

German economy remains stuck in stagnation

Still stuck between cyclical headwinds and structural challenges, the German economy fell back into negative territory in the third quarter, with very little respite in sight



According to the just-released first estimate, the German economy remains stuck in stagnation. In the third quarter, German GDP growth fell by 0.1% quarter-on-quarter, from a slightly upwardly revised +0.1% QoQ in the second quarter. First quarter GDP growth was also revised upwards from -0.1% QoQ to zero. On the year, the German economy shrank by 0.3% in the third quarter. GDP details will only be released at the end of November but available monthly data as well as the statistical agency's press release suggest that private consumption was the main drag on the economy.

Meandering around zero

Today's numbers will do very little to hush the current debate on whether or not Germany is once again the sick man of Europe. 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 hardly above its pre-pandemic level more than three years later. These data alone underline that the German economy has at least 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 too few investments.

Looking ahead, neither the cyclical headwinds nor the structural challenges are likely to disappear or change any time soon. In this regard, the latest improvement in the Ifo index should not be overstated. It is a reflection of an economy finding a trough at low levels, rather than heralding a strong rebound. The ongoing pass-through of the European Central Bank's monetary policy tightening, still no reversal of the inventory cycle and new geopolitical uncertainties will continue weighing on the German economy. Structural weaknesses have built up over at least one decade, and it's therefore close to impossible to see a swift turnaround. Consequently, the German economy looks set to remain in the twilight zone between minor contraction and stagnation not only this year but also next year.

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