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Chart in focus

Germany - Capex cycle unfazed by political uncertainty

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We have lifted our GDP forecasts for 2017 and 2018 about half a point to 2.3%, as capex is boosted by an improved export outlook, which in turn is driven by the global capex cycle. The difficult formation of a new government – while not encouraging with regard to Germany's longer-term challenges – should have limited impact on the short-term outlook.

Positive capex outlook

Sources: Deutsche Bundesbank, ifo, Deutsche Bank Research

After Q3's stronger-than-expected 0.8% rise in GDP, sentiment indicators do not herald a noticeable slowdown. With Q4 growth likely north of 0.5% qoq, 2018 will start with around 1% carry-over. The expansion in machinery & equipment investment looks set to continue in 2018. The export outlook has brightened, capacity utilisation has risen strongly and 'animal spirits' have returned. This suggests that employment can expand by at least 1% in 2018 (almost 1 ½% in 2017) providing a solid basis for private consumption growth. In 2018 collective wage agreements for 9.7m of 32.5m employees are up for renewal, among them mechanical & electrical engineering (3.9m), construction (0.7m) and public sector (federal & local level) (2.5m). Despite full order books and a pressing lack of qualified labour, the IG Metall union is demanding the possibility to reduce weekly working hours to 28h (from 35 west, 38h east). This would result in a strong markdown on the achievable pay rise (IGM is demanding 6%). We expect that employers will try to postpone the discussion about working hours and accept a comparatively high wage increase of clearly above 3% (although the car industry, where the advent of the electric car is threatening jobs, might be more inclined to go with IGM). Even if 3% plus sets a benchmark for the 2018 wage round, more muted pay rises in sectors not up for renewal should limit the overall increase in hourly pay to around 2 ¾%. With headline inflation averaging 1 ¾%, this should allow for consumption growth of close to 2%.

After the unexpected collapse of the Jamaica talks and President Steinmeier's vehement appeal, a renewed Grand Coalition seems the likely scenario, although snap elections are a possibility if the SPD demands too much. We doubt that the SPD's participation in government would open the fiscal floodgates. Despite booming tax revenues, we see the additional fiscal room limited to around EUR 40 at the federal level for the next four years (1.2% of GDP). Given foreseeable delays for enacting the 2018 budget, part of the fiscal impulse (around 1/4pp) might actually materialise in 2019. While the time-consuming path to the formation of a new government should not be a big dampener to the booming economy, it will likely result in more social give-aways and more bureaucratic hurdles in the labour and property markets for example.