

The NewsLine

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▶ MACROECONOMICS | FINANCIAL MARKETS | ECONOMIC POLICY | SECTORS

GERMANY

Soft-patch yes, incipient downturn no

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The sentiment in the German economy continued to deteriorate in April, albeit at a still quite high level. The Ifo Business Climate Index recorded its fifth consecutive decline, while the manufacturing sector recorded its third consecutive decline - actually an indication of an incipient downturn. In our opinion, however, the weak growth in the first quarter was probably mainly the result of extraordinary effects and thus only temporary. Economic momentum is likely to pick up again somewhat in the current quarter.

The companies surveyed assessed both their current situation and their business expectations for the coming six months as less positive than in March. Despite the declines of recent months, however, the overall assessment of the current situation remains at a high level. It roughly corresponds to last September's assessment. The situation is different for the expectation component of the Business Climate Index. This is now at its lowest level since around mid-2016. There is no doubt that fears of an increase in protectionism have left their mark here. However, it still seems likely to us that economic reason will prevail and that negotiations can prevent an escalation of the trade conflict. As a result, the current deterioration in sentiment in the corporate sector is likely to prove temporary.

We expect the German economy to pick up speed again in the current quarter. In our view the weaker economic development at the beginning of the year was mainly the result of extraordinary effects such as a high level of sick leave and strike-related losses, especially in the metal and electrical industries. Even if some economic indicators such as industrial production and incoming orders recorded declines at the beginning of the year, the economic situation remains favorable overall. Despite the sharp decline in January, the industrial order

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backlog in February was still well above the level of the fourth quarter of 2017. The situation on the labor market is also continuing to develop positively. The number of unemployed continues to decline significantly and employment continues to rise sharply – good conditions for a clear increase in private consumption this year. Overall, we maintain our forecast of real GDP growth of 2.4% this year. Nevertheless, the air for the continuation of the upswing in Germany is gradually becoming thinner. This holds true in particular against the background of increasing capacity bottlenecks in certain sectors such as the construction sector.

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