ECONOMIC RESEARCH

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GERMANY

German consumer saves the day

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The German economy narrowly avoided a technical recession: According to initial estimates, seasonally adjusted GDP rose by 0.1% after a stronger than initially expected decline of 0.2% in the previous quarter. The expansion in German GDP was mainly driven by still relatively robust domestic demand. Positive consumption impulses and rising construction investments more than offset the headwinds in foreign trade. However, the sharp decline in export demand is increasingly leaving its mark with investment in equipment posting yet another decline in the third quarter.

Even though the German economy narrowly avoided slipping in recession, this is hardly any reason to celebrate. In view of the cautious outlook for global trade and the automotive industry and lingering elevated political uncertainty surrounding trade and Brexit, mini growth rates at best can be expected in the coming quarters. Leading indicators and available data for the final quarter of 2019 point to a tentative stabilization in industry but certainly not to a v-shaped recovery à la 2010. As a result, the continuing weakness in industry is still likely to weigh on domestic demand and the risk of recession will remain elevated in 2020. In this context, we are particularly concerned about the deterioration – albeit gradual – in the labor market outlook which could see the currently most important pillar of the German economy - private consumption - to increasingly start to wobble in the coming year. In addition, with today's data, it has become less likely that economic policy will intervene to support the German economy, whether through fiscal easing to stabilize demand or structural reforms to increase potential growth. For both 2019 and 2020, we still expect GDP growth of only 0.6% for Germany, and therefore only about half the rate as for the eurozone as a whole.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

NO DUTY TO UPDATE