

The NewsLine

August 14, 2018

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GERMANY

Economic momentum increases slightly

The German economy picked up some momentum again in the second quarter. Real gross domestic product increased by 0.5% seasonally adjusted compared to the previous quarter, after a slightly upward revised 0.4% in the first quarter. Economic growth with a two before the decimal point is thus still within reach for this year. However, there must be no more major protectionist harassing fires for this.

As the Federal Statistical Office announced today, economic growth in the second quarter was mainly driven by domestic demand. Both private and public consumption increased compared to the previous quarter. Investment recorded at least a small plus. The development of foreign trade was also positive. However, imports expanded even faster than exports. As usual in August, the Federal Statistical Office today also announced revisions for the previous quarters. The economy grew slightly faster than previously communicated in the first quarter of 2018 (0.4% compared to the previous quarter; previously: 0.3%). There were also slight changes for all four quarters of 2017, with a slightly stronger growth at the beginning of the year and a slightly weaker development thereafter.

With today's second quarter economic data, an economic growth rate with a two before the decimal point is still within reach for this year. Domestic economic conditions continue to be favorable for a continuation of the economic upswing. Continued strong employment growth suggests that disposable incomes will carry on developing favorably. We therefore expect robust consumer demand in the second half of the year. In principle, the prerequisites for continued brisk investment activity are also met. Capacity

Gregor Eder
Phone +49.89.3800-65856
gregor.eder@allianz.com
Allianz SE
<https://www.allianz.com/economic-research/en>



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utilization is high and corporate financing conditions remain favorable. However, investment activity in particular reacts very sensitively to uncertainties in the economic and political environment.

If the trade dispute with the US were to escalate again, there would be a major risk that the traces of protectionism would not only remain limited to soft economic indicators such as sentiment surveys, as in the past, but that these would have a negative impact on overall economic activity. The sharp drop in industrial new orders in June - at a time when the threat of US import duties on cars from the EU was in the offing - is a clear warning sign of this.

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