

## Germany: Consumer ruined the first quarter

The sharp contraction of the German economy in the first quarter was mainly driven by weak private consumption and net exports



Shoppers in Lubeck, Germany

The German economy shrank by 1.8% quarter-on-quarter at the start of the year on the back of weak private consumption and net exports. This was slightly weaker than the first estimate of -1.7% QoQ. On the year, the economy was down by 3.1%. The just-released second estimate confirmed the poor performance. What is new is the growth components, showing that private consumption dropped by 5.4% QoQ, while government consumption increased by 0.2% and capital investment by 0.2%. Remarkably, despite weak monthly data, investment in the construction sector was up by 1.1% QoQ. Net exports lowered GDP growth by 0.6 percentage points.

### Rebound ahead

Needless to say, the fourth worst quarterly performance of the German economy since reunification was mainly the result of stricter lockdown measures since mid-December. Also, the longer Christmas break as well as the harsh winter weather in February weighed on activity in the construction sector and industry. Finally, the reversal of the VAT at the start of the year could also have dented consumer spending.

Looking ahead, the upside of the sharp drop in economic activity in the first quarter implies that the potential for a surge in the second quarter has increased. The gradual reopening of the economy should lift activity in hospitality services mainly in June and beyond. Industrial activity should pick up earlier. In fact, filled order books and low inventories bode well for industrial activity. Fiscal stimulus and investment initiatives around the globe should also benefit German industry. Admittedly, supply chain disruptions like the blockage of the Suez Canal or semiconductor delivery problems have, and will, distort industrial activity. However, these disruptions will only delay - not derail - the catch-up of German industry. Therefore, it doesn't come as a surprise that production expectations in the manufacturing sector currently stand at an all-time high and even capacity utilisation has surged to close to historic peaks. It might not be long before the first murmurs about capacity issues and hurdles to more growth return.

Today's disappointing GDP reading was actually already old news at the moment of its publication. The German economy will now rebound quickly and should, in our view, reach its pre-crisis level before the end of this year. As Ella Fitzgerald sang sixty years ago: "Ac-cen-tu-ate the positive, e-lim-i-nate the negative".

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