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GERMAN GDP: ONE-OFFS DRIVE HEALTHY GROWTH

Berenberg Macro Flash

German GDP, Q1 2019 (in %)

	qoq	yoy
Actual:	0.4	0.7
Previous:	0.0	0.6
Consensus:	0.4	0.7
Berenberg:	0.35	0.6

Another upside surprise: In line with most other advanced economies the German economy came off to a pleasantly good start in 2019. After narrowly avoiding a technical recession in H2 2018, German GDP grew by 0.4% qoq and 0.7% yoy in the first quarter after a flat qoq result in Q4 and -0.2% in Q3 (see Chart 1). The German economy thus defied the softer confidence surveys. One-off effects helped to make the difference. Even more so than for other economies the trade talks between the US and China and the EU will determine the short- and medium-term outlook for Germany. After a subdued Q2 (0.2% qoq), chances are that German growth can pick up on a more sustained basis throughout H2 (0.4% on average). Amid recently escalating trade tensions the downside risks loom large, though.

Domestic demand doing the heavy lifting: Destatis provides only qualitative comments on the details of GDP with the first reading – the quantitative breakdown by expenditure or income components is published only on 23 May. According to Destatis, positive contributions came mainly from domestic demand. Capital formation increased significantly in construction and machinery. Private consumption rose markedly while government spending fell. With exports and imports increasing broadly at the same rate, net trade probably did not add to GDP.

Beware the one-offs: Who would have thought a couple of months ago that the German economy would grow in line with its potential rate of 0.4% qoq? We did not. When the Q4 data was published three months ago, we forecast 2019 had started as 2018 had ended – “not well”. However, the healthy growth in Q1 was largely driven by positive one-off effects.

Warm weather boosting construction: While the recession in the German industry may have started to bottom out, businesses in the export-orientated sector barely added anything to growth in Q1. Industrial production was flat at 0% qoq (see Chart 2). Instead, benefitting from the unusually warm weather the construction sector pushed growth higher. Construction probably added more than 0.15ppt to the qoq GDP growth rate compared to below 0.05ppt in the previous 8 quarters. Beyond the weather, the late timing of Easter which shifted Easter holidays fully into Q2 may also have contributed to the good outcome for Q1.



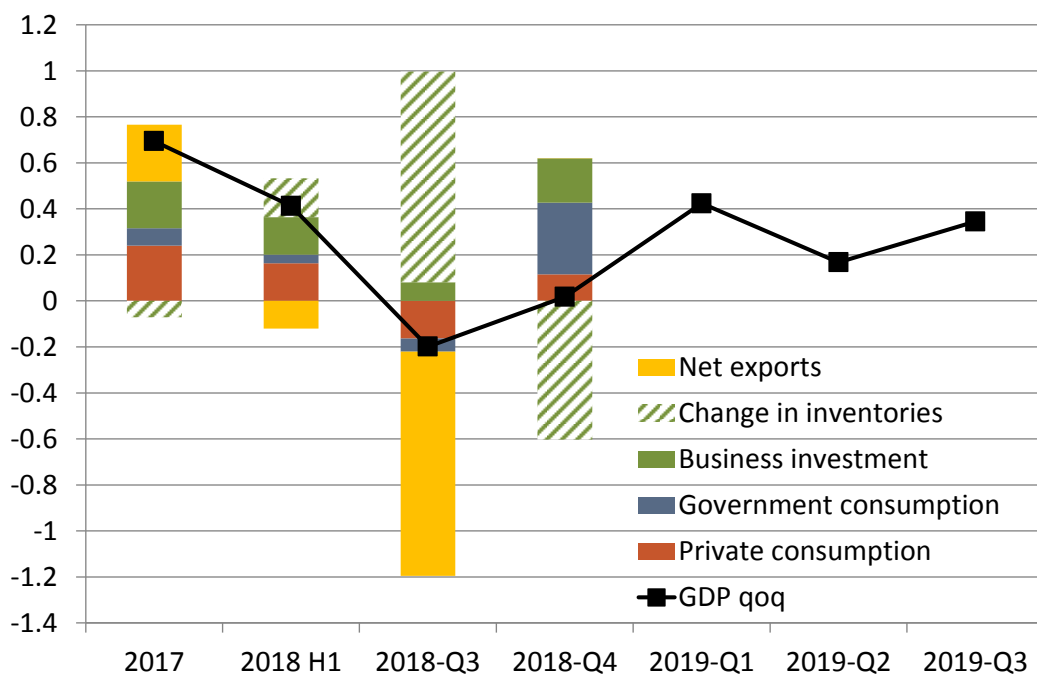
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Two drivers of household spending: A number of fiscal measures came into effect at the start of the year that raised disposable incomes and elevated household spending more than usual. Retail sales rose by 1.6% qoq after 0.1% in H2 on average and 0% qoq on average during each first quarter of 2016–2018. Consumers catching up on their car purchases, which rose by 6.1% qoq, also contributed. Consumers had postponed these purchases in autumn after car manufacturers had struggled to have all their models comply with stricter emission requirements on time.

