

Germany: A recession is coming

The economic impact of Covid-19 and financial market turmoil make a technical recession in Germany look all but inevitable. We expect the Germany economy to shrink by more than 1.5% YoY in 2020



Source: Shutterstock

In one word: Panic

The ZEW index, gauging financial analysts' sentiment and take on the economic situation, plummeted in March, recording the sharpest monthly decline ever.

The ZEW index fell to -49.5 in March, from +8.7 in February, and is now at its lowest level since December 2011.

As in all European countries, the situation in Germany is fast-moving. Yesterday, chancellor Angela Merkel announced the so-called general guidelines for a lockdown of Germany. All shops will be closed except for groceries, pharmacies, banks and gas stations. No more gatherings, no tourism either domestically or internationally, no church services and even playgrounds should be closed. Cultural and sport events are also no longer allowed. Restaurants can stay open, but only until 6pm.

There is no end date attached to these measures. However, the fact that these are guidelines illustrates how the federal structure of the country is currently hampering swift decisions. It is the

regional states which are responsible for the implementation of the measures and implementation differs across the different states.

Economic impact of Covid-19 and financial market turmoil

The economic impact of all of this remains hard to assess. It is the archetype of a fast-moving environment. Just this morning, a large car manufacturer announced temporary production stops and more will follow.

In our view, the German economy is likely to experience a recession in the first half of the year

With the lockdown, there will be a sharp fall in private consumption to at least 4% compared with the levels at the end of last year. The exact timing of the lockdown in the different regional states and obviously the eventual length of the lockdown will determine how the contraction in consumption and activity will be spread across Q1 and Q2.

In our view, the German economy is likely to experience a recession in the first half of the year, in terms of the plain GDP data, we are probably getting close to numbers seen during the financial crisis. Back then, the German economy fell by 1.6% QoQ in 4Q08 and 4.7% QoQ in 1Q09, mainly driven by a sharp fall of exports. In the current crisis, the hits will come from several sides. Based on the currently available information, we now expect the German economy to shrink by more than 1.5% YoY in 2020.

More fiscal response to come

The German government's reaction to the economic impact of Covid-19 and the ongoing financial market turmoil has been very similar to that of other governments. It is currently a combination of investments in R&D to find a vaccine and to equip the health care sector, a stepping up of already existing longer-term investment plans, tax deferrals, an easing of the hurdles to apply for short-time work schemes and an increase in government support for these schemes as well as bank guarantees and liquidity support of more than €500bn.

We now expect the German economy to shrink by more than 1.5% YoY in 2020

An impressive package, which still might not be enough to cushion the economic impact from Covid-19, particularly the loss of income and demand. In this regard, it is remarkable that last night in a TV talk show the German Minister of Economic Affairs, Peter Altmaier, promised that no single job would be lost due to Covid-19. Definitely not an easy promise to make.

We take the government's measures and communication as clear evidence that this 'whatever-it-takes' is credible. We expect more traditional fiscal stimulus in the months

ahead.

Think of tax forbearance, temporary tax cuts or the government taking over rent or other cost payments from SMEs. Even additional measures will in our view be insufficient to avoid a recession in the first half of the year but they could pave the way towards a solid path to a strong recovery.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.