

## Germany: Stumbling start confirmed

The second estimate of first-quarter GDP shows that trade and government spending were the main drags on growth



### Weak start to the New Year confirmed

The second estimate of first-quarter GDP growth did not show any changes to the headline figure. GDP growth came in at 0.3% quarter-on-quarter, from 0.6% QoQ in the final quarter of 2017. The weakest quarterly performance since 3Q16. Still, on the year, growth came in at 2.3%. What is new are the different GDP components. Despite the harsh winter weather, investments in construction increased by 2.1% QoQ, from -0.4% QoQ. Investment and private consumption were the main growth drivers. In fact, private consumption has become one of the most important drivers of the current recovery, having grown by an average of 0.3% QoQ since 2009. At the same time, however, the first quarter was also a quarter of “firsts”. The first drop in government spending since 2Q13 (-0.5% QoQ), the first drop in exports since 3Q16 (-1.0% QoQ) and the first drop in import since 2Q16 (-1.1%). The drop in exports, in particular, could be a first sign that the appreciation of the euro in 2017 has started to leave its mark on the economy.

### Downswing, cooling or soft patch?

Currently, there are many expert views out there of how to best characterise German growth performance in the first quarter. In our view, this is very much a semantic discussion. The German economy has now grown for 15 consecutive months, the longest lucky streak since reunification.

Of the last 36 quarters, the economy grew in 33. Even better, strong private consumption, the pick-up of investments and low inventories still bode well for the German growth outlook. Therefore, we stick to our view that once the one-off effects of the first quarter have disappeared, the German economy should rebound in the coming months and quarters. However, admittedly, the ongoing slide in confidence indicators, higher oil prices, Italian politics and the ever-accelerating trade tensions could delay this rebound.

## Trade tensions

Being a bit more specific, the biggest domestic problem for the German economy is that it is almost literally coming apart at the seams. Demand is as insignificant a problem as in the first years after reunification. Instead, supply-side factors are increasingly hampering Germany's growth prospects. Both equipment and labour are currently at their highest levels ever and are limiting factors to production. Against this background, more investment seems to be the best and easiest way forward. It would increase production capacity and could lift the current speed limits. At the same time, however, external risks are increasing. Last night's announcement by the US administration to look into possible import tariffs on automobiles shows that a further escalation of the trade tensions, with harmful effects on the German economy, is clearly not off the table. In this regard, a minor euro crisis, leading to a weaker euro and safe haven effects in Germany might not be the worst thing for the German economy....Just kidding.

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