Trend a little less positive: Abstracting from these effects, the performance of the German economy in Q1 looks a little bit more subdued. The German economy is not out of the woods, yet. Q2 is likely to be a weaker quarter as one-off boosts are likely to be absent and the industrial sector is suffering from a renewed escalation in trade tensions. ZEW expectations in May softened for the first time after six months of gains.

Chances for a sustained recovery in H2: After US-China trade tensions had eased for a while, they have escalated significantly recently. News from China also suggest that the Chinese stimulus may take a little bit longer to work. While the immediate hard Brexit has receded, the UK is not much closer to resolve the mess. As a result, the downside risks loom large to our call of a recovery starting in the Eurozone by mid-year. With a rock-solid labour market, stronger gains in real wages and a gradual fiscal stimulus, Germany's domestic fundamentals remain positive, though.

Chart 1: German GDP growth and its contributions by expenditures

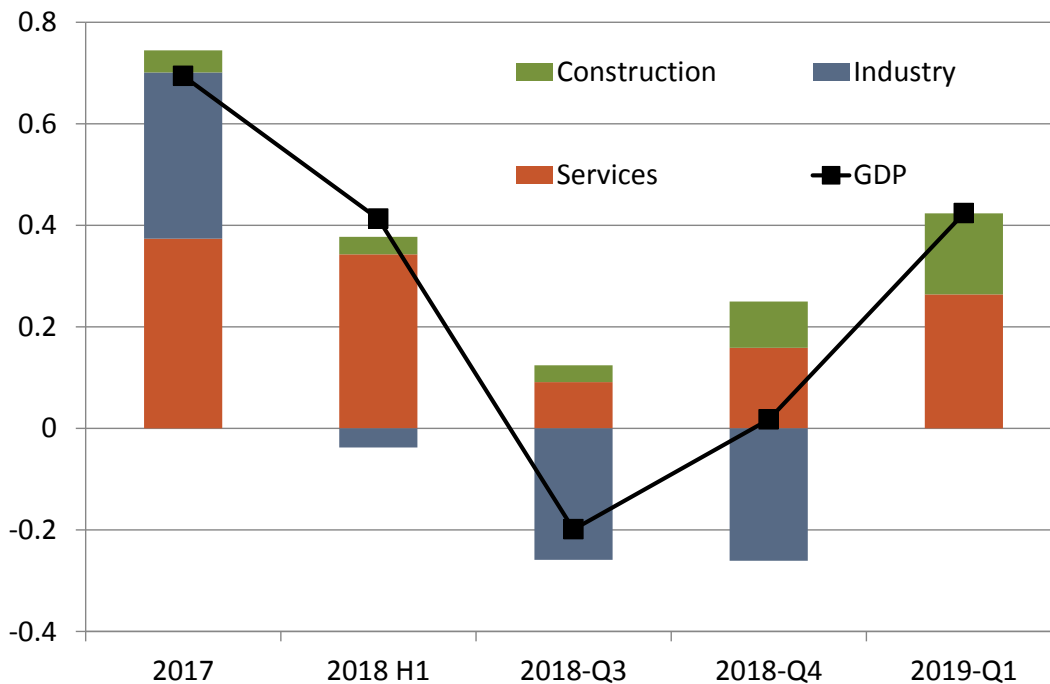


Qoq GDP growth in %, contributions in %-points. No breakdown for Q1 2019. Berenberg forecasts for 2019 Q2 and Q3. Source: Eurostat, Berenberg



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Chart 2: German GDP growth and its contributions by sector



Qoq GDP growth in %, contributions in %-points. Value added by service output in Q1 2019 calculated as the remainder of GDP minus industrial production and construction output. Source: Eurostat, Berenberg

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