

Germany: Still flying high

The golden cycle of the German economy continues, with 3Q GDP growth coming in at 0.8% QoQ.



Source: istock

Never tired of good news? Then have a look at the latest German GDP data. The economy continues its golden cycle and staged yet another strong growth performance in the third quarter. According to the first estimate that has just been released, GDP growth came in at 0.8% QoQ, from 0.6% QoQ in Q2. At the same time, 1Q growth was revised upwards to 0.9% QoQ. On the year, the German economy grew by 2.3%. The detailed growth components will only be released at the end of the month but based on monthly data, the economy continues to fire on all cylinders. Growth was driven by public consumption, investment and net exports. Only the construction sector took a longer vacation break. Even if the economy would stagnate in the final quarter of the year, GDP growth for the entire year would still come in at 2.4%; the highest reading since 2011.

Strongest performance since reunification

Germany's economic success story goes on and on and on. Since 2Q09, the German economy has grown at a quarterly average of 0.5% QoQ. Out of the last 34 quarters, only three quarters recorded negative GDP growth. The German economy is currently showing its best performance over such a long period since the mid-1990s.

Golden cycle set to continue

Looking ahead, there is very little reason to fear a sudden end to the current performance. In fact, today's drivers of the economy should also be tomorrow's drivers of the economy. Low interest rates should further support activity in the construction sector, boost private consumption and contribute to the ongoing investment upswing. Also, the strong labour market together with low inflation and higher wages are further guarantees for future growth. Add to this the fact that, as cumbersome and as difficult as the coalition talks in Berlin are currently are, spending more money in our view remains the easiest-to-agree-on common denominator for any next German government and there are plenty of ingredients for another extension of the current golden cycle.

Biggest downside risks come from the outside

The biggest risks for the German economy in our view come from the outside. Geopolitical risks, a slowdown of the US or UK economy and deflating eu(ro)phoria could dent the strong growth momentum. The only domestic risk in our view currently seems to be a breakdown of the coalition talks. Having said this, as difficult as the talks seem to be, we still expect a first tentative agreement to move towards the next phase of in-depths negotiations later this week.

All in all, even in the ninth year of the recovery, the German economy remains the high-flyer of the Eurozone.

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