

## Continued robust but unspectacular growth

### General Information



<b>GDP</b>	USD3,853bn (World ranking 4, World Bank 2014)
<b>Population</b>	80.9mn (World ranking 16, World Bank 2014)
<b>Form of state</b>	Federal Republic
<b>Head of government</b>	Angela MERKEL (Chancellor)
<b>Next elections</b>	2017, presidential and legislative



### Strengths

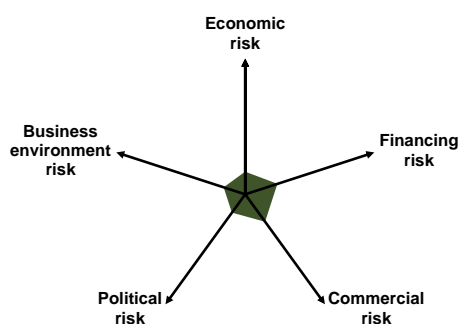
- Low systemic political risk
- Good regional and international relations; EU membership
- Healthy public finances
- Strong manufacturing base (one quarter of GDP)
- Production and export of high-end products
- Adequate export diversification (products and trade partners)
- Current account surpluses since 2002

### Weaknesses

- Ageing population
- Dependence on exports
- Low investment-to-GDP ratio (20% in 2015)
- Vulnerability to slowdown in Chinese demand, especially investment spending
- Exposure to Eurozone growth

### Country Rating

**AA1**



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total; 2015)

Exports	Rank	Imports
United States	10% 1	10% China
France	9% 2	9% Netherlands
United Kingdom	7% 3	7% France
Netherlands	7% 4	6% United States
China	6% 5	5% Italy

By product (% of total; 2014)

Exports	Rank	Imports
Cars And Cycles	11% 1	5% Crude Oil
Engines	5% 2	4% Electrical Apparatus
Pharmaceuticals	5% 3	4% Cars And Cycles
Miscellaneous Hardware	5% 4	4% Natural Gas
Electrical Apparatus	4% 5	4% Pharmaceuticals

Sources: Destatis, Chelem

### Outlook for continued robust growth...

Real GDP increased by +1.4% in 2015 in calendar-adjusted terms (+1.7% in unadjusted terms as 2015 had more working days than 2014), following +1.6% in 2014 and above the average of the past 10 years (+1.3%). Domestic demand was the main growth driver in 2015, with private consumption expanding by +2% and government consumption by +2.5%. Fixed investment increased by +1.6%, with investment in machinery and equipment up by +3.3% while construction investment edged down by -0.2%. However, inventories subtracted -0.5pps from growth in 2015. Both export and import expansion picked up, to +4.8% and +5.4%, respectively, so that net exports made a moderate contribution of +0.1pps to 2015 growth.

In Q1 2016, seasonally- and calendar-adjusted real GDP grew by +0.7% q/q, a strong performance after +0.3% q/q in each of the two preceding quarters. Domestic demand was once again the key growth driver, in particular fixed investment which rose by +1.8% q/q (+1.4% in Q4), with both investment in equipment (+1.9% q/q) and construction (+2.3% q/q) performing well, the latter thanks to continued mild weather in Q1. Private consumption expanded by +0.4% q/q (the same as in Q4) and government consumption by +0.5% q/q (+0.9% in Q4). Export growth recovered to +1% q/q in Q1 (-0.6% in Q4) while import growth also picked up to +1.4% q/q (+0.5% in Q4). As a result, the negative contribution from net exports to q/q GDP growth moderated to -0.1pps in Q1 (from -0.5pps from Q4).

Going forward, Euler Hermes forecasts robust but unspectacular growth of +1.7% in 2016 as a whole, supported by additional public sector spending and investment related to the refugee influx. Low oil prices for an extended period pose an upside risk to this forecast, however, related deflationary pressures are a downside risk. For 2017, Euler Hermes forecasts growth of +1.8%.

### ...supported by favourable sentiment indicators

The robust growth outlook is supported by the May Composite Output PMI which increased to a 5-month high of 54.5 points (from 53.6 in April) as a result of increases in both the Manufacturing Output Index (to 53.3 from 52.1) and the Services Activity Index (to 55.2 from 54.5). All components are well above the 50.0-threshold indicating economic expansion.

