

The NewsLine

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} MACROECONOMICS

FINANCIAL MARKETS

ECONOMIC POLICY

SECTORS

GERMANY

“Black zero”

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The German economy is moving sideways. After the slight decline in economic output in the third quarter, real gross domestic product in the final quarter of 2018, increased only slightly by 0.02% in seasonally adjusted terms compared with the previous quarter. We still do not expect the economy to slide into recession. However, especially in the first half of 2019, economic momentum is likely to be lower than we had previously assumed.

In addition to the data for the fourth quarter, the Federal Statistical Office also published revised figures for the previous quarters and for 2018 as a whole. According to these figures, the German economy did not grow by 1.5% in 2018 as previously published, but by 1.4% (adjusted for working days: +1.5%). Domestic demand provided positive impetus in the final quarter. Investment increased strongly, private and public consumption also recorded an increase. By contrast, foreign trade did not provide any impetus. Exports and imports grew at a similar rate.

We still do not expect the German economy to slide into recession. However, growth momentum, especially in the first half of 2019, is likely to be lower than we had previously assumed. More than usual, the economic outlook is currently subject to a high degree of uncertainty. Apart from political risks, we see the greatest forecast uncertainty in the following areas in particular:

- With regard to the German automotive sector, one of the biggest questions at present is certainly how quickly the sector will recover from the intertemporal production and shipment restrictions related to the changeover to the new emission testing process WLTP. Current order and production data support our assessment that both production and sales should gradually return to normal.

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- A heightened level of uncertainty also exists related to investment demand. The fundamentals point to a continuation of the upward trend: capacity utilization remains above average and the earnings and liquidity situation of companies is good. However, the continuing uncertainty, particularly in connection with the trade conflict, is likely to weigh on investment activity.

- Last but not least, there are several question marks with regard to the prospects for foreign trade. The trade conflict with the US continues to smolder. An escalation, both in relations between the US and China and between the US and the EU, is still within the realm of possibility. Thus, the potential threat of import duties on car exports to the US still remains regarding the German automotive sector. In addition, the industry is confronted with declining auto sales in China.

However, there are also factors that continue to give us grounds for optimism for 2019:

- Overall, domestic economic conditions remain favorable. Corporate earnings are positive, financing conditions remain supportive, and corporate and household indebtedness is relatively low.

- We are particularly confident with regard to private consumption: German consumers should make a substantial contribution to this year's economic growth. This view is supported, among other things, by the sustained high growth in employment, the tax cuts that will take effect in 2019 and the additional monetary social benefits.

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