

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.

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 <http://www.ing.com>.