



# Germany: Is recession a done deal?

*Some have taken Germany's recent annual growth figure (3%) as a sign that the economy has contracted by 0.2%-0.3% in 11Q4. But this will only hold true if the data on the first three quarters are not revised, which may well be the case. Thus, a recession is not a done deal yet!*

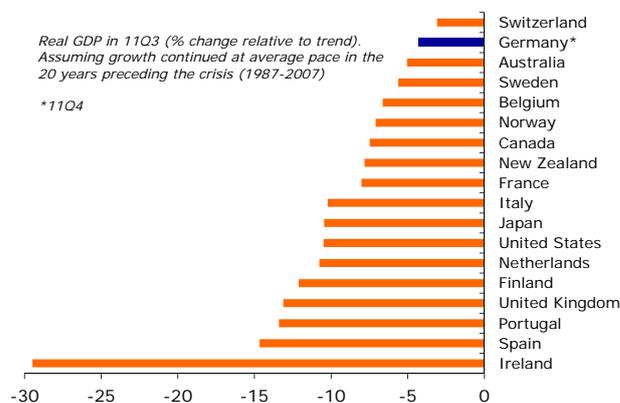
The German statistics bureau (Destatis) announced that the economy expanded by 3.0% in 2011 – slightly above our expectation (2.75%). This means Germany's GDP is the second closest to its trend level, among the advanced countries (see figure 1). The growth figure was received with mixed feelings in the financial markets. On the one hand, the solid growth figure highlighted the resilience of Europe's largest economy in the face of an escalating debt crisis in the region. On the other hand, the estimation raised fear amongst market participants that even Germany was being hit by the eurozone crisis. This is because, coupled with the currently available quarterly figures until 11Q3, the 3.0% expansion in the annual growth rate is consistent with a 0.2%-0.3% drop in quarterly GDP rate in 11Q4. As such, many immediately drew the conclusion that Germany may already be in a recession – technically defined as two quarters of contracting activity.

Naturally, this will be a shocking slowdown from the 0.5% q-o-q growth we experienced in 11Q3. But before getting too bearish we must remind ourselves that this contraction of output in 11Q4 will only hold true if the data on the first three quarters are not revised, which may well be the case. Note that a number of patterns for quarterly growth rates is consistent with the 3.0% expansion in 2011. Besides, the release of the annual growth figure is preliminary and is therefore subject to revision. Against this backdrop, we have always been hesitant to read too much into such straightforward derivations of fourth quarter GDP growth from the full-year results.

Perhaps there is room for some optimism since the most reliable leading indicators such as the purchasing managers' index (PMI) or the IFO business confidence index do not immediately point to recession. What's more, even if the economy does contract for two consecutive quarters, we deem it highly unlikely that the recession will be as deep as the one we experienced during 2008/09.

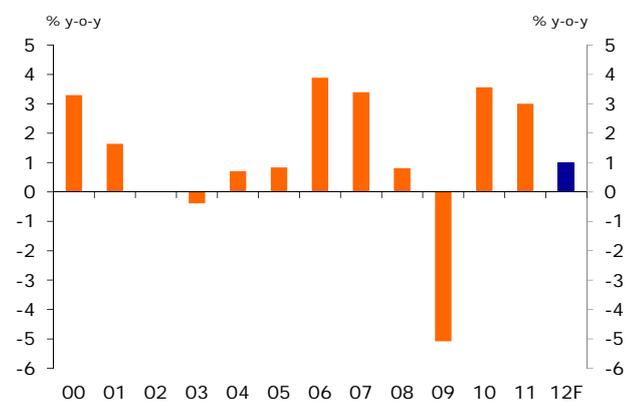
Going forward, we expect to see sharply slower annual growth in 2012. The Bundesbank is forecasting that growth will slow to 0.6% in 2012. We are slightly more bullish about consumer spending so we have pencilled in a 1% annual growth rate for this year (see figure 2).

Figure 1: Level of GDP relative to trend



Source: Reuters EcoWin, Rabobank

Figure 2: GDP growth



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Rabobank

## Rabobank Economic Research Department

	Tel.	E-mail:
<b><u>Chief economist</u></b>	+31 30 21	
Wim Boonstra	66617	W.W.Boonstra@rn.rabobank.nl
<b><u>International Economic Research</u></b>		
Allard Bruinshoofd*	63272	W.A.Bruinshoofd@rn.rabobank.nl
<b><i>Macro</i></b>		
Shahin Kamalodin	31106	S.A.Kamalodin@rn.rabobank.nl
Tim Legierse	62677	T.Legierse@rn.rabobank.nl
Michiel Verduijn	30522	M.P.Verduijn@rn.rabobank.nl
<b><i>Country Risk</i></b>		
Erwin Blaauw	62648	E.R.Blaauw@rn.rabobank.nl
Fabian Briegel	64053	F.Briegel@rn.rabobank.nl
Jeroen van IJzerloo*	62406	J.IJzerloo@rn.rabobank.nl
Herwin Loman	31105	H.Loman@rn.rabobank.nl
Reintje Maasdam	31403	R.Maasdam@rn.rabobank.nl
Ashwin Matabadal	61601	A.R.K.Matabadal@rn.rabobank.nl
Reinier Meijer	31568	R.Meijer@rn.rabobank.nl
Anouk Ruhaak	64860	A.N.Ruhaak@rn.rabobank.nl
<b><u>National Economic Research</u></b>		
Hans Stegeman*	31407	H.W.Stegeman@rn.rabobank.nl
<b><i>Macro</i></b>		
Ruth van de Belt	60143	R.Belt@rn.rabobank.nl
Maarten van der Molen	64214	M.T.Molen@rn.rabobank.nl
Danijela Piljic	31104	D.Piljic@rn.rabobank.nl
Anke Struijs	31408	A.C.A.Struijs@rn.rabobank.nl
Theo Smid	67599	T.H.Smid@rn.rabobank.nl
Paul de Vries	30172	Vries.P@rn.rabobank.nl
<b><i>Regional</i></b>		
Rogier Aalders	31393	R.Aalders@rn.rabobank.nl
Cynthia Briesen	31411	C.C.Briesen@rn.rabobank.nl
Frits Oevering	64439	F.J.Oevering@rn.rabobank.nl
Anouk Smeltink-Mensen	66404	A.H.H.M.Smeltink@rn.rabobank.nl
Willem van der Velden*	62478	W.Velden@rn.rabobank.nl
<b><u>Financial Sector Research</u></b>		
Yvette Jorissen	64931	Y.M.Jorissen@rn.rabobank.nl
Dick Scherjon	31405	D.P.Scherjon@rn.rabobank.nl
August Sjauw-Koen-Fa	31406	A.R.Sjauw@rn.rabobank.nl
Nicole Smolders	79108	N.M.P.Smolders@rn.rabobank.nl
Leontine Treur	67084	L.Treur@rn.rabobank.nl
Bouke de Vries*	61195	Y.B.Vries@rn.rabobank.nl

\*Head