

Germany: And this is just the beginning

The worst contraction of the German economy since 2009 is not where the current crisis will end. The second quarter will be more dreadful



Source: Shutterstock

The German economy shrank by 2.2% quarter-on-quarter in the first quarter, the sharpest drop since the first quarter of 2009, when the economy contracted by 4.7% QoQ. On the year, the German economy contracted by 2.3%. GDP components will only be released at the end of the month but according to available monthly data and the press release of the German statistical office, the construction sector and government consumption were the only growth drivers. Private consumption, investments and exports all were a drag on the economy.

Today's number does not come as a real surprise. Industrial data for March and earlier GDP reports from other eurozone countries as well as the first estimate for the eurozone as a whole (-3.8% QoQ) already indicated the potential size of the German slowdown. The fact that the German slowdown is less accentuated than in most other eurozone countries provides very little comfort. Two weeks of lockdown as well as supply chain disruptions on the back of lockdown measures elsewhere brought the German economy to its knees.

Data will get worse even if the worst might already be behind us

Looking ahead, things will get worse before they get better. To be more precise, incoming data will be worse, even though the worst might already be behind us. If today's data are the result of two

weeks of lockdown, three more weeks of lockdown and a very gradual lifting of some measures do not bode well for the second quarter. However, more real-time data, such as Google mobility data, shows that activity had already accelerated by mid-May. While (social and economic) activity slowed down to 60% of its January level during the peak of the lockdown, it has now returned to more than 80%. The timing of the lifting of the lockdown measures as well as the huge fiscal support by the German government (more than 30% of GDP) support the view that the German economy could leave the crisis earlier and stronger than most other countries. Still, there is no reason for complacency or hubris.

More differences than similarities with 2008/9

Contrary to the 2008/9 crisis, out of which Germany emerged faster and stronger, the economy entered the current crisis with more structural weakness. In 2008/9, Germany had just implemented structural reforms and was just at the start of a positive cycle. This time, it was at the end of a very mature cycle and in need of investments and new reforms. Also, back then, the Asian countries, which were hardly hit by the financial crisis, rebounded quickly and helped Germany's export-led recovery. There won't be any sugar daddy this time around. Consequently, the destiny of the German economy and its recovery depends more than ever on fiscal policy. Up to now, the government's fiscal reaction has been much faster and stronger than in 2008/9. To ensure a lasting recovery, however, more stimulus will be needed. In this regard, the current discussion in Berlin about a new stimulus package is good news. For the time being, things will get worse before they get better. Once they get better, the German economy is likely to move faster and stronger out of the starting blocks than the rest. However, a fast start alone will not win the marathon.

Author

Carsten Brzeski

Global Head of Macro

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 www.ing.com.