

GERMANY

Economic Snapshot

Third Quarter | 2015



Overview

GDP growth picked up momentum in Q2, with 1.6% y/y compared to 1.1% in Q1. Conditions appear to have improved further in Q3, with a broad-based upturn in the business sector and ongoing strength of consumer spending. Sentiment faltered somehow in late August and September, presumably due to economic uncertainties stemming from the refugee crisis and a slowdown in the emerging markets. This is likely to result in a temporary slowdown at the end of the year, which should however be followed by a return to solid growth in early 2016.

Rebalancing

Germany has challenged its reputation as a nation of savers recently, with consumer spending becoming a bright spot of the economy. Indeed, retail sales growth averaged 2.7% y/y since the start of the year. Although sentiment in the retail sector faltered in September due to uncertainty about the effect of the refugee influx on the economy, it remained at the highest level in almost 9 years in Q3 overall. The strength of the retail sector is not surprising given ongoing significant declines in the unemployment rate, to just 4.5% currently, subdued inflation (0.2% in September) and low interest rates. As a result, German consumers have enjoyed robust real wage growth, estimated at 2.2% in 2014 and forecasted to reach 2% this year.

Question marks over exports

PMI surveys point to a broad-based upturn in Germany's private sector, with retail, construction, services and manufacturing all recording decent growth in Q3. However, PMI and ZEW indices suggest that expansion lost some steam in September as business confidence has been dampened by the emissions scandal in the automotive industry and weakening demand from the emerging markets. Domestic demand remains healthy meanwhile and unless the external environment deteriorates markedly, investment is anticipated to resume its robust growth in 2016.

Outlook

Current expectations are for GDP growth of 1.8% this year and 1.9% in 2016. A lack of a resolution to Greece's debt restructuring issues combined with the slowdown in the emerging markets, especially China, are the main downside risks to growth. Underlying domestic conditions remain favourable.

MARKET INDICATORS

Market Outlook

GDP:	A temporary slowdown likely in the remainder of 2015 but growth should strengthen thereafter.	▶
Inflation:	Close to zero in the short term, with negative rates not unlikely. Expected to pick up in 2016.	▶
Interest rate:	On hold.	▶
Employment:	Stable after recent improvements.	▶

Economic Summary

ECONOMIC INDICATORS	2012	2013	2014	2015 ^E	2016 ^F
GDP Growth	0.6	0.4	1.6	1.8	1.9
Consumer Spending	0.9	0.8	1.0	2.0	1.9
Industrial Production	-0.4	0.1	1.5	1.4	2.1
Investment	0.2	-1.3	3.5	2.0	3.6
Unemployment rate (ILO%)	5.4	5.2	5.0	4.7	4.7
Inflation	2.0	1.5	0.9	0.3	1.4
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 (%)	0.2	0.3	0.1	-0.1	-0.1
Interest Rates: 10-year (%)	1.3	1.9	0.5	0.7	1.5

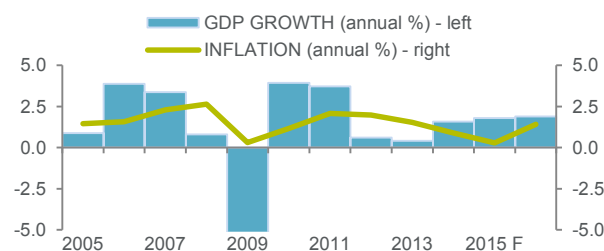
NOTE: *annual % growth rate unless otherwise indicated. E estimate F forecast

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



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