

Singapore, 6 December 2016

## **German Economy in 2017: Stable, but not staid**

**The signs for Germany's further economic development are promising, with a high level of stability. Coface's expectations for solid growth therefore come as little surprise. This year's gross domestic product (GDP) is expected to grow by 1.8%. Growth for next year, at 1.7%, will only be marginally smaller. The primary growth driver for 2017 will once again be private consumption, mainly fuelled by the country's record-high levels of employment. Risks for the German economy could occur on the export side. Global trade is only expected to show moderate growth in 2017 and specific risks are lurking in some of the major target countries for German exports – such as the forthcoming Brexit and the cooling down of the Chinese and US economies. Moreover, the economic impacts from the election of Donald Trump as US president Trump are, as yet, unclear. German exports will only grow by 2.3% in 2016 and 3.4% next year.**

### **Less insolvencies but higher losses**

Within this environment, Coface forecasts that the downward pressure on insolvencies will continue, with the fifth year in a row of record lows in 2017 (falling to a volume of around 21,000). Nevertheless, this downward trend is expected to continue at a slightly slower pace. After decreasing by 5% this year, Coface forecasts a further decline in bankruptcies by 4.2% in 2017.

Despite the positive outlook, the amount of outstanding claims in insolvency procedures could rise further, as several sectors, especially among larger companies, are under increased pressure from competition, costs and profit margins. Up until August 2016, the receivables expected to be affected by initiated insolvency proceedings clearly exceeded those of the first eight months of 2015. At a volume of almost EUR 20 billion, they are over 70% higher than last year's receivables. The reason for this is that there are more insolvencies among economically larger companies, such as Steilmann and Unister, despite a decreasing number of insolvencies in absolute terms. Receivables in insolvency proceedings saw particularly sharp rises among freelancers, scientific and technical services, to reach almost EUR 8 billion, in non-construction industries, to nearly EUR 4 billion and in trade sectors, to more than EUR 2 billion. Claims also rose significantly in Agrofood, even though outstanding amounts were relatively small in volume (at around EUR 0.5 billion).

"The stable outlook for the German economy does not mean that companies in Germany will be able to lower their guard in the coming year. There are a number of external risks which could particularly affect Germany's export-oriented economy. In addition, after the reform fatigue of the Grand Coalition, we cannot expect to see new far-reaching economic policy measures from the next government. These uncertainties will dissuade companies from extending their investments beyond manageable limits in the coming year" explained Dr. Mario Jung, Coface Economist for Northern Europe.

## **Growth rate of German exports clearly slowing since the second half of 2015**

Despite another record year (measured against the export volume) for German goods' exports in 2015, growth rates have distinctly contracted since the second half of 2015. In the first quarter of 2016, the growth of German exports came to a near standstill, due to the slight decline in the volume of world trade for the first time since autumn 2010. The subsequent recovery has been far from dynamic. In the first half of 2016, both world trade and German exports were very weak. German exporters recorded a slight upturn in the second quarter, due to the mild growth of world trade. German exports show a disproportionately strong reaction to the vicissitudes of world trade, in particular in cases of sharp upswings or drops.

The outlook for German exports in 2017 is cautiously optimistic. Nevertheless, the downward risks prevailing in the countries of importance for German trade need to be taken into account. An analysis of the economic prospects in 2017, for the top 10 target countries for German exports, reveals a weaker trend than in 2016. Around 60% of all German exports are sold to these countries.

The economic slowdown in four of the five most important target countries will be of particular relevance. For the UK, the third biggest target country, Coface expects a massive slump in growth, down from 1.9 to 0.9%, largely due to the Brexit. This is expected to seriously affect German exports. In China, the gradual slowdown in growth is expected to continue – as is the gloom in the USA – now Germany's most important customer, accounting for a share of around 9% of all exports. France, Germany's second largest export destination, is expected to suffer from another slight setback in economic growth in 2017.

These negative impacts will be partially compensated for by the slightly improved economic outlook for the remaining countries in the top 10 group, along with clearly higher growth expected for emerging and developing countries - which account for around 30% of German exports.

