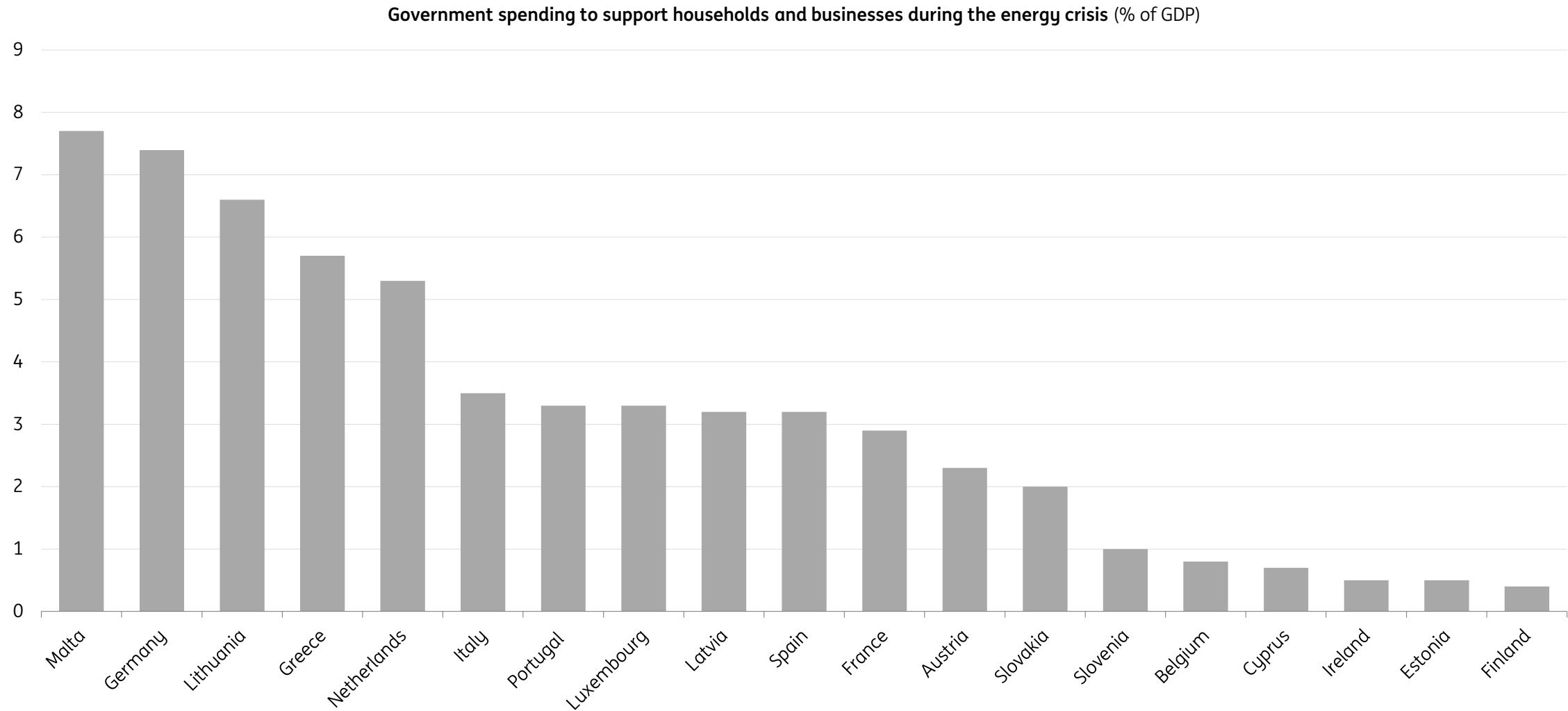
- The ECB has started normalizing monetary policy by ending the Pandemic Emergency Purchase Programme (PEPP) in March 2022 and by ending the 'old' Asset Purchase Programme (APP) in June 2022
- Reinvestments from PEPP will continue until at least the end of 2024
- At the October meeting, the ECB hiked interest rates by 75bp, bringing the deposit facility interest rate to 1.5% and the main refinancing rate to 2%. Overall, the ECB has thus raised interest rates by 200bp this year.
- Looking ahead, the ECB seems determined to continue hiking interest rates, though no longer at the current jumbo size of 75bp. We think that the debate at the December meeting will already be much more controversial than today, delivering another 50bp rate hike. However, as the ECB's inflation outlook for 2024 was already at 2.3% in September and will very likely be at 2% for 2025 at the December meeting, it is hard to see how the ECB can deliver more than an additional 75bp rate hikes. For us, the terminal rate remains at 2.25% for the deposit rate.

