Germany: The crisis finally has a number

The worst ever quarterly performance of the German economy finally has a number -10.1%. This is the size of the contraction in the second quarter

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The numbers

Finally, it's out. The German economy recorded the worst quarterly performance ever, dropping by 10.1% quarter-on-quarter. The last record holder was the first quarter of 2009, with a drop of 4.7% QoQ. On the year, the German economy contracted by 11.7%. Over the last three quarters, the economy lost more than 12%.

For the statistical aficionados, with today's data release, Germany finally caught up with the rest of Europe, at least when it comes to the timing of GDP data releases. Up to now, the German statistical office took some 45 days after the end of the quarter to come up with a first estimate for GDP growth. This is much later than most other European countries. Today's release is the first one to come out after 30 days. A very timely statistical innovation.

Still, as the Covid-19 crisis is so unprecedented, even the earlier release is nothing more than a look in the rear-view mirror. This picture shows the deepest but also the shortest recession ever. All monthly indicators since May have already pointed to a strong rebound of economic activity in the course of what has been the worst quarterly performance ever.

What's next

Looking ahead, we still expect a strong rebound of the entire economy in the third quarter. The worst quarter ever could be followed by the best quarter ever. However, the rebound will be uneven. The domestic economy should benefit from fiscal stimulus in general and the VAT reduction in particular, thriving services and construction, as well as summer vacations at home instead of abroad. At the same time, however, the manufacturing sector will take much longer to recover, given the disruption of global supply chains, economic weakness in major trading partners and continuing structural change, which had already hampered production prior to Covid-19.

A good reminder that the recovery in the second half of the year is anything but a sure shot, notwithstanding a second wave, is the labour market. Formerly known as the stronghold of the economy, the labour market has become a good indicator of the economic damage. Unemployment in July was almost 28% higher than in July 2019. Since March, more than 500,000 people have lost their jobs. The only good news is that the July increase was mainly driven by seasonal factors and was no longer Covid-related. In addition, some 6.7 million employees are currently working in short-time work schemes.

All in all, today's GDP data marks the trough of the crisis. As with any horrible ride, there is a strong feeling of relief that the worst is over. Compared with the last few months, the coming weeks could actually feel like a joy ride. However, this crisis will have longer-term implications and potentially some surprises up its sleeve. It's going to be a long ride.

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