

Germany: Getting away with one black eye

The German economy had its weakest performance in five years but seems to have avoided a technical recession



A weak performance

The German economy had its weakest performance in five years in 2018, growing by only 1.5% YoY. This is the result of the just-released first estimate for the entire year. An official estimate of fourth-quarter growth will only be available in February but with 1.5%, it looks as if a technical recession could only just have been avoided. At the same time, the statistical agency recorded a record high fiscal surplus of 1.7% GDP.

A lot is about cars

Details of the annual growth composition are less relevant. What matters most is the fact that the slowdown of the German economy in the summer has been lasting longer than anticipated and seems to be more than only a temporary blip. The main reason for the unexpected cooling of the economy in the second half of the year is cars. Missed deadlines for the admission of new emission standards have led to an enormous inventory build-up in the second and third quarter of the year and a consequently very weak sales and now production performances. Also, the announced ban

on cars with old diesel engines for several German cities has not only weakened car sales but also led to precautionary savings of households over the summer months.

Finally, still remotely related to cars, the drop in global oil prices initially did not bring relief to German customers as cheaper oil did not reach gas stations or heating oil companies due to the low water levels in many German rivers.

But there is more

Obviously, there is more to the German economy than cars. Increased uncertainty stemming from the trade conflict between the US and China as well as from Brexit has also weighed on the German economy. Nevertheless, the problems in the automotive industry illustrate the wider problem of the German economy: the slowdown is a combination of one-off and structural factors. Just think of the harsh winter weather, unusually high sickness leaves due to the flu, the timing of Easter and vacation, strikes and now recently low water levels in main rivers but also of the lack of investment in digital and traditional infrastructure, delays of railways and airlines or hardly any significant new structural reforms in the last ten years.

The future path of the economy clearly depends on which factors weigh more. If they're one-off factors, then a rebound of the entire economy looks plausible. If they're structural, then the German economy should be prepared for a longer-lasting period of underperformance.

Getting away with one black eye

Looking ahead, there are still plenty of reasons to remain optimistic, even for German industry: despite the recent deflation of new orders, order books are still richly filled and companies still report assured production close to record highs and while capacity utilisation has dropped to its lowest level since the third quarter of 2017, the lack of equipment still is a more limiting factor to production than the lack of skilled workers. In addition to this, the recent pick-up in orders in the automotive industry and favourable financing conditions in the entire economy also bode well for at least solid industrial and investment activity in 2019. Needless to say that in the short run the biggest risk to this optimistic outlook is a disorderly Brexit which would come at the most inconvenient time for the German economy.

It currently looks as if the German economy could get away with one black eye but these days, economic strength in Germany doesn't come effortlessly.

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 www.ing.com.