

German economy cannot keep up with France

It's eurozone GDP day again and the just-released German GDP data shows that private consumption alone is not enough for the entire economy to keep up with fast-growing economies like France. Supply chain disruptions will delay the moment for the German economy to return to pre-crisis levels



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Growing but not growing strongly enough. The German economy grew by 1.8% quarter-on-quarter in the third quarter, according to a first estimate by the German statistical office. GDP growth for the second quarter was slightly revised upwards to 1.9% QoQ. On the year, the economy grew by 2.5%. The GDP components will only be published at the end of November but according to available monthly data and the statistical agency's press statement, growth was mainly driven by private consumption.

Supply chain frictions prevent economy from growing more

The latest growth experience brings back memories of 2018 and 2019 when a series of so-called one-off factors brought a fundamentally solid economy to its knees. This time round, it's supply

chain frictions that have undermined the German economy's growth performance. While private consumption and services have still enjoyed the full post-lockdown rebound, industrial production had another weak quarter.

Looking ahead, supply chain frictions, higher energy prices and the resultant surge in inflation do not bode well for the short-term outlook. In fact, the German economy could come to a halt in the final quarter of the year, assuming that higher inflation and supply chain frictions not only distort industrial production but also start to dent private consumption. As a result, the German economy will most likely only return to its pre-crisis level at the start of next year; later than many other eurozone economies. The big fiscal boost that almost the entire world was talking about last year, which should have brought Germany out the pandemic faster than most other countries, has become a victim of global supply chain frictions.

Looking beyond the short-term, however, solid fundamentals bode well for a strong rebound in the German economy in 2022, once the global supply chain frictions are gradually solved. Think of filled order books in industry, the strong labour market and excess savings. This is why, after a weak 2021 with GDP growth at 2.5%, we expect the German economy to accelerate to around 4.5% growth in 2022.

All in all, the German economy is still some 1% below its pre-crisis level and with ongoing supply chain frictions and higher energy prices, it looks as if the economy will only return to its pre-crisis level at the start of 2022. Even the strongest fiscal stimulus cannot shield an open economy against global supply chain disruptions.

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