

Germany: Growth in 4Q revised upwards

Even if some might wonder how we can almost endlessly talk about backward-looking data, the just-released components of German GDP in 4Q 2020 revealed some interesting insights



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The fact that the German economy avoided contraction in 4Q is not new. However, the economic performance in the fourth quarter was better than expected and revised upwards to 0.3% quarter-on-quarter, from an initial +0.1% QoQ and 8.5% QoQ in the third quarter. On the year, the economy was still 2.7% below its level in 4Q 2019.

Today's GDP data also included the different GDP components. While private consumption (-3.3% QoQ) and government consumption (-0.5% QoQ) dropped, activity in the construction sector (+1.8% QoQ) rebounded. The biggest positive offsetting factors to the drag from consumption, however, were net exports and the change in inventories.

In sum, the construction sector, industrial activity and foreign demand helped to stop the German economy from falling into contraction during the second lockdown. The downside to these factors, however, is that it is very unlikely they will again prove to be strong insurance against contraction in the fourth quarter. Instead, the stricter lockdown measures since mid-December, the harsh winter weather in February, a reversal of any pre-Brexit hoarding in the UK and weaker foreign demand at least from other eurozone countries have increased the risk of an unwelcome rotation. The growth drivers of the fourth quarter could easily become drags in the first.

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