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Germany: Final glance in the rearview mirror

Details of the 2Q GDP report show the severity of the crisis in all its dimensions. But the good thing is that now the worst is finally behind us

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Another data report, which people with depressive tendencies should probably ignore. The second estimate of German GDP in the second quarter provided the details of the worst quarterly performance of the economy ever and the severity of the crisis in all its dimensions. Here are the details: The contraction of the economy was somewhat milder than in the first estimate, illustrating how difficult it currently is to capture the lockdown-driven swings in any economy with traditional macro models. The German economy shrank by 9.7% quarter-on-quarter, down from the first estimate of -10.1% QoQ. On the year, the economy has lost 11.3%. Private consumption fell by 10.9% QoQ, investments excluding construction by a shocking 19.6% QoQ and exports by more than 20% QoQ. Only government consumption increased (+1.5% QoQ) and inventory build-up added 0.3 percentage points to quarterly growth. The only good thing about all this data is that it provides a final glance in the rearview mirror.

Looking ahead, it does not take a rocket scientist to predict that the economy will have one of its best quarterly performances ever in the third quarter. All activity indicators point to a continuing increase during the summer months. The truck toll mileage indicator has recently even returned to its pre-crisis levels. The VAT-reduction combined with 'staycations' should have given private consumption another boost. At the same time, however, the structural impact of the crisis is also surfacing, limiting too much growth enthusiasm. The current discussion in the German government to extend short-time work schemes possibly from 12 months to 24 months not only illustrates the government's determination to offset the fallout from the crisis for as long as possible but also how difficult it will be to eventually exit the crisis measures. Distinguishing between the cyclical and structural impact from the crisis will increasingly become more difficult.

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