

Germany: Some light with lots of shade

Details of 2Q GDP data show some bright spots but the short-term outlook for the economy still points to stagnation



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Some things get better the more we look at them. This is actually the case with the disappointing performance of the German economy in the second quarter. The just released second estimate of German 2Q GDP data shows that not all was bad. The economy still contracted by 0.1% quarter-on-quarter, which is 0.4% year-on-year. The details of the growth components show that the contraction was almost exclusively driven by weak exports. Domestically, only the construction sector disappointed, which was more the result of an unusually strong first quarter than a more general downswing in what is probably Germany's last booming sector right now.

Outlook remains bleak

While at second glance the 2Q GDP data has some bright spots, the short-term outlook for the German economy remains bleak. As mentioned in yesterday's analysis of the Ifo index ([see here](#)) the German economy is at a dangerous crossroads. On the back of weak confidence indicators, the risk of another contraction of the economy in the third quarter and hence a technical recession has recently increased, not decreased. The resilience of the domestic economy against the industrial slowdown and external woes has only started to weaken since the summer. And while there could be a rebound in the construction sector in 3Q, high inventories in 2Q and little sign of

exports rebounding significantly make another stagnating quarter very likely.

Still, don't forget that no single hard data point for the third quarter has been released, yet. Also, after ten years of strong economic growth, a stagnation or even a technical recession at this juncture is not yet a reason to panic. All will depend on the way forward. Some relief from trade could easily lead to a rebound towards the end of the year. Fiscal stimulus could boost confidence and improve structural growth in the years ahead. However, a further escalation of the trade conflict and global uncertainty combined with no fiscal stimulus at all, is currently probably the worst of all nightmares for the German economy.

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