

7 February 2012

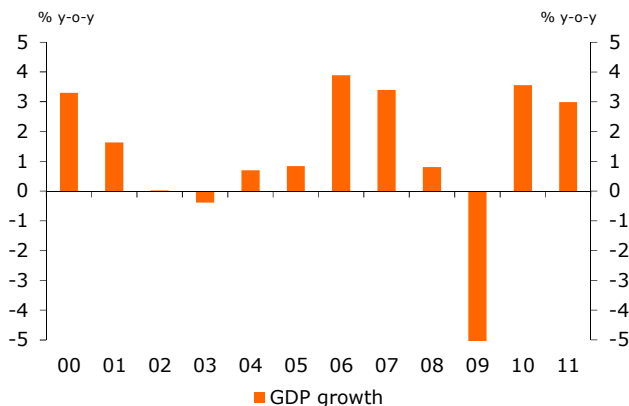
Germany will probably avoid recession

year-on-year change (%)	'10	'11	'12
Gross Domestic Product	3.5	3	1
Private consumption	0.4	¾	¾
Government consumption	1.9	1¾	½
Investment	5.7	6	3¾
Exports	14.4	8	5
Imports	12.8	7	5½
Inflation	1.2	2½	2
Unemployment (%)	7.7	7	6½
Government balance (% GDP)	-3.3	-2	-1¼
Government debt (% GDP)	83.2	82½	81

- Many instantly concluded that Germany's annual GDP growth in 2011 (3%) implies economic contraction in 11Q4. In our view, such straightforward derivations are unwarranted.
- That said, the likelihood of GDP contraction in 11Q4 increased markedly following December's disappointing industrial production figure.
- The year-end retail sales figures were at odds with the upbeat sentiment data as well as the positive anecdotal evidence. Therefore, we would not read too much into them.
- The labour market miracle continues unabated. Jobless rate reaches post-unification low.
- The recent rebound in leading indicators suggest that risk of recession is decreasing.

Source: Reuters EcoWin, Rabobank

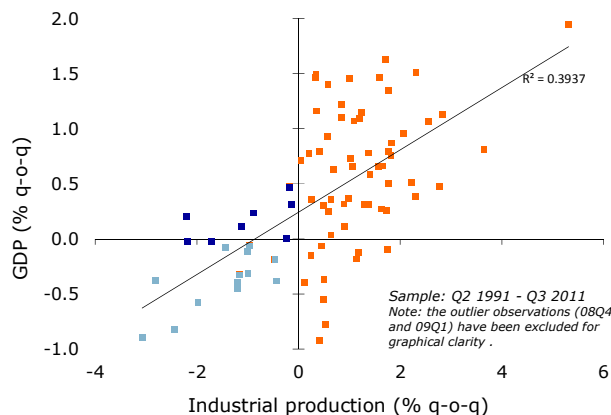
Q: Did the German economy contract in 11Q4?



Germany's economy expanded by 3.0% in 2011. Based on this figure, many immediately drew the conclusion that the country may already be in a recession. This is because, coupled with the currently available quarterly figures until 11Q3, the growth figure is consistent with a 0.2%-0.3% drop in quarterly GDP growth rate in 11Q4. But let's not forget that this 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 are consistent with the 3.0% expansion in 2011. So we should not read too much into such straightforward derivations of fourth quarter GDP growth from the full-year results.

Source: Reuters EcoWin

A: Not necessarily, but the odds have increased



December's disappointing industrial production (IP) figure (-2.7% m-o-m, after -0.3% in November) means IP will act as a significant drag on growth in 11Q4. More concretely, IP will knock 0.4%-point off growth in the final quarter of 2011. The strong historical correlation between GDP and IP suggests the economy may enter the red in 11Q4. As the figure shows, the episodes that IP and GDP are both contracting (light blue dots) are more frequent than not (dark blue dots). But this does not mean an outright drop in GDP is inevitable. For one, the services and construction sectors may surprise on the upside, especially due to mild weather conditions.

Source: Reuters EcoWin, Rabobank

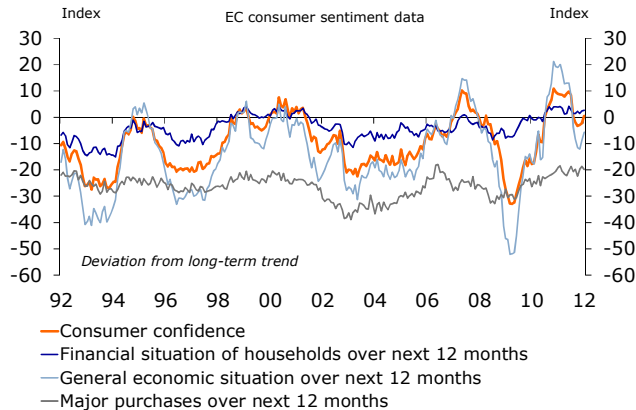
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Economic Update Germany

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Don't lose sleep over retail sales data



Source: Reuters EcoWin

Retail sales were down 1.4% m-o-m in December after -1.0% in November. Does this mean that consumer spending growth has come to an abrupt halt? Not necessarily! As we have stressed before, Germany's retail sales data are not a reliable indicator for consumer spending. Moreover, these preliminary figures need to be treated with caution as they are prone to significant revisions. Retail sales data in 11Q3, for example, were initially reported as being flat but are now up 1.4% q-o-q. All in all, the drop in retail sales in 11Q4 (-0.8% q-o-q) is at odds with the upbeat sentiment data as well as the positive anecdotal evidence from retailers about robust sales during the Christmas shopping season.

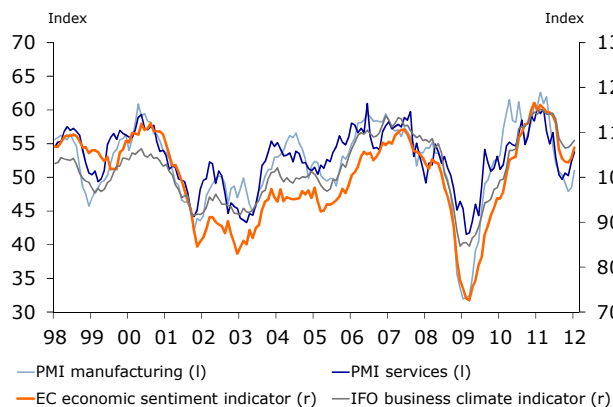
No end in sight to Germany's *arbeitsmarktwunder*



Source: Reuters EcoWin

Another reason to question the recent retail sales figures is the jaw-dropping improvement in the labour market. Germany's unemployment declined by 34,000 m-o-m during January. As a result, the jobless rate dropped from 6.8% to yet another post-unification low of 6.7%. Even better, vacancy data point to further improvements ahead. The BA-X vacancy index increased once again by two index points to an all-time high of 181 in January. Although the labour market is a lagging indicator it nonetheless shows that German companies generally remain quite confident about the medium-term outlook for the economy. This is consistent with the recent rise in producer confidence indices.

Risk of recession is decreasing very fast



Source: Reuters EcoWin

Many continue to predict a recession in Germany, yet we maintain the view that this prognosis is too pessimistic. The recent rebound in the major leading indicators (IFO, PMI, EC) reinforce the impression that the German economy is nicely weathering the storm stemming from the Eurozone debt crisis. This is due to a number of factors such as historic low interest rates, fairly subdued euro levels, and strong private sector balance sheets. Overall, Germany is expected to avoid a technical recession barring any major shocks (e.g. a disorderly Greek default). As such, developments surrounding the Euro crisis remain pivotal for the country's macroeconomic outlook, thus warranting close monitoring.

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