



Florian Hense, Economist | [florian.hense@berenberg.com](mailto:florian.hense@berenberg.com) | +44 20 3207 7859

## GERMANY: PRE-VIRUS STRENGTH MATTERS FOR POST-VIRUS REBOUND

### Berenberg Macro Flash

**Not all the news are about the virus.** A slew of data show that the German economy had an unexpectedly solid start into 2020. Of course, this may look like stale news as the collapse in demand and supply from March to May will likely dwarf anything seen before in peacetime. The most drastic plummet in the Ifo index for production expectations since the survey began in 1991 in March highlighted that this morning again. But the pre-corona strength shows that the post-corona rebound will eventually start from a solid basis. GDP could be back to its pre-corona level no later than two years after the trough.

Key German data for January and February:

**Industrial production** increased by 1.8% versus the Q4 average, with output in construction (4.7%) particularly strong while manufacturing output rose by 2.0%. Special effects played a role. A warm January boosted construction, while a December short in working days had cut production. Still, that production of intermediate goods, a leading indicator, picked up by 3.2% (January/February relative to Q4) and that of investment goods by 1.5% points to some underlying strength at the start of the year, too.

**Factory orders** were up by 2.6% in January and February relative to Q4 2019, driven by dynamic domestic (2%) and non-Eurozone demand (5.5%).

**Retail sales** grew by 1.1% relative to Q4 2019. Beyond the usual short-term volatility around the turn of the year, the significant pick-up in pharmaceutical purchases (4.2% yoy in January/February 2020) points to a Covid-19 impact. Consumers reacted to the newsflow before lockdowns hit production. But Destatis, Germany's statistical office, stressed that the rise in food (4.4% yoy) and non-food (4.1%) sales was not fully driven by precautionary purchases. It also pointed to decent consumer demand. After all, significant lockdown measures at a greater regional scale only started in mid March.

**January and February look very far away. The better-than-expected data still provides a silver lining:** at least the German economy entered the crisis in a decent shape. If policy makers get it mostly right, the German economy may not have to wait for too long to return to that.

For our recent reports on the timeline and shape of the recovery, see [here](#) and [here](#). For EU/Eurozone policy responses, see [here](#) and [here](#).



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Joh. Berenberg, Gossler & Co. KG  
60 Threadneedle Street  
London EC2R 8HP  
Phone +44 20 3207 7859  
[www.berenberg.com](http://www.berenberg.com)  
[florian.hense@berenberg.com](mailto:florian.hense@berenberg.com)