

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.

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.