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Economic News

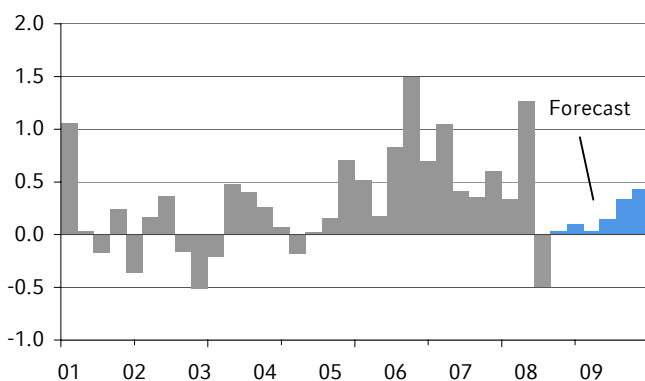
GROWTH IN GERMANY

Sharp slowdown in domestic demand in Q2

- The Federal Statistical Office today confirmed its flash estimate of 14 August indicating a 0.5% q/q decline in GDP growth for the second quarter. In its flash estimate, the statistical office had already revised slightly down the positive first-quarter result from 1.5% to 1.3%.
- The decline in GDP is attributable to a **pronounced weakness in domestic demand**, which contracted 1.0% from the first quarter. All of the demand aggregates were down except for government spending and other investment. Construction spending (-3.5%) fell particularly sharply. The slowdown in household consumer spending (-0.7%) was primarily attributable to the sharp increase in prices. In nominal terms, however, household consumption was up 2.3% from the previous quarter. By contrast, foreign trade made a positive contribution to growth. However, this is primarily attributable to the sharp decline in imports due in part to significantly higher import prices. Exports were slightly down (-0.2%), reflecting the more difficult global environment for Germany's export economy.
- As labour deployment can only be marginally adjusted to the weak economic performance on such a short-term basis, **productivity flattened**. However – and this indeed came as a surprise – despite the significant wage increases, hourly manufacturing labour costs were down from a year ago, resulting in a **decline in unit labour costs**. This might be due to the reduction in unemployment insurance contribution rates at the beginning of the year or to the higher number of unpaid overtime hours. It is also possible that some companies hired staff from temporary employment agencies on a permanent basis, which as a rule is cheaper.
- Given the sharp drop in the sentiment indicators, the decline in industrial demand and the high inflation, which is eroding households' purchasing power, **little more than stagnation** can be expected **for the current quarter**. The recent drop in crude oil prices should do nothing to change this, as evidenced by today's decline in the GfK consumer climate index, particularly as price increases in downstream energy products (e.g. gas) are set to continue.

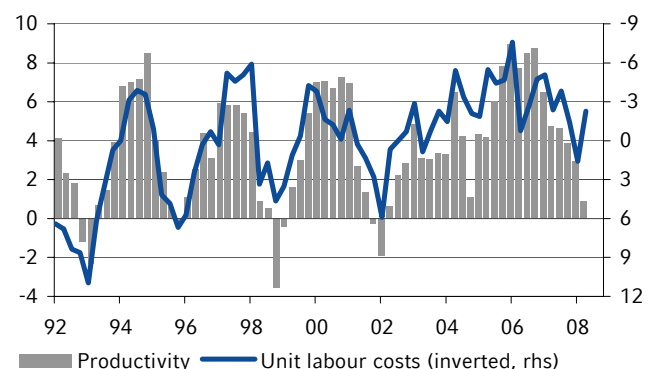
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GDP
% q/q



Source EcoWin, WestLB Research

Productivity and manufacturing unit labour costs
% y/y



Source EcoWin, WestLB Research

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