

Contraction of German economy in the third quarter confirmed

The German economy remains stagnant - the recent fiscal turmoil will do little to change this any time soon.



The second estimate of German GDP growth in the third quarter confirmed the minor drop in economic activity and came in at -0.1% quarter-on-quarter, from +0.1% QoQ in the second quarter. On the year, the German economy shrank by 0.4%. The German economy remains stagnant. In fact, since the war in Ukraine started, the German economy has grown in only two out of the last six quarters. What's even worse is that the economy currently remains barely above its pre-pandemic level more than three years later.

While private consumption was a drag on growth in the third quarter (-0.3% QoQ), government consumption (+0.2% QoQ) and investments (+1.1% QoQ) supported economic activity.

Ongoing stagnation

Today's data will do very little to end the debate on whether or not the German economy is again the sick man of Europe. In any case, the German economy has become one of the growth laggards of the eurozone. This weak growth performance has a long list of explanations: there is the cyclical headwind stemming from inflation, still elevated energy prices and energy uncertainty, higher

interest rates and China's changing role from being a flourishing export destination to being a rival that needs fewer German products. But there are also well-known structural challenges, ranging from demographics to energy transition and not enough investment.

The recent ruling of Germany's Constitutional Court has exposed two new risk factors for the German economy: fiscal austerity and political uncertainty. Together with the well-known cyclical and structural headwinds, the ongoing pass-through of the European Central Bank's monetary policy tightening, still no reversal of the inventory cycle and new geopolitical uncertainties, it is hard to see Germany's economic stagnation ending any time soon.

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