

Prepared by the New Zealand Embassy Berlin, in consultation with NZTE Berlin

Summary

- A second and subsequent third “wave” of Covid-19 infections triggered an extended lockdown in Germany and negative growth during the first few months of this year.
- Since then, the infection rate has been brought down markedly, allowing most restrictions to be lifted, and the rollout of vaccines has accelerated. German GDP could reach pre-Covid levels as early as this quarter, although the risk of a fourth, Delta-driven wave continues to loom.
- For now, German consumers are increasingly optimistic and initial indications are that they are keen to spend their record savings, in particular all those who are fully vaccinated.
- At the same time, recent food consumption surveys suggest a continuing trend towards vegetarian and locally produced products.

Report

Since the [last report](#) in January 2021, the German economy had dipped once more but more recently has been recovering strongly. The first quarter of this year featured 1.8% negative growth, but with 2-3% estimated positive growth, the second quarter is expected to mark the beginning of a strong recovery, which according to the German Government is now “in full swing”. After manufacturing, which has already been going from strength to strength, services are catching up now that shops, restaurants, and tourist accommodation have re-opened. The infection rate has dropped to the lowest level in a year, and half of the population are now fully vaccinated.

Updated economic forecasts still predict 3-4% growth this year, with exports and increasingly private consumption being the driving factors. Germany’s GDP could return to pre-crisis levels as early as the current quarter. Business confidence has been increasing, dampened only by stretched supply chains and a degree of remaining Covid-related uncertainty. The [Purchasing Managers Index](#)[®] for Germany has reached its highest level in more than ten years.

Domestic demand is picking up as consumers have more opportunities again to spend

As anticipated, consumer confidence and domestic demand are now picking up strongly. German consumers’ overall economic sentiment has in fact reached the highest level in ten years, and their income expectations have returned to pre-Covid levels. Germans’ saving rate reached a new record at 23% in Q1 (with restrictions severely limiting spending opportunities), but the Bundesbank (Germany’s central bank) now expects a decline to below pre-crisis levels by the end of next year. It has observed that consumers here are showing less restraint than elsewhere in Europe and expects consumption to grow strongly this year as well as in the coming years, driving overall economic growth. A recent survey by market research institute GfK confirmed that German consumers – in particular those who are already fully vaccinated – are becoming much less worried about Covid-19 and keener to spend. Their immediate focus is on those goods and services that were difficult or impossible to enjoy during the lockdown, e.g. eating out, travel, events, fashion and personal services (beauty, fitness, wellness).

Covid-related risks remain

All these forecasts still come with the caveat/assumption that there is no major fourth wave involving a significant rise in Covid-19 infections and potentially renewed restrictions in response. Decision-makers are confident that another lockdown can be avoided, but herd immunity has yet to be achieved and in the meantime millions of travellers returning from their

holidays largely without going through self-isolation may spread the Delta variant and possibly as yet unknown virus strains. Even if Germany itself continues to manage the pandemic well, a further spread and related restrictions in other parts of the world (again in Europe and increasingly in Asia) would hit the world's fourth largest economy.

Food consumption: surveys suggest continuing trend towards vegetarian and regional produce

The German Government's annual nutrition survey released in May revealed how some previously existing food consumption trends have arguably been reinforced by Covid-19: German consumers are increasingly enjoying (easy and quick) cooking, whilst delivery services are also becoming more popular. More people eat fruit, vegetables, and vegetarian meat alternatives regularly (the latter both out of curiosity and due to animal welfare concerns), and less meat. According to this survey, the share of vegetarians has grown from 5% to 10% within just one year. Key factors influencing consumer choice are taste, local source (not least of meat and fruit and vegetables), and seasonality, less so – respondents claim – price. A growing number are looking out for relevant labels (e.g. regional, organic).

In another recent survey sponsored by Nestlé, German consumers showed a willingness to gradually change their diet for the benefit of the climate, thinking first and foremost of privileging locally produced food over food imported from further afield, perceived as less climate-friendly.

Outlook for New Zealand's exports

Our goods and services exports to Germany have declined by a third year-on-year to just over NZ\$1 billion during the March year 2021. This downward trend is largely attributable to the collapse of tourism exports and a nearly 30% decline of meat exports as a result of the extended lockdown and more attractive markets elsewhere (see this German [meat market report](#) for details). By contrast exports of optical, medical and measuring equipment more than doubled, and dairy and kiwifruit exports also increased. Overall, instead of the usual (travel and meat driven) seasonal spike in the first quarter of the calendar year, this year saw a continued decline. Latest monthly data for May suggests the beginning of a recovery at least of our goods exports, correlating with the phase-out of German Covid restrictions.

Looking ahead, after a longer than expected lockdown in Germany and in light of the accelerating economic recovery, demand for our goods should increase again. However, longer-term German consumption trends and the uncertain tourism outlook suggests that future growth of exports to Germany may be less driven by meat and travel and more by other food and technology.

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