

## Germany's winter recession - part one

The fourth wave of the pandemic, new restrictions and high energy prices were a harder hit to the economy than expected. The economy shrank by 0.7% quarter-on-quarter in 4Q on the back of weak private consumption



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Now it's official. The German economy shrank in the final quarter of 2021, increasing the risk of an outright recession at the turn of the year. According to the first official estimate, German GDP dropped by 0.7% quarter-on-quarter, from 1.7% QoQ in the third quarter. On the year, the economy grew by 1.4%. GDP growth for the first half of 2021 was revised upwards, so that GDP growth for the entire year came in at 2.8%, instead of the previously estimated 2.7%. According to the statistical agency and available monthly data, the German economy faltered in the last three months of the year mainly on the back of weak private consumption.

### Flirting with recession

The German economy went into hibernation at the turn of the year. New restrictions to tackle the fourth wave of the pandemic and the Omicron wave as well as higher energy prices dented private consumption. With this weak fourth quarter, the likelihood of Germany being in an outright recession at the turn of the year has increased. High energy prices will continue weighing on

private consumption, even if social restrictions are lifted in the coming weeks. Also, even with some temporary relief from exports and industrial activity, the Omicron wave in Asia and the Chinese New Year clearly argue against a steep short-term improvement in supply chains. Maybe the German economy gets away with only one black eye and there won't be a part two to the winter recession story, but in any case, the short-term outlook doesn't look too good.

However, even if the economy were to fall into a technical recession, this recession will be mild and short-lived and is unlikely to harm the labour market. On the contrary, we stick to our view that the German economy will stage an impressive comeback in the spring. Admittedly, geopolitical risks could still spoil the growth party but the end of social restrictions and significant relief in global supply chains should combine to give the German economy an enormous boost. Add to this the government's announced fiscal stimulus and the headlines accompanying the German economy this year could go from one extreme to the other: from recession to growth champion. And all of this in less than one year.

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