

Germany: Consumption is the new export

Consumption and construction saved the economy from a technical recession in the third quarter



Source: Shutterstock

The second estimate of 3Q GDP growth confirmed that the German economy had indeed avoided a technical recession at the last minute. GDP growth came in at 0.1% quarter-on-quarter, from -0.2% QoQ in the second quarter. On the year, the economy grew by 0.5% (calendar adjusted) in the third quarter. What is new are the GDP components. Third quarter growth was driven by strong private (+0.4% QoQ) and public (+0.8% QoQ) consumption. Activity in the construction sector grew by 1.2% QoQ, while investments dropped by 2.6% QoQ. At the same time, net exports were positive while inventory build-up shaved 0.7 percentage points from quarterly growth. The strength of private consumption, in particular, remains an important anti-recession insurance for the entire economy. In fact, private consumption has been growing consecutively every quarter since the start of 2014.

Recession avoided thanks to election gifts

One main reason why the economy has avoided recession is a long list of election gifts, often criticised as not increasing the long-term growth potential of the German economy. Over the last two years the government has agreed increases in child allowances, pensions and study allowances as well as some tax relief and more money for health care, elderly care and schools. For 2019, all of this has amounted to a fiscal stimulus of some 0.5% of GDP. So much for the urban legend that the German government is allergic to the idea of short-term fiscal stimulus.

Looking ahead, even though the German economy has avoided a technical recession, there are

few signs of an imminent rebound for the weakened industrial sector. In fact, the economy has fallen into a de facto stagnation, with quarterly GDP growth averaging a meagre 0.1% QoQ since the third quarter of last year. Counting on only consumption and construction to offset the industrial downturn and on a possible rebound in global trade to cover the structural changes and disruption facing several key sectors of the entire economy might be a risky gamble. Therefore the debate on additional fiscal stimulus will continue, not in the sense of a short-term recession-fighting package but rather in the sense of a long-term investment package, tackling the structural weaknesses of the economy. In this regard, it was remarkable that earlier this week the German business association, BDI, and the trade union, DGB, normally not natural companions, presented a plea for not only an investment package of €450 billion over the next 10 years but also for a more flexible interpretation of the constitutional debt brake. €450 billion over 10 years would more than double the currently planned investment expenditures, bringing annual public investment spending to more than 2% of GDP. In a first reaction Chancellor Angela Merkel refuted these calls, saying that the economy would also be able to grow with the current budget plans. Still, below the surface there has been a significant turn in Germany this year regarding fiscal policy, away from strictly saying 'no' towards more flexibility. Some more fiscal stimulus next year and in subsequent years still looks likely.

Times can change

In the short run, however, the economy will continue to flirt with stagnation or even recession. After 10 years of almost unstoppable growth, this is not necessarily the end of the world. However, some time ago a growth model mainly driven by consumption and construction would have received quite some criticism. Particularly from one country: Germany. Do we need more evidence that times can change?

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.