

# German economy falls into winter recession

So much for reliable statistics! The German economy contracted in the fourth quarter of 2022 after the first tentative statistics pointed to stagnation



Germany's economy isn't just cooling, it's facing a winter recession

The German statistical office just released its first official estimate for fourth-quarter GDP growth, and recession fears are back. The economy shrank by 0.2% Quarter-on-Quarter, from + 0.5% QoQ in the third. GDP details will only be released in a few weeks, but private consumption was the main drag on growth according to the statistical office. As a result, annual GDP growth for 2022 was also revised downwards to 1.8%, from 1.9% YoY.

## Economic outlook anything but rosy

Not falling off the cliff is one thing, staging a strong rebound, however, is a different matter. And there are very few signs pointing to a healthy recovery of the German economy any time soon. First of all, we shouldn't forget that fiscal stimulus over the last three years stabilised but did not really boost the economy. Industrial production is still some 5% below what it was before Covid, and GDP only returned to its pre-pandemic level in the third quarter of 2022. Industrial orders have also weakened since the start of 2022, consumer confidence, despite some recent improvements, is still close to historic lows, and the loss of purchasing power will continue in 2023.

Let's also not forget that, like every eurozone economy, the German economy still has to digest the full impact of the European Central Bank's rate hikes. Demand for mortgages has already started to drop and, as in previous hiking cycles, it didn't take long before the demand for business loans also started to drop. In short, the German economy will still be highly affected by last year's crises throughout 2023.

---

### *Germany's economic outlook for this year looks complicated*

---

Germany's economic outlook for this year looks complicated, to say the least, with an unprecedentedly high number of uncertainties and developments in opposing directions. And there is more; the German economy is still facing a series of structural challenges which are likely to weigh on growth this year and beyond: energy supply in the winter of 2023/24 and the broader energy transition towards renewables, changing global trade with more geopolitical risks and changes to supply chains, high investment needs for digitalisation and infrastructure, and an increasing lack of skilled workers. This long list embodies both risks and opportunities. If historical lessons from previous structural transitions are of any guidance, even if managed in the most optimal way, it will take a few years before the economy can actually thrive again.

## Winter recession remains base case for German economy

Today's GDP numbers once again show that caution, better than hope, is probably the best guidance for predicting German and European economic growth. The warmer winter weather, along with implemented and announced government fiscal stimulus packages, have prevented the economy from falling off a cliff, but a technical recession is still a likely outcome. We stick to our forecast of a winter recession in Germany and a very mild recession for the whole of 2023.

### Author

#### **Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto: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 [www.ing.com](http://www.ing.com).