

The NewsLine

April 19, 2018

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GERMANY

Upswing continues despite a slowdown in sentiment

Gregor Eder
Phone +49.69.24431-3358
gregor.eder@allianz.com

Dr. Rolf Schneider
Phone +49.69.24431-5790
rolf.schneider@allianz.com

Allianz SE
<https://www.allianz.com/economic-research/en>

 Allianz Research
<https://twitter.com/AllianzResearch>

In their spring report published today, the economic research institutes expect economic growth in Germany of 2.2% this year. In our view, this is a rather cautious forecast. We maintain our forecast of real GDP growth of 2.4% in 2018. Although some economic data at the beginning of the year, such as the decline in industrial production in February, were somewhat disappointing, this was probably mainly due to special effects such as a high level of sick leave and strike-related losses.

However, we share the view that the air for the continuation of the upswing in Germany is becoming thinner. In addition, there are considerable risks for the German economy in the event of a trade war. However, it still seems likely to us that economic reason will prevail and that an escalation of the conflict can be avoided through negotiations. As a result, the current deterioration in sentiment in the corporate sector is likely to prove temporary. The institutes point out that macroeconomic capacities are gradually becoming scarcer, so that the economy is losing some of its momentum. This is fundamentally correct, since a slowdown in employment growth is to be expected, particularly for demographic reasons. In view of the strong growth in employment that has continued up to now, we do not see this as a major brake on the recovery in 2018. Economic growth of almost 2.5% will remain achievable in 2018 despite the tightening labor market.

The institutes see Germany facing a whole series of economic policy challenges. This must be approved without reservation. These include the recently noticeably intensified international tax competition and increasing trade

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protectionism. One of the greatest challenges is the creation of framework conditions that guarantee Germany's long-term economic success. To this end, policy measures must put in place that increase the growth potential of the German economy. Otherwise, the demographically-related decline in the volume of work in particular will inevitably lead to a noticeable decline in potential growth and thus lastingly cloud the future prospects of the German economy. Measures to strengthen investment and innovation are of central importance in order to achieve a significant acceleration in productivity growth. Economic policy action should aim to improve investment conditions for the private sector and remove bottlenecks in public investment. In addition, against the background of demographic challenges, everything possible should be done to increase and make better use of the workforce.

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