

# The NewsLine

March 25, 2019

MACROECONOMICS

FINANCIAL MARKETS

ECONOMIC POLICY

SECTORS

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## GERMANY

### Close to a turning point

German business sentiment increased in March in its first monthly rise following six consecutive setbacks. While firms' assessment of the current business situation improved only marginally, companies revised their business expectations for the coming six months markedly upwards. The manufacturing sector remains the problem child, where the business climate fell to its lowest level since end-2012. Overall there are good reasons for economic momentum to soon pick up again: the situation in the car sector is stabilising, the Chinese stimulus should prop up German exports and private consumption is benefiting from the ongoing labor market boom and supportive fiscal policy measures. Overall, we expect GDP to grow by 1% in 2019.

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In March the ifo Business Climate Index rose by 0.9 points to 99.6 points. This is the first rise following six consecutive setbacks. After sharp declines in recent months, in particular firms' business expectations increased significantly. The improvement in companies' assessment of the current situation, meanwhile, proved rather muted (+0.2 points). The rise in sentiment was broad-based. It took place in all major economic sectors with the exception of manufacturing, where companies were less optimistic about both the current situation as well as business prospects.

The German economy is approaching an economic turning point. After the near-recession in the second half of 2018 and a very weak start to 2019, economic momentum should pick up again over the course of the year despite lingering political uncertainty surrounding Brexit and trade. After all the situation in the automotive sector is stabilizing, the Chinese stimulus should prop up German exports and private consumption is benefiting from the

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ongoing labor market boom and supportive fiscal policy measures. Overall, however, we expect GDP to grow by only 1% in 2019.

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