

## German GDP growth of -0.4% proves that a recession is in the making

The third estimate of German GDP growth in the final quarter of 2022 shows that celebrating resilience was a bit premature. A technical recession is in the making



We've previously had German GDP estimates of stagnation, of -0.2%, and -0.4%. Now we know the third estimate of German GDP growth in the final quarter of 2022 was the correct one. As just released by the German statistical office, the German economy contracted by 0.4% quarter-on-quarter in the fourth quarter of 2022, from +0.5% in the third quarter. This is the first contraction since the first quarter of 2021. On the year, GDP growth came in at 0.9%.

### Recession is in the making

The economic contraction is no surprise. What is interesting in today's GDP report are the details. Private consumption without lockdown savings languished under high inflation and energy prices and fell by 1% quarter-on-quarter, from +0.7% in the third quarter. Capital investments plunged by 2.5% QoQ, from 1.3%. Net exports, government consumption and a large inventory build-up prevented the economy from falling into a deeper contraction.

The German economy has surprised by showing more resilience than feared, despite facing a long series of crises. However, while this resilience, driven by fiscal support and warm winter weather, has prevented the economy from falling into a deep recession, it is definitely no guarantee for a strong rebound anytime soon. In fact, even though sentiment indicators have increased in recent months, there is overwhelming evidence of a still weak economy. The second consecutive drop in the Ifo's current assessment component, a falling PMI manufacturing and, as reflected in this morning's data, weak consumer confidence and a willingness to spend close to historical lows, all confirm our view that the German economy will contract once again in the first quarter.

## Recession in the short term and subdued recovery afterward

Looking beyond the first quarter, the latest improvement in soft data suggests that the German and eurozone economies are in the middle of a typical cyclical recovery, while we fear that we are actually in the middle of a structural transition. If we are right, any rebound this year will be softer and more short-lived than many expect, and subdued growth rather than a strong rebound remains the base case. Or in other words: not falling off the cliff is one thing; staging a strong rebound, however, is a different matter. In Germany, industrial orders have weakened since the start of 2022, consumer confidence, despite some recent improvements, is still close to historic lows, the loss of purchasing power will continue in 2023, and the full impact of monetary policy tightening still has to unfold.

Today's numbers mark the first part of what could become a technical recession in Germany. We think that the risk of yet another contraction in the first quarter and, thus, a technical recession is high and that the German economy is still miles away from staging a strong rebound.

### Author

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security

discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.