

## German economy shrank in 2023

Now it's official. The German economy shrank by 0.3% year-on-year in 2023. What's worse, however, is that there is no imminent rebound in sight and the economy looks set to go through the first two-year recession since the early 2000s



The year 2023 was the first full year since 2020 in which the German economy contracted. According to a just-released preliminary estimate by the German statistical office, the economy shrank by 0.3% year-on-year. Based on a very tentative first estimate, the economy shrank by 0.3% quarter-on-quarter in the fourth quarter of 2023. However, don't forget that this estimate was derived without any hard economic data for the month of December and could still be subject to revisions, probably rather to the downside than the upside.

### **We expect the German economy to shrink again in 2024**

The year 2023 was another turbulent one, with the economy in permanent crisis mode. In fact, since 2020, there has been a long list of crises and challenges facing the German economy: supply chain frictions resulting from the pandemic lockdowns and war in Ukraine, an energy crisis, surging inflation, tightening of monetary policy, China's changing role from being a flourishing export destination to being a rival that needs fewer German products, and several structural shortcomings. A combination of geopolitical risk events, cyclical headwinds but also homemade

deficiencies. In light of so many challenges, some take comfort in the fact that the economy is “only” stuck in stagnation and has avoided a more severe recession. And, indeed, things could have been worse. But this should be no reason for any complacency. On the contrary, even if the worst of the weakening in sentiment seems to be behind us, the hard economic reality does not look pretty.

In fact, looking ahead, at least in the first months of 2024, many of the recent drags on growth will still be around and will, in some cases, have an even stronger impact than in 2023. Just think of the still-unfolding impact of the European Central Bank's monetary policy tightening, the potential slowing of the US economy, new uncertainty stemming from recent fiscal woes or new supply chain frictions as a result of military conflict in the Suez Canal. A recent illustration of the longer-term impact of energy prices, higher interest rates and changing economic structures is the gradual increase in insolvencies since mid-2022. On a more positive note, what could lift economic sentiment and growth are positive real wage growth, a rebound in Asia and further down the road some rate cuts from the European Central Bank. Also, a turn in the inventory cycle could bring some relief in early 2024, although this turn has not yet happened and would probably only be short-lived.

All in all, we expect the current state of stagnation and shallow recession to continue. In fact, the risk that 2024 will be another year of recession is high. We expect the German economy to shrink by 0.3% YoY this year. It would be the first time since the early 2000s that Germany has gone through a two-year recession, even though it could prove to be a shallow one.

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