

## First Read

# European Economic Comment

## Germany: 2016 GDP growth highest since 2011

### Economics

#### Germany

### German economy grows 1.8% in 2016 after 1.5% in 2015

Annual real GDP growth was reported as 1.8% in calendar-adjusted terms (as there was one more working day in 2016 than in 2015; the non-adjusted growth rate was 1.9%), and in line with our forecast. Domestic demand was the sole driver of growth (see [Germany: It's a domestic story now](#)). In particular, private consumption contributed 1.1ppt to overall growth, helped by a buoyant labour market with employment rising to its highest level since 1991. Also, public spending contributed 0.8ppt supported by significant spending to accommodate incoming refugees. In addition, construction investment was growing solidly in an environment of rising house prices. Net exports subtracted from growth as export growth was muted.

### Growth likely picked up solidly in Q4 2016

Although the German statistical office will only release its flash estimate for quarterly growth in Q4 2016 on 14 February, it was mentioned that real GDP has likely risen by 0.5% q/q in the last quarter of 2016 (assuming no revisions to prior quarters), up from 0.2% in Q3. This supports evidence from recent Eurozone sentiment indicators which showed strong increases in activity towards the year-end (see [Eurozone: strong finish to 2016, good start to 2017](#)).

### We think German growth will decelerate in 2017

We expect German growth to face headwinds this year as households will have to deal with a higher oil price and public spending may decelerate as the number of incoming refugees has declined sharply (see [Economic Outlook 2017-18](#)). Overall, we think real GDP growth could decline to 1.3% from 1.8% last year; this would still leave growth around its trend level. However, the solid finish to 2016 and buoyant sentiment indicators imply upside risks to our forecast.

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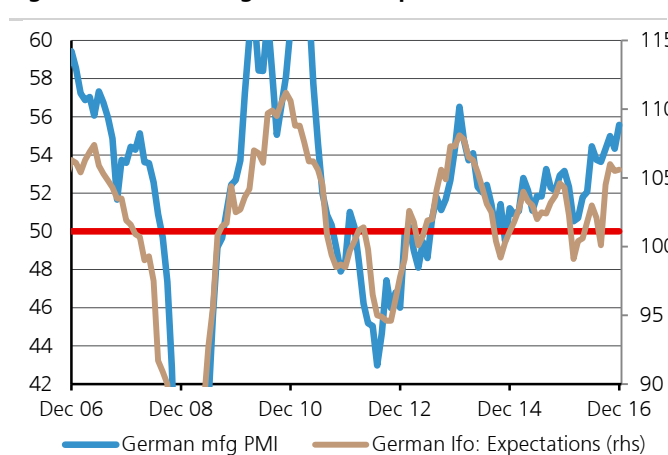
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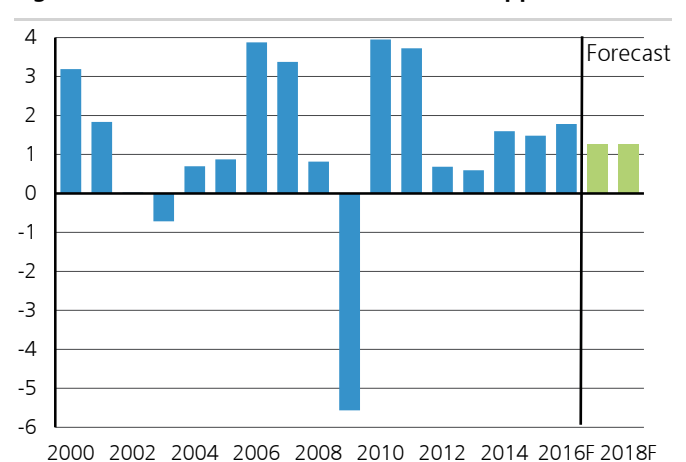
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**Figure 1: German mfg PMI & Ifo expectations index**



**Figure 2: Annual contributions to real GDP, ppt**



### **Valuation Method and Risk Statement**

Risks include macroeconomic variables (such as GDP growth rates and inflation), economic slowdown, a weakening currency, global economic events, and government policy changes

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