THE GERMAN ECONOMY LIMPED ALONG IN Q2 MISSING OUT ON AI.

The latest non-financial corporate data for Q2 has just been released by [Destatis](#) enabling a more precise and in-depth estimation of the condition of the German economy.

On the face of it, the German economy appeared to pick up pace during the second quarter of 2026. Below is a summation of the GDP data just released by Destatis.

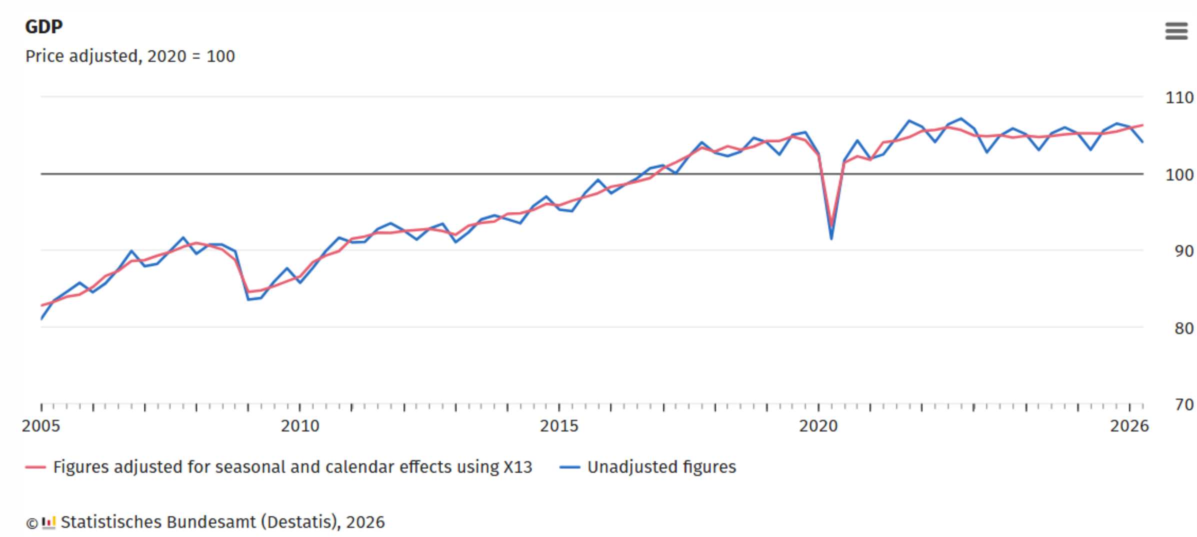
Gross domestic product (GDP), 2nd quarter of 2026

+0.3% on the previous quarter (price, seasonally and calendar adjusted)

+1.0% on the same quarter a year earlier (price adjusted)

+1.0% on the same quarter a year earlier (price and calendar adjusted)

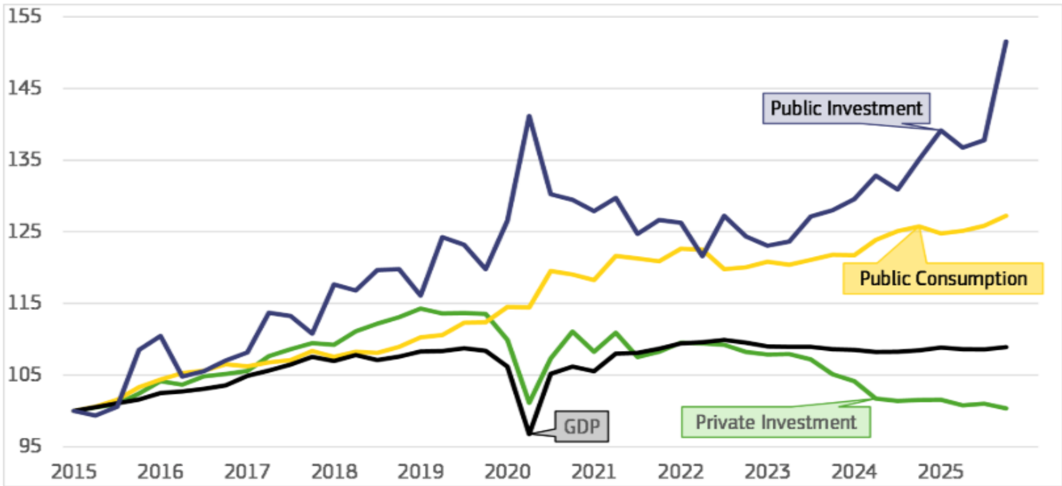
Graph 1.



