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GERMAN GDP: SLIGHT MODERATION, BUT STILL GROWING WELL ABOVE TREND

Berenberg Macro Flash

German GDP, Q4 (qoq, in %)

Actual:	0.6
Previous:	0.7
Consensus:	0.6
Berenberg:	0.6

Another strong quarter: While Germany has been waiting almost 5 months for a new government to form, the economy does what it knows best – to grow strongly. Despite slowing down slightly in Q4 the German economy's pace of expansion remained well above trend. After 0.7% qoq in Q3 (revised down from 0.8%), GDP grew by 0.6% which compares to a rate of 0.3-0.4% qoq the German economy can probably sustain over the long-run. The mild moderation may owe to capacity constraints limiting the rate at which the German economy can expand and special factors that raised growth in Q3. The first German GDP reading only comes with a qualitative assessment, with the quantitative breakdown published on 23 February. Today's reading suggests that the main driver for GDP growth was foreign trade, similar to Q3. According to the press release of Germany's Statistical Office, government consumption and machinery investment also contributed, while household spending remained fairly flat and construction investment slipped (both compared to Q3 levels).

All planets lined up in 2017: For a number of years the German economy had gone from strength to strength. In 2017, all planets were aligned. GDP expanded by 2.5% which was the best year since 2011 (3.7%) on the back of big rises in household and business spending. Business investment switched into a higher gear (likely 4.4% after 2.9%) amid the cyclical upswing across the globe. We expect private consumption to have grown by 2.4%, the most since 1999, benefiting from further employment gains (+1.5% Q4 2017 versus Q4 2016) and stronger wage growth. Also, thanks to a rebound in exports, foreign trade was not any more a drag to GDP, but actually provided a small, positive contribution. Despite a trade-weighted appreciation of the euro throughout 2017 by 2.4% demand for industrial goods from abroad rose markedly. Government consumption – the only exception – expanded by less than 2016, but this largely owed to an exceptional spending rise by the German government of 3.7% yoy in that year to accommodate the migration wave between H2 2015 and H1 2016.

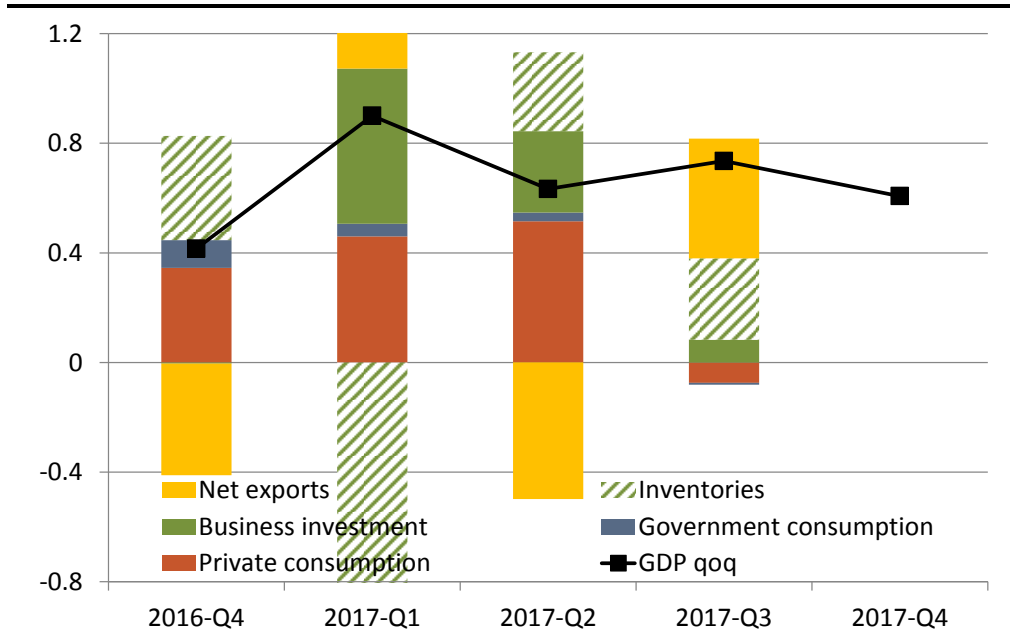
Enjoying the golden decade despite market jitters: Leading indicators suggest the economy is likely to hold up the current speed, if not even accelerate in 2018. These surveys were conducted before the recent rout in equity markets (the DAX has lost 6% ytd and 10% since its height on 23 January). The correction may affect business and consumer sentiment, but we do not expect it to affect the economy – at least as long as we do not experience a prolonged period of correction. Instead the financial market correction should help to realign the skyrocket-high soft data with the hard data. We expect domestic demand to keep the German economy growing strongly at around 0.6% qoq in H1 2018.

Pace of growth set to moderate in H2 2018: Labour is dear as the unemployment rate has reached 3.6%, leading to a wage settlement last week for roughly 4 million metal workers who will see their pay rise by more than 3.5% this and next year. Capacity utilisation in the industry is high at 85-90%, depending on the survey. Businesses are raising their labour forces and production capacities which bodes well for Germany's long-term growth. Still supply growth can not keep up with demand growth. As we expect supply constraints to limit the economy increasingly throughout the year, GDP growth is likely to moderate in the second half of the year to 0.5% qoq. With H1 growth and the carry-over effect from 2017, this makes 2.5% for the whole year. Foreign trade will provide less of a contribution, neither positive nor negative. The positive impact from the upswing in global GDP and trade growth will likely continue to offset the loss in cost competitiveness following the appreciation in the exchange rate. Finally, with a new "grand coalition" to be sworn in by Easter, which is willing to go on a spending spree, government consumption is likely to pick up again.



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Chart: Contributions to German GDP growth (qoq, in percentage points)



Source: Eurostat.

German GDP (in %)

	Q4 17	Q3 17	Q2 17	Q1 17	Q4 16	Q3 16
qoq	0.6	0.7	0.6	0.9	0.4	0.3
yoy	2.9	2.7	2.3	2.1	1.9	1.9

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