ABN·AMRO

Short Insight

Group Economics
Financial Markets Research

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Germany heading for recession

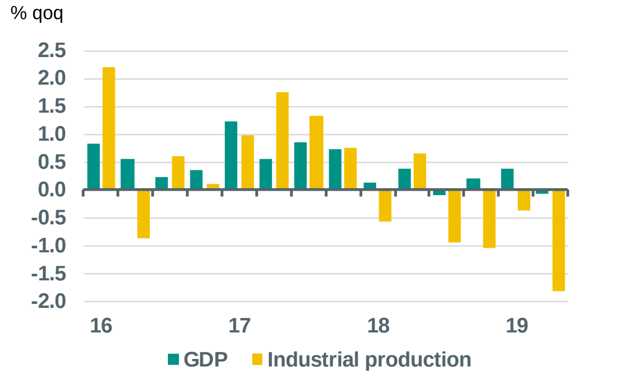
- **German GDP fell in 2019Q2 and Q3 numbers point to a contraction as well**
- **The industry recession is intensifying and domestic demand is slowing down**
- **We expect the German economy to be weaker than the eurozone, which should be close to stagnation in 2019H2 but not in recession**

1. Weakness concentrated in exports and industry …
Germany's GDP contracted by 0.1% qoq in 2019Q2, down from +0.4% in Q1. No further details have been published yet, but we refer to the press release of the Statistisches Bundesamt for visibility.

GDP growth was weighed down by the industrial sector and the weakness was concentrated in foreign trade. Private and government consumption as well as total fixed investment grew in Q2.

Within fixed investment, investment in construction declined according to the press release, implying that business investment expanded.

GDP growth weighed down by industrial sector



Source: Thomson Reuters Datastream

2. … industrial recession to intensify
Looking forward, we expect the recession in Germany's industrial sector to intensify in Q3. Indeed, surveys such as the manufacturing PMI and the Ifo business climate in industry have deteriorated further in July. Moreover, the recent further escalation of the trade conflict between the US and China have made us lower our forecasts for global growth somewhat.

Compared to the eurozone total, Germany is hit relatively hard by the weakness in global trade, the decline in global industrial production and the slowdown in global fixed investment growth. Germany's economy is relatively open (share of goods exports in GDP roughly twice as high as the eurozone total), while a relatively large share of exports are to China and other Asia (17%) and roughly a third of total exports consists of machinery and equipment.

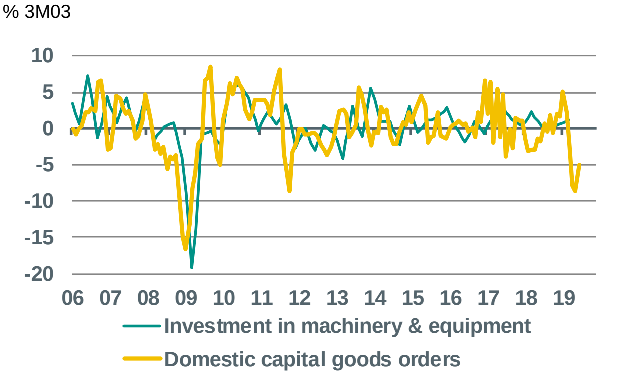
More weakness in manufacturing in the pipeline

Source: Thomson Reuters Datastream

3. Business investment likely to contract in coming quarters
As mentioned above, the press statement that accompanied the Q2 GDP data suggests that business investment expanded in Q2. Still, we expect this part of domestic demand to turn negative in the coming quarters.

Indeed, the business investment outlook looks to be deteriorating. Domestic orders for capital goods received by German manufacturers dropped in the first half of this year. Germany's engineering federation VDMA has also reported that domestic orders for plant and machinery plummeted in the first half of this year. Therefore, it seems that the ongoing contraction in industrial production and the uncertainties related to the global trade conflict has hit companies' appetite to investment.

Machine orders signalling a decline in investment

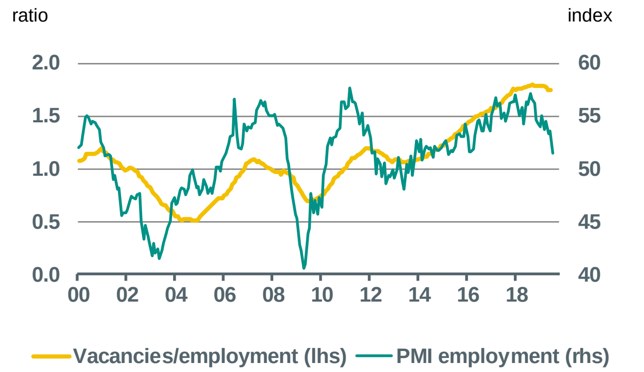


Source: Thomson Reuters Datastream

4. Private consumption to grow modestly - labour market less tight
Private consumption (although distorted by big swings in car sales due to the introduction of new emission standards in the autumn of 2018) has continued to grow robustly since the start of the contraction in industry and exports. Households' real disposable income has been supported by a combination of solid employment and wage growth and modest inflation.

Although we expect further rises in disposable income to continue to support consumption, we see expenditure growing only modestly in the coming quarters. Consumer sentiment (although still at high levels) has declined since the start of the year and the household savings rate has crept higher. Moreover, the ratio of vacancies versus jobs and recent declines in the employment component of the composite PMI have clearly signaled that the tightness in Germany's labour market is easing, which could weigh on wage growth and consumer sentiment in the coming quarters.

Tightness in labour market easing



Source: Thomson Reuters Datastream