

## German Economy Grows

After years of slow and negative growth rates, the German economy is showing signs of re-starting its powerful economic engine. Under the Euro, German industry struggled. With interest rates kept high to combat inflationary risks in other countries, the German economy desperately needed a boost from lower rates. However, there were some benefits from the recession, German wage growth slowed and as a result the German economy has become more competitive; and now it is starting to grow again.

Germany, the Eurozone's biggest economy saw third-quarter growth pick up. The economy expanded by 0.7 per cent from the second quarter, when it had grown by 0.3 per cent, the federal statistics office said. On an annualized basis, economic activity was up by 2.5 per cent when adjusted for calendar effects.

Growth was underpinned by construction and infrastructure investments. Companies are feeling confident about the future and are willing to invest. In addition, the government is spending on infrastructure projects.

Consumers are also feeling more confident as household consumption grew to its strongest level in years. Traditionally, consumption has been the weakest link of the German economy, but with employment growing and earnings showing a modest rise, then consumers are willing to commit to additional expenditure.

Trade did not contribute this time to the higher figure "owing to a net increase in imports," the office said. The result was widely expected, as is an economic slowdown for the rest of the year and into 2008. Demand from the United States, a key export market, has been hit by problems linked to the subprime housing market crisis, while the euro's rise against the dollar has also begun to weigh on German exports.

High oil prices and tighter credit conditions brought on by the US financial turmoil are limiting economic activity as well. It is expected to slow sharply next year, with the government forecasting growth of 2.0 per cent, down from 2.4 per cent in 2007.

## Questions

1. What are key components of total expenditure?
2. For Germany identify what is happening to each of these components.
3. Choose an economy of your own and find data on the key components of total expenditure. Provide a commentary on the data.