

German economy fell back into contraction in the second quarter

Weak private consumption and plunging activity in the construction sector sent the German economy back into contraction in the second quarter. It is still too early to give up hope, even if the outlook is not very bright



The German economy is stuck in stagnation

The second estimate of German GDP growth in the second quarter of the year confirms that the economy fell back into contraction, shrinking by 0.1% quarter-on-quarter, from +0.2% QoQ between January and March. On the year, GDP growth was up by 0.3%.

While private consumption dropped by 0.2% QoQ and investments plunged by more than 2% QoQ, government consumption rose by 1% QoQ. Net exports were also a drag on growth. In fact, the second quarter performance of the German economy looks like a reversal of the first quarter performance.

No imminent rebound in sight but still too early to give up on optimism

The German economy had started the year with some optimism. First-quarter GDP growth was a

positive surprise and confidence indicators improved, giving rise to hopes that the pessimism of the last few years was behind us, and that discussions about whether or not Germany was the "sick man of Europe" could be put to one side. The truth, however, is that GDP growth in the first quarter was driven by the mild winter weather and a downward revision of fourth quarter GDP. Therefore, it was not what we would call a sustainable and healthy growth story.

With disappointing second-quarter growth and almost all confidence sentiment indicators pointing south, the German economy is currently back where it was a year ago: stuck in stagnation as the growth laggard of the entire eurozone.

Still, we are not ready, yet, to give up on at least some optimism for the second half of the year. The highest increase in real wages in more than a decade could still open German consumers' wallets and there only needs to be a small improvement in industrial orders to bring the long overdue turning of the inventory cycle. Admittedly, hopes of a consumer-driven recovery in the second half of the year got another hit this morning with consumer confidence dropping.

The fact of the matter is that the German economy is currently learning the hard way what it means to be in the middle of cyclical headwinds and structural changes. It is stuck in stagnation.

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