Economic Research

Economic Briefing

Germany – where is the recovery coming from?

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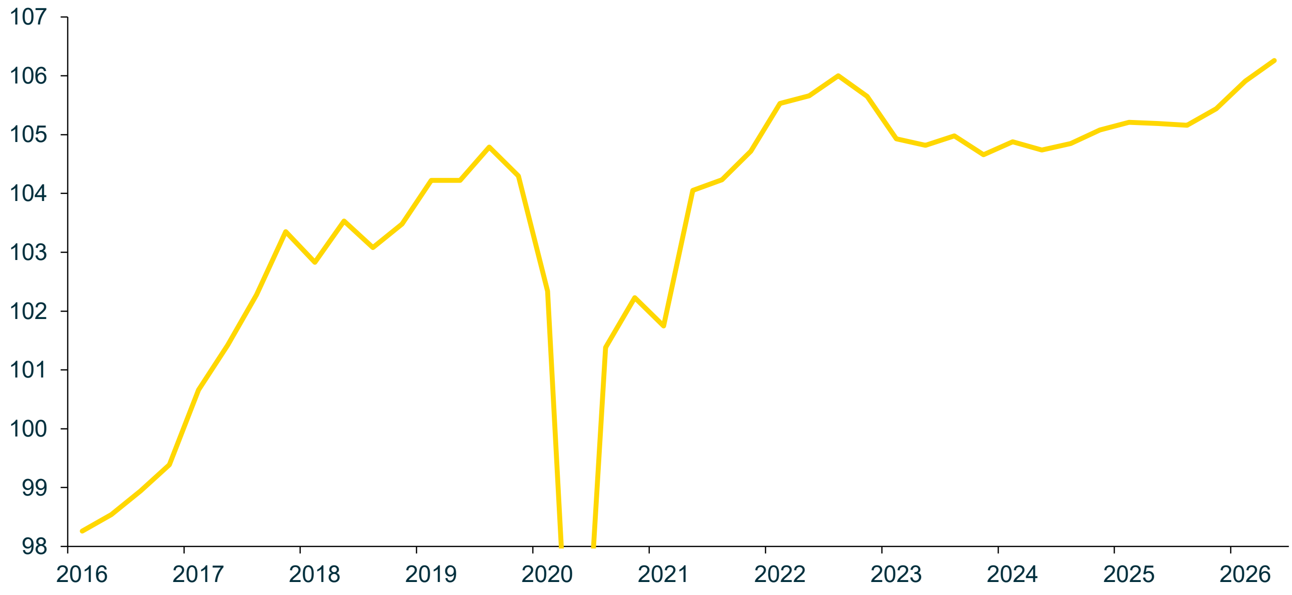
German GDP has been growing quite nicely over the past three quarters. We analyze what's driving this trend.

GDP and leading indicators are rising

The German economy stagnated for a long time following the COVID-19 pandemic. But since the beginning of 2024, Germany's GDP has been growing again (Chart 1). In each of the past three quarters, it even increased by at least 0.3% compared with the previous quarter, which corresponds to an annualized rate of 1.2%. The German economy has clearly emerged from its period of stagnation.

Chart 1 - German economy growing again
real GDP, index 2020 = 100



Source: Destatis, Commerzbank Research

Leading indicators suggest that the German economy is continuing to recover:

- The manufacturing sector has been recording rising order intake since last fall.
- The Ifo Business Climate Index has risen for four consecutive months, thereby offsetting the war-induced slump from the spring — even though the war in Iran is not

yet over.

- The Purchasing Managers' Index for the German economy is also trending upward.

