

Economic Briefing

German GDP increased in Q3 despite headwinds

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German GDP increased again in the third quarter (by 0.2% compared with Q2), despite significantly higher energy prices and the low water levels on the Rhine. The German economy should continue to grow in the coming quarters, albeit at a moderate pace. However, the lack of far-reaching reforms is likely to continue preventing a meaningful recovery in corporate investment. In addition, exports are unlikely to rebound as strongly as they typically do during economic upturns, owing to Trump's tariffs and competitive pressure from China.

German GDP rose by 0.2% in the third quarter compared with the second quarter (chart). This was slightly above the consensus of 0.1%. According to the Federal Statistical Office, consumption and exports increased, while investment declined. The Office will report GDP details on 25 November. The data for previous periods were hardly revised.

Growth in the third quarter despite headwinds

Growth in the third quarter was actually not bad, considering the headwinds facing the economy. Energy prices, and thus inflation, rose significantly in the third quarter, which weighs on private consumption. In addition, industry suffered from low water levels on the Rhine, which, according to estimates, may well have reduced economic growth by 0.1 percentage points.

Some of the usual growth drivers are absent

In principle, the German economy should continue to expand in the coming quarters – but at a moderate pace. This is because two of the usual growth drivers are only partly functioning. This applies above all to corporate investment in machinery and equipment, which probably declined again in the third quarter and is likely to continue to suffer from Germany's impaired competitiveness. After all, the ruling coalition remains divided over the necessary far-reaching reforms.

Unlike corporate investment, exports have recovered since the beginning of the year. However, Trump's tariffs and strong competitive pressure from China are likely to prevent the kind of robust export recovery that is normally seen during economic upturns.

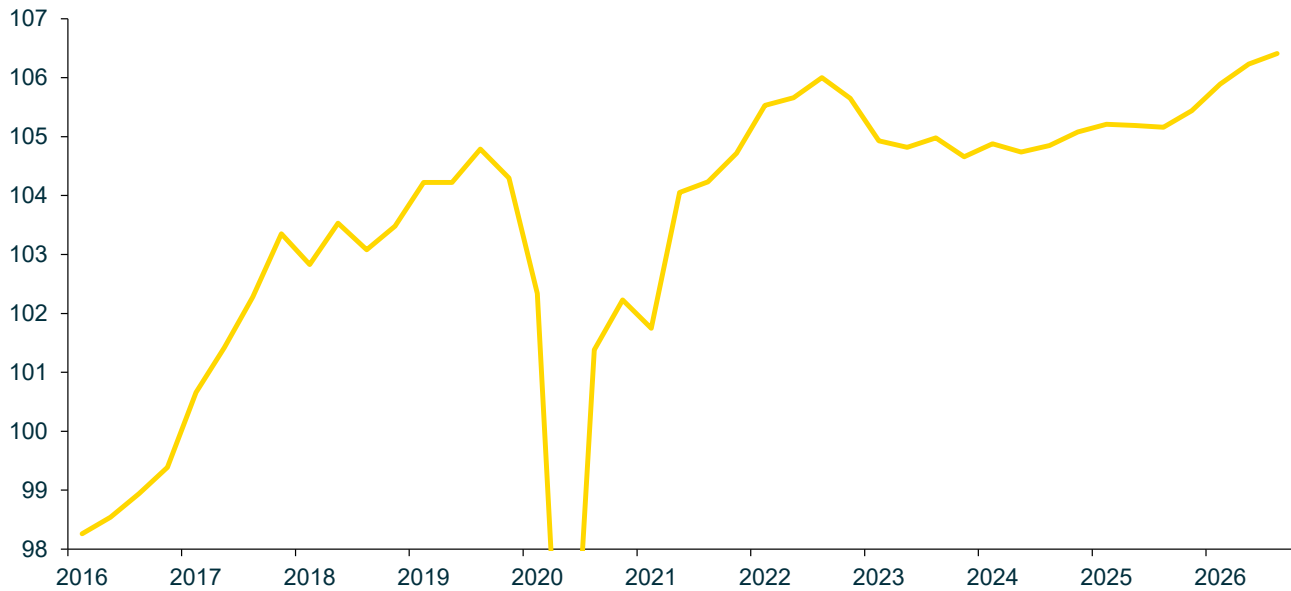
The recovery remains moderate

These problems affecting corporate investment and exports can only partly be offset by sharply rising government spending and the recovery in private consumption. The German economy is like an engine that is not firing on all four cylinders. All in all, we



expect moderate growth of 1.2% this year, although the final figure could be a touch higher. For 2027, we expect growth of 1.0%.

Chart 1 - German economy keeps growing
Real GDP, 2020=100



Source: Destatis, Commerzbank Research



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