

January 30, 2023 – Economic Commentary

Germany and China start the week moving in opposite directions. Preliminary data from a variety of online shopping sites in China appear to indicate a notable increase in travel, tourism and consumer services associated with the Lunar New Year holiday, bolstering a variety of forecasts for a rebound in economic growth as China moves past the “Zero-Covid” policies of the last three years. In contrast, Germany seems to be slipping into recession, with the announcement of a 0.2% drop in fourth quarter GDP, mostly due to a fall in consumer spending. A rebound in Chinese economic growth will be of benefit to the German economic outlook, given Germany’s extensive trade with China, but it may not fully counter the difficulties that continue to present themselves in Germany—and Europe, at large – associated with still high inflation and rising interest rates. Indeed, one day after the Federal Reserve meeting this week, which is widely expected to lead to at least a 25bps increase in the Fed Funds rate, the European Central Bank is expected to raise the rate 50 bps and to signal another 50 bps increase in March. And in the middle of all this stands the United States, still growing, expected to post another increase in employment this Friday and hopeful that inflation is on a path to continue to decline. Labor market weakness that is not yet seen is both a hope and a fear in the US, bringing with it the possibility of reduced labor costs for employers, but also consumer spending challenges as households become more cautious and protective of savings.

Data to Watch:

1. US Conference Board Consumer Confidence Index for January, released Tuesday, January 31
2. US ISM Purchasing Managers Index for January, released Wednesday, February 1
3. FOMC Press Conference, Wednesday, February 1
4. US Non Farm Payrolls and Unemployment Rate for January, released Friday, February 3

Suggested Reading:

[The US Consumer is starting to freak out](#)

[Three years on, Britain still waits for Brexit dividend](#)

[German economy unexpectedly shrinks in Q4, reviving spectre of recession](#)

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