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Economic Research

Economic Briefing

Germany – Q2 weaker than expected

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The German economy contracted more sharply in the second quarter than previously reported. The Federal Statistical Office now reports a decline of 0.3% compared with the previous quarter, after a previously stated decline of 0.1%. Although this morse significant decline is at least partly a counter-movement to the positive development in the first quarter, it shows that an economic recovery in Germany is still pending. We continue to expect this to change in the coming quarters, but the upturn that is likely to set in then, due to lower ECB interest rates and expansionary fiscal policy, will probably be very moderate.

The predominantly very weak economic data for June had already given cause for concern: German real GDP fell more sharply in the second quarter than previously reported. After a decline of 0.1% was reported three weeks ago, the Federal Statistical Office now expects a decline of 0.3%. Consumer spending increased, especially government spending, while investment declined significantly. Exports remained virtually unchanged, with a decline in goods exports offset by higher exports of services.

The decline in the second quarter is probably partly a counter-movement to the fairly positive development at the beginning of the year (Q1: +0.3% qoq), with the late timing of Easter and pull-forward effects in view of the impending US tariffs likely to have played a role. Therefore, there should be no talk of a renewed slump at this point. However, today's figures show that there was no sign of a revival in the German economy in the first half of the year. Instead, real GDP has been largely flat since the middle of last year, after falling for almost two years (Chart 1).

We continue to expect, that the economy will pick up in the coming quarters in view of the ECB's interest rate cuts and a significantly more expansionary fiscal policy. However, this upturn is likely to be only moderate due to the structural problems of the German economy and the significantly higher US tariffs. We are not changing our growth forecasts for this year (+0.2%) and next year (+1.4%). This is because, based on the preliminary figures, there had been certain upside risks for this year, which have now evaporated with today's figures.

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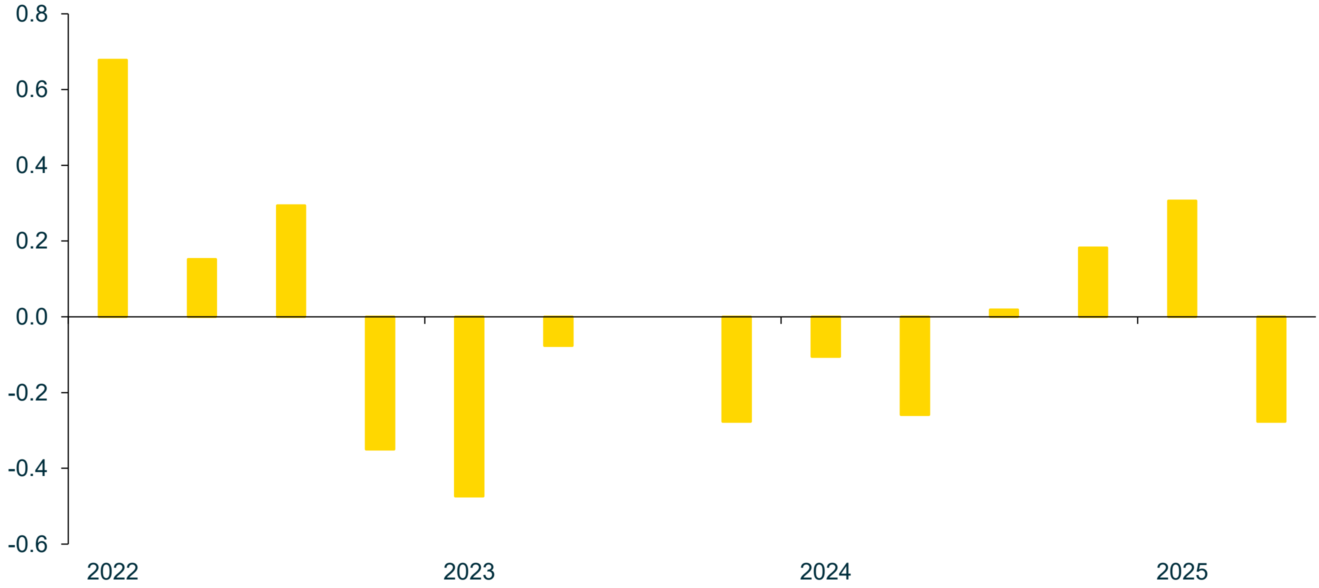
Chart 1 - Real GDP fell in Q2 more sharply

Real GDP, seasonally adjusted quarterly figures, change on quarter in percent



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