Here is the breakdown in the components of the above GDP increase. "*As in the previous quarter, foreign trade grew substantially in the 2nd quarter of 2026 after price, seasonal and calendar adjustment. Total exports of goods and services were up 2.0% from the 1st quarter of 2026, a development which was primarily driven by exports of goods (+2.6%). Imports presented a similar picture: while imports of goods registered a significant increase of 2.1% Gross fixed capital formation in machinery and equipment was down significantly on the previous quarter (-1.4%) The manufacturing sector, in particular, significantly improved its value added on the previous quarter, registering growth of 0.9%. An increase in economic performance was recorded, in particular, in the manufacture of chemicals and chemical products and the manufacture of electrical equipment. Roughly 45.7 million persons in employment whose place of employment was in Germany contributed to the economic performance in the 2nd quarter of 2026. This represented a decrease of 212,000 (-0.5%) compared with the 2nd quarter of 2025. In the service sector, employment declined for the first time since the Covid-19 crisis. As in the previous quarters, the number of people in employment in manufacturing and construction decreased considerably compared with the 2nd quarter of 2025. Overall labour productivity, which is measured as the price adjusted GDP per hour worked by persons in employment, rose by 1.5% on the same quarter of the previous year. Germany's economic performance in the 2nd quarter of 2026 was slightly below the European average. Economic performance in the EU as a whole increased by +0.5% quarter on quarter, slightly surpassing Germany's growth of +0.3%.*" So, trade went up and employment went down. Manufacturing went up thanks to the supply disruptions in the Gulf and the war in Ukraine.

Graph 2.

Graph 1.1: **GDP, public and private investment and public consumption**



Source: National Accounts

As the graph above show, all of this was due to the growth in the budget deficit. This is the main driver in the economy thanks to the €500 billion flagship fund passed in 2025. As a result, the budget deficit rose in Germany. "*In the 1st half of 2026, general government spending as defined in national accounts increased by 6.1% to 1,144.5 billion euros.* This was part of a projected rise in government expenditure in 2026 of 15.9% *"Measured as a percentage of gross domestic product (GDP) at current prices, the deficit ratio was 3.1% in the first six months of 2026."* For the first time Germany breached the Maastricht Agreement limiting deficits to 3%. Deficit driven growth is unhealthy.

This has had little effect on poverty levels and poverty risk in Germany though 2026 data is not yet available when additional social benefit payments are due. Poverty risk affects around 44 million people in Germany.

Table 1.

Housing costs[1] as a proportion of disposable net household income

Type of household	Survey year[2]					
	2020	2021	2022	2023[3]	2024	2025
	Percentage of housing costs					
Population total	21.5	23.4	24.5	25.2	24.5	24.1
Households of ...						
Persons living alone	29.8	31.9	32.7	33.8	33.3	33.2
Single parents[4]	29.8	29.7	31.6	32.2	31.5	31.7
Two adults without children	18.7	20.2	22.3	22.9	22.3	21.3
Two adults with children[4]	20.3	22.3	22.9	23.3	22.5	22.3
Population at risk of poverty total	42.7	43.8	43.7	45.8	43.8	43.7

Given the extent of this poverty, it is clear that instead of taking care of its own people, the arrogant government would rather kill Russian and Ukrainians in the war in those two countries. "*Since the start of Russia's war of aggression on 24 February 2022, the Federal Government has provided bilateral civilian aid to Ukraine totalling **more than 43.3 billion euros** and has provided, or earmarked for the coming years, military aid amounting to **around 57.6 billion euros**."* That is €100 billion, equal to the projected budget deficit in 2026, equal to €1,250 for every German adult and child. Or put another way, Germany has spent more on the war since 2022 than it has provided in basic assistance to the most vulnerable in the country.

