

Germany's reopening party disturbed by supply chain frictions

The German economy rebounded in the second quarter, albeit at a slower pace than expected. Despite the downside risks to growth, we expect the economy to return to pre-pandemic levels before the end of the year and today's data shows that growth parties on the back of reopenings can easily be disturbed by other factors



Source: Shutterstock

The flash estimate of German GDP growth in the second quarter confirmed important trends of the second quarter: the rebound in economic activity with the lifting of restrictions which was undermined by the negative impact from supply chain frictions. As a result, the economy grew by 1.5% quarter-on-quarter but 1Q growth was revised down to -2.1% QoQ.

On the year, GDP growth came in at 9.2%. According to the available monthly data as well as the German statistical agency's press statement, growth in the second quarter was mainly driven by private consumption and government expenditures.

Economic activity since the start of the pandemic has been closely linked to restrictions and social

distancing. Therefore, the rebound of the German economy does not come as a surprise. However, this rebound is weaker than suggested by buoyant confidence indicators.

The reason for this gap between soft and hard data is clearly the long list of supply chain frictions, starting with the problems of the 'Evergiven' in the Suez Canal, continued with delays in production and delivery of microchips and semiconductors and could now be problems with the waterways due to heavy rains. The only good thing about these supply chain frictions is that eventually, they will end.

As order books are richly filled and inventories are still low, activity in the German industry will accelerate. At the same time, however, sentiment in the service sector is still far off from record highs and rather mute, while consumer spending could be undermined by higher inflation in the second half of the year.

Three factors to determine the outlook for the German economy

Looking ahead, three factors will determine the outlook for the German economy: the delta variant, supply chain frictions and inflation.

Any new restrictions on the back of the delta variant could easily derail a further acceleration of the economy. However, with the upcoming elections, we don't expect any significant new restrictions that could undermine domestic economic activity. Yesterday's announcement of stricter restrictions for returning travellers falls exactly into this category. Regarding supply chain frictions, it currently looks as if these problems could easily last until the end of the year, potentially putting a cap on growth. Finally, with headline inflation in our view moving further to 4% and above, it could dent private consumption.

Despite the above downside risks to growth, we expect the German economy to return to pre-crisis levels before the end of the year. Today's GDP data, however, show that growth parties on the back of reopenings can easily be disturbed by other factors.

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>.