

### **Euler Hermes Study: investment and domestic demand support German economic growth**

- German GDP grew by 0.8% in Q1 2014 vs. previous year; Full year GDP growth forecast at 1.9% and 2% for 2015
- Domestic demand and rising investment are overtaking traditionally strong German exports; export growth declining significantly versus prior years
- Strong euro, high energy prices and rising wages impact German competitiveness
- Investment in digitalization in the mechanical engineering sector is key to future competitiveness

**HAMBURG, 7 AUGUST 2014** – The German economy is growing – this is not due to the traditionally strong exporting sector, but rather to growing domestic demand and a significant rise in domestic investment. These are the findings of the most recent study by the leading trade credit insurer, Euler Hermes.

Economists forecast that this trend will continue for the full year in 2014: expected GDP growth of 1.9% is based on dynamic growth of 6.2% for investment and relatively strong consumption by private households rising by 1.5%. Exports have traditionally shown growth, but are initially stagnating and exerting a slight brake on GDP growth in 2014 (-0.7 percentage points). Euler Hermes does not expect rising foreign demand until 2015.

#### **The world export leader is currently showing stronger growth at home than in the traditionally strong export business**

“Strong export momentum has been the driver for the upturn in the German economy for years,” said Ludovic Subran, chief economist at Euler Hermes. “In the first quarter of 2014, domestic demand had for the first time a greater impact on GDP growth than exports – however these still have a strong weighting in absolute terms. This shows that the strong euro, high energy prices and rising wages have an impact on the competitiveness of German companies, particularly in comparison to Japan and the US. Investment and domestic demand are however showing growth.”

#### **Industry 4.0: investment in digitalization rises by 12% in the mechanical engineering and manufacturing sectors**

Rising wage levels and low interest rates support German domestic demand. Measures agreed by the Coalition such as the minimum wage and higher pensions should also have a positive impact on future German purchasing power. The positive business climate and attractive financing terms primarily led to rising investment in the first quarter of 2014. In particular, there was an upturn in the German mechanical engineering and manufacturing sectors. For example, industrial production grew by 4.1% versus previous year. This upturn could lead to a rise of 8% in investment in the sector according to Euler Hermes estimates. Investment in data processing and digitalization is showing particularly strong growth of 12%.

#### **Digital (e)evolution is a major challenge for the manufacturing sector**

“Manufacturing companies still have substantial ground to make up in digitalization”, said Thomas Krings, chief risk officer at Euler Hermes Germany. “We are finally seeing more investment in data processing as a result of the economic upturn. This is an important step towards increasing corporate competitiveness, productivity and cost efficiency. At the same time, digitalization is a major challenge for many manufacturing companies. The potential culture shock, rising dependency on technology and increasing data security requirements are issues companies must address on the road to digital evolution. Yet, switching systems is expensive, and investment only pays off in the long term. Nevertheless, digitalization is the key to future competitiveness for the manufacturing and mechanical engineering sectors in Germany.”

**Link to the country study for Germany:** [Germany Country Report: Risk Analyses by EH Economic Research](#)

**Link to the report on the** [world economy with a focus on German manufacturing](#) (page 14):



## Media contacts:

### Euler Hermes Deutschland AG, (Hamburg)

Antje Stephan - +49 (0)40 8834-1033

[antje.stephan@eulerhermes.com](mailto:antje.stephan@eulerhermes.com)

### Euler Hermes Group Media Relations

Remi Calvet – +33(0)1 84 11 61 41

[remi.calvet@eulerhermes.com](mailto:remi.calvet@eulerhermes.com)

### Publicis Consultants

Romain Sulpice +33 (0)1 44 82 46 21

[romain.sulpice@mslfrance.com](mailto:romain.sulpice@mslfrance.com)

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The 1,500 employees of Euler Hermes Germany are based at its headquarters in Hamburg and in other offices. More information: [www.eulerhermes.de](http://www.eulerhermes.de)

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