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GERMAN GDP: RECESSION AVERTED

Berenberg Macro Flash

German GDP, Q3 2019 (in %)

	qoq
Actual:	0.1
Previous:	-0.2
Consensus:	-0.1
Berenberg:	0.0

Dodging the bullet: Helped by rising consumer and government spending, the German economy averted a technical recession, that is two consecutive quarters of contracting real GDP. Surprising a little to the upside, the economy expanded by 0.1% qoq in Q3 after a contraction in Q2 that was revised from -0.1% to -0.24% qoq in Q2 and an expansion of 0.5% qoq (revised up from 0.4% qoq) at the start of the year (see Chart 1). A base effect – the economy’s contraction during Q3 2018 moved out of the annual comparison – helped to nudge up the yoy rate from 0.3% in Q2 to 0.5% in Q3. That is well below its trend rate of c1.5% yoy and substantially lower than the 3.4% growth peak in 2017 Q4 (see Chart 2). Since then, trade tensions, the Brexit mess and the slowdown in China have taken a heavy toll on Germany’s export-driven and manufacturing-heavy economy. A stabilisation of indicators points to stagnation in Q4 and a modest upside risk to our calls of 0.5% growth in 2020.

Consumption offsets drag from investment and (likely) destocking: Destatis provides only some general comments with the first reading but no breakdown on the data – that comes on 22 November. According to Destatis, both private consumption and government spending contributed to GDP growth in Q3. Construction investment was also up, but gross fixed capital formation in machinery/equipment fell relative to Q2 and subtracted from growth. Exports rose while imports stagnated at the Q2 level. In total, net exports thus contributed to growth – probably only mildly, though. Businesses probably ran down their inventories again which shaved off a little from growth in GDP.

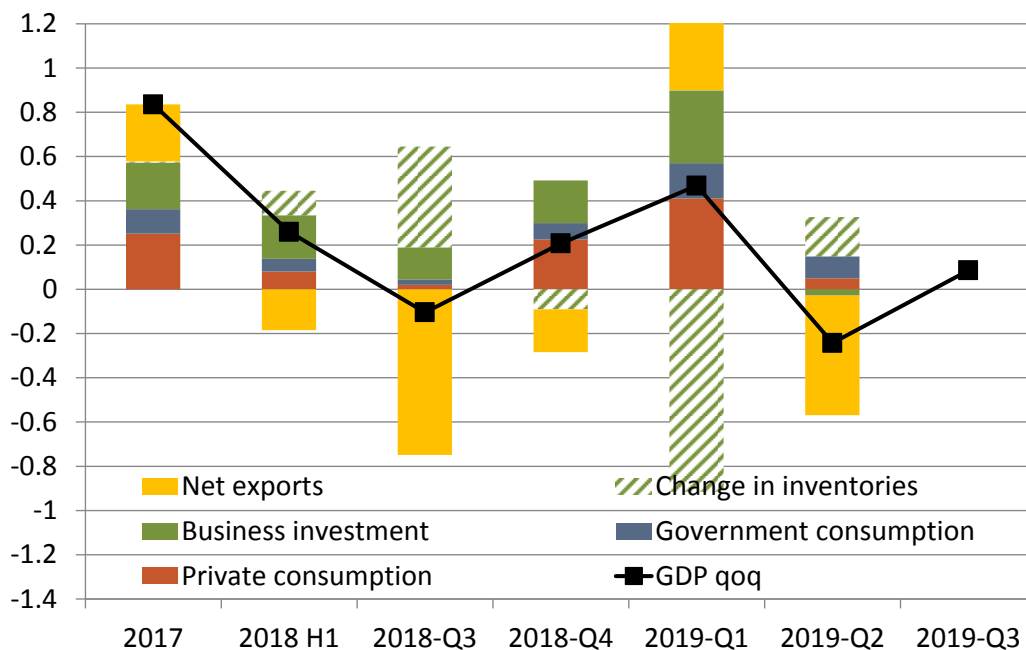
The tale of two sectors – another chapter: By sector, the weakness of the German economy is still very much centred around manufacturing. Industrial production probably shaved off almost 0.3ppt from the qoq GDP growth rate in Q3. While services closely linked to the production and/or export of Germany’s cyclical goods (e.g. machine tools, cars and chemicals) such as logistics are also suffering, consumption-oriented services have weathered the industrial recession largely unscathed so far. In sum, services managed to offset the drag from industry. Although core employment growth has decelerated from 2.5% yoy in early 2018 to 1.5% in August in response to the economic slowdown, rising household incomes and still-solid consumer confidence support spending. Retail sales expanded robustly by 3.3% yoy in Q3 2019. While construction did not add much to growth in Q3 due to supply constraints, the sector continues to boom.



