

GERMANY

Economic Snapshot

First Quarter | 2016



Overview

Domestic demand continues to strengthen, expanding by a robust 0.9% in Q4 2015, with healthy growth being seen in household consumption and, to a lesser extent, business investment. The majority of these gains were offset by a disappointing contribution from net trade, however, with export volumes declining for the first time since 2012. Consequently, Q4 GDP growth was sluggish at 0.3% quarter on quarter and 1.5% year on year, although there are signs that the economy has regained some momentum in the first quarter of 2016.

Sustained strength in consumer spending

The recovery in consumer spending shows no sign of slowing, with retail sales increasing by 5.4% year on year in February, while new car registrations have also been impressive. Consumer confidence is high, buoyed by supportive monetary policy, low inflation and still healthy employment growth, despite the unemployment rate being at a record low of 4.3% in January. Inflation was just 0.2% in 2015, but with wage pressures building, inflation is expected to creep higher to 0.5% in 2016 and 1.8% in 2017. Conditions are therefore expected to remain favourable for households, with consumption growth of 1.9% forecast for 2016.

Investment and exports picking up

The investment sector had a mixed performance in 2015, but now appears to be on a steady upward trend. Key underlying indicators of investment prospects, such as corporate profitability and capacity utilisation, are rising across most industry sectors. There are some concerns over weakening external demand, especially from China and emerging markets, although this is gradually being offset by stronger exports to other eurozone economies. Fixed investment is forecast to increase by 2.9% in 2016, up from 1.7% in 2015.

Outlook

GDP growth is forecast to improve to 1.7% in 2016, although medium term forecasts have been revised down to reflect weakening external demand. Domestic demand will remain a key driver of growth, with households' balance sheets in good health and tight labour market conditions ensuring that nominal wages expand at a solid pace. The recovery in investment is expected to be slower, but the sector should make a healthy contribution to growth going forward.

MARKET INDICATORS

Market Outlook

GDP:	Modestly stronger in 2016, but medium term forecasts have been revised down.	▼
Inflation:	Gradually rising; demand pressures are building but are being partially offset by low oil prices.	►
Interest rate:	The ECB continues to pursue ultra-loose monetary policy and may cut interest rates further.	▲
Employment:	Current healthy pace of employment growth to continue in the short term.	▼

Economic Summary

ECONOMIC INDICATORS	2013	2014	2015 ^E	2016 ^F	2017 ^F
GDP Growth	0.4	1.6	1.5	1.7	1.9
Consumer Spending	0.8	1.0	1.9	1.9	1.7
Industrial Production	0.1	1.5	0.6	0.8	1.7
Investment	-1.3	3.5	1.7	2.9	3.7
Unemployment rate (ILO%)	5.2	5.0	4.6	4.3	4.5
Inflation	1.5	0.9	0.2	0.5	1.8
USD/EUR (average)	1.28	1.33	1.33	1.11	1.07
USD/EUR (end-period)	1.32	1.38	1.21	1.09	1.05
Interest Rates: 3-month (%)	0.3	0.1	-0.1	-0.3	-0.2
Interest Rates: 10-year (%)	1.9	0.5	0.6	0.4	1.1

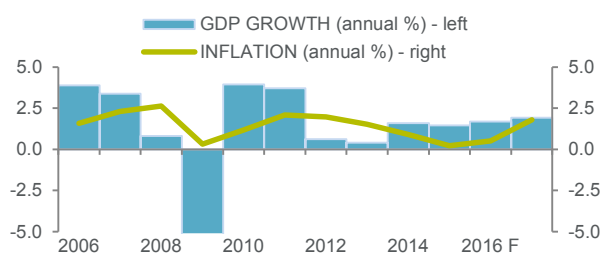
NOTE: *annual % growth rate unless otherwise indicated. E estimate F forecast

Source: Oxford Economics Ltd. and Consensus Economics Inc

Economic & Political Breakdown

Population	81.7 million (2015)
GDP	US\$ 3,354.0 billion (2015)
Public Sector Balance	0.7% of GDP (2015)
Public Sector Debt	71.2% of GDP (2015)
Current Account Balance	8.5% of GDP (2015)
Parliament	Coalition between CDU/CSU and SPD
President	Joachim Gauck
Chancellor	Angela Merkel
Election Dates	2017 (Presidential) 2017 (Legislative)

Economic Activity



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