

MARKETBEAT ECONOMIC SNAPSHOT



GERMANY

A Cushman & Wakefield Research Publication

Q2 2015



A TEMPORARY WOBBLE

The slight slowdown in the German economy in Q1 is attributed to a reduction in inventories, with underlying conditions pointing to robust growth. The consumer sector appears particularly healthy, with

sharp falls in the unemployment rate and significant wage growth as well as subdued inflation prompting households to part with their cash. Business activity meanwhile rebounded strongly from the soft patch in Q2 and Q3 of 2014 and grew by 0.8% at the end of last year, followed by 1.5% in Q1. In addition, exporters have started to benefit from the weaker euro.

CONSUMERS AS AN ENGINE OF GROWTH

The German consumer is enjoying particularly favourable conditions, with unemployment sharply down at the start of the year and remaining at just 4.7% currently. The tight labour market has resulted in robust wage growth, a rapid rise in consumer confidence and higher propensity to spend. Indeed, retail sales expanded by an average of 4.2% y/y a month in Q1. As the effect of lower energy prices fades gradually and uncertainty due to the ongoing stand-off between Greece and its creditors, consumers may delay some non-essential spending in the short term but are nevertheless expected to remain the main engine of growth within the German economy.

IMPROVEMENTS IN EXPORTS AND INVESTMENT

Given Germany's reliance on export trade, the recent significant weakening of the euro is expected to boost the economy. Indeed, June PMI surveys point to a solid rebound in export orders in the manufacturing sector. The services sector is also accelerating, with employment levels rising and firms' expectations increasingly optimistic, despite the renewed uncertainty over a potential Grexit.

OUTLOOK

Current expectations are for GDP growth of 1.9% this year. Although recent surveys and high frequency data paint a bright outlook for the remainder of 2015, the ongoing negotiations between Greece and the troika may slow growth down in the short term. Regardless of the outcome of the talks, Germany is not expected to be significantly affected by uncertainty beyond the short term and may in fact benefit from safe haven effects and attract increased levels of investment. This is likely to boost investment into commercial real estate, which is already enjoying healthy investor demand. Demand increasingly spreads from the main cities to prime regional locations and secondary markets as economic and occupier activity continues to improve across the board.

MARKET OUTLOOK

GDP:	Growth set to accelerate in H2, with downside risks due to uncertainty in Greece.	▼
Inflation:	To increase very gradually throughout 2015 but remain below 1%.	▼
Interest rate:	On hold. Current significant QE expected to continue.	▶
Employment:	Stable.	▶

ECONOMIC SUMMARY

ECONOMIC INDICATORS*	2012	2013	2014 ^E	2015 ^F	2016 ^F
GDP growth	0.6	0.2	1.6	1.9	1.9
Consumer spending	0.6	0.9	1.1	2.2	1.6
Industrial production	-0.4	0.1	1.5	1.9	2.5
Investment	0.0	-0.4	3.3	1.9	3.8
Unemployment rate (%)	5.4	5.2	5.0	4.8	4.8
Inflation	2.0	1.5	0.9	0.4	1.6
US\$/€ (average)	1.28	1.33	1.33	1.09	1.05
US\$/€ (end-period)	1.32	1.38	1.21	1.07	1.06
Interest rates: 3-month (%)	0.2	0.3	0.1	0.0	0.0
Interest rates 10-year (%)	1.3	1.9	0.5	0.8	1.2

NOTE: *annual % growth rate unless otherwise indicated. E estimate F forecast **end of July '15 ***end of April '16
Source: Oxford Economics Ltd. and Consensus Economics Inc

ECONOMIC & POLITICAL BREAKDOWN

Population	82.3 million (2014)
GDP	US\$ 3,864.4 billion (2014)
Public sector balance	0.7% of GDP (2014)
Public sector debt	74.7% of GDP (2014)
Current account balance	7.8% of GDP (2014)
Parliament	Coalition between CDU/CSU and SPD
President	Joachim Gauck
Chancellor	Angela Merkel
Election dates	2017 (Presidential) 2017 (Legislative)

ECONOMIC ACTIVITY



Source: Cushman & Wakefield