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▶ MACROECONOMICS

FINANCIAL MARKETS

ECONOMIC POLICY

SECTORS

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The economic engine is still running smoothly without overheating

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The German economy grew by 2.2% in 2017, the fastest rate of growth seen since 2011. After adjustments to reflect calendar effects, the figure came to as much as 2.5%. The pace of growth is, however, expected to have slowed somewhat in the fourth quarter of 2017 compared with the previous quarters. Nevertheless, this will not have any impact on economic momentum in 2018, as incoming orders in the industrial sector have continued to increase considerably in recent months. We predict growth in real gross domestic product of 2.4% in 2018.

Domestic demand continued to deliver significant economic impetus in 2017, increasing by 2.2% in real terms. It is striking that equipment investment, which expanded by 3.5%, grew at a slightly faster rate than construction investment, which reported more modest growth of 2.6% in light of the substantial order backlog in the construction sector. Real exports grew by 4.7%, signaling a return to higher growth compared with 2016 (+2.7%). This means that Germany has maintained its share of global trade, which is expected to have grown by around the same percentage.

The positive economic picture was accompanied by exceptionally sturdy growth in employment last year. The number of people in work rose by 1.5%, the most marked increase witnessed in the last ten years. Given the demographic trend, however, momentum on the labor market is expected to taper off over

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the next few years. We still expect to see employment growth of 1.2% this year. All in all, the German economy is likely to remain on a clear growth trajectory in 2018. Signs of overheating and capacity bottlenecks are only expected to be an issue in a small number of sectors, such as construction. While we cannot currently identify any major risks to economic development in 2018, experience has shown that these are impossible to rule out.

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