

The NewsLine

September 24, 2019

MACROECONOMICS

FINANCIAL MARKETS

ECONOMIC POLICY

SECTORS

GERMANY

Increased recession risk also for 2020

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In September the mood in the German economy recorded a small improvement – the first one since March 2019. The slight increase in the ifo business climate index was attributable to a somewhat more positive assessment of the current business situation. Meanwhile, companies' business expectations for the coming six months suffered another setback. The manufacturing industry remains the biggest problem child, with the business climate recording a further deterioration – albeit a more limited one compared to previous months. Today's data supports our view that the current economic soft-spell is here to stay also in 2020.

With a large portion of luck, the German economy may have narrowly avoided a recession in the third quarter of 2019. However, the ongoing decline in business expectations suggests that the risk of a recession will remain acute in 2020. The subdued outlook for world trade and the German car industry as well as lingering elevated political uncertainty surrounding trade and Brexit is simply too much to handle for the German economy. Up until now, construction investment and private consumption have kept the German economy afloat. However, the weakness in industry is increasingly spreading to other sectors. In 2019 and 2020, we expect the German economy to grow only 0.6% and hence only about half as fast as the eurozone as a whole.

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