A person is rock climbing a steep, dark, and craggy cliff face. The climber is wearing a red long-sleeved shirt, a yellow backpack, a white helmet, and a black watch. They are positioned on the left side of the frame, with their hands and feet gripping the rock. The background shows a vast, misty landscape with a body of water and distant mountains under a cloudy sky.

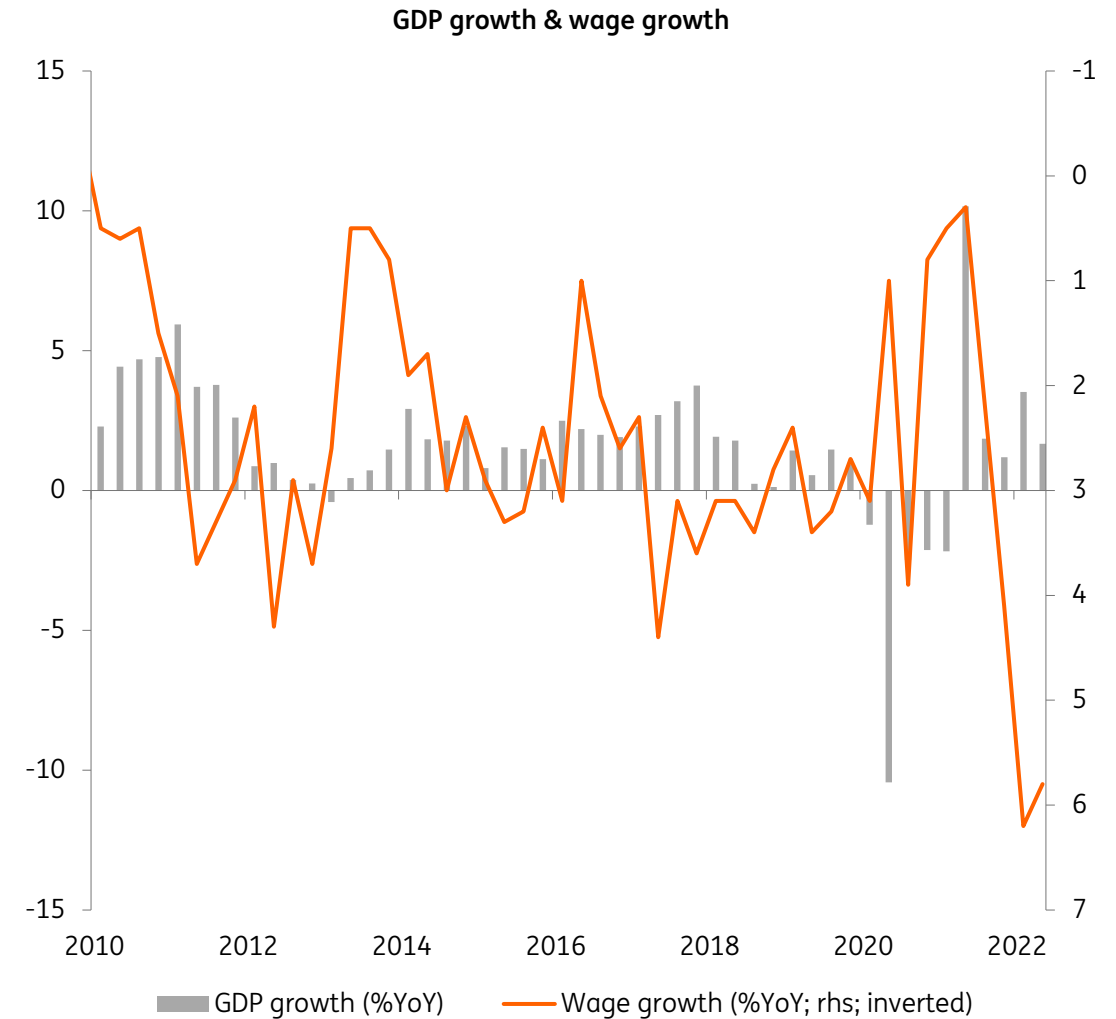
A real recession only shows in the labour market...



