

## Germany: Hit by cars

Details of 3Q growth provide further evidence that the economy was simply hit by too many one-off factors



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The worst performance of the German economy since 1Q 2013 was just confirmed. The economy shrank by 0.2% quarter-on-quarter. On the year, the economy still grew by 1.1%. While the headline figure remained unchanged, the statistical agency now also released the different components. The shrinking of the economy was mainly driven by declining private consumption (-0.3% QoQ) and negative net exports. In particular, private consumption disappointed, with the first drop since the end of 2013.

### Mix of too many one-offs and more worrying structural developments

The disappointing performance of the German economy in the third quarter can be explained by several one-off factors but also some more worrying structural developments. Problems with the emission norms created severe production problems in the automotive industry, higher energy prices completely erased previous wage increases and also don't underestimate the negative confidence effect from the World Cup. Interestingly, inventory build-ups have now contributed a total of 0.9 percentage points to quarterly GDP growth in 2Q and 3Q. While the negative football effect will take longer to disappear, production delays in the automotive industry were only temporary. Expect a gradual rebound in the months ahead.

However, there is more to the slowdown than just new emission norms; it's also related to cars. "Dieselgate" and several court rulings to ban old diesel cars from cities seem to have left their

mark on consumer sentiment and spending. As currently some five million diesel cars are driving in and into German cities and given that cars are considered to be financial assets by many Germans, some precautionary savings, anticipating imminent wealth losses should have dented private consumption. Here, however, the one-off effect will take longer to disappear. Also, falling oil prices are unlikely to help consumption. While crude oil prices have fallen sharply, prices for heating oil and gasoline have hit four-year-highs in Germany. The dry summer and low water levels in German rivers have led to logistical problems, creating scarcity.

## A rebound but not V-shaped

Looking ahead, the late-cycle economy is likely to fluctuate between hopeful and worrying news and developments. Low interest rates, a weak euro and some fiscal stimulus, as well as the reversal of adverse one-off factors, are strong arguments in favour of a growth rebound in the coming quarters. At the same time, however, dropping capacity utilisation and increasing external risks put a lid on any upside potential.

Based on economic fundamentals, the outlook for the German economy remains rosy but don't expect a V-shaped rebound, rather a continuation of the recent roller coaster ride.

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