

## German economy stagnated in the second quarter

The flash estimate of German GDP growth shows that the eurozone's largest economy stagnated in the second quarter and seems to be stuck in the twilight zone between stagnation and recession



According to the flash estimate of the German statistical agency, the German economy stagnated in the second quarter. On the year, GDP growth was down by 0.6% or 0.2% if corrected for working days. We advise you to take these numbers with caution as over the last quarters, these flash estimates had been subject to significant revisions. Today, again, the last quarters were slightly revised upwards, without revising away the winter recession. Judging from available monthly data and the comments by the statistical office, it was mainly private consumption which helped the German economy to avoid an extension of the winter recession.

### Stuck between stagnation and recession

Looking ahead, recently released sentiment indicators do not bode well for economic activity in the coming months. In fact, weak purchasing power, thinned-out industrial order books, as well as the impact of the most aggressive monetary policy tightening in decades, and the expected slowdown of the US economy, all argue in favour of weak economic activity. On top of these cyclical factors, the ongoing war in Ukraine, demographic changes, and the current energy transition will structurally weigh on the German economy in the coming years. However, all is not

bleak. The stuttering Chinese rebound could easily bring some temporary positive surprises as well. Also, the drop in headline inflation and the actual fall in energy and food prices combined with higher wages should support private consumption in the second half of the year. We continue to see the German economy being stuck in the twilight zone between stagnation and recession.

Today's German GDP data resembles this economist's favourite football club winning the last match of the season but still being relegated to the second division. It's a victory that does not give rise to celebration.

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