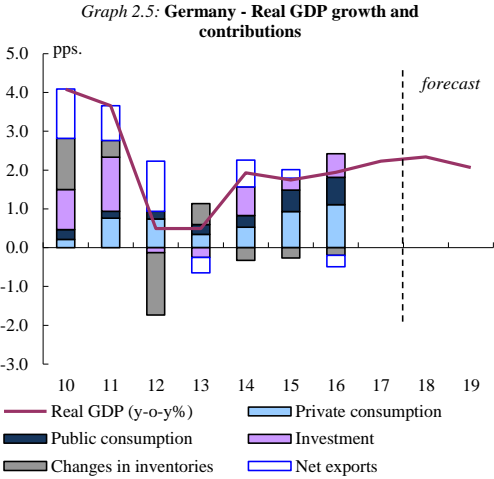


2.5. GERMANY: ROBUST GROWTH AHEAD

Germany’s GDP growth reached a six-year high of 2.2% in 2017, driven by strong private consumption, higher investment and growing foreign demand. Economic sentiment continues to improve across sectors, suggesting continued expansion in the coming quarters. Survey data show expectations of improving orders, higher output and greater demand.

Equipment investment has overcome the soft patch it experienced in 2016 and is likely to strengthen further over the course of 2018 amid favourable demand prospects, not least from the euro area and the rest of the EU. The steady rise in capacity utilisation rates should also spur renewal and expansion of the capital stock. The strong growth in housing investment recorded in the first two quarters of 2017 is expected to moderate somewhat but continue, according to data on residential construction permits.

Private consumption growth fuelled by the strong labour market, favourable world trade developments and economic growth in the rest of the euro area should continue to sustain the upswing. Overall, real GDP growth is expected to strengthen to 2.3% in 2018 and remain above 2% in 2019.



Price pressures were subdued between late 2014 and over most of 2016 as a result of the steep fall in oil prices and its second round effects on food and services prices. Inflation (HICP) picked up to 1.7% in 2017 and is expected to stay broadly stable, supported by increasing energy prices in 2018, and wage growth in 2019. Moderate inflation is expected to keep real wages high and support further household purchasing power.