

25. November 2008

Economic News

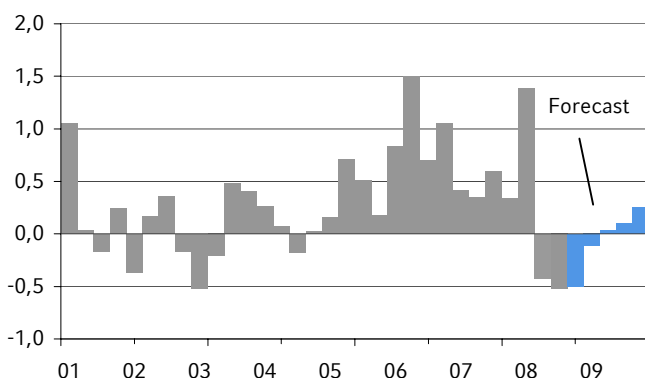
GROWTH IN GERMANY

Recession confirmed – bleak outlook

- The German Federal Statistical Office today confirmed its flash estimate of 13 November, indicating a 0.5% q/q decline in GDP growth for Q3. Economic performance was up by 1.4% in Q1 2008, but fell by 0.4% in Q2.
- The reason for the decline in GDP in Q3 is the negative growth in **net exports** (-1.7%). Between July and September 2008 exports were 0.4% down on the previous quarter, while imports were up by 3.8%. We assume that companies have used softening commodity prices to build up their inventories.
- A sharper slump in GDP has failed to materialise due to increased domestic demand. In the process, **private consumption** (+0.3%) and **public consumption** (+0.8%) have risen.
- Another positive factor was the strong **build-up in inventories** (+0.9%). Besides the planned increase in inventories, there may well also have been an involuntary build-up. Companies may have been surprised by the sudden collapse in demand and forced to move the goods produced into their warehouses for the time being. Such an involuntary accrual of inventories is a negative factor for growth in the coming quarter because companies will initially have to work off these stockpiles. The decrease in **investment in machinery and equipment** (-0.5%) does not bode well for the future.
- Given today's detailed findings and the slump in economic indicators across the board (e.g. PMI, Ifo Business Climate Index), the outlook for the German economy is bleak. Having made a first-rate start to the year, the real economy is now deep in recession and as yet there are no signs of a recovery. In view of the considerable economic risks, it would be good news if fiscal policy were to provide positive impetus in addition to that provided by monetary policy. In our view, the measures planned by the German government up to now will fall well short of what is needed.

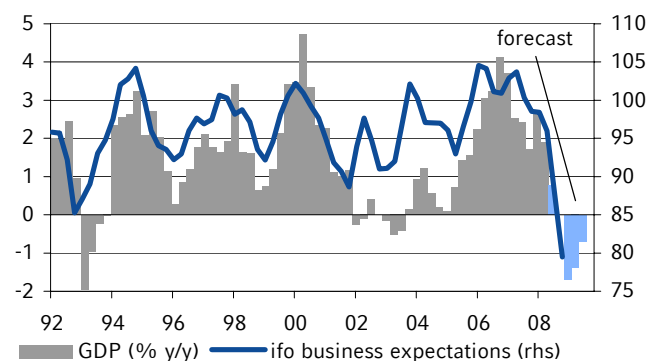
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GDP
% q/q



Source EcoWin, WestLB Research

GDP and Ifo Business Climate Index
(% y/y, points)



Source EcoWin, WestLB Research

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