

News

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MOODY'S ANALYTICS GERMANY OUTLOOK

KERSTIN VOELKEL

Communications Strategist
Moody's Analytics
+44 20 7772 5207
kerstin.voelkel@moodys.com

RISK OF RECESSION PARTIALLY OFFSET BY MODEST GROWTH IN CONSUMPTION AND NET EXPORTS

LONDON, June 13, 2013 — Moody's Analytics, a leading independent provider of economic forecasting, today released its economic outlook for Germany for 2013. According to the report, [Germany Outlook: Light Amid Recession's Shadow](#), the German economy is still at risk of recession. German GDP increased 0.1% in the first quarter of this year after a revised 0.7% contraction in the previous stanza.

"The second quarter could see a drop in output due in part to the severe floods that have swept central Europe. We expect the German economy to return to growth in the second half of this year, driven by a modest but steady increase in consumption thanks to rising wages and low unemployment", says Petr Zemcik, Director of Economic Research at Moody's Analytics.

According to the report, private consumption spending will grow by 0.7% in 2013, supported by wage and salary growth of 2.4%. While the increase in consumption is modest by historical standards, it will be stable as household indebtedness is low and the unemployment rate remains at 6.9%.

Investment in the German economy fell in the first quarter of 2013, reflecting the still prevailing uncertainty about the euro zone's future. Machinery investment declined by 0.6% and construction investment fell by 2.1% q/q. The banking crisis in Cyprus and an ambiguous outcome of Italian elections have affected business confidence. Although the risk of a euro zone member country exiting the currency union has subsided, many parts of the region remain troubled.

"Cyprus, Italy, Greece, Portugal and Spain are all in recession, and the future business environment is unclear as policymakers debate banking union, fiscal compact, and an acceptable monetary policy for the euro area. We expect the picture to clear somewhat after the German elections in September, helping investment pick up into 2014", adds Petr Zemcik.

The Moody's Analytics reports notes that German bank lending to the private sector remains subdued. Despite relaxed lending standards and relatively low borrowing costs, additional slowdown in lending is expected as conservative German businesses appear to be less willing to invest while the environment remains uncertain. Loans to nonfinancial corporations contracted 0.5% m/m and 0.1% y/y in April. Loans to households, however, grew modestly by 0.1% m/m and 1% y/y, and have recently reached pre-recession levels.

Germany's monthly trade balance improved in April to €17.7 billion from €15.9 billion in January. Slowing exports to the rest of the euro zone will drag on the country's balance in coming months, and a stronger euro will hurt exports. German exports declined 1.8% from the fourth to the first quarter, while imports decreased 2.1%. Thanks to Germany's broad mix of trade partners though, net exports will remain stable and support output growth by the end of the year. In annual terms, German exports to countries outside the European Union jumped 13.6%. Moody's Analytics expects GDP growth of 1.9% in the U.S. and 7.6% in China in 2013, helping demand outside Europe marginally outweigh the weakness within the region.

Moody's Analytics expects Germany to grow 0.5% in 2013 and 1.9% in 2014. Consumption will drive growth this year, while investment and exports will support output in 2014. According to Moody's Analytics, Germany's GDP has a 32.9% chance of falling in 2013 and a 31.3% chance of growing more than 1%.

For more information, visit Moody's Analytics [Dismal Scientist](#).

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