

# German economy shrinks in Q4

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Dr. Jörg Krämer

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**According to an initial estimate by the Federal Statistical Office, German GDP contracted by 0.3% in the fourth quarter. Unfortunately, leading indicators are not yet signaling a turn for the better. This suggests that GDP will continue to contract in the first quarter. We expect a further contraction of 0.3% for 2024 as a whole. It is worrying that the German economy has barely grown since the outbreak of the coronavirus. This is rare and reminiscent of the years following the bursting of the stock market bubble at the start of the millennium.**

As expected, the German economy contracted by 0.3% last year. More importantly, the Federal Statistical Office said that fourth quarter GDP was likely to have contracted by 0.3% compared with the third quarter. The office will publish a regular flash estimate on 30th January.

## No improvement in sight yet

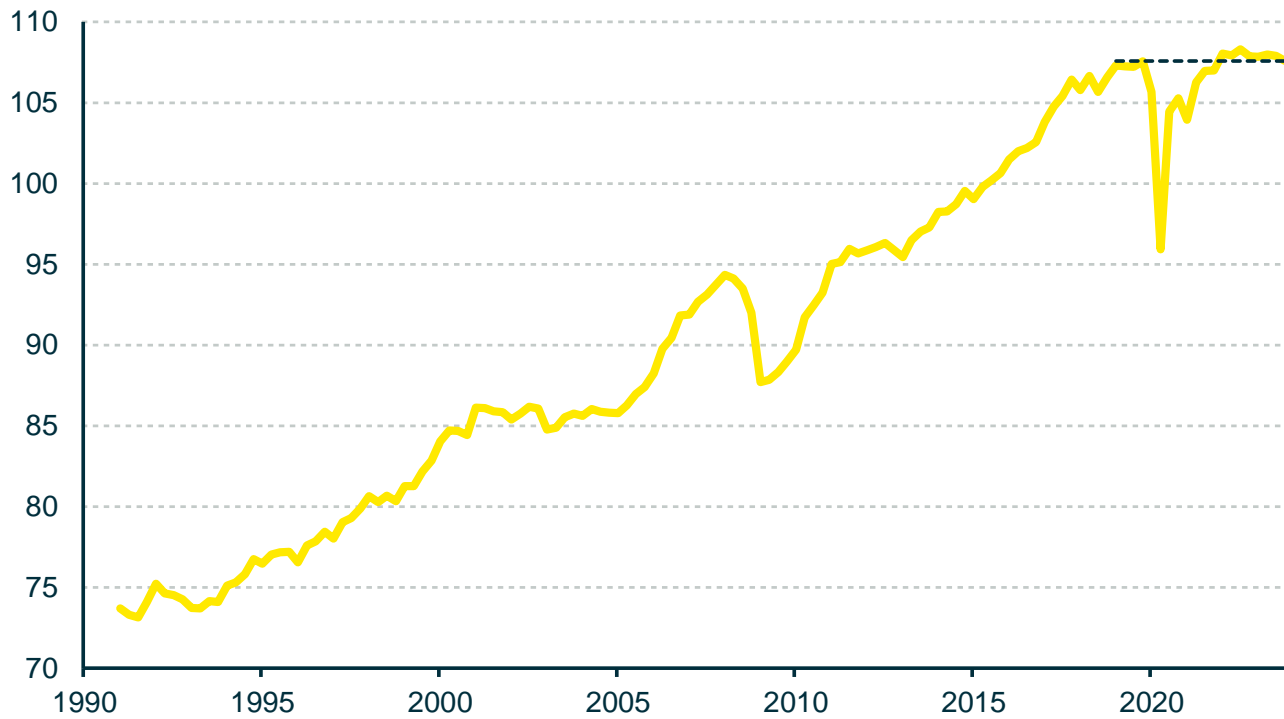
With statisticians reporting that real GDP stagnated in the third quarter, rather than falling as previously reported, the usual international definition of a recession has not yet been met. However, there are still no signs of a turn for the better. Sentiment indicators such as the Ifo business climate remain in recession territory. The recent slump in new orders is increasingly having an impact on industrial production, as surveys suggest that companies have largely worked through the backlog of orders from the coronavirus period. Meanwhile, industrial production is also on a downward trend. All this suggests that the German economy is likely to contract further in the first quarter. The poor starting position is an important argument for our forecast that GDP will contract again in 2024 (-0.3%). We therefore remain more cautious than the average economist and see certain downside risks to our forecast.

## Stagnation since the end of 2019

Since autumn 2019, i.e. shortly before the outbreak of the coronavirus, the German economy has basically stagnated (chart). This is unusual and reminiscent of the years following the bursting of the stock market bubble in 2000. While companies then suffered from overinvestment and high debt levels, the economy is now weighed down by a new interest rate regime, the prospect of persistently high energy prices, a fading tailwind from China and a long-term erosion in the quality of Germany as a business location. Companies have a lot to digest at the moment, which does not bode well for a significant recovery once the recession is over.

**German GDP not higher than in fall of 2019**

Real GDP, quarterly data, index 2015 = 100



Source: S&amp;P Global, destatis, Commerzbank Research



## Analysts

**Dr. Jörg Krämer**

Chief Economist

+49 69 136 23650

joerg.kraemer@commerzbank.com

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#### Commerzbank Offices

##### Frankfurt

Commerzbank AG  
DLZ - Gebäude 2,  
Händlerhaus  
Mainzer Landstraße 153  
60327 Frankfurt  
Tel: + 49 69 136 21200

##### London

Commerzbank AG  
PO BOX 52715  
30 Gresham Street  
London, EC2P 2XY  
Tel: + 44 207 623 8000

##### New York

Commerz Markets LLC  
225 Liberty Street, 32nd  
floor,  
New York,  
NY 10281-1050  
Tel: + 1 212 703 4000

##### Singapore

Commerzbank AG  
128 Beach Road  
#17-01 Guoco Midtown  
Singapore 189773  
Tel: +65 631 10000