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# The other side of the industrial coin



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## Why the recession in Germany is becoming particularly severe

Fewer and fewer economists doubt that Germany is sliding into a recession. LBBW Research sees the German economy shrinking by 1.5% next year (Consensus Forecast -0.7%). Even for 2024, we still expect growth of just 0.5%. But why is Germany, formerly the growth engine of the continent, more affected than the rest of Europe?

### Germany was less affected by the Corona crisis

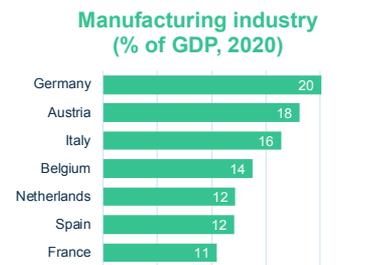
Compared to our European partners, the German economy got off lightly in the Corona crisis year 2020. The overall economic value added fell by a painful 4.6%. But it could have been worse. In France, GDP fell by almost 8%, in Italy by 9%. In Spain, the economic collapse was almost -11%.

Germany benefited from its sector-specific economic structure during the pandemic. The country is still characterized by a high rate of industrialization (see figure). Other economies are characterized more by services. In many cases, industrial production was able to continue almost unhindered during the pandemic. Services, from tourism to culture and retail, on the other hand, often imperatively require a face-to-face encounter. Lockdowns hit these sectors disproportionately.

### But now the industry is coming under particular pressure

Now the tide has turned. The pandemic is no longer the dominant issue, nor is it the main brake on the economy. The shortage of energy has taken its place. Germany is badly affected here. Not only because the country is particularly suffering from a lack of Russian gas. That too. But due to its high level of industrialization, Germany also requires a higher level of energy input. A profit of one euro in the hotel industry on the Costa del

## The economy will shrink by 1.5% in 2023



Source: Eurostat

Sol requires less gas and electricity than a profit of one euro in a machine tool manufacturer on the Swabian Jura. The high energy prices hit the German economy disproportionately.

In addition, there is a high degree of global networking in the German economy. The great importance of goods imports and exports is of course not independent of industrial dominance. But due to the still tense global supply chains, Germany is also more severely affected here

### What now?

In the short term, the challenges can only be mitigated and managed, not solved. And: The looming recession is just the other side of the coin of the previous boom, when Germany benefited from globalization and the weak euro like nobody else in Europe. Turning our economic model upside down makes no sense.

But one thing is also clear: In order to strengthen the resilience of the economy, we need a secure energy supply. A faster expansion of regenerative power sources is a must. This is where politics come into play. It must set framework conditions that actively encourage this expansion.

Anecdotal, many companies seem to have managed to use energy more sparingly. That's encouraging. These efficiency gains will remain. Even if energy prices normalize again.

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The energy crisis is hitting the industry particularly hard

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The energy supply must be more resilient

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