

## Germany: Stumbling into 2018

First quarter growth came in at 0.3% quarter-on-quarter. This was an expected growth slowdown but there's no reason to get worried



Now it's official. The German economy stumbled into 2018. GDP growth in the first quarter came in at 0.3% QoQ, from 0.6% QoQ in the final quarter of 2017. The first quarter was the weakest German economic performance since 3Q 2016. Still, on the year, growth came in at 2.3%. GDP components will only be released at the end of the month but according to the Statistical Agency and available monthly data, the growth slowdown was mainly driven by investments and private consumption. Trade and government consumption were a drag on growth. Also, don't forget that a couple of one-off factors like the cold winter weather, early Easter vacation and strikes probably distorted first quarter data.

Downswing, cooling or soft patch? Currently, there are many expert views out there of how to best characterise the German growth performance in the first quarter. In our view, this is very much a semantic discussion with little substance but lots of room for speculation. 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. While uncertainties and downside risks remain - mainly stemming from a possible escalation of the current trade tensions - there is, in our view, little reason to doubt the underlying strength of the current recovery.

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## *The German economy got away with no more than a black eye*

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In fact, taking a closer look at the German economy shows promising signs of a rebound in the coming months. Despite some minor levelling off, capacity utilisation is still close to record highs, assured production in the industry is close to all-time highs and the high stock of orders and historically low inventories all bode extremely well for industrial production in the coming months. Also, loans to the corporate sector are currently growing at higher rates than in the pre-crisis period.

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.

All in all, with a growth rate of 0.3% QoQ, the German economy got away with no more than a black eye.

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