



COMMERZBANK

Economic Research

Economic Briefing

# German Q4 GDP – disappointed hopes

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**Contrary to some people's hopes, German Q4 GDP fell slightly by 0.1% compared to Q3. An improvement in Q1 is not yet in sight. This is because leading indicators such as the Ifo business climate or manufacturing orders are not yet signalling a turnaround. In addition, the ECB rate cuts are unlikely to give the economy a strong boost later in the year, because Germany's competitiveness has suffered massively and it is questionable whether there will be a real restart in economic policy after the general election on February 23. We still only expect a minimal growth of 0.2% for 2025.**

The decline in German GDP by 0.2% last year came as no surprise following the publication of the first three quarters. Instead, economists focused on hints of economic growth regarding the Q4 during the Federal Statistical Office's press conference. With all due caution, the statisticians announced a decline of 0.1% compared to Q3. This disappointed hope of a slight increase, which had been fuelled by stable industrial production in the first two months of Q4. However, as hardly any data has yet been published for December, a revision of today's data is possible with the regular publication of Q4 on 30 January.

The slight decline in the fourth quarter confirms the view that the German economy has been stagnating since 2019, the year before the outbreak of the pandemic (Chart 1). In contrast, US GDP has grown by 11% since then.

## Leading indicators still lack an upward signal

There is still no improvement in sight for the first quarter. Incoming orders have only stabilised at a very low level and the Ifo business climate is still pointing downwards.

At best, a certain upward trend is possible starting in the spring, when the ECB's interest rate cuts will stimulate overall economic demand with the usual time lag. However, we only expect an anaemic upward trend because companies are increasingly holding back on investments in Germany due to the massive deterioration in competitiveness in recent years.

## Turnaround through Bundestag elections?

The general elections on February 23 would only improve the outlook if the future coalition partners had a common understanding of how to improve Germany's competitiveness. Looking at the polls, however, a coalition between the Christian Democrats (CDU/CSU) and the Social Democrats (SPD) or perhaps the Greens is

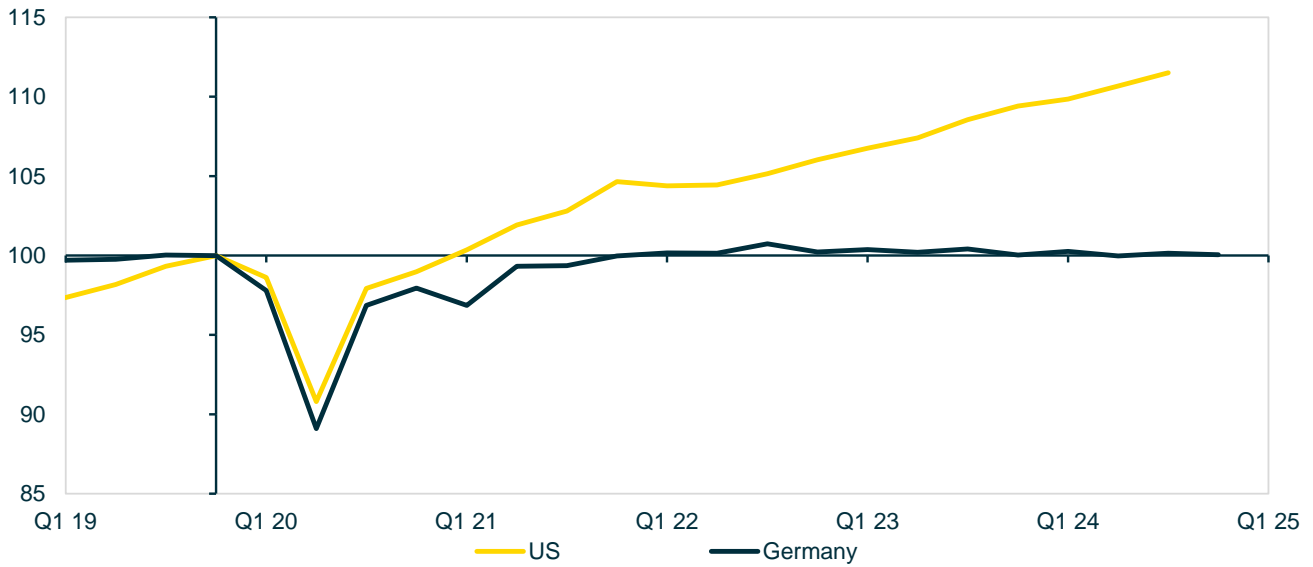
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emerging. Such a government is likely to relax the constitutional debt brake, for example by exempting investments by the state from it. In this respect, a new federal government could make significantly more funds available for investment in infrastructure. However, in most other areas of economic policy, the coalition partners would have significantly different views, which makes the necessary new start in economic policy less likely. We remain cautious with regard to the German economy and continue to expect essentially a stagnation in 2025 (forecast: 0.2%).

**Chart 1 - Germany is stagnating, America is growing**

Real GDP, Q4.2019=100, quarterly data



Source: Destatis, S&P Global, Commerzbank Research



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