ECONOMIC RESEARCH

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GERMANY

Economic stuttering but no slump ahead

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At 1.5%, the German economy last year recorded its weakest GDP growth since 2013. Calendar-adjusted GDP growth also expanded by 1.5% following a whopping 2.5% in the previous year. After a long upswing phase, the German economy initially ran out of steam in the second half of 2018. Rising concerns about a looming economic crash have most likely proven to be exaggerated. To the contrary, there are some indications that the economy already got back on its feet towards the end of 2018. For the time being, we stick to our 2019 GDP growth forecast of 1.7%.

Domestic demand was the main driver of economic growth in 2018. Private consumption grew by a moderate 1.0% in real terms. Investment in machinery & equipment and construction meanwhile showed robust growth of 4.5% and 3.0%, respectively. The negative contribution from the external sector (-0.2ppt) is evidence for the negative impact the smoldering trade dispute as well as the economic slowdown in China and other important emerging markets have had on German exports. This is the result of weak export growth (2.4%) and relatively robust import growth (3.4%).

After a strong start to the year, the German economy initially stumbled in the second half of 2018. But even though the growth peak in the current economic cycle is most likely behind us, rising concerns about a looming economic slump have probably turned out to be exaggerated. The recently disappointing data for production, incoming orders and exports are of course undeniable, but there are some indications that a timid economic recovery has already been underway in late 2018, as we had anticipated. We expect the economic recovery to continue in 2019. On the one hand, temporary negative factors such as the low water levels in rivers and the problems in the automotive sector with the changeover to the new emission testing process WLTP will increasingly fade away. On the other hand, instead of a further escalation in political risks surrounding Italy, Brexit and global trade, we see more potential for a certain easing of the situation which in turn should boost economic sentiment. In addition, German consumers will continue to make a substantial contribution to economic growth in 2019. In addition to sustained robust employment growth - 1.3% in 2018 - the tax cuts that will take effect in 2019 and the additional monetary social benefits speak in favor of this. Overall, growth in households' disposable incomes is likely to pick up from 3.3% in 2018 to 3.8%. Despite inflation rates of close to 2% and an expected slight increase in the savings rate, the purchasing power gains are sufficient for a continuous expansion of real private consumption.

All in all, the German economy should therefore clearly remain on a growth path. For the time being, we stick to our annual GDP growth forecast of 1.7% for 2019.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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