As we go to print, a deal has finally been struck between the CDU and SPD ending a four-month impasse in Germany's parliament. A resurgent left-wing of the SDP acting under the auspices of NoGroKo (no grand coalition) could still scupper the agreement, though if its attempt to leverage SDP members to vote against party leadership fails, Europe's largest economy will have a Government again by Easter.

While negotiations have dragged on, Germany's economy appeared progressively unfazed by the wrangling's of its political elite. Growing by 2.2% in 2017, surpassing that of the previous year, it was the country's strongest GDP expansion since 2011. Consumer spending driven by rising wages and increased job security certainly contributed to its success, though a leap in exports provided a crucial boost, as demand from Europe remained unexpectedly high.

Private consumption will continue growing in 2018, although slightly lower at 1.9% compared to 2% in the previous 12 months. Imports too, it's anticipated, will increase by 5.8%, faster than exports at 5.3%. These projections, together with buoyant business investment and confidence, have led to GDP growth being set at 2.4% for this year, from the initial 1.9% speculated in 2017.

Even with these positive numbers, however, analysis suggests business confidence in the sustained resilience of the economy is declining, especially since it exceeded its potential growth rate for fourth consecutive year, in 2017. Fears the economy is 'overheating', though, have been downplayed due to weak consumer inflation and restrained borrowing.

Unemployment figures reached a 37 year low in December 2017, at 5.7%, and despite a seasonal increase of 185,000 in January, its expected an additional 500,000 jobs will be created in Germany this year, raising the size workforce to an impressive 45 million. While job creation is always welcoming news, skill shortages remain the scourge of employers and with an imminent hike in interest rates, the rising cost of labour exacerbates the problem.

Wage growth has generally been stronger in Germany than in most of Europe during the last few years, but a key issue has been the perceived failure of rising pay to truly boost competitiveness, after a period of prolonged control. A key challenge, therefore, for the new Government, will be to stimulate productivity through heightened investment, though ideological clashes will inevitably ensue as the grand coalition outlines its approach.

We hope you enjoy reading the report and find the perspectives offered to be useful. Should you have further questions, please do not hesitate to contact a member of our team who would be more than happy to clarify any of the information presented.