The figure for the EU as a whole is $220 trillion. While there is money for war, there is no money for building resilience in Europe against the devasting summers hitting this mini continent, surrounded as it is by warming seas. Just €11 billion was voted for resilience in the current financial year by the EU Parliament or one tenth the money allocated for war. So far 35,000 Europeans are known to have died this summer from the heat. The death toll is highest in Germany, which late last week reported an estimated 14,000 heat-related deaths from 6 April to 9 August. This is just the tip of the iceberg. Total excess deaths will not be known for months. But what is true is that €220 billion could have weather proofed tens of millions of homes making them more heat resilient.

Finally, what about the outlook for Germany. This report and summation has been prepared by the European Commission and expresses Germany's economic pain. Of the 5 main Global economies, Germany's economy has been by far the weakest. In addition, amongst the EU economies, Germany sits at the bottom of the growth league. "***Germany has been experiencing weak economic performance for several years, with almost no real GDP growth since 2019.** Since the COVID-19 pandemic, Germany has recorded one of the weakest recoveries and lowest long-term growth rates in the EU. Global export market shares have declined sharply due to waning competitiveness in the context of the rise of China as a global competitor."* (In this link there is a graph which shows Germany last in the growth league of European Nations.)

It is interesting that the Commission focuses on China as the assailant who has brought down this European champion. We could of course mention the interruption of Russian energy supplies as well which increased the price of German exports. But let us not diminish the Chinese effect. The war in Ukraine cannot be understood except in the Chinese context.

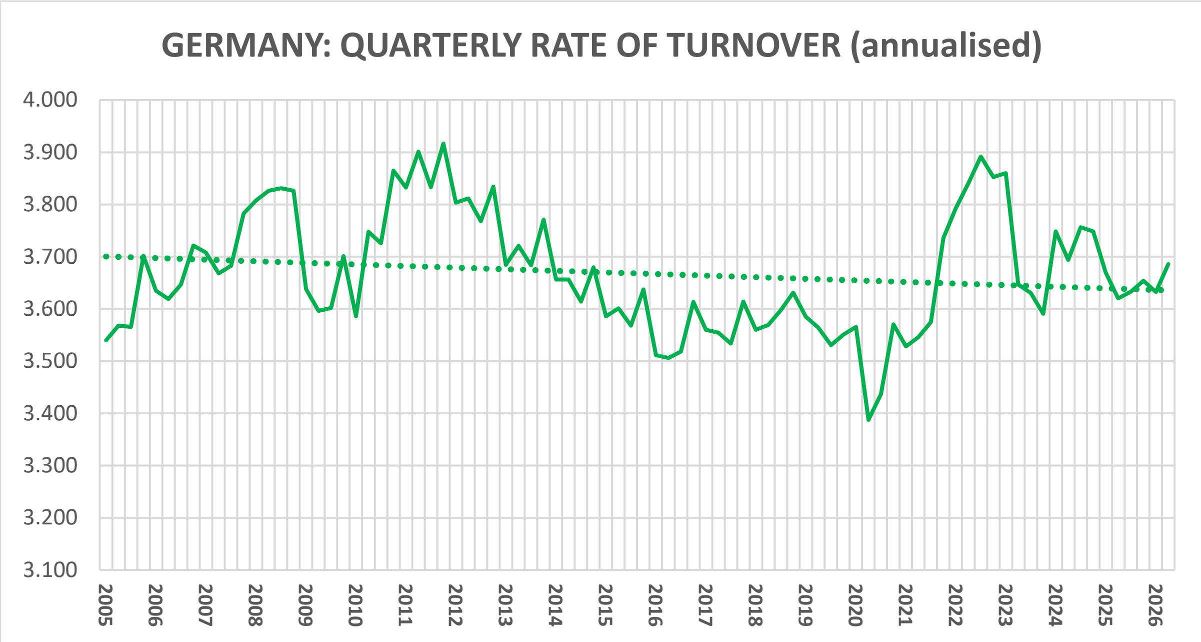
For year I have written how one poll after another of German executives and business leaders has shown they are petrified of Chinese competition. It is number one in their set of fears. Attacking Russia was part of the failed attempt to neuter China. Had Moscow fallen and Russia been dismembered the encirclement of China would have been complete with China surrounded and isolated. Instead, Europe reaped the worst of all outcomes, Russia emerged stronger with Europe especially Germany emerging weaker and with China triumphant while the US smirked all the way to Wall Street.

