Markit Economic Research

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Germany

German economic growth smashes expectations

- **GDP rises 0.7% in Q4 after 0.1% increase in Q3**
- **Stronger-than-expected rise likely to be affected by construction sector**
- **PMI and ETF data send positive signs for the start of 2015**

The German economy expanded markedly in the fourth quarter of 2014, with growth accelerating sharply compared with the marginal increase recorded in the third quarter. Markit's PMI data meanwhile signal further economic growth at the start of 2015 and sentiment towards Germany has improved, as signalled by Markit's ETF data.

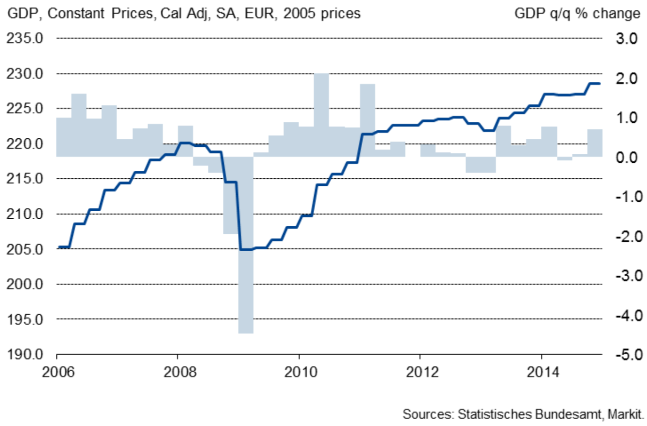
Economic growth smashes expectations

Gross domestic product rose 0.7% in the three months to December, far exceeding expectations and following a fractional 0.1% rise in the third quarter. The statistics body Destatis attributed the rise in GDP to increased household consumption and also observed a positive development for fixed capital formation in machinery and equipment, "especially in construction". While exports in goods and services have also increased markedly, "imports rose to a similar extent".

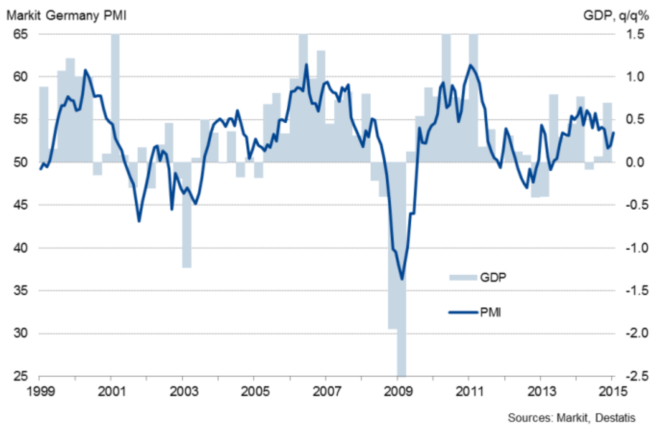
The increase in construction is particularly surprising, as official monthly data has been weak in recent months. The better than expected data tally with Markit's Germany Construction PMI, however, where the average PMI reading for the fourth quarter as a whole was the best since Q1, when the German economy expanded by 0.7%.

The weak German GDP numbers in the second and third quarters (-0.1% and 0.1% respectively) always sat uncomfortably with stronger signals from the PMI surveys (see our note here). Like the surveys, the GDP data now indicate that Germany in fact had a reasonably good year over 2014 as a whole, growing 1.6%. The GDP data for Germany have simply been more volatile than the PMI, most likely reflecting special factors such as bridging holidays in the summer and unusual weather affecting construction.

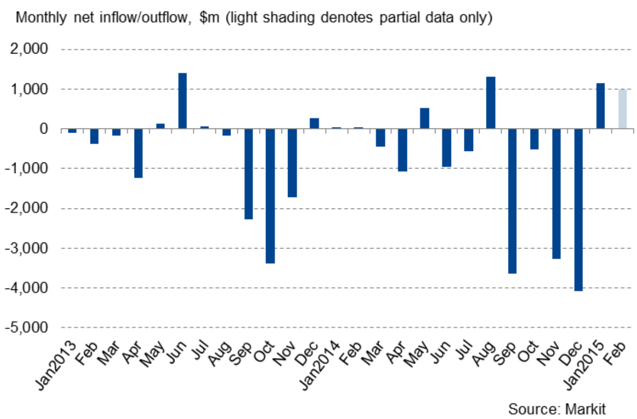
German economic growth



German GDP growth and the PMI



Germany-exposed ETF flows (monthly)



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Positive start for 2015 signalled

Survey data point to further economic growth in the eurozone's largest economy at the start of the new year. Germany's all-sector PMI (a GDP weighted average of the three surveys' output measures) rose to a three-month high in January. However, the upturn was largely driven by increased activity in the service sector, while output growth in manufacturing remained below levels seen at the beginning of last year and construction declined marginally.

Investor sentiment improves

The view of a continuation of economic growth heading into 2015 is consistent with investor sentiment data. Exchange traded funds (ETF) provide investors with easy, liquid exposure to various markets. Fund flows consequently provide a valuable and very timely insight into how investor appetite towards different markets is changing. Exchange traded funds exposed to Germany saw net inflows in January, and data available for February suggest the positive trend has continued. These monthly inflows contrast with net outflows in each of the final four months of last year.

So far this year, German-exposed ETFs have seen a $2.1bn net inflow. It is likely that the improvement in sentiment reflects a number of factors, including the ECB's announcement of full-scale quantitative easing and signs of stronger economic growth.

Flash composite PMI data, published on 20th February, will provide the first insight into the economy's performance in the middle of the first quarter.

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