

Small boost to German growth fails to quell recession risk

Technical recession avoided, but still stuck in stagnation. This is the bottom line of Germany's just-released first quarter GDP data



We've got mixed feelings about this morning's German GDP data. The small increase is welcome news, but it doesn't take away the risk that the economy will remain in recession for the third year running

According to the just-released first estimate, the German economy avoided a technical recession at the start of the year. In the first quarter of 2025, GDP growth came in at 0.2% quarter-on-quarter, from -0.2% QoQ at the end of 2024. On the year, the economy was still 0.2% smaller than a year ago.

Details will only be released in a few weeks, but according to the press release (as well as available monthly data), private consumption and investments were key drivers of economic activity. As much as any positive growth number coming out of Germany is highly appreciated these days, the quarterly increase is still far too small to end the country's long-lasting stagnation.

German economy remains stuck in stagnation

Today's GDP report paints a picture of what could have happened if it hadn't been for US President Donald Trump's tariff blast – an economy that bottoms out and goes through a weak cyclical rebound, but could gain momentum with the announced fiscal stimulus.

This pattern could still unfold, but it's likely to materialise much later. Instead, US tariffs, high uncertainty and fundamental shifts in trade and geopolitics will weigh on Germany's near-term economic outlook. In the longer term, the announced fiscal stimulus will definitely boost growth in Germany. Implemented in the right way, investment in infrastructure should at least lead to a cyclical upswing.

The caveat, however, 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.

While today's GDP report is welcome news, it doesn't take away the risk that the German economy will remain in an – admittedly small – recession for the third consecutive year, for the first time ever. As the incoming German government is taking shape and should start next week, fixing the economy should still be on top of the to-do list.

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