Germany – GDP declined in Q3, more to come

German Q3 GDP shrank by 0.1% on Q2, largely in line with expectations. The German economy is likely to contract somewhat further in the winter half-year because it is suffering from the massive rate hikes by the ECB and almost all Western central banks. The past slump in new orders will be reflected in falling industrial production after companies have worked off the orders left over from the pandemic. At the same time, consumption is unlikely to recover. Contrary to most economists, we expect GDP to decline again next year, by 0.3%.

German real GDP contracted by 0.1% in Q3 on Q2, close to expectations (consensus: -0.2%; Commerzbank: -0.1%). According to the Federal Statistical Office, private consumption declined. On the other hand, equipment investment provided a positive stimulus. Detailed numbers will be published on 24 November.

Slight upward revision of previous data
As usual, the statisticians have revised past data. For the second quarter they now show a plus of 0.1% (previously: 0.0%), for the first quarter a stagnation (0.0%, previously: -0.1%). Overall, real GDP has been revised upwards by 0.2 percentage points. For 2023 as a whole a contraction of 0.4% (previously: -0.5%) is now likely.

GDP to decline further in the winter half-year, ...
We stand by our forecast that the German economy will continue to contract somewhat in the current fourth quarter and in the first quarter of next year. There have been some signs of stabilization in new orders recently. However, the past slump in orders is likely to be reflected in a significant decline in industrial production in the coming months, as surveys suggest that companies have now worked through the orders backlog from the pandemic. Moreover, despite falling inflation and stronger wage increases, private consumption is unlikely to recover for the time being, despite the hopes of economic optimists. This is indicated, among other things, by the GfK consumer climate, which recently fell again, although it is already at a historically low level (chart).

... but this will not be followed by a proper upswing
Our forecast is that the mild recession will end in the spring of next year. But a real recovery is unlikely to follow. On the one hand, the ECB’s massive rate hikes will have an impact, especially as we do not expect any rate cuts until 2024 due to the unresolved underlying inflation problem. On the other hand, many companies are worried by the...
German government’s economic and climate policies. This is all the more serious as Germany’s attractiveness as a business location has declined massively over the past 15 years. All in all, we expect real GDP to contract by 0.3% in 2024.

**Chart 1 - Sentiment of consumers still depressed**
Gfk consumer sentiment

Source: S&P Global, Commerzbank Research
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