

Germany's economy suffers a major setback

The German economy saw a severe setback in the first quarter, shrinking by 1.7% QoQ. A growth engine in the final quarter, the economy has become a drag on the entire eurozone. But not for too long



Anti-lockdown protesters in Berlin last month

Double dip it is. According to the just-released flash estimate, the German economy shrank by 1.7% quarter-on-quarter at the start of the year. In the final quarter of 2020, the economy had still defied stricter lockdowns, growing by 0.5% QoQ. On the year, Germany's economy was down by 3%. While the country was a positive growth driver for the entire eurozone economy at the end of last year, it has now turned into a drag factor.

A strong rebound is on the cards

The GDP components will only be released in the coming months but judging from available monthly data the growth drivers of the fourth quarter turned into dragging factors in the first three months of the year: industrial production and the construction sector. The reversal of a VAT reduction and stricter lockdown measures are likely to have dented private consumption.

The German economy clearly has many, very different, faces right now

In fact, the German economy clearly has many, very different, faces right now. Not all of them are properly reflected in today's numbers. The major theme is one of a continuing and partly growing divergence between the service sector and the manufacturing sector. Strong demand from the US and China has filled order books in manufacturing and driven strong momentum in industrial production - even if production is still below pre-crisis levels.

Technical factors such as the reversal of stockpiling ahead of Brexit at the end of last year, the impact of the harsh winter weather on the construction sector, and supply chain disruptions have in our view significantly blurred German GDP data in the first quarter.

In any case, looking beyond possibly more short-term data distortions like the impact from the blockage of the Suez canal and ongoing supply chain disruptions, the general outlook for the German economy has clearly improved. The vaccination programme is finally getting moving and with the prospect of at least 50% of the adult population having had a first jab before the summer, a more substantial reopening of the economy should not be too far away.

Add to this potential spillovers from US fiscal stimulus, the implementation of the European Recovery Fund in the second half of the year, a (technical) rebound in the construction sector and the fact that the manufacturing sector still has not reached pre-crisis levels and a strong rebound of the German economy is in the cards. We stick to our view that the economy will reach its pre-crisis level before the end of the year.

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>.