

13 November 2008

# Economic News

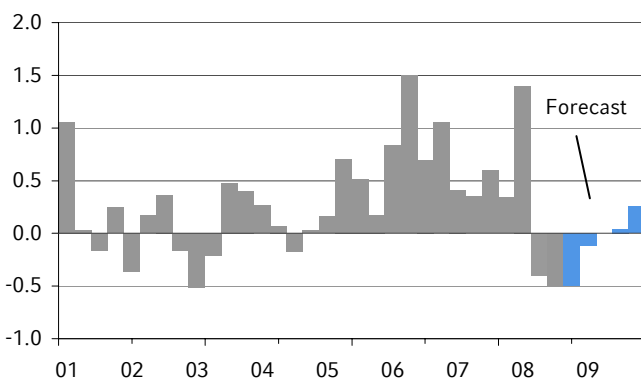
## GDP GROWTH IN GERMANY

### German economy in recession

- This morning's first release of data from Germany's Federal Statistical Office has confirmed what has been evident for some time: the German economy is suffering a recession. In Q3, GDP fell by 0.5% q-o-q, and followed on from the marked decline in GDP in Q2. The slowdown was therefore significantly greater than anticipated. This shows that the economic downturn is graver than assumed so far. At the same time, the Federal Statistical Office raised its figures for the first two quarters by 0.1% each.
- Details about the GDP components will not be released until 25 November, but information from the Federal Statistical Office suggests that the contraction in GDP is chiefly due to declining net exports. Investment has probably also been reined in. By contrast, positive stimuli stemmed from a slight increase in the final consumption expenditure of private households and government, and increasing inventories.
- We consider that the decline in GDP for Q4 2008 will in all likelihood be at least similar in scale to that witnessed in Q3 2008. The sentiment indicators have slumped across the board and suggest that we should expect a further deterioration in the state of the economy. Of late, demand in the industrial sector has all but collapsed. As companies were unable to adjust their production levels sufficiently quickly, they have (unintentionally) stocked up their inventories. For this reason, they will probably appreciably lower their production levels in the current quarter. This is already taking place in some areas, specifically in the car industry. There is currently no indication as to when this weak phase will come to an end. We assume that it will continue until well into next year. This suggests that in 2009 annual GDP will contract for the first time since 2003. Following today's figures, our current forecast of -0.3% seems to be just as untenable as the projection published yesterday by the German Council of Economic Experts (+0.2%). We will therefore revise our forecast downwards in the near future.

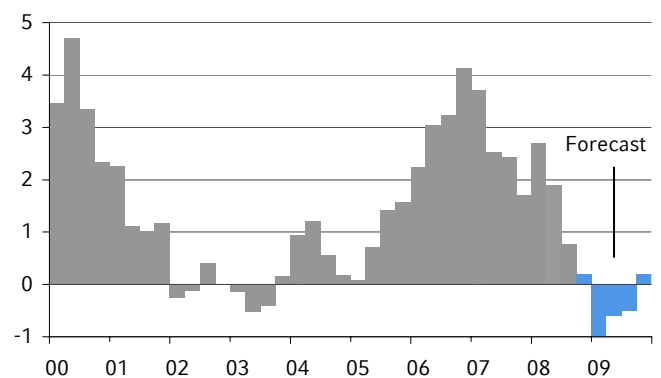
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**GDP (% q/q)**



Source EcoWin, WestLB Research

**GDP (% y/y)**



Source EcoWin, WestLB Research

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