

German economy is thriving

The German economy continues its strong performance with another above-trend growth rate of 0.6% in the second quarter.



Still going strong

Even in its ninth year, the German economic recovery is still going strong. GDP growth in the second quarter came in at 0.6% QoQ, from a slightly upwardly revised 0.7% QoQ in the first quarter of 2017. On the year, the German economy grew by 2.1%. The detailed growth components will only be released towards the end of the month but based on monthly data the economy continues firing on all cylinders.

Growth was driven by public and private consumption, investment and the construction sector.

Germany's economic success story goes on and on and on. And there is very little reason to fear a sudden end to the current performance, even though some kind of slowdown from current growth rates looks almost inevitable. The drivers supporting the domestic economy, like record high employment, higher wages and government consumption, might lose some momentum along the way, without turning negative. The same holds for the export sector, where a stronger euro,

weaker-than-expected US growth and Brexit uncertainty could take some wind out of the sails without bringing exports to a halt.

While the current growth drivers could lose some momentum, investments could emerge as the new engine going into the second half of the year and beyond. Since the small setback at the turn of the year, production expectations have increased continuously. Order books are filled again and inventories have been reduced. Capacity utilization in the manufacturing industry has also increased continuously since mid-2016 and is now clearly above its historical average. A combination, which under normal circumstances should be a safe bet for stronger investments. With today's strong growth data, it will be hard for any opposition party to pick out the economy as a main theme for the final stage of the election campaign. Even Angela Merkel's junior coalition partner, the social-democratic SPD, finds it hard to get the credit from the electorate for the current strong growth performance. When it comes to the economy, it seems as if Angela Merkel sits in a "winner-takes-it-all" position.

The lack of new structural reforms or the lack of investments (both in traditional and digital infrastructure) has so far not affected voters' preferences. All in all, the German economy is still thriving and currently the biggest risk is probably policy complacency. Still, it looks increasingly unlikely that economic topics will decide the upcoming elections.

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