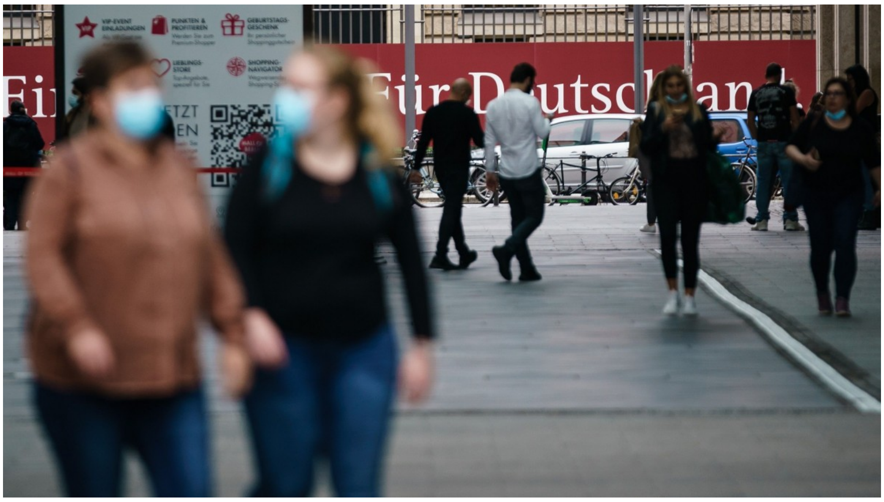
# Germany: Bust, boom and now?

A strong surge in activity in the third quarter in Germany will be followed by another dip in the final months of the year


Shoppers in Berlin

You will hear it more often today: a strong rebound after the historic slump. A headline which probably fits on all third-quarter GDP data releases for Western economies. It also fits Germany. The eurozone's largest economy staged an impressive rebound, growing by 8.2% quarter-on-quarter in the third quarter, from -9.7% in the second. On the year, the economy has still lost more than 4%. Details will only be released in two weeks from now but it is obvious that the growth surge was driven by all sectors, as the entire economy benefitted from a lifting of the lockdown measures.

Looking ahead, hard economic data and soft leading indicators had already started to lose momentum at the end of the third quarter going into the fourth. Social distancing measures kept parts of the service sector from returning capacity utilisation to pre-crisis levels and structural transitions, accelerated by the crisis, for example in the automotive and travel industry, triggered job shedding announcements and hence weighed on sentiment.

Still, the jury was still out as to whether or not the German economy would fall back into contraction in the final quarter of the year. The reason being a new divergence between services and manufacturing. In our view, there are three main reasons for this new divergence: the 'smart lockdown' mainly affected parts of the service sector such as leisure, hotels, restaurants, sports and culture but spared most areas of the industry. Also, the rebound in manufacturing started later than that in services and the benefits from the strong and continuing recovery of the Chinese economy. In any case, don't forget that the manufacturing sector entered the crisis on a much weaker footing than the service sector, putting any temporary divergences clearly into perspective.

All these considerations have become moot after this week's latest lockdown announcements. This 'lockdown 2.0' still tries to spare industry but given that many parts of the service sector will now be closed for at least four weeks, there is a risk that despite new government support of some 10bn euros, unemployment and insolvencies will increase. Add to this second or third round effects (think of suppliers but also the pure psychological impact of a lack of perspective) and probably more lockdowns in other European countries and a double-dip looks unavoidable.

Since the start of the crisis, there has been a close relationship between lockdown measures and economic growth. However, there is unfortunately still no evidence that you can simply turn on and off an economy like a light switch without causing more structural damage, maybe even a short circuit.

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