It is not only the car industry where Germany is smarting. Germany lags behind China and the US in the AI race. To try and catch up the EU bloc passed **InvestAI**, an initiative to mobilise €200 billion for investment in AI, including a new European fund of €20 billion for AI gigafactories. If the US is the Cheeta and China is the Antelope, then Europe is the Hedgehog, increasingly defensive but slow moving. Whether Europe and with-it Germany can play catch up in this accelerating race is undecided for the time being. There is a depth of talent, but a heterogenous Europe lacks the venture capital found in the unified US or the centralised state directed assistance found in China.

Non-financial corporations are the beating heart of the German economy.

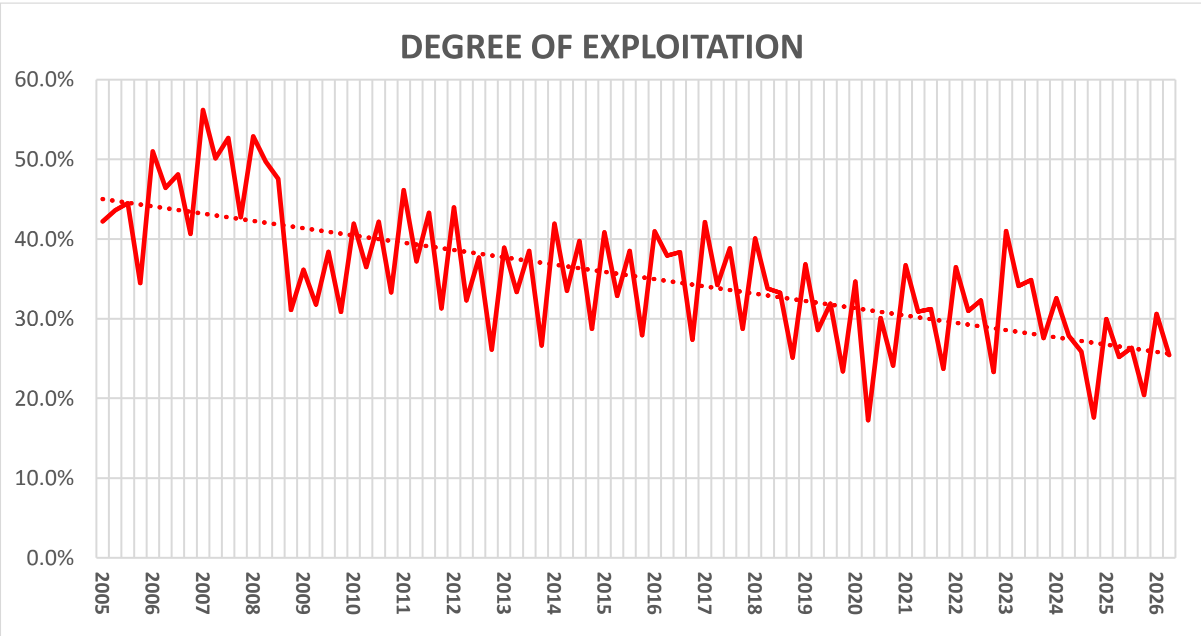
We will now examine in a more granular way the state of German non-financial corporations. As usual we begin with turnover. It rose in line with faster growth supported by government spending.

Graph 3.



