



Germany's 09Q4 growth can disappoint

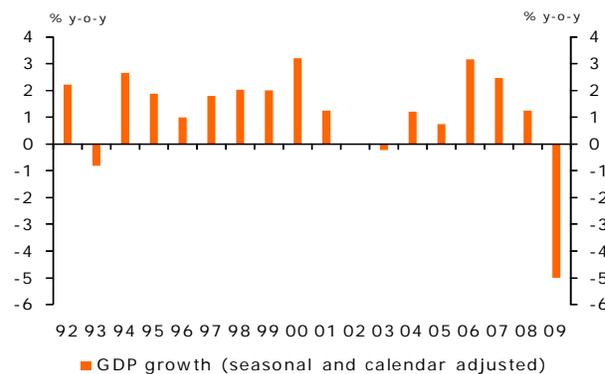
Germany's economy has contracted by a record 5.0% y-o-y in 2009. According to our estimation, quarterly growth in 09Q4 should be flat if the data for the first three quarters are not revised downwards. However, the business surveys and the orders data suggest that economy has expanded moderately in 09Q4 (i.e. we are expecting some revisions to the past data).

Its finally official! The German statistics bureau (Destatis) announced that the German economy contracted by a record 5.0% y-o-y in 2009 – exactly in line with our expectation. The main culprits of the worst recession in post-war history were net exports, fixed investment and inventories, which negatively impacted GDP growth by 3.4%, 1.6% and 0.8, respectively. The positive impulses for growth came from government (0.5%-point) and private consumption (0.2%-point). The latter was mostly thanks to the highly successful short-time working scheme — that kept the rate of unemployment in check (see our *Macro Comment 10/01*) — and the *cash-for-clunkers* scheme that ended in 2009.

Following the announcement, market participants became somewhat worried that the 5.0% contraction in the annual growth rate is consistent with a flat reading of the quarter-on-quarter GDP growth rate in 09Q4. Naturally, this will be a shocking slowdown from the 0.7% q-o-q growth we experienced in 09Q3. But this will only hold true if the data on the first three quarters are not revised downwards, which may well be the case. Therefore, we are hesitant to read too much into such straightforward derivations of fourth quarter GDP growth from the full-year results. Note that a number of patterns for quarterly growth rates is consistent with the -5.0% contraction in 2009. Even though the drop may not be quite as big as some fear, developments in the industrial sector, which is one of the most cyclical sectors of the economy, indicate a significant slowdown in Q4 GDP growth. According to our estimation, the disappointing IP figure in November — a gain of 0.7% m-o-m after a drop of 1.8% in the previous month — will 'only' add 0.3%-points to the headline GDP growth in 09Q4 if it remains flat in December (i.e. it would knock about 0.4 percentage points off quarterly growth contribution in Q4 compared to Q3's 0.7% increase). Even if IP does grow strongly in December, it still looks unlikely that it will match Q3's 3.6% quarterly expansion in Q4. Overall, if the contribution of the other GDP components on the production side would stay the same in Q4, then Germany's GDP will still grow, but far more moderately than in 09Q3.

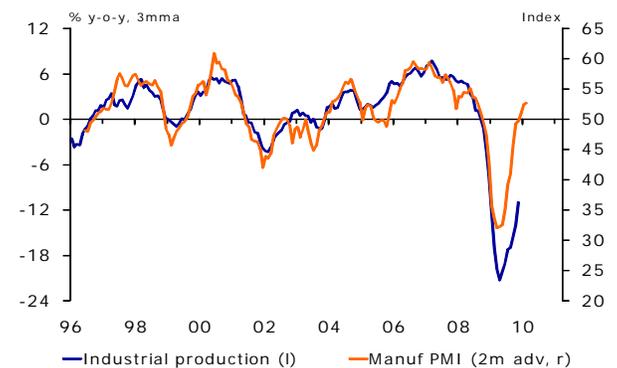
Perhaps there is room for some optimism going forward since the business surveys such as the purchasing managers' index (PMI) or the IFO business confidence index point to a more lively degree of activity in the industrial sector in 10Q1. It should be noted, however, that the leading indicators have not been very "leading" in the current recession (i.e. they also did not accurately predict the scope of the economic downturn). The current positive sentiment of producers may merely reflect their happiness in being able to survive the "near death" experience of the last couple of quarters. Hence, the incoming industrial data (e.g. orders) should be monitored closely in order to get a better grip on the pace of recovery. During the past couple of months, the growth in manufacturing orders remained sluggish (0.2% m-o-m in November after a 2.1% drop in October). Therefore, any further disappointing data will really put the recovery in doubt.

Figure 1: GDP growth



Source: Reuters EcoWin

Figure 2: PMI and industrial production



Source: Reuters EcoWin, Markit



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