



To the point!

Cross-Asset- and Strategy-Research

Germany's economy is not going anywhere

The outlook for 2024 promises little light for Europe's largest economy

This week I presented the annual outlook of LBBW Research in Frankfurt. First of all, I would like to thank all my colleagues who contributed to this. You can find the annual outlook [here](#) and its twin, the capital market outlook, [here](#) (both German).

How does LBBW Research see the future?

Our outlook contains many shadows, but also a little light. With a view of the current crisis of the German economy (step forward "sick man of Europe!") we have structured the annual outlook somewhat differently this year. Sector by sector, my colleagues have identified reform needs. This way we came up with three dozen measures whose rapid implementation would give the moribund German economy a much-needed shot in the arm.

The economy remains mired in stagnation. We are forecasting a black zero for growth: it is only likely to expand by a miserly 0.3% in 2024. This feeble result is not only driven by a weaker world economy or other business cycle considerations. In fact, Germany's structural growth potential has diminished due to demographic decline and simmering deglobalization trends. With the speed limit for growth well below 1%, next year's growth is probably as good as it gets under the circumstances.

Without reforms stimulating investment and employment Germany will be trapped in a grow-a-little, shrink-a-little pattern. But essentially the economy is not going anywhere.

We consider the following among the most urgent reforms:

- Dismantle bureaucratic obstacles in various areas.
- Revamp labour and social security laws to incentivize work.
- Intensify negotiations on free trade zones.



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**GDP growth:
black zero**

**Finally
resolving the
reform deadlock**

- Creating a more welcoming culture for start-ups.
- An investment offensive in the field of renewable energies.
- But also an intelligent reform of the debt brake, which currently stands in the way of the necessary investments.

You can find the complete wish list from the LBBW Research team in the annual outlook.

Interest rates fall, equities rise after the middle of the year

We see opportunities on the capital market. There are now attractive coupons on government and corporate bonds. We are even observing a highly unusual situation: at over 4%, yields on euro-denominated investment-grade corporate bonds exceed the DAX dividend yield. As shareholders bear a higher risk, their returns should be higher than what bondholders get. But they are not. Not yet, anyway! In 2024 we see interest rates declining, following inflation on the way down (annual average of 2.8 %). The ECB will also start cutting rates towards the end of the year. With risk spreads also likely to decline, 2024 promises a good risk/reward profile for bonds.

After the rampant November rally, we believe that stocks will feel headwinds for a while. The weak economy is dampening earnings momentum and wage increases are putting pressure on margins. Only when the business cycle will show some signs of life and ECB rate cuts come into view will shareholders' appetite return. After a weak first half of the year 2024, the DAX will then gain momentum. It could climb to 18,000 points by the end of the year (from currently around 16,200). That would be nothing to sneer at.

Of course, the usual Damocles' swords of geopolitical escalation, financial crises and political shocks hang over all of this (did someone just say "Trump"?).

A good year
for bonds

Shares
first side-ways,
then moving up

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