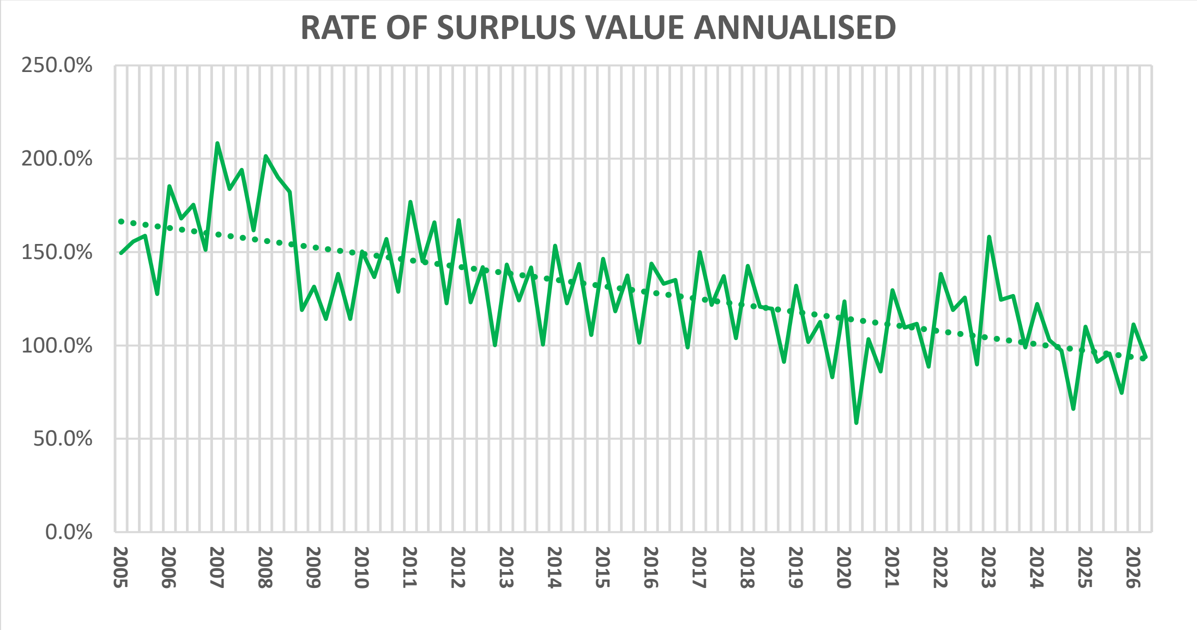
On the other hand, the degree of exploitation decreased in the quarter in line with trend. It is roughly half the rate found pre the financial crash in 2008.

Graph 4.



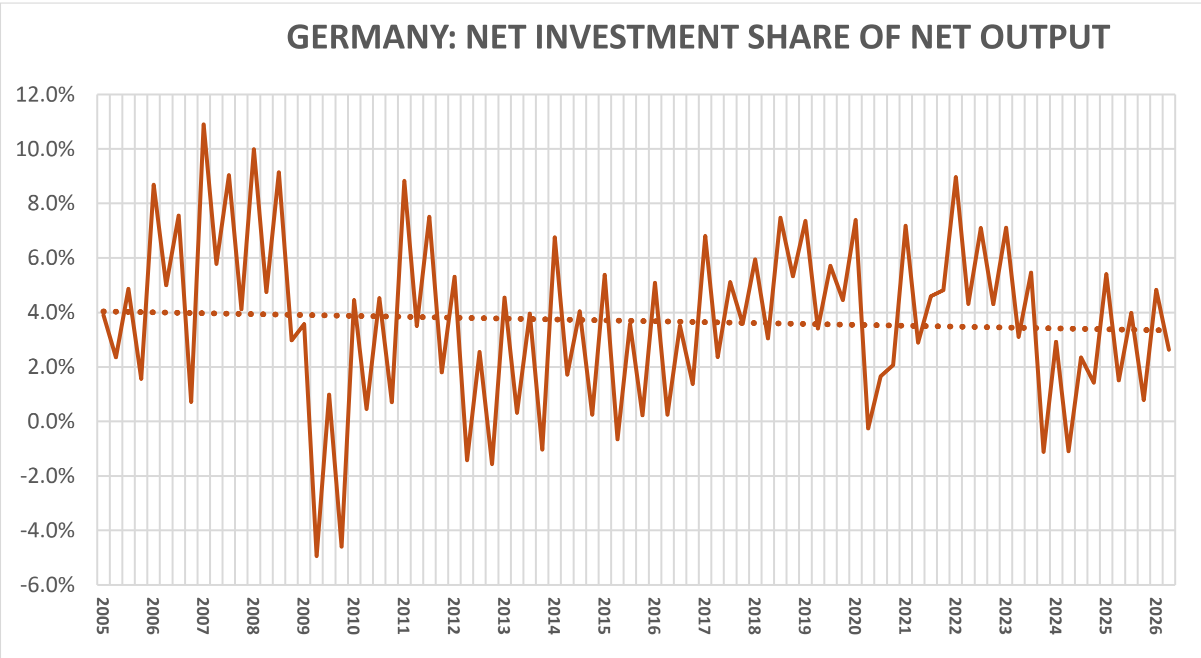
The increase in turnover was insufficient to offset the fall in the degree of exploitation and as a result the rate of turnover graphed below also fell, but not by the same amount.

