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## GERMAN GDP: SOFT Q2 HIGHLIGHTS RISK TO THE OUTLOOK

### Berenberg Macro Flash

German GDP, Q2 2019 (in %)

|                | qoq         |
|----------------|-------------|
| <b>Actual:</b> | <b>-0.1</b> |
| Previous:      | 0.4         |
| Consensus:     | -0.1        |
| Berenberg:     | 0.0         |

German real GDP contracted 0.1% qoq in Q1, according to a first estimate by Destatis (the release makes it more likely that Eurostat could revise down its estimate of Q1 Eurozone GDP growth from 0.2% to 0.1%). With output contracting in 2 out of the last 4 quarters, German yoy growth has slowed to 0.4% from (an upward revised) 3.4% in 2017 Q4. The reversal of one-offs that had boosted growth in Q1 (0.4% qoq) accounts for much of the quarterly volatility (see Chart 1). The average of the first two quarters (0.15% qoq) is a better reflection of the still-weak underlying trend. Mired in a broadening industrial slump, prospects for the rest of the year remain bleak. After a weak start in Q3 Germany is now at risk of a technical recession.

**Weak trade offsets gains in domestic demand:** Destatis provides only commentary with the first reading but no breakdown on the data – that comes on 27 August. According to Destatis, domestic demand made a positive contribution to GDP in Q2 with increases in both private consumption and government spending. Investment in machinery increased, while construction investment fell. Destatis reports that exports declined by more than imports and net trade subtracted from GDP. Unless the drag from trade more than offset the gains in domestic demand, the data is likely to show that businesses probably ran down their inventories which contributed to the contraction in GDP.

**Q1 positive one-offs reverse in Q2:** In Q1, the construction sector benefitted from the unusually warm weather. In Q2 this reversed and construction output declined by 1.1% qoq. The late timing of Easter which shifted Easter holidays fully into Q2 probably also contributed to the 2% contraction in industrial production. Stockpiling in the UK ahead of the original Brexit date (1.1% of UK GDP in Q1) had boosted German exports, this reversed now as British firms reduced stocks by an amount equivalent to 0.8% of UK GDP in Q2.

**Industrial slump spreading:** Abstracting from these effects, the data increasingly suggest that softness in export-oriented production industries is spreading to the rest of the economy and thus domestic demand is struggling to keep the economy above water. In addition to the drop in production of capital and intermediate goods (-1.7% qoq and -2.3%, respectively), consumer goods were also down by 0.3% in Q2. Employment still grew by 50k in Q2, but that reflects a marked slowdown from the 130k on average in the 4 quarters and is the lowest since Q4 2014. Plus, the number of unemployed persons was up by 19k (first time since Q4 2013) and temporary contracts rose. While retail sales rose by 3.5% mom in June, they were only up by 0.1% qoq. Imports outpaced exports in June yoy, but have also come down considerably.

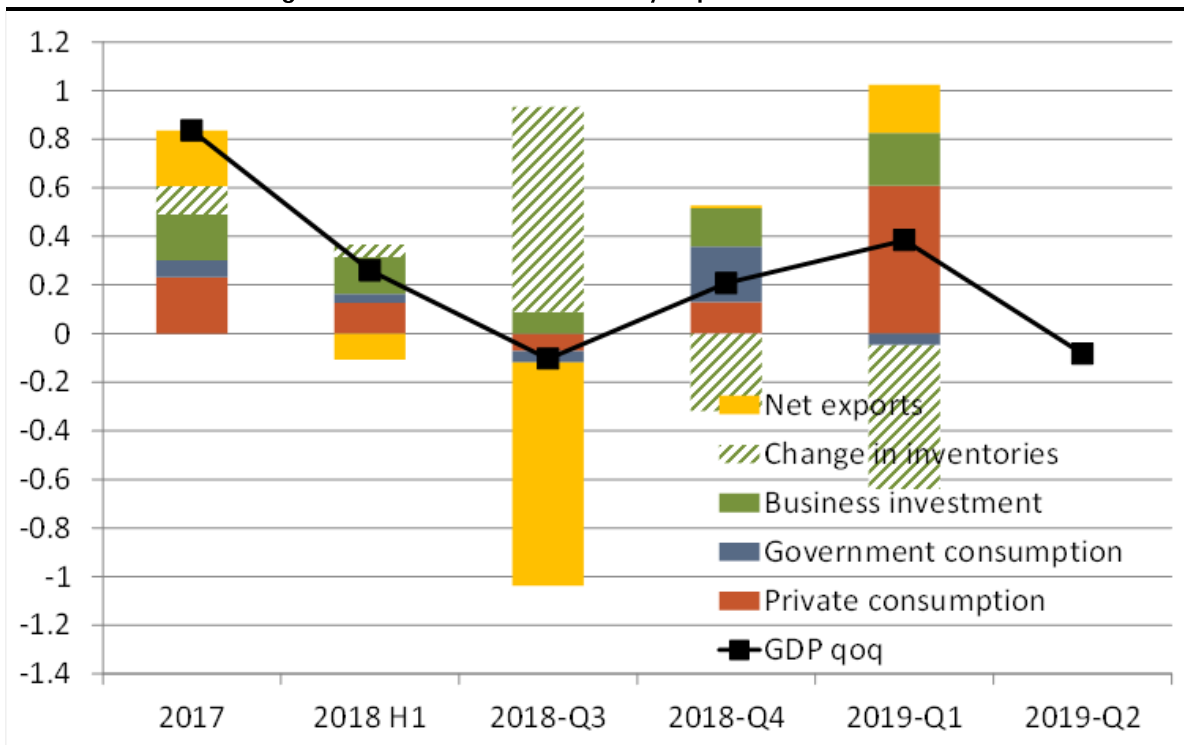
**Risk to our H2 calls:** Heading into H2, the risks to our calls of 0.1% qoq growth per quarter and 0.6% yoy for 2019 are to the downside. Driven by weak domestic and Eurozone demand, core factory orders (excluding bulk orders) were down again 0.4% mom in June after -2.8% in May. The ZEW, Ifo and PMI survey all sug-



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gest the industrial slump is deepening and spilling over ever more to the other parts of the economy. The ongoing slowdown in China, the escalation in the trade dispute between the US and China and the risk of a hard Brexit cloud the outlook for the German economy.

**Chart 1: German GDP growth and its contributions by expenditures**



Qoq GDP growth in %, contributions in %-points. No breakdown for Q2 2019. Source: Eurostat, Berenberg

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