

The NewsLine

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GERMANY

Ifo test suggests solid economic development in the spring

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According to the Ifo institute, the rise in business expectations in German industry and trade recorded this spring for the third time in a row sends out a positive signal for the German economy. An upswing in growth experienced by the German economy in the first quarter was swiftly followed by concerns that it might stop for a breather in the second quarter. We do not share this view - instead, we expect GDP growth to come in at 0.5% in the current quarter.

There can be little doubt that the 0.7% growth recorded in the GDP in the first quarter has been facilitated by the mild weather conditions at the beginning of 2016. But even if this had not been the case, we feel that the forces driving the economy up have grown stronger since the start of the year. This trend is attributable to the hefty real income gains of the German households, additional government spending as a result of refugee migration and a trend towards stabilization within the global economy. The latter will certainly be of paramount importance for Germany's economic momentum as the year progresses. Having slumped in the second half of 2015, new orders from countries outside of the EMU, which includes emerging markets relevant to Germany, have started to pick up again. Given the above, we expect German exports to continue on a positive trajectory, if only at a moderate pace. In any case, worrying about the domestic economy uncalled for at present, since it continues to deliver significant demand impetus. All in all, we still expect the German economy to grow by a good 2% in 2016.

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