Graph 5.



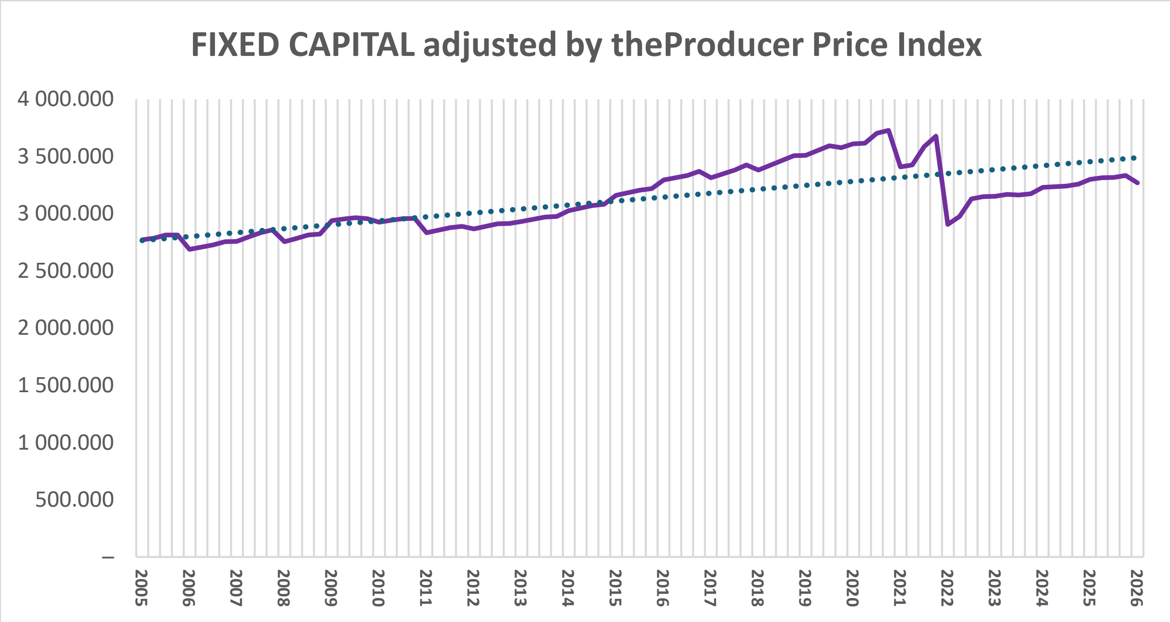
This completes the income side of the rate of profit equation. We now turn to the capital side.

Graph 6.



