

The NewsLine

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GERMANY

German economic forecast 2017: Upswing with weak points

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We expect the German economy to grow by 1.5% in 2017 after 1.9% in 2016. Consumption remains the driving force. We expect the global economic activity to pick up somewhat. The US economic outlook is surrounded by elevated uncertainty.

Since 2013 the German economy has been enjoying a steady, albeit subdued upswing. Buoyant jobs growth, falling unemployment, rising real incomes and growing consumption together with robust exports are all positives, along with very low household and business debt ratios. But low productivity growth and muted investment demand are on the negative side. All in all the German economy looks set to grow by 1.9% in 2016, slightly higher than in the last two years. But looking ahead to 2017, the economic impulses look set to fade. The slide in commodity prices, which gave a considerable boost to purchasing power, has come to an end. Inflation rates close to zero are a thing of the past. As a result, consumption as the driving force of the domestic economy will lose some momentum. Lukewarm investment activity over many years has curbed the expansion of production capacities. As a result, surges in demand quickly test capacity limits. Although government investment is set to expand in 2017, this will provide only a limited lift to the economy given long planning timeframes and capacity bottlenecks in the construction industry. Although world trade growth is likely to accelerate slightly in 2017, a further exchange-rate induced improvement in German exporters' price competitiveness is not very likely. All told, we expect to see economic growth of 1.5% in 2017.

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Global economy: Activity set to expand more strongly

The moderate upward trend in the world economy continued into the fall of this year. At 2.4%, the increase in real global output in 2016 is likely to be down slightly on last year's 2.7%. This is mainly due to the slower pace of growth in the advanced economies as a whole, which was dampened especially by the subdued growth in the US. Despite heightened political uncertainty especially in the wake of the US election, we expect the expansion in global economic output to pick up again to 2.6% next year. The improvement in the emerging market heavyweights Brazil and Russia will also lend a hand.

USA: Elevated post-election uncertainty

Following a phase of only moderate growth, economic activity in the US has picked up again of late. At an annualized 2.9% in the third quarter, quarter-on-quarter growth was twice that seen in the second quarter. Encouragingly, growth was no longer driven primarily by consumer spending but returned to a somewhat broader footing with contributions from external trade and inventories. There have also recently been signs of a pickup in business equipment investment. However, given Donald Trump's surprising election victory, the economic outlook is surrounded by elevated uncertainty as Trump's election manifesto contains both stimulative as well as negative elements. In addition, key projects will need to be fleshed out in consultations with Congress. However, a fiscal boost is likely to be announced in the course of next year and the tough stance on trade policy will perhaps be watered down. In 2016 the US economy looks set to grow by 1.5%. For next year we are still penciling in a GDP increase of 2.1%.

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