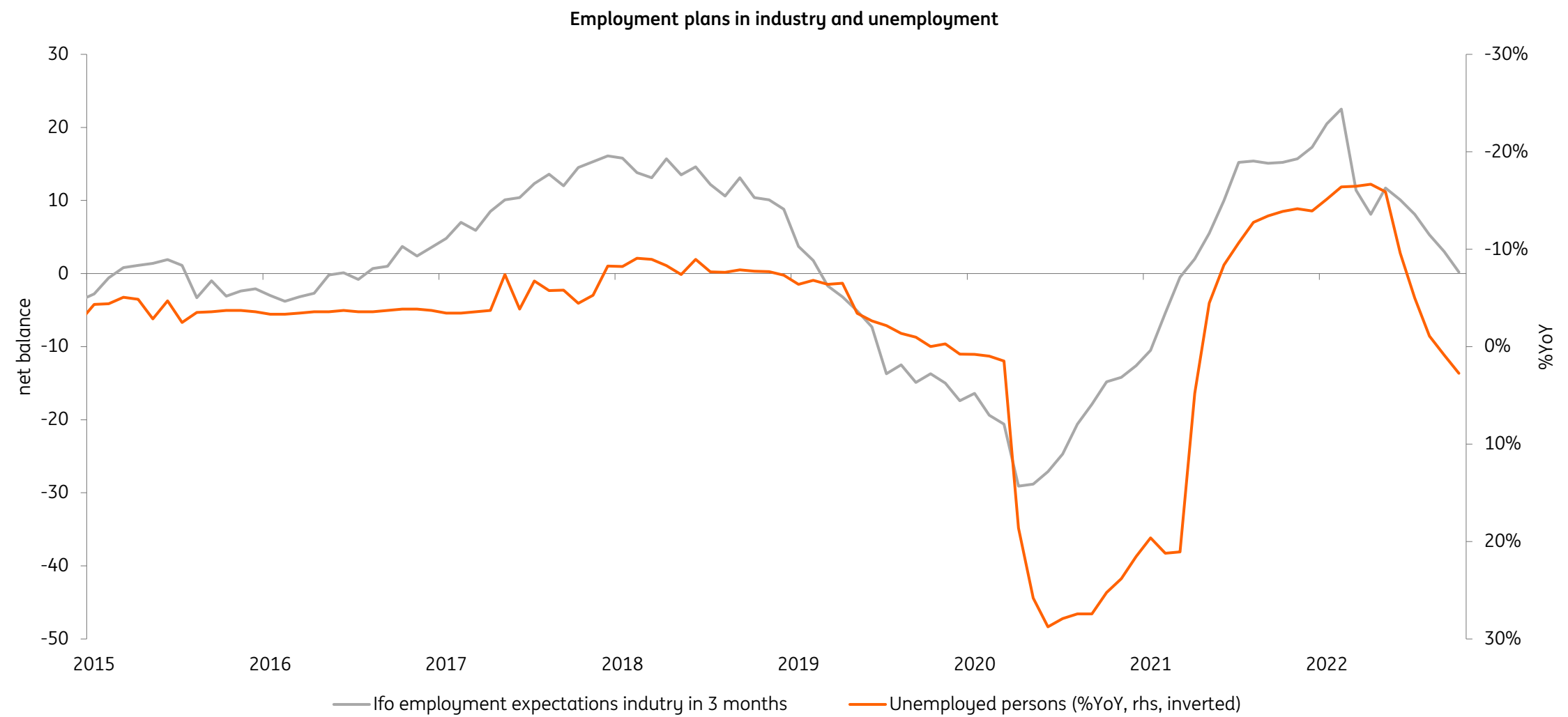
# Governments are providing support - but it is a bit “too little too late” to avoid the recession...