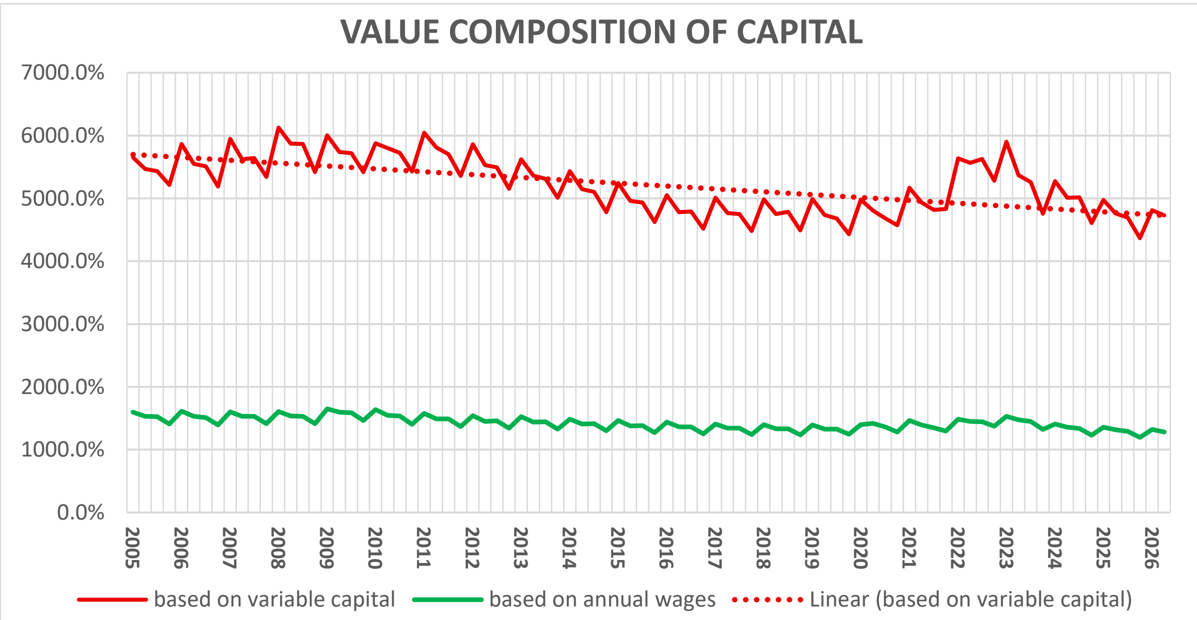
There has been much talk about deindustrialisation in Germany as investment has fallen while capital has migrated to other countries where energy is cheaper and markets are more robust. I decided to test this hypothesis by examining the stock of German fixed assets adjusted by price changes. Viewed this way it appears that the value of German fixed assets peaked in 2020 and is now down by ten percent as the graph below indicates. However, I think this fall is overstated because of the problems thrown up by the Pandemic with regard to measuring deflators. The PPI deflator soared during the Pandemic often rising in one year by more than the previous ten years leading up to the Pandemic.

Graph 7.



