

Germany: Construction and government the last lines of defense

The components of 1Q GDP show that the government, the construction sector and inventories prevented a stronger contraction of the economy.



The second estimate of German GDP growth in the first quarter confirmed the sharpest drop since 1Q 2009. The German economy shrank by 2.2% quarter-on-quarter, back in 2009 it contracted by 4.7% QoQ. As the fourth quarter of 2019 was revised downwards to -0.1% QoQ, the German economy was already in a technical recession when it entered the Covid-19 crisis. On the year, the German economy contracted by 2.3%. What is new is the release of the GDP components. Private consumption fell by 3.2% QoQ, the sharpest quarterly drop since reunification. Investments dropped by almost 7% QoQ. Only government consumption (+0.2% QoQ), the construction sector (+4.1% QoQ) and inventory changes (+0.3 ppt of GDP growth) prevented a sharper contraction of the economy.

As the first quarter performance is the result of 'only' two weeks of lockdown and supply chain disruptions due to lockdown measures in Asia, it does not need much analytical skill to predict a much stronger slump in the second quarter. Three more weeks of lockdown and a very gradual lifting of some measures do not bode well for the second quarter. However, more real-time data,

such as Google mobility data, shows that social and economic activity had already accelerated by mid-May. While (social and economic) activity slowed down to 60% of its January level during the peak of the lockdown, it has now returned to more than 80%. However, to offset the economic damage of the last two months, much more acceleration is needed. Therefore, it does not come as a surprise that the German government is currently preparing another fiscal stimulus package.

This morning, the leader of Angela Merkel's CDU in the German parliament, Ralph Brinkhaus, was another leading voice arguing in favour of additional fiscal stimulus, aimed at investments and increasing the economy's growth potential. We expect the government to present such a new package in the coming days. Also, Brinkhaus gave two reasons for Germany's change of heart regarding the European Recovery Fund: European solidarity and self-interest as Southern European countries were important export markets for German companies. Hard to disagree with this view.

After today's data, the first quarter of 2009 still holds the record of being the worst quarterly performance of the German economy since reunification. However, chances are high that the second quarter of 2020 will soon become the new record holder.

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>.