# But will we see effects on the labour market?



# Unemployment is likely to increase slightly



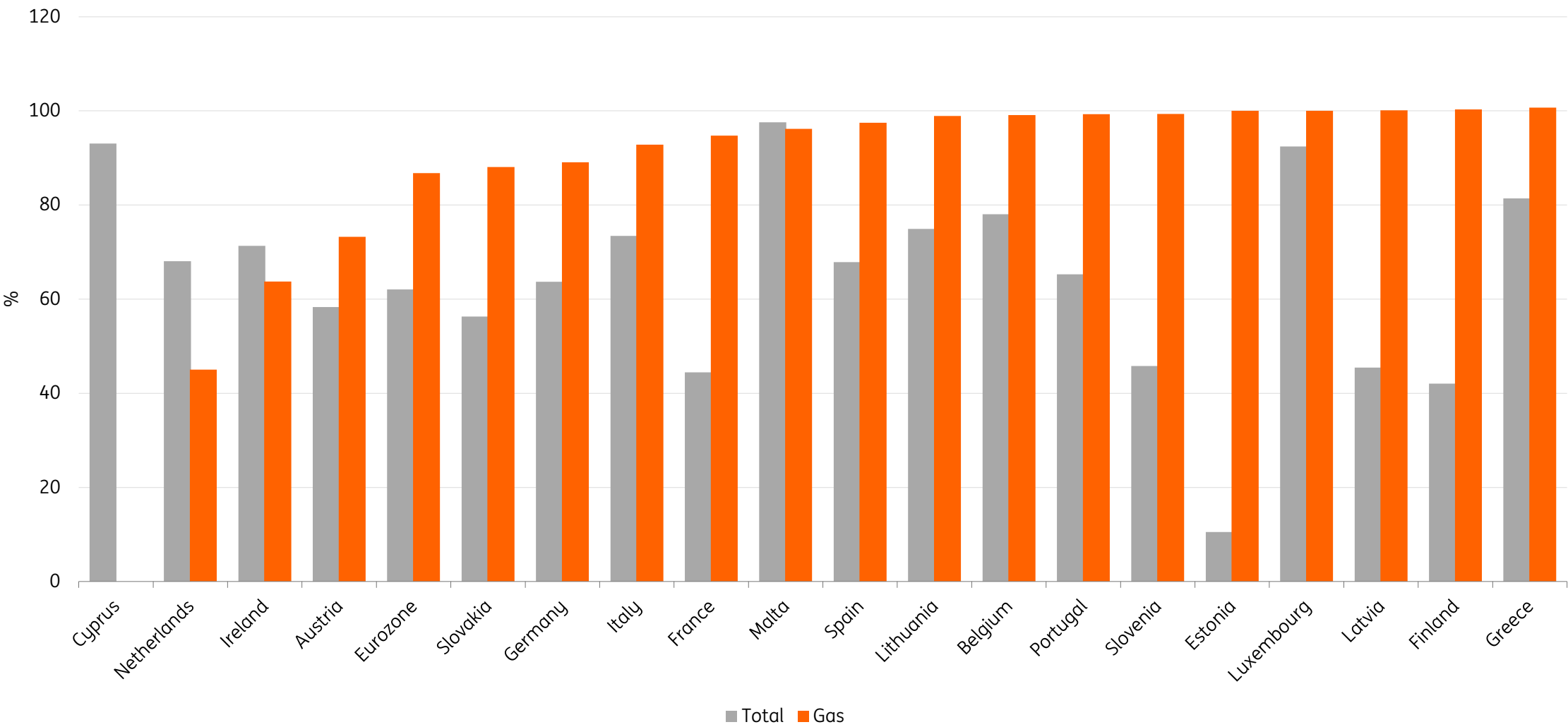


There will have to be structural changes in Germany...

