

## Germany

### German economy grows at moderate pace in third quarter

- **Gross domestic product rises 0.3% in Q3, down slightly from 0.4% in Q2**
- **Further modest growth signalled at start of fourth quarter**
- **Investor sentiment deteriorates**

The German economy continued to grow at a moderate pace in the third quarter, according to data from Statistisches Bundesamt Destatis. Markit's PMI data signalled further modest growth at the start of the fourth quarter, but results from the latest Business Outlook Survey highlight growing uncertainty among businesses about prospects for the year ahead. ETF investors have also trimmed their exposure to Germany in a sign of reduced confidence in the corporate outlook.

Moderate economic growth was maintained in Germany in the third quarter, with gross domestic product (GDP) rising 0.3%. This was consistent with signals sent by the PMI and in line with the Thomson Reuters consensus. Growth slowed slightly from the 0.4% seen in the previous quarter, though on an annual basis the German economy grew by 1.7%, up slightly from 1.6% in Q2.

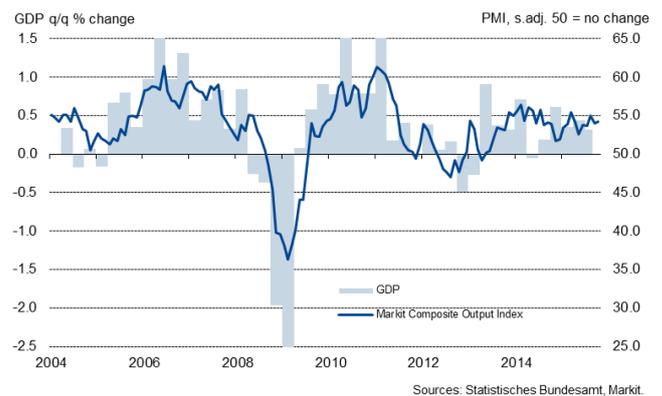
#### Domestic market remains in good shape

According to [Destatis](#), positive contributions to overall GDP came mainly from the domestic market, as both household and government final consumption expenditure increased during the latest three-month period. PMI survey data had already indicated that retailers enjoyed their best calendar quarter since 2006 in the three months to September, as good weather made consumers more willing to loosen their purse strings. Moreover, the combination of low energy prices and rising wages lead to higher real incomes, which in turn enabled households to increase their consumption, according the latest monthly report from the Deutsche Bundesbank.

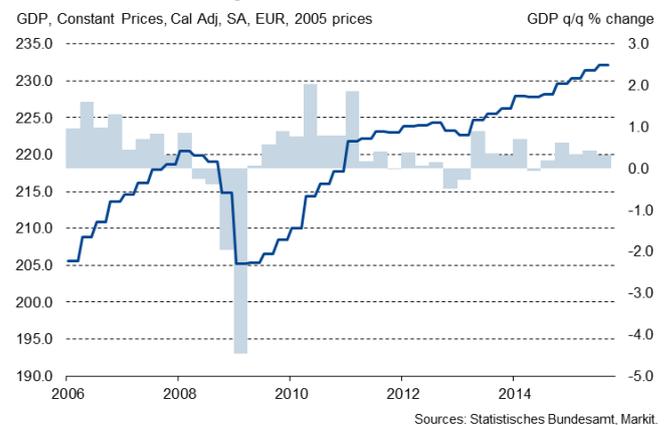
Negative contributions meanwhile came from a slight decrease in gross fixed capital formation and the

development of foreign trade, with imports rising stronger than exports.

#### German GDP growth and the PMI



#### German economic growth



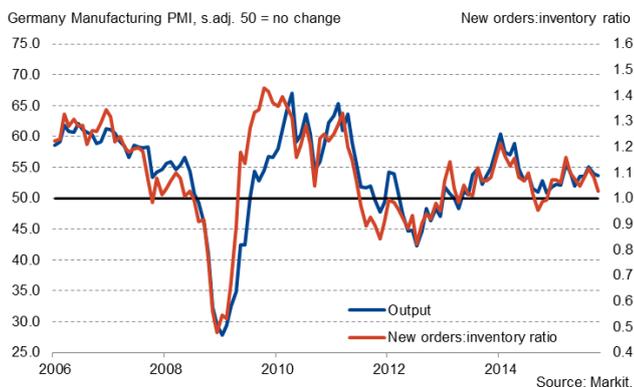
#### Modest growth at the start of Q4

The Markit Germany Composite PMI (which measures the combined output of manufacturers and service providers) signalled further economic growth at the start of the fourth quarter, with the pace of expansion similar to that signalled for the three months to September. While output growth slowed slightly in the manufacturing sector, service providers reported a sharper rise in activity. The survey data furthermore highlighted that the labour market remained in good shape, with the rate of job creation close to a four-year high.

## Uncertain outlook

However, despite the PMI survey data suggesting that manufacturing growth was maintained in October, the data also highlight that production growth could slow in coming months. The orders to inventories ratio (which historically acts a good lead indicator for output) fell to an 11-month low, suggesting that a future rise in demand could be satisfied by using existing stock, rather than scaling up production levels.

### Production growth likely to slow further



Some gloominess was also evident in the latest Markit Business Outlook Survey, which showed business optimism in Germany falling in October. Companies were less upbeat about their prospects for activity, new business and employment, with panellists highlighting uncertainty stemming from geopolitical tensions, the growth slowdown in China and volatile raw material prices. Moreover, several panel members commented that the VW scandal could spread to the automotive sector as a whole and thereby damage the economy in coming months.

### Growing list of worries

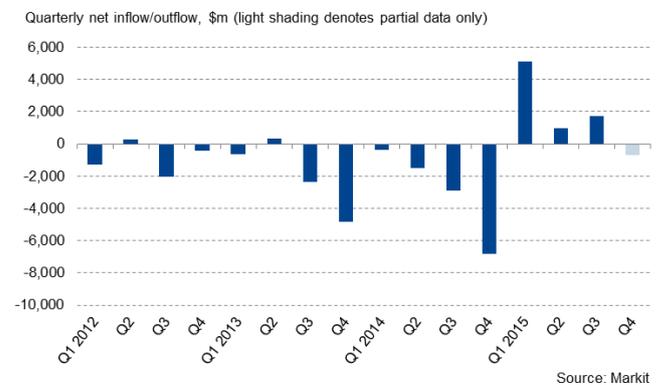


## Investor sentiment deteriorates

ETF (exchange-traded fund) investors have meanwhile trimmed their exposure to Germany. ETFs have seen close to \$700 million of outflows so far in the fourth quarter, putting them on track for their worst quarter in 2015.

Exchange traded funds (ETF) provide investors with easy, liquid exposure to various markets. Fund flows consequently provide a valuable and timely insight into how investor appetite towards different markets is changing.

### Germany-exposed ETF flows (quarterly)



Flash composite PMI data, published on 23<sup>rd</sup> November, will provide further insight into the economy's performance in the fourth quarter.

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