

The NewsLine

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MACROECONOMICS FINANCIAL MARKETS ECONOMIC POLICY SECTORS

GERMANY

Economic cycle risk politics

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The sentiment in the German economy continued to deteriorate in December. The ifo business climate index fell to its lowest level for more than two years. Uncertainty in connection with the numerous political risks in particular is likely to have contributed to the further decline.

In December, the ifo business climate index fell by one point to 101.0 points. This was the fourth consecutive decline. The companies surveyed assessed both their current situation and their business expectations less positively than in November.

The sentiment has deteriorated most in the manufacturing industry and the service sector. In manufacturing, this was mainly due to less favorable business expectations, which has already led to a downward adjustment of production plans. The special economic cycle in the construction sector, on the other hand, is continuing unabated, with survey data remaining at the very high level of the previous month.

Despite the continuing deterioration in sentiment in the German economy, we expect a countermove to the slump in growth in the third quarter for both the current and the coming quarter. By the end of the first quarter of 2019 at the latest, the problems in the automotive sector associated with the new emission test procedure WLTP, which were largely responsible for the weak third quarter, should have been largely resolved. The extent of the expected rebound and dynamics of economic development in the further course of 2019 will strongly depend on how long political risks such as the trade conflict with the US, the budget dispute with Italy and the Brexit uncertainty will continue to accompany us. In principle, the domestic economic conditions are still in place for the upswing to continue, albeit at a more moderate pace. Take private consumption, for example: The disposable income of private households will grow quite strongly in nominal terms also in 2019. After an increase of around

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3.3% this year, we expect an even higher increase of 3.8% for the coming year. The acceleration in the increase is mainly due to the tax relief that will come into force and the additional monetary social benefits. 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, which is expected to rise by 1.4% on average in 2019 (2018: around 1%).

All in all, overall economic utilization is thus continuing to rise. However, with real GDP growth of 1.5% this year and 1.7% next year, the rate of the previous years (2016 and 2017: 2.2% each) will no longer be reached.

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