In line with that, the Ifo Business Climate Index rose to 107.7 points in May, up from 106.7 points in April and February's 14-month low of 105.8 and clearly exceeds its long-term average of 101.6. The expectations component of the Ifo business climate survey has improved for the third consecutive month, rising from 100.5 in April to 101.6 in May, exceeding the long-term average of 100.3. Companies seem to have adjusted to the economic problems and enhanced geopolitical instability observed in many emerging markets.

Meanwhile, after a temporary correction in H2 2015, the GfK Consumer Climate Index has continued its upward trend since the start of the year, being forecast at 9.8 points in June after rising to 9.7 in May from 9.4 in April. This indicates continued sound growth of consumer spending in 2016.

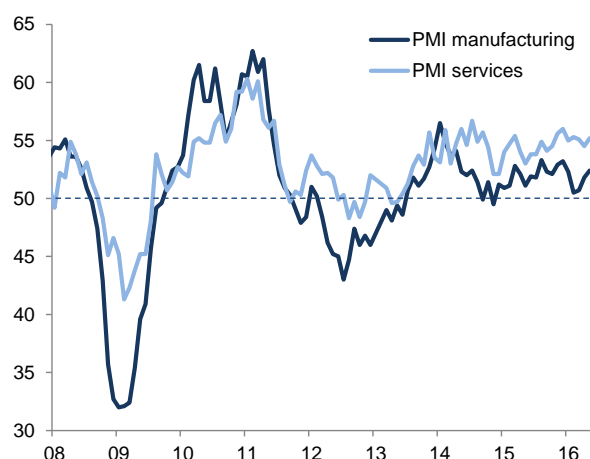
### Key economic forecasts

Germany	weight	2014	2015	2016	2017
<b>GDP</b>	100%	1.6	1.4	1.7	1.8
<b>Consumer Spending</b>	55%	1.0	2.0	1.9	1.8
<b>Public Spending</b>	9%	1.7	2.5	2.4	1.9
<b>Investment</b>	20%	3.5	1.6	3.7	2.0
<b>Stocks</b>	* -1%	-0.3	-0.5	0.0	-0.1
<b>Exports</b>	48%	3.9	4.8	3.4	3.7
<b>Imports</b>	4%	3.7	5.4	5.1	4.0
<b>Net exports</b>	* 7%	0.4	0.1	-0.5	0.1
<b>Current account</b>	**	213	197	204	206
<i>Current account (% of GDP)</i>		7.3	6.5	6.5	6.4
<b>Employment</b>		0.9	0.8	1.0	0.4
<b>Unemployment rate</b>		6.7	6.4	6.3	6.5
<b>Wages</b>		2.9	2.4	1.9	2.1
<b>Inflation</b>		0.9	0.3	0.3	1.4
<b>General government balance</b>	**	8	21	3	3
<i>General government balance (% of GDP)</i>		0.3	0.7	0.1	0.1
<b>Public debt (% of GDP)</b>		74.6	71.2	69.6	68.1
<b>Nominal GDP</b>	**	2,920	3,023	3,124	3,223

Change over the period, unless otherwise indicated: \* contribution to GDP growth; \*\* euro billions

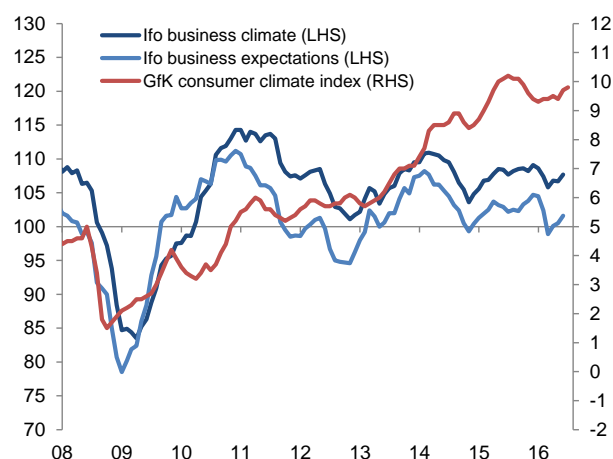
Sources: National statistics, IHS, Euler Hermes

### Purchasing Managers' Index (PMI)



Sources: Markit, Euler Hermes

### Ifo Business Climate Index and GfK Consumer Climate Index



Sources: Ifo, GfK, Euler Hermes

## Deflationary pressures persist while core inflation remains stable

On the back of lower food and energy prices, headline consumer price inflation fell to an average of just 0.3% in 2015 from 0.9% in 2014. Owing to the renewed fall in global oil prices in early 2016, deflationary pressures increased again and headline inflation even touched negative territory in April (-0.1% y/y) before inching up again in May (+0.1% y/y). Meanwhile, core inflation (excluding food and energy prices) has remained relatively stable, at an average +1.1% y/y in the first four months of 2016, after averaging +1.2% in full-year 2015.