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It's all about trade: The US and China are slowly edging towards a mini trade deal, Trump seems ready to give more time for negotiations instead of imposing punitive tariffs on car imports from the EU and the chances for an orderly Brexit on 31 January look good. Consequently, economic policy uncertainty across the globe has started to come off its August peak. After financial markets have played the theme of a potential upswing to come, on balance, economic indicators like the German manufacturing Ifo have also started to signal the Eurozone downturn could hit the bottom soon (see Chart 3). While all could still go wrong, less bad political news and stabilising data bode well for the German and Eurozone economy in 2020. With luck, growth could return to its trend rate of around 0.4% qoq by Q2 (Eurozone) and Q3 (Germany).

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

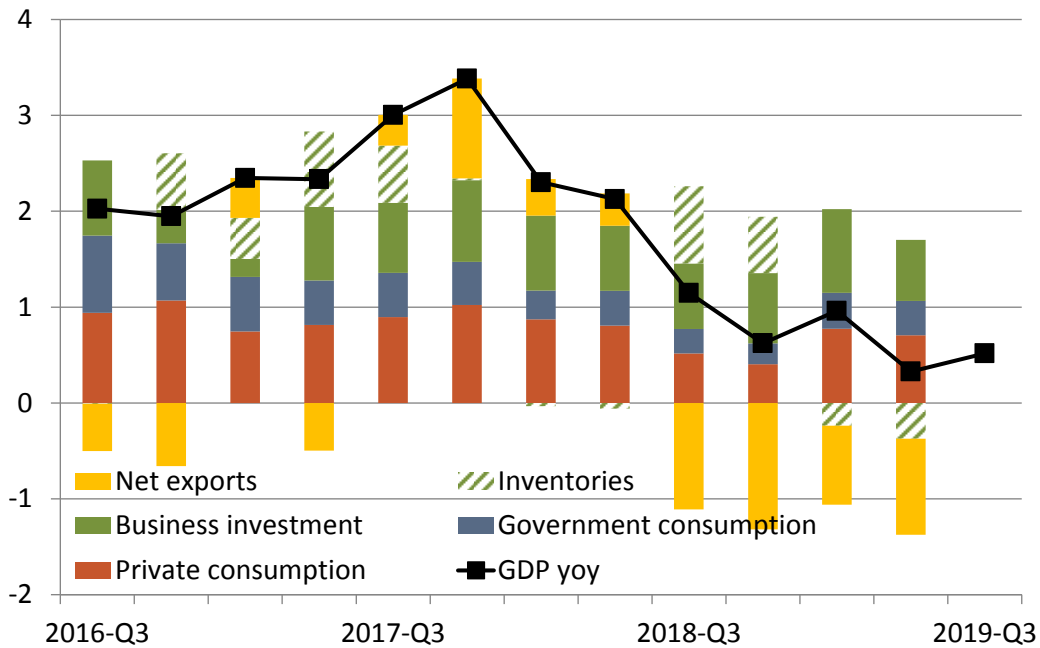


Qoq GDP growth in %, contributions in %-points. No breakdown for Q3 2019. Source: Eurostat, Berenberg



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Chart 2: German yoy GDP growth and its contributions by expenditures



Yoy GDP growth in %, contributions in %-points. No breakdown for Q3 2019. Source: Eurostat, Berenberg

Chart 3: German Ifo expectations in manufacturing



Qoq GDP growth in %, contributions in %-points. No breakdown for Q3 2019. Source: Eurostat, Berenberg



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