The NewsLine

May 15, 2019

GERMANY

Strong start to the year, but no reason to sound the all-clear

Katharina Utermöhl
Phone +49.89.3800-3790
katharina.utermoehl@allianz.com
Allianz SE

Allianz Research
https://twitter.com/AllianzResearch

After a brief soft-patch, the German economy has regained a foothold and, with seasonally adjusted GDP growth of 0.4%, enjoyed a strong start to 2019. As recent as Q4 2018, the German economy just about avoided falling into recession, after a perfect storm of weak world trade, car sector crisis and elevated political uncertainty had brewed over German industry. However, economic growth is likely to lose momentum again in the further course of 2019. In view of the difficult global environment, a v-shaped recovery in industry is not in the cards and domestic demand is likely to slow without tailwind from foreign trade. We are sticking to our GDP growth forecast of 1.0% for this year.

After going through an economic soft-patch in the second half of 2018, the German economy is back on a clear growth track with a strong start to the year. Concerns about an economic crash have thus turned out to be exaggerated. As the Federal Statistical Office announced today, economic growth in the first quarter was primarily driven by domestic demand. Both investments in buildings and equipment and private consumption recorded a significant increase over the previous quarter. Government consumption, on the other hand, declined. The external sector proved to be a mixed bag, with both exports and imports rising.

Today's GDP data, however, give no reason to throw all economic concerns overboard. In our view the pace of expansion observed in the first quarter of 2019 will not be maintained in the further course of the year.

For now German domestic demand is still extremely resilient. Private consumption, for example, has clear boom potential thanks to the good development of the labor market, solid wage increases and the tax cuts and additional monetary social benefits that will take effect this year, and should become the most important pillar of the economy in 2019. But even if Germans have started to consume more, it remains to be seen how long this can make up for the weakness of German industry. Too much still depends on exports in Germany and the prospects here are not very promising. After all, the escalating US-China trade dispute is likely to put a dash through hopes of an imminent recovery in world trade - despite the Chinese economic stimulus. In such an environment, not only German exports but increasingly also German investment stand to suffer. In addition, the strong build-up of stocks also offers potential for a negative correction in the coming quarters. In addition the available data on incoming orders do not exactly point to demand dynamics that are strong enough to soak up the excess inventory.

All in all, the German economy will remain on a growth course, even if the first quarter of 2019 is likely to turn out to be the most dynamic. We are sticking to our previous growth forecast of 1.0% for this year.

ABOUT ALLIANZ

The Allianz Group is one of the world's leading insurers and asset managers with more than 86 million retail and corporate customers. Allianz customers benefit from a broad range of personal and corporate insurance services, ranging from property, life and health insurance to assistance services to credit insurance and global business insurance. Allianz is one of the world's largest investors, managing over 660 billion euros on behalf of its insurance customers while our asset managers Allianz Global Investors and PIMCO manage an additional 1.4 trillion euros of third-party assets. Thanks to our systematic integration of ecological and social criteria in our business processes and investment decisions, we hold the leading position for insurers in the Dow Jones Sustainability Index. In 2017, over 140,000 employees in more than 70 countries achieved total revenue of 126 billion euros and an operating profit of 11 billion euros for the group. These assessments are, as always, subject to the disclaimer provided below.

ECONOMIC RESEARCH

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