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GERMANY

Weak start to Q4 2019

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In October, the German composite PMI registered below the 50 no-change level for the second time in a row, signaling a further contraction in economic activity. The slight improvement in the manufacturing PMI is a welcome development, but clearly too weak to even hint at a tentative turnaround. The subdued outlook for global trade and the car industry as well as lingering elevated political uncertainty surrounding trade and Brexit are still weighing too heavily on the German industry. The renewed decline in new export orders suggests that external headwinds will continue to persist in the coming months. In addition, there are increasing signs that the pronounced industrial weakness is spreading to other sectors of the German economy.

Due to a renewed downturn, business activity in the service sector is now registering at the lowest level since 2016. In this context, the increasingly gloomy outlook for the labor market is particularly worrying: In October, total employment contracted for the first time in six years. As a result, the most important pillar of the German economy – private consumption – could soon start to wobble.

2019 has already been confirmed as a difficult year for the German economy. However, the coming year is unlikely to bring a more positive development judging by the renewed setback in business expectations, which in October reached the lowest level since November 2012. The ongoing decline in leading indicators indicates that the current economic weak phase is not a one-year fly. Without an imminent turnaround, the risk of a recession will remain acute also in 2020. For both 2019 and 2020, we expect German GDP to expand by only 0.6% and hence only about half as fast as for the eurozone as a whole.

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