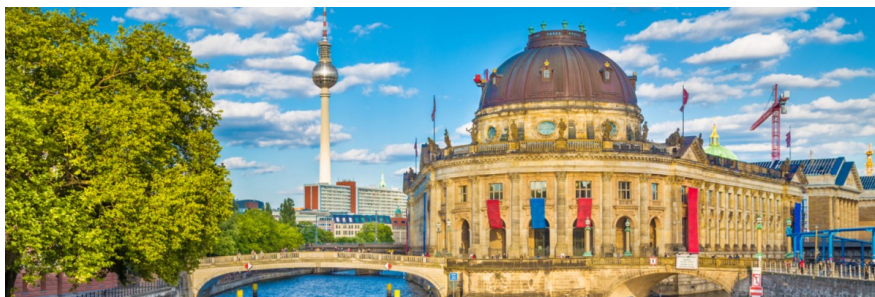


Germany: Return of the living dead - part two

The just released components of 1Q GDP growth confirm strong domestic demand and suggest that most one-off disruptions from last year might finally be over



The headline number remained unchanged but the growth components in the just-released second estimate of German GDP growth in the first quarter illustrate the ongoing dichotomy between strong domestic and stuttering external demand in the eurozone's largest economy.

The economy grew by 0.4% quarter-on-quarter, 0.6% year-on-year, leaving the brink of recession behind. The details show that growth in the first quarter was driven by private consumption, investment and even net exports. Interestingly, private consumption has been growing in 32 out of 37 quarters, with an average of 0.3% QoQ. At the same time, government consumption and inventories were a drag on growth. Normally only a residual component to watch, inventories have become more important since the automotive problems of last year. In fact, the inventory built up over the summer of last year has now been fully reversed, indicating that the biggest disruptions from one-offs should be over.

A moment for celebration but not for complacency

The German economy has once again demonstrated that it should never be written off. With the ongoing need for more investments and structural reforms, some might even argue that the economy somehow resembles the return of the living dead. As much as today's data are balm for the soul, there is no reason for complacency. The ongoing trade conflict between the US and China is a clear headwind for the already battered export sector and higher oil prices could undermine the current strength of domestic demand, possibly denting consumer spending and putting additional pressure on corporate profit margins.

All in all, the first quarter for the German economy was much better than many had expected. A moment for celebration but not for complacency.

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