

## German stagnation in the second quarter confirmed

The second estimate of second-quarter GDP growth confirms the stagnation of Europe's largest economy and will do very little to end the 'sick man of Europe' debate



Finally, a quarter without any statistical revision. The just-released second estimate of German GDP growth in the second quarter confirmed the economy's stagnation. The second estimate doesn't show the German economy in a better state and does little to shut down the current debate about Germany once again being the "sick man of Europe".

According to the just-released data, the German economy stagnated in the second quarter, after two quarters of contraction. On the year, GDP growth was down by 0.6% or 0.2% if corrected for working days. The question remains whether technically speaking a stagnation after two quarters of contraction is actually the end of a technical recession or a prolongation.

What is new in today's data are the GDP components. While private consumption stagnated and public consumption increased marginally (+0.1% quarter-on-quarter), net exports were a drag on growth. The positive growth contribution from inventories reflects the ongoing inventory build-up, which doesn't bode well for the coming quarters.

## Stagnation remains our base case

Both the short-term and the longer-term outlook for Germany looks anything but rosy. Recently released sentiment indicators do not bode well for economic activity in the coming months. Weak purchasing power, thinned-out industrial order books, the ongoing weakness of the Chinese economy as well as the impact of the most aggressive monetary policy tightening in decades, and the expected slowdown of the US economy, all argue in favour of weak economic activity.

On top of these cyclical factors, the ongoing war in Ukraine, demographic changes, the current energy transition as well as the lack of new investment in digitalisation, infrastructure and education will structurally weigh on the German economy in the coming years. However, all is not bleak. The drop in headline inflation and the actual fall in energy and food prices, combined with higher wages, should support private consumption in the second half of the year. We continue to see the German economy being stuck in the twilight zone between stagnation and recession.

### 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>.