

Trump makes the German economy great again, for now

German first-quarter growth came in much stronger than the initial estimate on the back of export and production frontloading, preparing for US tariffs. This is a welcome surprise



Shoppers in Berlin

The German economy surged in the first quarter of the year on the frontloading of exports and industrial production. The just-released detailed GDP data was much better than the flash estimate's result. The German economy grew by 0.4% quarter-on-quarter, from -0.2% QoQ in Q4 last year and a first flash estimate of 0.2% QoQ. On the year, the economy was still down by 0.2%.

The German economy had its best quarterly performance since the third quarter of 2022, and the reason for it seems to be Donald Trump. As a result of the announced tariffs and in anticipation of 'Liberation Day,' German industrial production and exports surged in March. Net exports and private consumption drove economic activity in the first quarter, while government consumption and inventories dragged on growth.

Finally a positive surprise

Looking ahead, the first quarter performance will soon become a positive one-off. The German economy remains in the middle of two seismic activities: a new government, which seems to lack

strong ambition for structural reforms but will have access to unprecedented fiscal space for infrastructure and defence investments, and fundamental shifts in trade and geopolitics, including US tariffs. We think that, at least in the short run, the negatives will outweigh the positives, even though we are finally seeing tentative signs of a turning inventory cycle, which normally bodes well for industrial production over the coming months. Still, the tariff extravaganza since the beginning of April will leave clear marks on the German economy. There is the direct impact, as even with the current 90-day pause, tariffs are still higher than at the start of the year, but also the indirect impact via confidence and still high uncertainty.

In the longer term, however, there are good reasons to be more optimistic. Implemented in the right way, investment in infrastructure should at least lead to a cyclical upswing. The caveat, unfortunately, remains that the fiscal measures alone – impressive as they might be – will do very little to improve the economy's competitiveness. Modern infrastructure is essential for one of the world's largest economies, but it doesn't inherently drive innovation, sector transformation, or new growth opportunities. The next months will show whether the new government is willing and able to go beyond a pure cyclical rebound of the economy.

All in all, today's numbers finally brought back an almost forgotten relic from the past: the German economy can still surprise to the upside. Even if the first quarter performance is clearly the result of one-offs and doesn't look sustainable (yet), it shows that after the recent downgrading of growth forecasts for this year, the next revision is likely to be to the upside.

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