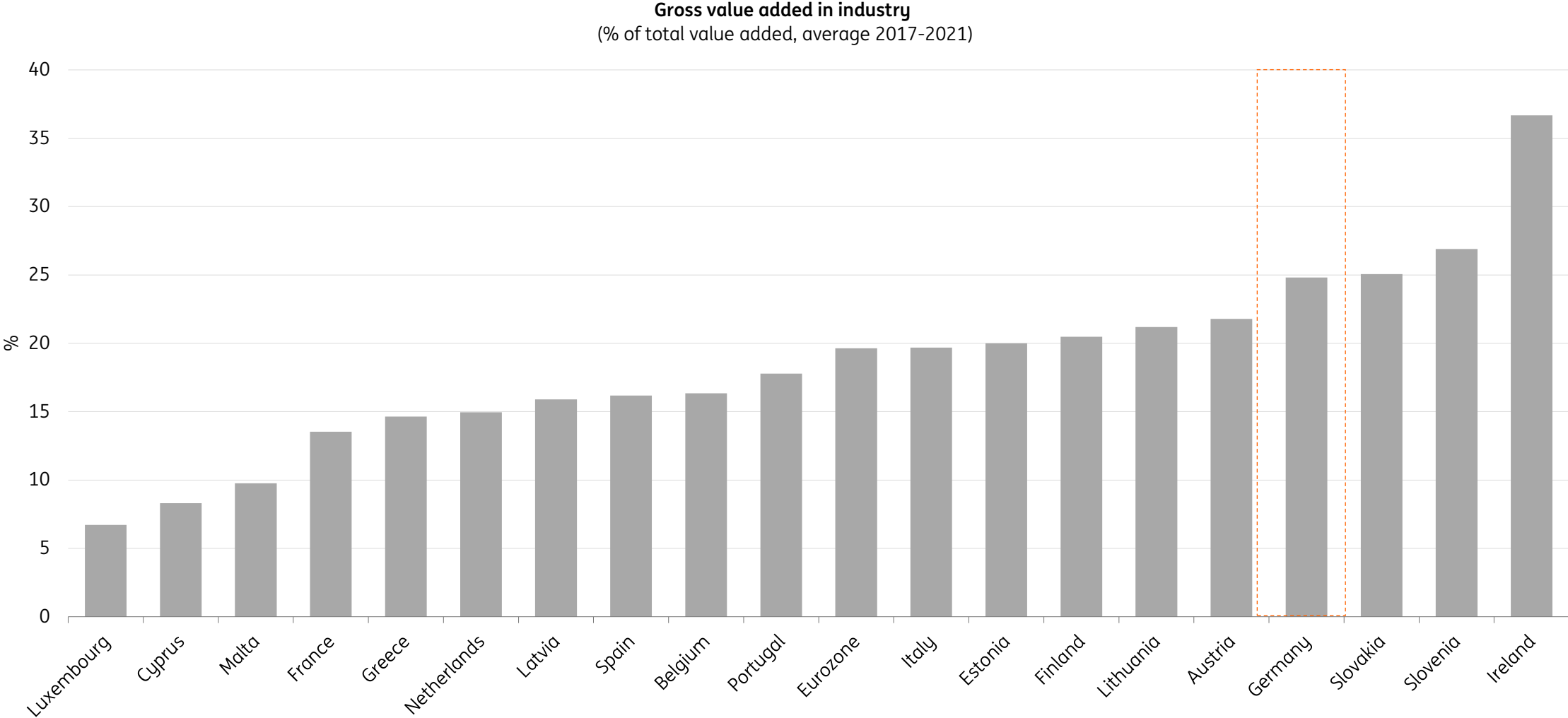
... not only in terms of energy



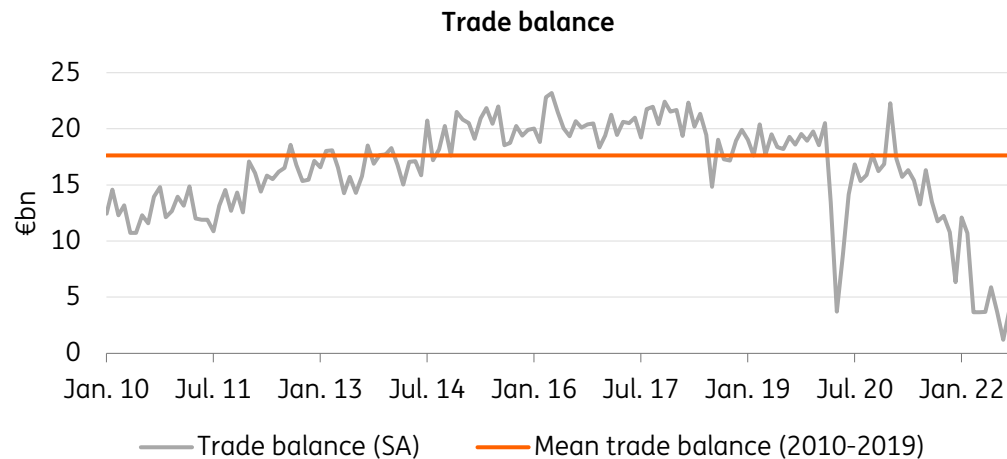
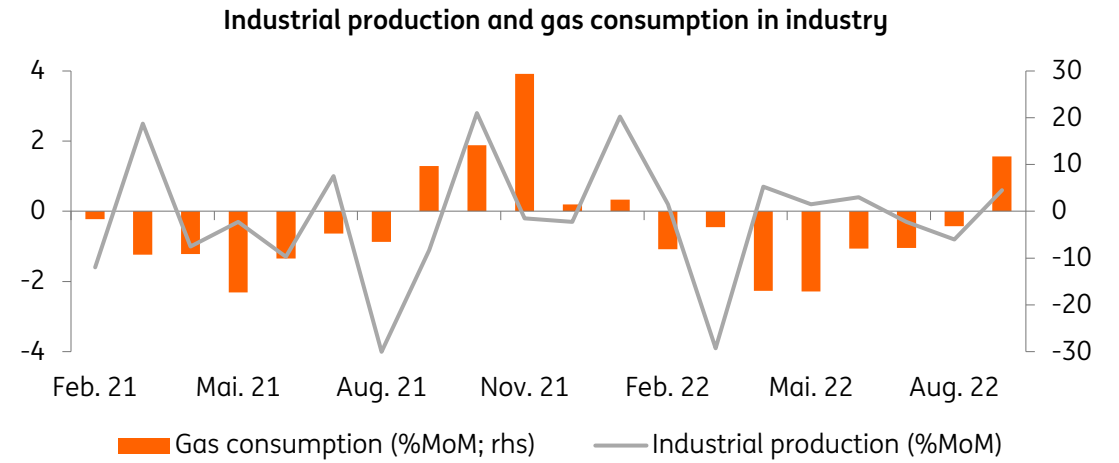
