German economy sees surprise growth in the third quarter

The German economy recorded surprise GDP growth in the third quarter. However, this does not mean that the country will avoid a recession

Despite all talks of a looming recession, the just-released flash estimate of third-quarter German GDP growth came in at 0.3% quarter-on-quarter, from 0.1% QoQ in the second quarter. On the year, the economy grew by 1.2%. Growth components will only be released at the end of November but judging from available monthly data and the statistical agency's press releases, growth was mainly driven by private consumption.

Looking ahead, the surprise growth in the third quarter does not mean that the recession narrative has changed. All leading indicators point to a further weakening of the economy in the fourth quarter and there doesn't seem to be any improvement in sight. Even if the weather has brought some relief to the German economy, as the rainfall increased water levels and the warm October weather has postponed the start of the heating season, the gradual slide into recession continues. Companies and households are increasingly suffering under higher energy bills and ongoing high inflation, adjusting consumption and investments. The government's latest support package, if not implemented retroactively, will be too little too late to prevent a winter recession. It will only be able to soften such a recession.

Leaving short-term and cyclical developments aside, we again reiterate that the German economy is in the middle of a complete overhaul. The war in Ukraine has probably marked the end of Germany's very successful economic business model: importing cheap (Russian) energy and input goods, while exporting high-quality products to the world, benefitting from globalisation. The country is now being forced to accelerate the green transition, restructure supply chains, and prepare for a less globalised world. And these things come on top of well-known long-standing issues, such as a lack of digitalisation, tired infrastructure, and an ageing society, to mention a few. Offsetting factors are the still strong labour market and the government's willingness and available fiscal firepower to financially support companies and households facing high energy bills.

Today's positive growth data is a welcome surprise. However, it does not mean that the German economy will be able to prevent a recession. The recession is only delayed, not cancelled.

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