

## Germany: Economy shrank by 5% in 2020

The German economy shrank by 5% in 2020, the worst performance since the financial crisis. While this headline number masks a better-than-expected performance in the fourth quarter, ongoing lockdowns and fading positive one-off factors don't bode well for the first quarter



Cars on a German Autobahn

The German statistical office just continued its tradition of releasing annual GDP growth data two weeks into the new year. According to the just-released numbers, the German economy shrank by 5.0% in 2020. Adjusted for calendar effects the economy shrank by 5.3%. This is the worst performance since the financial crisis in 2009 when the economy contracted by 5.7%.

### Avoiding double dip in 4Q

There are some caveats to these estimates. While normally it takes 30 days after the end of each quarter before a first estimate of quarterly GDP growth can be presented, the statistical office uses a first proxy for 4Q growth to come up with an estimate for the full year. This estimate is computed without having any single hard economic data for the month of December. In these times, in which lockdowns are leading to unprecedented swings in monthly data, today's estimate should be taken with an additional pinch of salt. The annual number implies that the German economy could have avoided a double dip in the fourth quarter. An official first estimate will be released on 29 January.

The -5.0% year-on-year rate means the German economy had a better performance, in a very bad year, than most of its European peers. Relatively light and shorter lockdowns than in the spring, staycations in the summer, strong fiscal stimulus (though only a fraction of the announced stimulus has been used so far) as well as the economy's strong manufacturing basis are the drivers behind this performance. The industrial backbone in particular should have helped the economy to avoid a severe contraction in the fourth quarter, despite the second lockdown.

Looking ahead, extended and stricter lockdowns do not bode well for the economy. Given that one-off positives like inventory build-ups and construction might no longer help in the fourth quarter, and demand from China could also weaken on the back of lockdowns and the Chinese New Year, the first quarter performance of the German economy should be weak. While it currently looks as if the German economy avoided a black eye in the final quarter of 2020, it is hard to see how it can perform the same magic again in the first quarter.

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