German Economy Contracted More Than Forecast in 4Q

By Jeff Black - Feb 14, 2013

The German economy, Europe’s largest, shrank more than economists forecast in the fourth quarter as exports declined.

Gross domestic product fell 0.6 percent from the third quarter, when it gained 0.2 percent, the Federal Statistics Office in Wiesbaden said today. That’s more than the 0.5 percent contraction predicted in a Bloomberg News survey of 47 economists. The French economy also shrank more than forecast, with GDP falling 0.3 percent in the fourth quarter.

Germany’s Bundesbank in December lowered its growth forecast for this year to 0.4 percent, citing the knock-on effects of the sovereign debt crisis that has tipped the euro region into recession. Still, there are signs Germany is already rebounding from its fourth-quarter slump, with business and investor confidence rising more then forecast in January and unemployment unexpectedly dropping.

“The fall in the fourth quarter is due mostly to the great uncertainty caused by the debt crisis and even a more negative result than expected is not dramatic,” Ulrike Rondorf, an economist at Commerzbank AG in Frankfurt, said before today’s report. “This uncertainty is disappearing from the minds of managers faster than expected. The first quarter could be a positive surprise.”

The euro dropped almost half a cent after the GDP data and traded at $1.3395 at 8:17 a.m. in Frankfurt.

Debt Crisis

The debt crisis that began in Greece three years ago has forced governments across the region to cut spending to rein in deficits. That has driven at least five of the 17 euro nations into recession, including Italy and Spain, the region’s third- and fourth-largest economies.

The euro-area recession probably deepened in the fourth quarter, with GDP falling 0.4 percent after a 0.1 percent decline in the third, according to another Bloomberg survey. That report is due from the European Union’s statistics office in Luxembourg at 11 a.m. today.

Germany’s fourth-quarter contraction was caused by declining exports as well as less company investment and construction, the statistics office said. Household and government spending increased slightly. A detailed breakdown will be published on Feb. 22. From a year earlier, the economy grew 0.4 percent when adjusted for working days.
In an unofficial estimate on Jan. 15, the statistics office had predicted a 0.5 percent drop in GDP in the fourth quarter from the third. Germany’s economy expanded 0.7 percent last year after 3 percent growth in 2011.

**Positive Signs**

If positive developments like the stabilization of the Spanish property market and rising euro-area economic confidence are sustained, orders from the currency bloc may fuel Germany’s recovery.

German exports rose 0.3 percent in December and foreign factory orders jumped, driven solely by a surge in demand from the euro area, Germany’s largest export market.

Germany’s Ifo business climate index has outperformed economists’ expectations for the past three months, services output rose at the fastest pace in more than 1 1/2 years in January and a gauge of manufacturing climbed. That helped unemployment to unexpectedly drop for a second month in January, taking the jobless rate down to 6.8 percent.

Confidence in global growth, which the Organization for Economic Cooperation and Development predicts will accelerate to 3.4 percent this year from 2.9 percent, is spurring investment too.

Daimler AG Chief Executive Officer Dieter Zetsche said on Feb. 7 the company will roll out 13 new models with no predecessor in the next eight years as part of an aggressive plan to retake the top spot in luxury-car sales by 2020 at the latest.

**Strong Euro**

At the same time, European Central Bank President Mario Draghi has warned that the region’s economy isn’t out of the woods yet, and it will take until the second half of the year for a recovery to take hold.

The region’s exporters could also struggle because of an appreciating euro, which reached a 14-month peak against the dollar earlier this month and could force the ECB to act.

“We want to ascertain if the appreciation is sustained and has the potential to change our assessment of the risks to price stability,” Draghi said at a press conference in Madrid on Feb. 12.

Some German companies are still uncertain about the economic outlook. MAN SE, Europe’s third-largest maker of commercial vehicles, said it may slow investments and will work to cut spending this year as the region’s shrinking economies cause earnings to drop.

“For Germany, things are looking pretty good but for others there are certainly tougher headwinds to face,” said Alexander Koch, an economist at UniCredit Group in Munich. “In all, the euro area should return to growth in the second half of the year.”

To contact the reporter on this story: Jeff Black in Frankfurt at jblack25@bloomberg.net