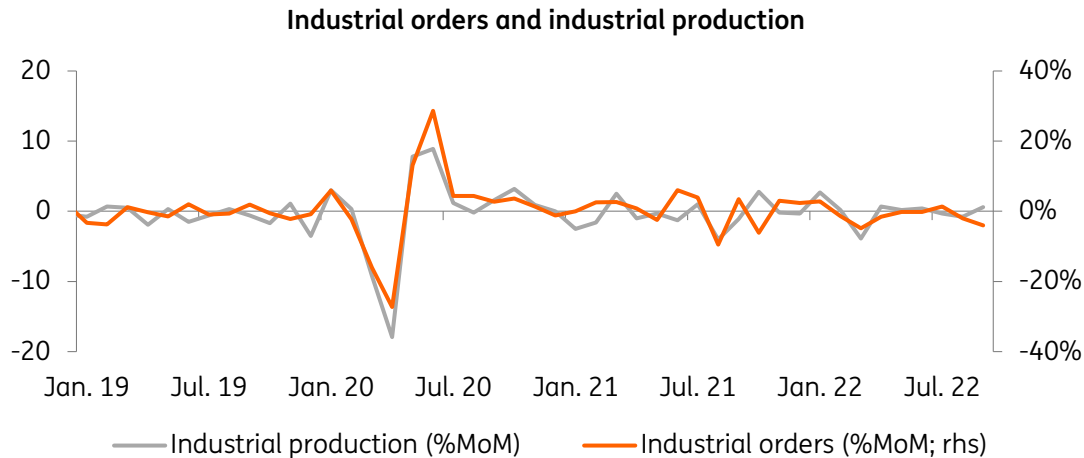
# Almost 90% of Germany's gas and some 64% of Germany's total energy needs were met by imports in 2020



