

## Germany's macro morning brings little relief

This morning's macro data from Germany hasn't brought any relief and confirms - for now - our view of a mild contraction in the economy in the second quarter



Source: Shutterstock

Headline GDP growth for the first quarter was already known and came in at 0.2% quarter-on-quarter. What is new, is the composition of GDP growth, showing that private consumption contracted for the second quarter in a row and net exports were a drag on growth, while the construction sector and inventory build up helped to avoid another contraction in the economy. Also, the latest consumer confidence index came in only slightly better than the May reading and was still close to all-time lows. The willingness to spend, meanwhile, dropped further and is as low as during the 2008 recession.

### Still don't trust the optimism leading indicators send

GDP data releases are clearly a backward-looking indicator. Still, the GDP components sometimes provide some evidence for what will happen next. The strong inventory build up combined with the

new lockdowns in China and the war in Ukraine do not bode well for production in the second quarter. The fact that private consumption was already suffering from higher energy prices at the start of the year and did not benefit from a gradual reopening of the economy, does not bode well for the second quarter either.

Despite the war in Ukraine and new supply chain frictions, traditional leading indicators have been holding up surprisingly well. PMIs clearly above the growth threshold of 50 and the Ifo index increasing two months in a row with a strong current assessment component would normally point to solid growth in the second quarter. However, the predictive power of leading indicators has come under pressure as much as the predictive power of traditional macro models. Maybe it's just an economist's reflex to discredit indicators that don't match their own scenarios but the discrepancy between leading indicators and hard macro data is currently significant. The inventory build up and weak consumption in the first quarter, as well as very weak consumer confidence, clearly dent the optimism currently sent by traditional leading indicators. We stick to our base case scenario of a mild contraction in the German economy in the second quarter.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto: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>.