

## 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



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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.

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