

## Germany: Still blocked by cars

The GDP components provide interesting insights: the German economy is in a better shape than its current reputation



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Headlines such as “Germany at the brink of a recession” remain the same but the just released details of 4Q GDP growth show that not all is doom and gloom in the Eurozone’s largest economy. According to the second estimate, the economy came to a halt in the fourth quarter. On the year, GDP growth was still up by 0.9% (not-seasonally adjusted). More interestingly, the growth components actually show an economy that is running on almost all cylinders. Private consumption grew by 0.2% QoQ, government consumption was up by 1.6% QoQ, investments accelerated by 0.9% QoQ and despite all trade war fears even net exports remained flat. With none of the traditional growth components being negative, the question arises why the economy is still on the brink of a recession? The answer is clear: cars are still blocking the road to a rebound.

Normally, inventories are a neglected residual in national accounts. Since the second quarter of 2018, however, they are the best illustration for the German economy's car problem. In the second and third quarter, the inventory build up contributed a total of 1.1 percentage points to QoQ GDP growth. A reflection of strong production activity in the automotive sector for ...parking lots as many produced cars could not be delivered due to missed deadlines on new emission standards. Now in the fourth quarter, inventory reductions subtracted 0.6 percentage points from QoQ GDP growth, suggesting that many German cars were finally delivered to clients.

What does all of this mean? In our view, there are two main takeaways from this morning's German GDP data: (1) the temporary problems in the car industry mask solid fundamentals across the entire economy; and (2) the sharp inventory reduction suggests that it will still take some time but eventually the car-related problems should disappear. It is often said that many Germans can get sidetracked by fast cars. This time around, cars have sidetracked the entire economy. However, in a couple of months, the German economy should be able again to show its true colors.

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