Euler Hermes forecasts average annual consumer price inflation of about +0.3% in 2016, the same as in 2015.

## Public finances are healthy

In 2015, Germany achieved a fiscal surplus of EUR21bn (+0.7% of GDP), the highest since German reunification. Such a surplus is unlikely to be repeated in 2016 as higher revenues thanks to stronger growth are not expected to match the increased public sector spending and investment related to the refugee influx. Still, in line with the government's target of balanced budgets, Euler Hermes forecasts small fiscal surpluses in 2016-2017.

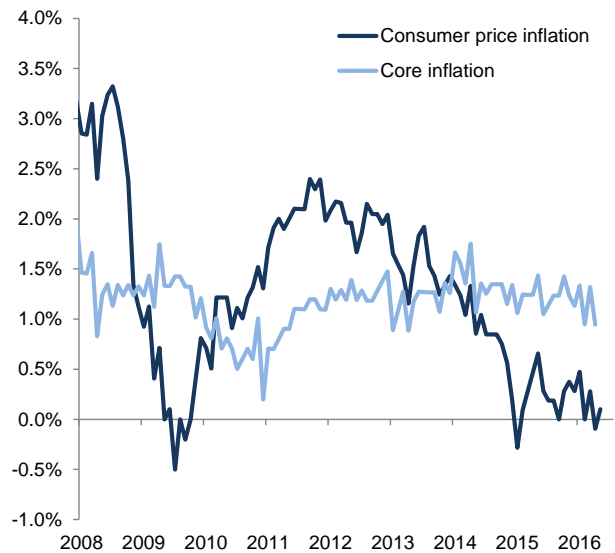
Total public debt, which rose to 81% of GDP in 2010 in the wake of the global financial crisis, has since fallen steadily to 71% of GDP in 2015.

## Insolvencies are expected to rise in 2017

After six years of continuous decline, the number of corporate insolvencies is expected to stabilise in 2016-2017. In detail, Euler Hermes forecasts that bankruptcies edge down further by -1% in 2016 before inching up by +1% in 2017.

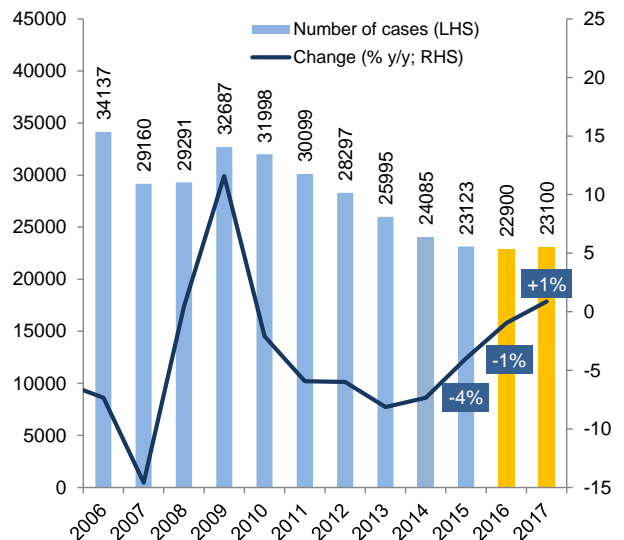
Days Sales Outstanding (DSO) decreased from 57 days in 2014 to 56 days in 2015 and are forecast to remain stable in 2016. This is well below the global average of 68 days. However, some sectors pose higher risks of late payment than others: companies in the technology (69 days), telecom (69), oil & gas (61) and pharmaceutical (59) sectors paid later than the national average in 2015.

Inflation and core inflation (% y/y)



Sources: National sources, IHS, Euler Hermes

Corporate insolvencies



Sources: Destatis, Euler Hermes

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