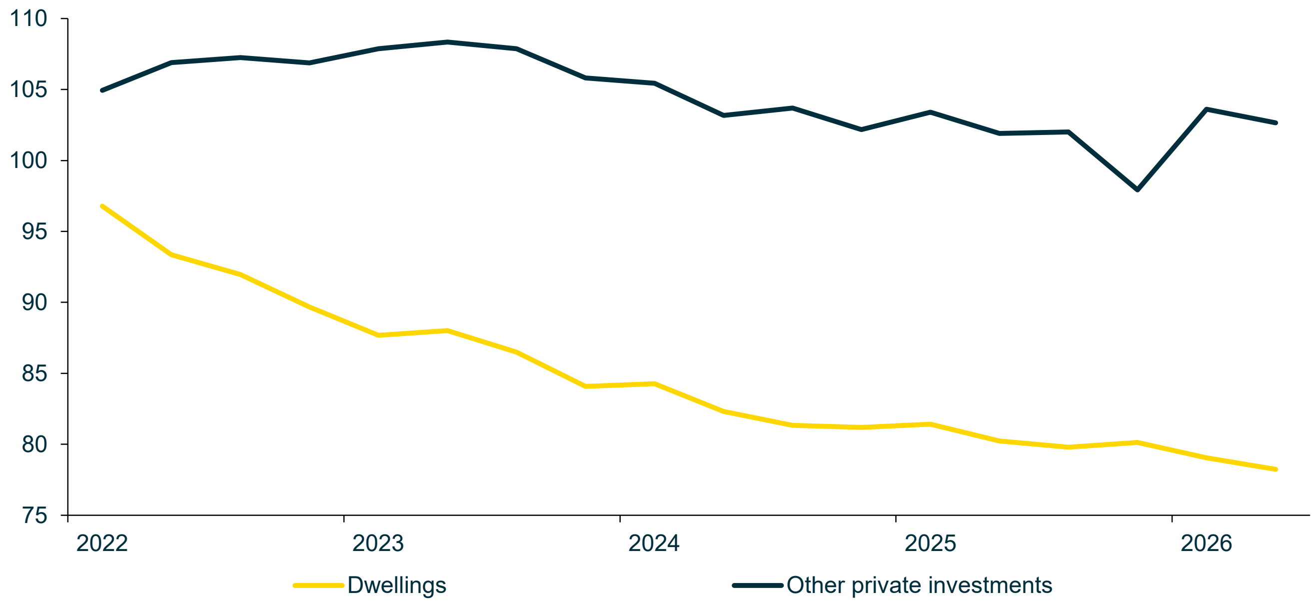
But what's behind this?

However, relying solely on leading economic indicators for economic forecasting would be risky. To predict a recovery, convincing fundamental reasons are also needed. So what are the drivers of the recent recovery?

It's not due to private investment, ...

Let's start by looking at what is *not* driving the recovery. Private investment — that is, capital expenditures by German companies (chart: other private investments) and private residential construction investment — have not contributed to the recent recovery. In fact, private investment has been declining slightly since the beginning of 2024 (Chart 2).

Chart 2 - No turn-around for private investments so far
Private investment, price and seasonally adjusted quarterly figures, index 2022 = 100



Source: Destatis, Commerzbank Research

The fact that the important corporate investments have not contributed to a recovery in GDP is likely due in large part to the erosion of the country's competitiveness — a trend that began during the Merkel years and which the governing coalition has failed to halt with decisive reforms because of its economic policy divisions. Consequently, companies are holding back on investments in Germany, a situation that is unlikely to change anytime soon.

... but rather government demand, ...

Instead, government demand has been a major contributor to the rise in GDP since the beginning of 2024.

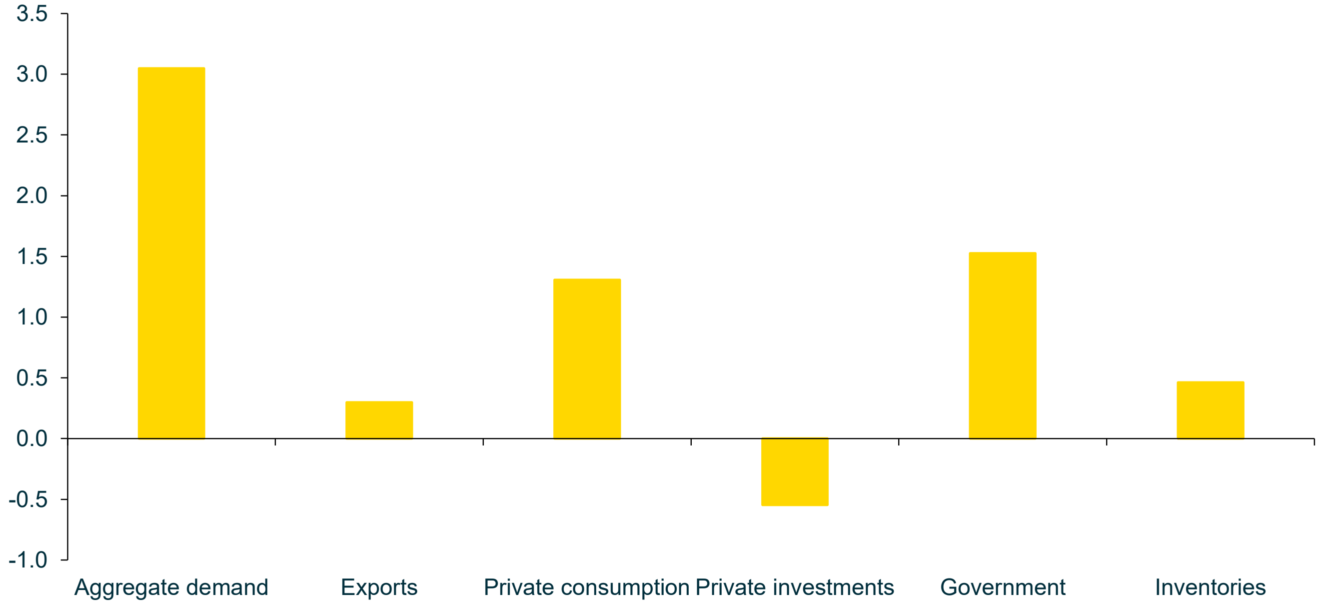
- First, government investment has risen by a total of nearly 13% in price-adjusted terms since then. This is primarily due to increased defense spending as well as higher infrastructure investment, although more could have been done here if the federal government had not diverted a considerable portion of the 500 billion euro in special-purpose debt to other purposes. [1]
- Second, government consumption has risen significantly by 7.5% in price-adjusted terms since the beginning of 2024 — primarily because the government significantly expanded its workforce and spent more on statutory health and long-term care

insurance.