## **Private consumption main driver of activity**

“The solid growth prospects for the German economy mainly rely on the dynamic pace of private consumption” explained Dr. Mario Jung. “Private household consumer spending will further accelerate in 2017, to reach a high of 2.0% - up from 1.9% in 2015 and 1.6% in 2016. To put this into perspective, the average growth in private consumption between 2006 and 2014 was just 0.8% and the growth of the German economy mainly relied on net exports.” In 2017, growth impulses from net exports are expected to be lackluster and could even slow slightly. Coface forecasts that these strong dynamics in private customer spending will ensure growth in gross domestic product of 1.7%, by contributing two-thirds (or 1.1 percentage points).

### Elections in 2017: Will the Grand Coalition come to an end?

The parties of the governing coalition are unlikely to escape unscathed during next year's elections. According to current surveys, both the Union and SPD parties are scoring lower than the results they achieved during the last parliamentary elections (of September 2013). They are also below the survey results taken at the turn of the year 2015/2016.

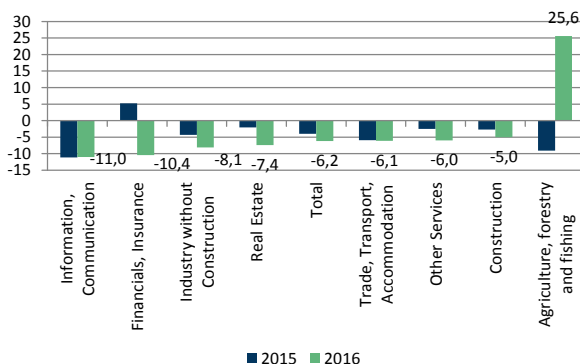
Nevertheless, the overall picture for the future of the Federal Government reflects stability and anything other than a renewal of the Grand Coalition would be a surprise. All available surveys still show that the Grand Coalition has a margin of security to obtain an absolute majority, while there is no majority for any other coalition of two parties. Even a tripartite alliance of the SPD, Left Party and The Greens, which has been sought by several groups, would have little chance of obtaining an absolute majority.

A smaller Grand Coalition - as well as the likelihood of the AfD being an additional political power in the Bundestag - will hamper political consensus. For the first time since 1953, six parliamentary groups, covering a very broad political spectrum, will be represented in the Bundestag. Moreover, as the leaders (Merkel for the Union and Gabriel for the SPD) are anything but undisputed, the achievement of large reform projects under the next Grand Coalition – including those covering economic and social policy - will become more and more difficult.

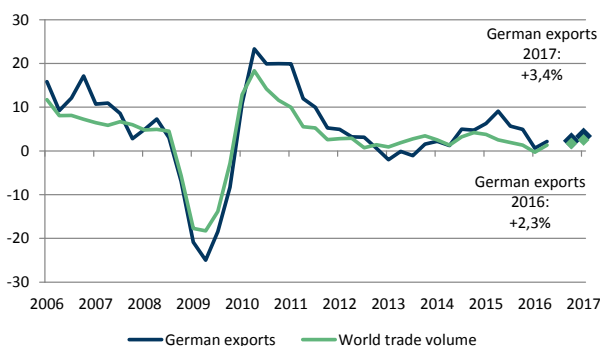
These potential risks for political developments in Germany could fuel political uncertainties in the European community, creating an additional drag on consensus-building at European Union level.

### ANNEX

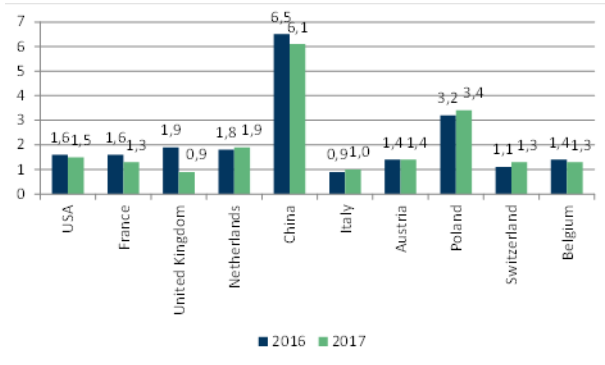
#### **Development of insolvencies, by sector, in the first eight months of 2016 (year-to-date, in percent), as well as in the total year 2015 (change from 2014, in per cent)**



#### **Growth of the world trade and German exports between 2006 and 2017**



**Economic growth in Germany's ten most important export countries for 2016 and 2017 (figures in per cent)**



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**About Coface**

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