Global shortages crimp growth in economic powerhouse Germany

Research groups revise down growth estimate for 2021 to 2.4%

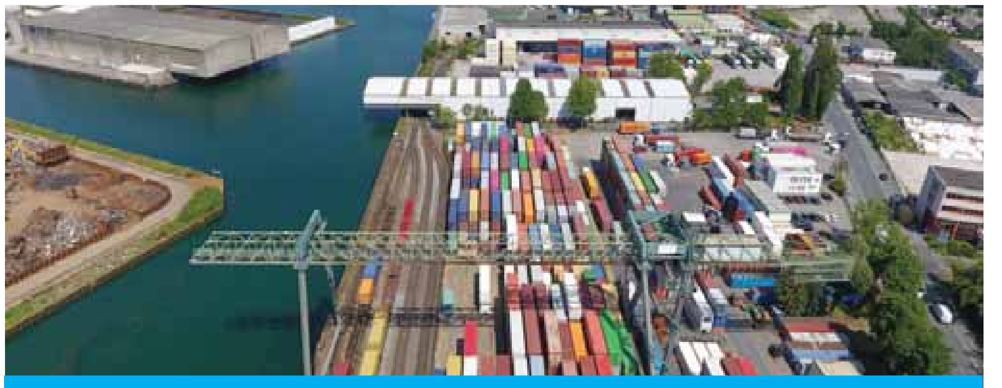
FRANKFURT: Global shortages in industrial components and raw materials have cramped Germany's export driven economy, prompting the country's leading economic institutes to slash their forecast for growth this year yesterday. In their biannual forecast, the research groups revised down the estimate for 2021 to 2.4 percent, from their earlier prediction of 3.7 percent made in April. "The corona(virus) pandemic still shapes the economic situation in Germany," the institutes (DIW, Ifo, IfW, IWH and RWI) said in a joint statement, preventing a return to normal economic activity.

After rapid growth in spring, the German economy had been held back by supply bottlenecks "hampering manufacturing" and meant that "only the consumer-related service industries are growing", the institutes said. Together the institutes expect pandemic effects and shortages to be "gradually overcome" in 2022, raising their forecast for growth in the year to 4.8 percent from 3.9 percent. Earlier this week, the International Monetary Fund downgraded its own global economic forecasts, including Germany's outlook, pointing the finger at supply chain disruptions.

'Difficult autumn'

Businesses have to prepare for a "difficult autumn", Joachim Lang, the head of Germany's influential industrial lobby, the BDI, said last week in response to sinking export figures. Ralph Wiechers, chief economist at the mechanical engineering industry group VDMA, told AFP that businesses were being confronted with shortages across the board, "whether it's wood for pallets, packing materials, steel-an important input for our industry-or computer chips, semiconductors".

Orders from customers have also begun to drop among the companies Wiechers represents due to an inability to lay their hands on materials. "They are not getting the plastic supplies, so why should they buy a plastic processing machine?" he said. The deterioration of the economic situation has seen a series of Germany's closely watched indicators turn red. Last week, the federal statistics agency Destatis reported that industrial production went into reverse in August, falling by four percent month-on-month, while incoming orders slumped 7.7 percent after a record July.



DORTMUND, Germany: An aerial view of containers at the inland port in Dortmund, western Germany. —AFP

Shortages were having knock-on effects on companies' production and revenues, Wiechers said, with mechanical engineering among the sectors most heavily affected. Only Germany's key automotive sector was suffering more acutely from scarcity-a situation driven largely by the short supply of semiconductors, a component in both conventional and electric vehicles.

Production lines in Germany at Volkswagen, Opel and Ford have been at a standstill as bottlenecks tighten, while BMW and Mercedes-Benz have been delivering vehicles with missing components, according to the German weekly WirtschaftsWoche. —AFP

Food and rent prices drive US inflation spike in September

WASHINGTON: The US inflation spike is not over, according to government data released Wednesday that showed prices for food and rents increasing in the world's largest economy last month, underscoring the complications Washington policymakers face as they guide the country's bounceback from the pandemic. The Labor Department's consumer price index (CPI) rose 5.4 percent, seasonally adjusted, in September compared to the same month a year ago. From August, it rose just above analysts' forecasts to 0.4 percent.

Food and housing prices accounted for more than half of the overall gain, the Labor Department said, while the impact of rising global energy prices was also apparent in the data that some economists warned could indicate inflation is on track to overstay its welcome. "The pickup in shelter costs is something to watch as it could offset some of the slowdown in inflation that occurs as current supply chain disruptions are resolved," Diane Swonk of Grant Thornton said on Twitter. The United States has dealt with price increases throughout this year as businesses reopen from COVID-19 shutdowns in 2020 and supply chains deal with shortages and delays.

The inflation presents a challenge to President Joe Biden, whose opponents have also used it to argue his spending plans are excessive. It has also vexed the Federal Reserve, which has indicated it may begin pulling back on monetary stimulus by the end of the year but wait longer to raise its borrowing rate despite concerns the central bank's easy money policies are allowing prices to climb.

Shelter climbs

Minutes from the Fed's September policy setting meeting released on Wednesday said "most participants saw inflation risks as weighted to the upside because of concerns that supply disruptions and labor shortages might last longer" and be more impactful than forecast. While the central bank prefers to get its inflation numbers from the Commerce Department, the CPI data contain dynamics undoubtedly on Fed leaders' minds.

SANTA MONICA, US: In this file photo, a woman sells bread at the West LA Farmer's Market in Santa Monica, California. — AFP

Excluding volatile food and energy prices, inflation rose four percent last month compared to the same month in 2020, according to the report. Compared to last August, it was up 0.2 percent.

Among the categories that drove the overall inflation gains, food rose 0.9 percent and the food at home category, which includes groceries, climbed 1.2 percent. Shelter gained 0.4 percent, which Ian Shepherdson of Pantheon Macroeconomics said was its biggest monthly increase since June 2006.

"This might just be an overshoot after a couple of relatively modest increases, but we can't rule out the idea that the fundamentals-rapid house price gains, more aggressive landlord pricing, low inventory and faster wage growth-are pushing up the trend," he said. The impact of rising global oil prices were seen in the data, with the gasoline index climbing 1.2 percent compared to August and energy overall rising 1.3 percent. —AFP

US Treasury to study climate change's impact on communities

WASHINGTON: The US Treasury announced Wednesday it will study how climate change is affecting communities and households in the United States.

The department's Financial Literacy and Education Commission will look into "how households, communities, and the smallest businesses experience financial resilience in the face of climate change and climate transition," Treasury said in a statement. It will also focus on "how to map climate-related financial risks, and identify which groups and regions will be most impacted," and also study the best ways to deal with the threats, with an emphasis "on historically disadvantaged people and regions."

"Beyond events like storms and wildfires, we expect climate change to impact insurance, credit and household savings," Treasury Under Secretary for Domestic Finance Nellie Liang said in a statement.

"It's vital that Treasury undertake this work, in collaboration with other experts in and outside of government, in order to help families prepare for climate-related financial risk." Treasury Secretary Janet Yellen had on Tuesday encouraged leaders of several multilateral development banks to dedicate more capital towards projects intended to mitigate climate change. Yellen urged officials from the World Bank, African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development and Inter-American Development Bank Group to "increase their focus on climate adaptation... and to support developing countries in implementing ambitious emissions reduction measures and protecting critical ecosystems." —AFP