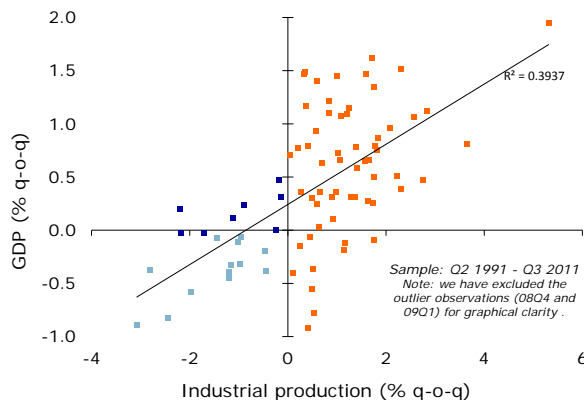


Did Germany's GDP contract in 11Q4?



November's industrial production figure has been interpreted by some as proof that Germany's economy dipped into the red in the final quarter of 2011. Although the odds of economic contraction in 11Q4 have increased materially, we still believe a recession is not a done deal.

Figure 1: Industrial production vs. GDP



Source: Reuters EcoWin, Rabobank

November's disappointing industrial production (IP) figure—a drop of 1.0% m-o-m after a gain of 0.8% in the previous month—is a stark reminder that even Europe's economic locomotive slowed down considerably in the last quarter of 2011. According to our estimation, IP will deduct 0.4%-points from the quarterly GDP growth figure in 11Q4 if it remains flat in December. To not act as a drag on growth, IP must grow by almost 6% m-o-m in December. That will be nothing short of a miracle since the highest monthly growth figure since the reunification has been 4.2% (August, 1993).

Some see the latest IP figure as further proof that the German economy has contracted in

11Q4. To see whether there is some truth to this assertion, we have plotted the quarterly growth rate of IP versus GDP since 1991 (see figure 1). What becomes immediately clear is that IP and GDP have a strong positive correlation, as we would expect. That said, in eight quarters since 1991, the contraction of IP has not resulted in GDP dipping into the negative territory (see dark blue dots). Naturally, the observations of simultaneous contraction of IP and GDP are slightly more frequent (see light blue dots).

So where does this leave us? In our view, IP will definitely contribute negatively to the headline quarterly growth figure in the last three months of 2011. But this does not necessarily mean an outright drop in GDP is inevitable. Let's not forget that the services sector can still surprise on the upside on the back of buoyant consumer spending. All we can conclude from the IP figure is that the odds of economic contraction in 11Q4 has increased materially. Yet we maintain the view that a recession in Germany is not a done deal yet.

Did Germany's GDP contract in 11Q4?



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