

German economy still stuck in recession

Now it's official, the German economy shrank by 0.3% quarter-on-quarter at the end of 2023. An imminent improvement is not in sight



Source: Shutterstock

And it's a wrap. The just released official GDP results show that the German economy shrank by 0.3% quarter-on-quarter in the fourth quarter of 2023. The year 2023 was the first full year since 2020 in which the German economy contracted (by -0.3% year-on-year). The GDP numbers from previous quarters were revised. As a result, the German economy has just avoided a technical recession (ie two consecutive quarters of contraction). But with an average quarterly growth rate of 0% QoQ since the second quarter of 2022, the German economy is anything but fast-growing. The best way to describe the state of the German economy is probably that it is in a shallow recession. In fact, the economy remains stuck in the twilight zone between recession and stagnation.

Closing 2023 but 2024 hardly looks any better

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.

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 or new uncertainty stemming from recent fiscal woes. 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. But the ongoing sharp drop in new orders in the construction sector doesn't bode well either. To make things worse, the new year brought new problems for the German economy: strikes by train drivers, and supply chain disruptions as a result of the military conflict in the Red Sea have made another contraction in the German economy in the first quarter of the year even more likely.

It does not look as if the German economy will leave the twilight zone between recession and stagnation any time soon.

Author

Carsten Brzeski

Global Head of Macro

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.