

WILL GERMAN CONSUMERS COME TO THE RESCUE?

Given a continuing gloomy outlook for exports, Germany's economic prosperity depends on the unchecked domestic propensity to consume.

Staking your hopes on stingy German consumers is quite audacious. After all, Germans have a well-deserved reputation for spending lavishly on the oil that is supposed to lubricate their car's engine – rather than, say, on the oil that they feed to their own bodies. Still, German consumption trends look fairly encouraging. As our "Chart of the Week" shows, consumer confidence has been quite stable over the past few years. It even shows, one might be surprised to hear, a slight overall upward trend. By contrast, the mood remains gloomy in the industrial sector. From our perspective, for the German economy to really recover in the second half of the year, the good mood among consumers will have to make its way to industry by then. That would be unusual, to say the least. More often than not, industry sets the pace for consumers and the service sector, not the other way around.

We nevertheless remain cautiously optimistic – for further details, have a look at: [German economy: Consumption has to fix it](#). Put briefly, Europe's manufacturing industry has been affected by several factors. Continuing trade conflicts and declining growth in export markets cloud the outlook. Political uncertainties and weaker growth in key trading partners are likely to continue to weigh on net exports for a while yet – perhaps another two years. On the other hand,

other factors should slowly ease. This should soon make year-on-year comparisons easier. "Especially in the second half of 2018, growth was adversely affected by difficulties in connection with the new exhaust emission tests (according to the Worldwide Harmonized Light-Duty Vehicles Test Procedure - WLTP) and the low Rhine level," explains Dr. Martin Moryson, Chief Economist Europe at DWS.

Above all, however, our assessment is that private consumption should continue to drive economic development - driven by the robust labor market, wage increases and low inflation rates. The previous fiscal headwind should turn into a (slight) tailwind. Private investment should also make a positive contribution to growth, albeit somewhat weaker than in the past. "Our general picture remains intact (weaker growth, no recession), but the parameters have shifted to some extent: a somewhat faster and stronger slowdown and, in the long run, a somewhat slower return to potential growth, which we see at around 1 to 1.25%," says Martin Moryson. "For 2019 as a whole, we expect growth rates of 1.3%, followed by 1.4% in 2020." Of course, there are plenty of risks to this benign assessment, ranging from a no-deal Brexit and a deterioration in financial conditions, to global weakness in growth. For now, though, we remain fairly optimistic.



Sources: Thomson Reuters Datastream, DWS Investment GmbH as of 4/16/19
 * Consumer Confidence Index (Germany)
 ** Manufacturing Confidence Index (Germany)
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 Source: DWS Investment GmbH

GLOSSARY

Brexit

Brexit is a combination of the words "Britain" and "Exit" and describes the exit of the United Kingdom of the European Union.

Inflation

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

Potential growth

Potential growth describes the possible long-term growth rate of an economy running at full capacity with a constant inflation rate.

Recession

A **recession** is, technically, when an economy contracts for two successive quarters but is often used in a looser way to indicate declining output.

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