

## Supply chain frictions remain biggest risk for German growth outlook

The second estimate of German GDP growth confirms the rebound in the second quarter but also shows that supply chain frictions have become a bigger threat to the economy than Covid



Shoppers in Munich

The just-released details of German GDP growth in the second quarter confirmed important trends: the rebound in economic activity with the lifting of restrictions was undermined by the negative impact from supply chain frictions. As a result, the economy grew by 1.6% quarter-on-quarter, from -2.1% QoQ in the first quarter.

The rebound of the German economy was weaker than in many other eurozone countries as the manufacturing sector suffered from supply chain problems. In fact, the economy showed two faces in the second quarter. One of strong domestic demand with private consumption increasing by 3.2% QoQ and government spending up by 1.8% and one of almost sluggish investment and exports (both up by 0.5% QoQ each). Of all components, only government spending has currently returned to pre-crisis levels.

### Supply chain frictions biggest risk to outlook

Looking ahead, three factors will determine the outlook for the German economy: the Delta

variant, supply chain frictions and inflation.

While in recent days financial markets showed growing concerns about the Delta variant and its potential to dent the global recovery, we actually see supply chain frictions and not the coronavirus as the biggest risk for the German economy in the second half of the year. Probably also driven by the upcoming elections, the German government does not get tired of stressing that new lockdowns for fully vaccinated people are not planned. Regarding supply chain issues, it currently looks as if these problems could easily last until the end of the year, potentially putting a cap on growth. Finally, with headline inflation in our view moving further to 4% and above, it could dent private consumption.

We still expect the German economy to return to pre-crisis levels before the end of the year. However, to really get there, the current supply chain frictions must not last for too long.

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