

## German economy still defies recession

The German economy grew by 1.9% in 2022. This implies a stagnating, not contracting, economy in the fourth quarter. Will the widely-predicted recession simply fail to materialise? We remain doubtful. Avoiding the worst does not suggest the economy is doing well. The economy has just returned to its pre-pandemic level



Same procedure as every year. The German statistical office just released a first estimate for GDP growth in 2022, without having any single hard data point for the month of December. According to this first estimate, the German economy grew by 1.9% year-on-year, from 2.6% in 2021. Definitely not bad for a year with lockdowns and a war. However, to put things in perspective: the German economy has only just returned to its size of late 2019. Three years of crisis have not passed by unnoticed.

### First estimate points to stagnation not contraction in fourth quarter

The most important element of this annual growth rate is what it means for fourth quarter growth. According to the statistical office, the German economy stagnated in the fourth quarter, after growing by 0.4% quarter-on-quarter in the third quarter. In the past, these implied estimates for the final quarter were very accurate. However, at the current juncture, the economic

performance in December could have been more volatile and disruptive than in the past; think of the weather impact, longer Christmas breaks and stronger-than-expected impact from the energy crisis on consumption and production. We think that this estimate for the fourth quarter will still be revised somewhat.

In any case, today's data shows that for the entire year 2022, the catch-up effect after the end of lockdowns, both for consumption and production, outweighed the economic fallout from the war in Ukraine. In the final months of the year, fiscal support also cushioned the downswing.

## Avoiding the worst doesn't mean that growth will rebound strongly

Looking ahead, the post-lockdown catch-up is over and will not support economic activity in 2023. The adverse effects from the war and the energy crisis are likely to prevail and will be a drag on the economy. Weakening new industrial orders since February last year and weak consumer confidence are just two of many reasons for more trouble ahead for the German economy.

Still, the New Year started on a more optimistic footing for the German economy. The mild temperatures almost seem to have ended the energy supply crisis, at least for now. National gas reserves have increased again, and consumption is clearly below historical averages. While the warm weather should actually ring alarm bells in terms of climate change, it is a welcome surprise for the economy. That said, the weather is far from predictable and the economic safety net is built on fiscal stimulus.

More generally, let's not forget that the German economy is still facing a series of challenges which are likely to weigh on growth this year and beyond: energy supply in the winter of 2023/24, 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.

Today's data suggests that the widely-predicted recession might not happen. We remain very cautious. The sheer fact that the German economy avoided the worst, unfortunately, does not mean that all of the economic problems have disappeared.

### Author

#### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

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