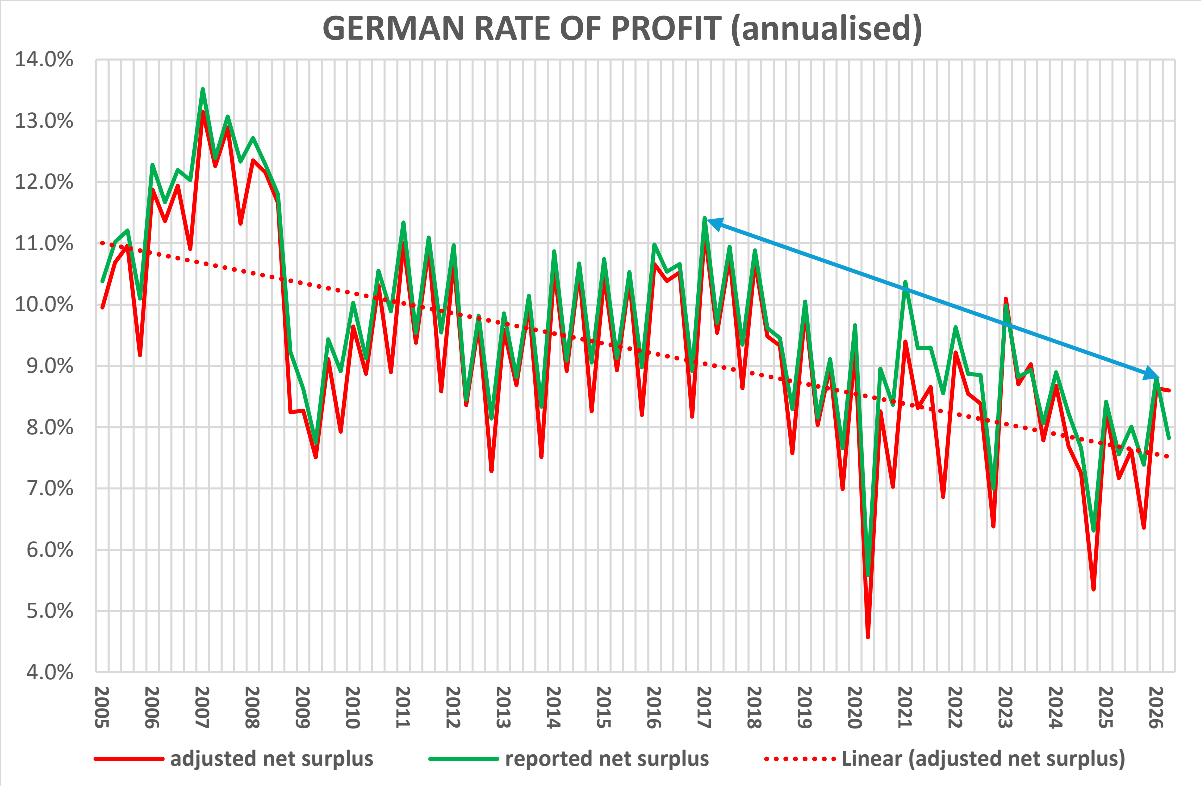
The fall in investment and the amount of fixed capital has led to a progressive five year fall in the composition of capital. Although not directly comparable, in the accompanying GERMAN DATA WORKBOOK the reader will find Graph 14 which trends the ratio of circulating to fixed capital. There we find a rising ratio of circulating capital to fixed capital confirming that the economy is becoming more labour intensive as corporations sweat their assets.

Graph 8.



A falling rate of surplus value meeting a falling composition of capital! Both long run trends. An unusual set of events. But which one will overpower the other setting the direction for the vital rate of profit. The answer lies below. (All calculations use circulating plus fixed capital as the denominator in the equation.)

Graph 9.



The rate of profit over the long term has declined by a quarter. There has been a similar fall from the most recent peak in 2017 but over a shorter period. Although the rate of profit has fallen, the German rate compared to its foreign rivals other than the US, is not out of range.

Conclusion.

Things look bleak for Germany. Political instability is growing due to falling standards of living and disappearing jobs. The much vaunted 2.9 million Mittelstand companies, the backbone of the economy, are beginning to disappear. Ukraine is bankrupt due to splashing out on long range drones and is being pushed back faster on the battlefield by the Russians. The blockage of the Straits of Hormuz is adding to Germany's energy woes. Chinese exports keep knocking at the door and this week the EU is working on a new tariff regime to keep Chinese imports out.

The EU is not in the same league as the USA and China. It will have to shed some of its pretensions and wend its way between the two superpowers. That means drawing away from the US and not antagonising China. It will try to sustain the war in the Ukraine, but the drain is becoming unsupportable, and increasingly questionable as Ukraine is torn apart. Pushing Kyiv into a peace deal, not a ceasefire, is now in the interest of Europe. This will allow cheaper energy from Russia to flow into the bloc and weaken the US grip on the continent.

Countries who do not know their place in the world order inevitably make strategic mistakes. Of all the countries facing this dilemma Germany is in the fore. One thing is clear; the German bourgeoisie need to make some hard decisions and soon.

Brian Green, 26th August 2026.