

GERMANY

# Economic Snapshot

Fourth Quarter | 2015



## Overview

Recent data point to a reasonably strong finish to 2015 for the German economy, led primarily by the broad-based recovery in business investment and strong household consumption. Economic activity has also been boosted by a steady rise in industrial production and new orders in Q4, as external demand from key trading partners strengthened. GDP growth is estimated to have been 1.5% in 2015, marginally down on the 1.6% recorded in 2014. Political tensions within the governing coalition - linked to Chancellor Angela Merkel's handling of the refugee crisis - eased in December after she agreed to reduce the flow of migrants to Germany, but gained momentum in early 2016 again as it became obvious that there is no easy way to come to an European agreement for a common strategy to manage the crisis.

## Positive prospects for consumer spending

Consumer spending has rebounded strongly in the second half of 2015 and the recent pick-up in employment and wage growth bodes well for household consumption over the coming months. The labour market remains tight, which continues to boost wages, while inflation forecasts for 2016 have been revised down to 0.8%, which will provide a further tonic to consumers.

## Exports and investment regaining momentum

After suffering a dip in mid-2015, business investment is steadily recovering, helped by rising capacity utilisation across most industry sectors. Business confidence indicators, such as the IFO Business Climate Index, were high in the course of 2015 but weakened in January based on lower growth expectations for China and other emerging markets.

## Outlook

GDP growth is projected to strengthen to 2.1% in 2016, as robust labour market conditions, low interest rates and low energy prices underpin private consumption. Weaker demand from emerging market economies is expected to be gradually offset by stronger exports to other eurozone economies. Higher public spending is anticipated in 2016, due to increased spending related to immigration, and this is also likely to lift growth. There are some external downside risks linked mainly to Greece's ongoing debt restructuring issues and China's economy experiencing a hard landing, but Germany's domestic economy is robust and this should help offset any potential weakness elsewhere.

## MARKET INDICATORS

### Market Outlook

GDP:	Expanding further in 2016, boosted by stronger performances from all sectors of the economy.	▼
Inflation:	Forecasts revised down recently, with inflation now expected to average 1.1% in 2016.	▶
Interest rate:	No changes expected in the short term.	▶
Employment:	The unemployment rate is at record lows; further modest growth in employment is expected.	▼

### Economic Summary

ECONOMIC INDICATORS	2012	2013	2014	2015 <sup>E</sup>	2016 <sup>F</sup>
GDP Growth	0.6	0.4	1.6	1.5	2.1
Consumer Spending	0.9	0.8	1.0	1.9	2.0
Industrial Production	-0.4	0.1	1.5	0.7	0.5
Investment	0.2	-1.3	3.5	1.3	1.9
Unemployment rate (ILO%)	5.4	5.2	5.0	4.6	4.5
Inflation	2.0	1.5	0.9	0.2	0.8
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 (%)	0.2	0.3	0.1	-0.1	-0.2
Interest Rates: 10-year (%)	1.3	1.9	0.5	0.6	1.2

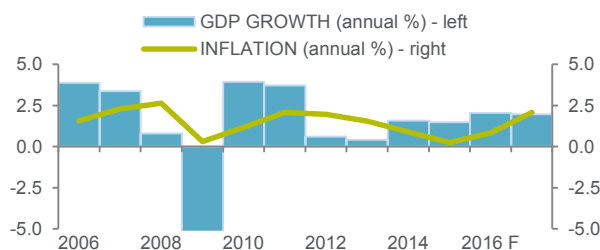
NOTE: \*annual % growth rate unless otherwise indicated. E estimate F forecast

Source: Oxford Economics Ltd. and Consensus Economics Inc

### Economic & Political Breakdown

Population	81.7 million (2015)
GDP	US\$ 3,351.4 billion (2015)
Public Sector Balance	0.7% of GDP (2015)
Public Sector Debt	59.4% of GDP (2015)
Current Account Balance	8.4% 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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