

German economy plunges by record 9.7%

The second-quarter contraction was the worst ever since documentation of GDP figures began in 1970. The drop was, however, not as steep as the 10.1% contraction that economists initially anticipated.



The German economy, Europe's largest, contracted by a record 9.7% in the second quarter as consumer spending, company investments and exports saw a steep decline due to the coronavirus pandemic.

Although the contraction was the worst on record, it was still less than what economists initially anticipated, after the Federal Statistical Office (Destatis) revised the quarter-on-quarter contraction in gross domestic product down from the 10.1% it initially reported at the end of July.

The economic slump was much stronger than during the 2007-08 financial crisis which saw a 4.7% decline in the first quarter of 2009, and it represented the sharpest decline since Germany began to record quarterly GDP calculations in 1970, the office said.

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Consumer spending shrank by 10.9% in the quarter, capital investments by 19.6% and exports by 20.3%, according to official data. Construction activity, normally a consistent growth driver for the German economy, fell by 4.2%.

Meanwhile, stimulus measures designed to support consumers and businesses through the worst of the crisis resulted in the state spending €51.6 billion (\$61 billion) more than it took in during the first half of 2020, Destatis said.

An 'optimistic' outlook

Despite the economic slump, however, German business morale improved more than expected in August. According to a survey published by the Ifo Institute for Economic Research, firms assessed their current business situations with far more optimism than in the previous month.

The institute said its business climate index, an indicator of economic activity in Germany, rose to 92.6 from a downwardly revised 90.4 in July. This marked the fourth monthly increase in a row, and was higher than economists' initial expectations of 92.2.

"The German economy is on the road to recovery," Ifo President Clemens Fuest said in a statement.

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"In the service sector, the business climate index rose sharply," the statement read. "The service providers were significantly more satisfied with their current business situation." The outlook for the coming six months also improved, according to the study.

The German government has forecast a 6.3% economic decline for the entire year. At the start of the pandemic in March, experts pushed through a multibillion-euro coronavirus aid package, followed by another €130-billion stimulus in June.

The German decline was one of the less drastic second-quarter contractions among Europe's major economies as widespread shutdowns over the pandemic ground economic activity to a halt. France, Italy, Spain and the UK all saw double-digit declines in their economic activity.

lc/rc (dpa, Reuters)

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