… private consumption and …

Private consumption has also risen since the beginning of 2024. Although it grew by 3.2% — not even half as much as government consumption — private consumption is significantly larger, so it contributed nearly as much to the growth in aggregate demand as government demand (Chart 3), whereby the increase has slowed down since 2025 due to corporate layoffs.

Chart 3 - Private investments has not contributed to recovery yet
Growth contributions to aggregate demand (demostic demand + exports) between 2023Q4 and 2026Q2, in percentage points, seasonally adjusted quarterly figures



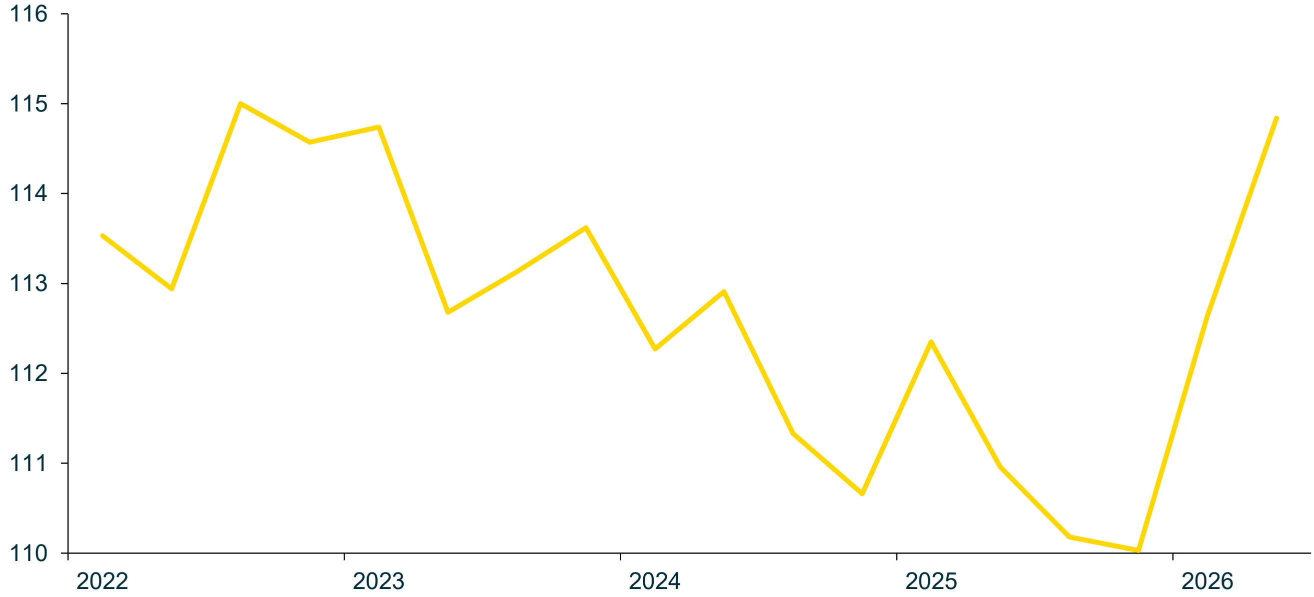
Source: Destatis, Commerzbank Research

… to some extent exports

Unlike government demand and private consumption, foreign demand has not been rising since 2024, but only since the fall of 2025 (Chart 4). This unusual development is largely caused by Trump’s tariffs and China, whose demand for German goods has plummeted by about a third over the past four years. These two dampening factors will continue to lower Germany's export growth.

Chart 4 - Exports recovered only recently

Exports, price and seasonally adjusted quarterly figures, index 2020 = 100



Source: Destatis, Commerzbank Research

Conclusion: The German economy is picking up again — but one cylinder is broken

All in all, the German economy is growing slightly again. Growth of 1% is on the horizon for this year, perhaps even a little more. But as long as the necessary far-reaching economic reforms aren't implemented, key private-sector investment is unlikely to increase significantly. The German economy is like a car with a broken cylinder. A strong recovery remains unrealistic, especially since the war in Iran continues to pose considerable risks and de-globalisation will continue.

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[1] See the **Ifo study**. (back to text)

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