

# Is Germany edging toward recession?

Fresh figures suggest that Europe's biggest economy may be heading for a recession, as its growth slowed in the second quarter. Calls for more fiscal stimulus are growing louder, but the government sees no need for it.



Western Europe hasn't been immune to the global economic slowdown currently underway. Germany, with its export-oriented economy, is one of the countries that has been most affected.

Germany's Federal Statistics Office announced Wednesday that the country's gross domestic product (GDP) had contracted by 0.1% quarter-on-quarter in the April-to-June period, raising fears that the country may be headed for a recession. Economists define a recession as two consecutive quarterly contractions.

ING Chief Economist Carsten Brzeski said that the Q2 drop in output came as no surprise. "The point is that the German economy has more or less been in a state of stagnation since the summer of 2018," he told DW after the latest data was released.

"This in itself does not mean that there's reason to panic, but it surely means that

a golden decade has come to an end in the country. The crucial question now is whether the German government will leave everything in the hands of Donald Trump and his trade policy or step into action itself and offer some fiscal stimulus.”

### **Industry leaders worried**

His concern is shared by a number of German industry leaders, including representatives of the Federation of German Industry (BDI).

“The government’s balanced-budget policy should now be called into question in this economically fragile situation,” BDI Director General Joachim Lang told the German business daily *Handelsblatt*.

Experts put the quarterly drop in growth down to a slump in exports, with the nation’s manufacturing sector taking a severe blow over uncertainties related to the outcome of the protracted US-China trade conflict and the expected impact of a hard Brexit.

Exporters are certain that the German economy would face additional problems if a no-deal Brexit from the European Union by the UK actually materialized on October 31.

### **Domestic consumption affected?**

What analysts view as particularly worrying is that a long-term pillar of the national economy, domestic consumption, may now also start to crumble. So far, though, demand remains fairly robust amid record-high employment, pay hikes in many sectors of the economy and low borrowing costs, meaning that people have more money in their pockets to spend.

Brzeski called for a level-headed approach to get out of the current slump. He noted that the second-quarter drop was anything but pronounced and wasn’t really reminiscent of what the German economy experienced about a decade ago.

“It’s not dramatic yet compared with the situation [during the global financial crisis in 2008/09. But the German economy is clearly running out of steam and needs a fresh impulse to take off again.”

Although the German economy may be teetering on the edge of recession, the

government currently shows little resolve to act. Chancellor Angela Merkel on Tuesday brushed aside domestic and international calls for more fiscal stimulus, insisting there was “no need right now” for such a move.

Economy Minister Peter Altmaier acknowledged, though, that the most recent growth figures were “a warning signal” and showed that simmering trade conflicts had taken their toll.

He told the *Bild* newspaper on Wednesday that in order to avoid a recession, more investments in future-oriented technologies and digitization had to be made. He also mentioned the possibility of lowering corporate tax in order to support companies.

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