# Around 25% of gross value added in Germany is generated in industry...

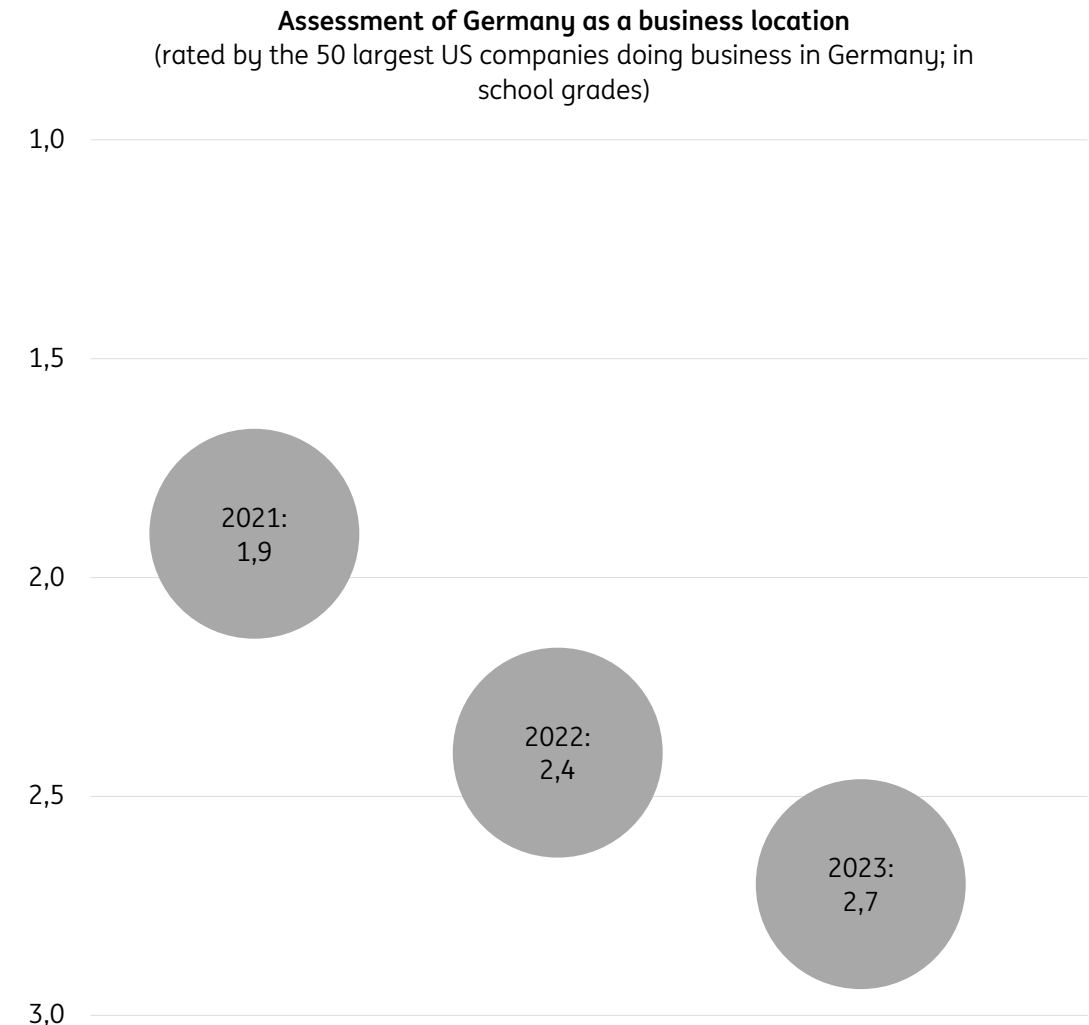
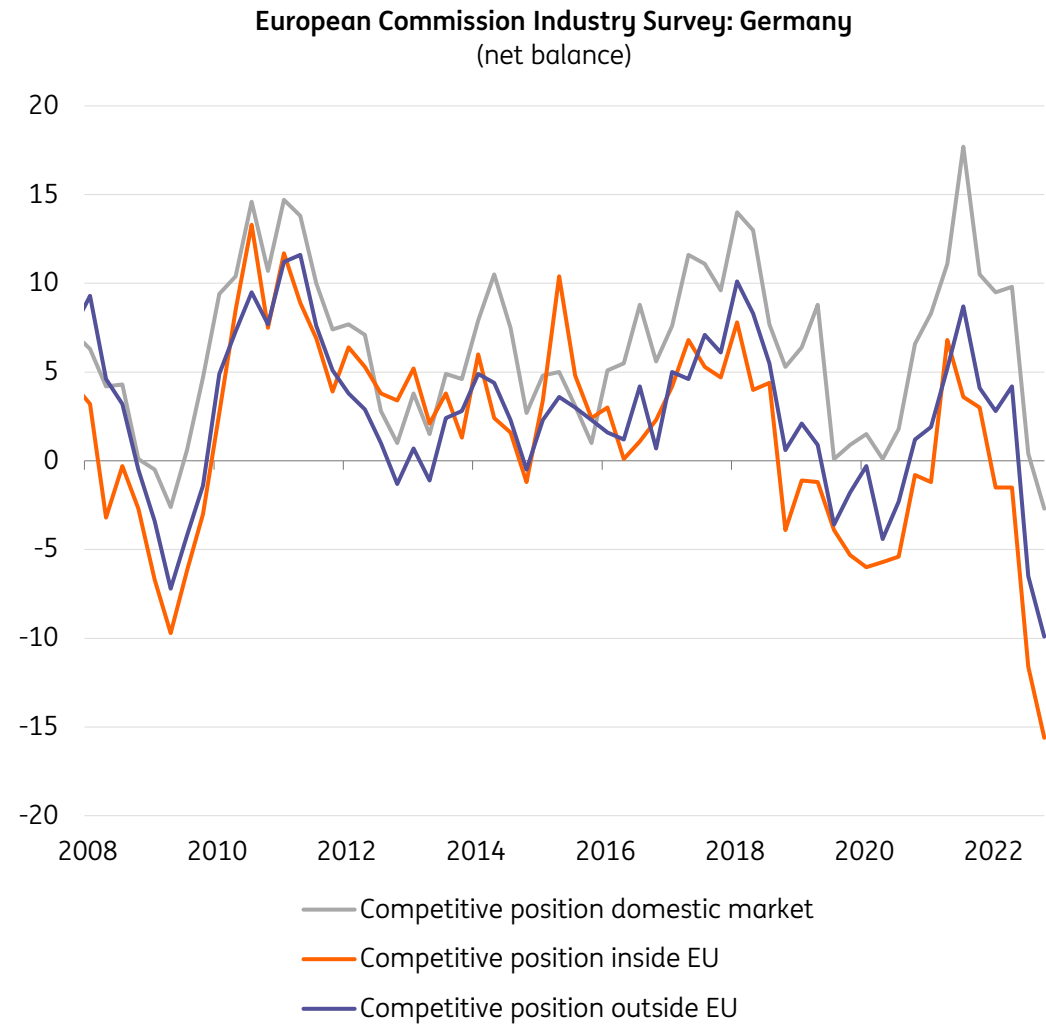


# ...which puts the German business model at risk



- In order to return to productivity and economic growth in the long term, investment is needed
- Both in the green transformation and in digitization and infrastructure
- Otherwise, the German economy is threatened not only with a loss of economic output in the short term, but also in the long term

# Germany's competitiveness and attractiveness have been crumbling for some time now and things will not get any better







do your thing