Germany: Strong in the rearview mirror but obstacles ahead

The third-quarter rebound was driven by all sectors except for construction. With an extension and tightening of the second lockdown looming, a double-dip is in the making

German Chancellor, Angela Merkel at a weekend press briefing

The just-released details of German GDP growth in the third quarter illustrate that the rebound was broadly driven by all parts of the economy. While the overall figure was slightly revised upwards to 8.5% quarter-on-quarter GDP growth, from 8.2% QoQ in the first estimate in late October, the release of all growth components reveals interesting details.

The rebound was mainly driven by private consumption (up by 10.8% QoQ), investment (+16% QoQ) and exports (+18.1%). Surprisingly, activity in the construction sector dropped for the second consecutive quarter, falling by 2% QoQ.

Interestingly, changes in inventories shaved off 2 percentage points from GDP growth. Overall and before getting carried away, let's not forget that GDP growth was still down by 3.9% year-on-year.

After strong third quarter, double dip is in the making

Germany has managed to get through the crisis relatively well. However, contrary to earlier expectations, the country has not jumped ahead of the rest. In fact, while the slump in the second quarter was less severe than in most other eurozone countries, the rebound in the third quarter was also less pronounced. A reason behind this development is the fact that up to now, large parts of the fiscal stimulus package haven't actually been used. Many of the funds made available, be it in the form of grants or guarantees and loans, have simply not been taken up, at least not yet.

Looking ahead, the short-term outlook for the German economy will probably be decided tomorrow when chancellor Angela Merkel meets with the minister-presidents of the regional states to discuss the next steps to tackle the virus. According to latest media reports, an extension of the lockdown beyond the end of November is almost a given. The only question is for how long it will be extended and whether restrictions will be tightened.

Even without tighter restrictions, the extension of the lockdown will make a double-dip, ie a contraction of the economy, in the final quarter of the year inevitable. The only hope for the economy to avoid a contraction comes from a surprisingly strong manufacturing and export sector. However, with more precautionary savings, an even higher risk of companies going out of business and the currently discussed option of closing factories during the last two weeks of the year, all do not bode well for the short-term outlook.

On a more positive note and looking beyond this short-term, recent news there are three different potential vaccines as well as some support from the next US administration for transatlantic trade are actually good reasons for optimism. However, for the time being, the old saying that things will first get worse before they get better doesn't only only apply to the current state of the German national soccer team but also to the entire economy.

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