

14 August 2008

Economic News

GDP GROWTH IN GERMANY

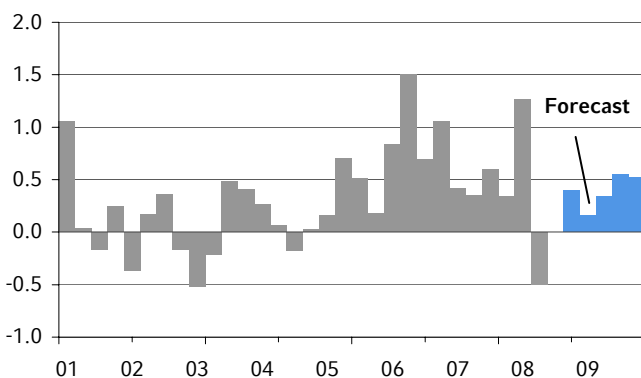
GDP shrinks in Q2 – forecast lowered slightly

Following the very strong first-quarter results, it was foreseeable that the second quarter would see a reversal. Second-quarter GDP was down 0.5%, in line with our expectation and less dramatic than the latest rumours suggested. However, due to the weak growth momentum at the end of the second and beginning of the third quarter, we have revised our growth forecast for this year slightly downward.

- Rumours that GDP declined by up to 1% in the second quarter were not confirmed. Nevertheless, today's GDP result of -0.5% was not exactly good news. Although the German Federal Statistical Office did not release any detailed results today – figures are scheduled for release on 26 August – it reported that both private consumption and investment spending declined on the quarter. Only net exports made a positive contribution to growth due to a significant drop in imports.
- Growth in the first quarter of this year was revised down from the originally reported 1.5% to 1.3% compared to the fourth quarter of 2007. Of greater importance for the growth outlook, however, is the fact that the sentiment indicators and other monthly data suggest a further slowdown in growth toward the end of the second and beginning of the third quarter. Accordingly, we no longer look for GDP growth of 0.3% in the third quarter but instead expect GDP growth to stagnate.
- Against this backdrop, we have revised our growth forecast for Germany slightly downward from 2.2% to 1.9% for this year. There are risks in both directions: On the one hand, weakness particularly in investment demand could be significantly more pronounced than we expect; on the other, a continuation of the downward trend in oil prices could also provide a more significant boost to consumption, as the employment and income situation of households continues to be positive and real consumption has been dampened only by the high inflation.
- Although the risk of a recession has increased, we regard such a scenario as unlikely. Our view is supported by recent US dollar and oil price movements. Should this trend continue, two key negative factors for the German economy would carry less weight.

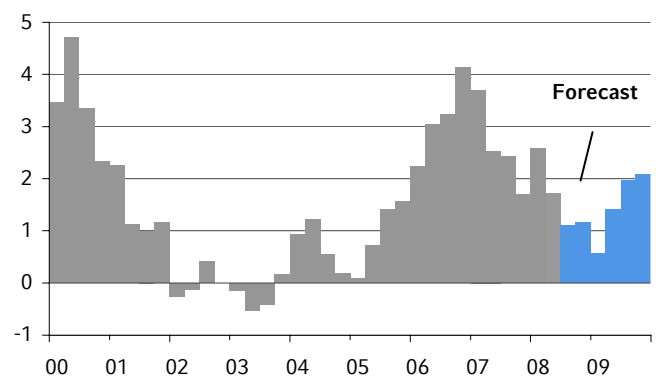
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GDP (% q/q)



Source EcoWin, WestLB Research

GDP (% y/y)



Source EcoWin, WestLB Research

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