

*Prepared by New Zealand Embassy Berlin, in consultation with NZTE Berlin.*

## Summary

- Despite Germany currently experiencing another partial shutdown, the overall economic contraction of the past year was not as severe as expected and now that vaccinations are being rolled out, the outlook for 2021 for the world's 4th largest economy is modestly positive.
- The expected recovery will be largely driven by domestic demand, in particular government spending and private consumption. German consumers sit on record savings and can be expected to start spending again as soon as the situation allows.
- For this year, the average German consumer can be expected to: buy more online, opt for the cheapest or the premium (but less so the average) product, look out for healthy, quality products ideally with sustainability credentials, and go out into the world and travel again once that too becomes possible.

## Report

Since the [last report](#) in June 2020, the German market has seen some ups and downs. On the upside (in relative terms), after a strong recovery over the northern summer and early autumn, the overall 2020 GDP contraction of -5% has turned out to be less severe than initially feared (and is a lesser contraction than that a decade plus back during the GFC/Euro crisis). On the downside, Germany is now going through a second wave of Covid-19, which has triggered a second partial shutdown of economic activity (shops, hospitality, travel, culture) until at least mid-February.

However, manufacturing is unaffected this time, vaccinating has now begun in Germany and, provided the restrictions can begin to be gradually lifted in a few weeks' time and herd immunity is achieved over summer, economic forecasts are anticipating 3-4% growth in 2021, despite a weak or even negative Q1.

Business confidence is holding up reasonably well, and whilst tightened restrictions may have dampened expectations, the last-minute Brexit deal, positive growth reports out of China and the prospect of easing EU-US trade tensions under the new Biden Administration should have some positive impact.

Much will now depend on (i) swifter and more generous payouts of financial support (to avoid insolvencies) – as the Government has promised – to those businesses that have had to close again, as well as (ii) their prospects of re-opening from February/March onwards.

### **Domestic demand expected to be the key driver of the recovery, whilst consumer behaviour is changing**

The expected recovery will be largely driven by domestic demand, and the conditions for respectable growth are favourable overall. The Government will continue to invest heavily, in particular on mobility, digitalisation and sustainability. Businesses have had to postpone planned investment (not least to protect/repair corporate

balance sheets) and remain hesitant for the time being, but could be playing catch-up as the economic outlook hopefully continues to improve. And perhaps of greatest relevance to New Zealand exporters, German consumers are expected to spend more money again.

Private consumption was down an estimated 6% overall last year, but largely due to the restrictions on travel, hospitality, culture and related health concerns. By contrast, German retail sales have continued to grow (by an estimated 4% in real terms), thanks to stellar online/mail order sales and greater demand for retail food and quality products.

At the turn of the year, in the midst of a second shutdown, German consumer confidence is unsurprisingly somewhat depressed. But as restrictions are likely to be eased in the coming months, seeing the reopening of shops, restaurants and travel destinations, as spring kicks in spirits should lift, and as the rollout of vaccines will accelerate, consumer confidence and consequentially consumer spending should increase markedly.

Since their available income has only modestly decreased overall last year whilst spending opportunities were limited, German consumers sit on record savings. As soon as conditions allow, presumably from Q2 onwards, Germans are expected to spend more again with pre-crisis spending levels potentially reached in the course of this year. Unemployment remains low overall, and consumers' average purchasing power is expected to increase, also thanks to income tax cuts that have come into effect on 1 January.

A lot of research and discussion has been underway with regards to what changes to German consumer behaviour may endure post-Covid. The shift towards more online shopping, including of food and other fast moving consumer goods, is expected to continue and be arguably both demand and supply driven.

Many retailers have invested heavily in the establishment or expansion of online channels (by either setting up their own or using established online marketplaces), and producers themselves are increasingly keen to sell directly to the customer, to secure better margins and closer connections. It has also been suggested that German consumers increasingly opt for either premium products or the cheapest, but less so for the average. And sustainability concerns – in particular plastic waste and innovations to avoid or reduce it – continue to be raised by consumers and actively addressed by producers and retailers alike.

#### **Outlook for New Zealand's key export earners**

Our goods and services exports to Germany have proven to be pretty resilient. For the 2020 September year, they were worth NZ\$1.57 billion, down 9% on the previous year but still higher than during 2015-2017. Naturally, travel services exports dropped markedly, but our goods exports (including meat, fruit, medical equipment) have increased.

Looking ahead, the German market should remain robust if not strong. Demand for our high-quality meat could benefit from a final re-opening of restaurants and consumer demand for less, but higher quality meat. Demand for fruit and vegetables, supporting a healthy diet, should remain strong. And there is evidence suggesting that Germans remain as keen as ever to resume international travel to, or education in, New Zealand as soon as conditions allow. Last but not least, there should be many new opportunities in the digital space, where Germany is now keen to catch up.

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