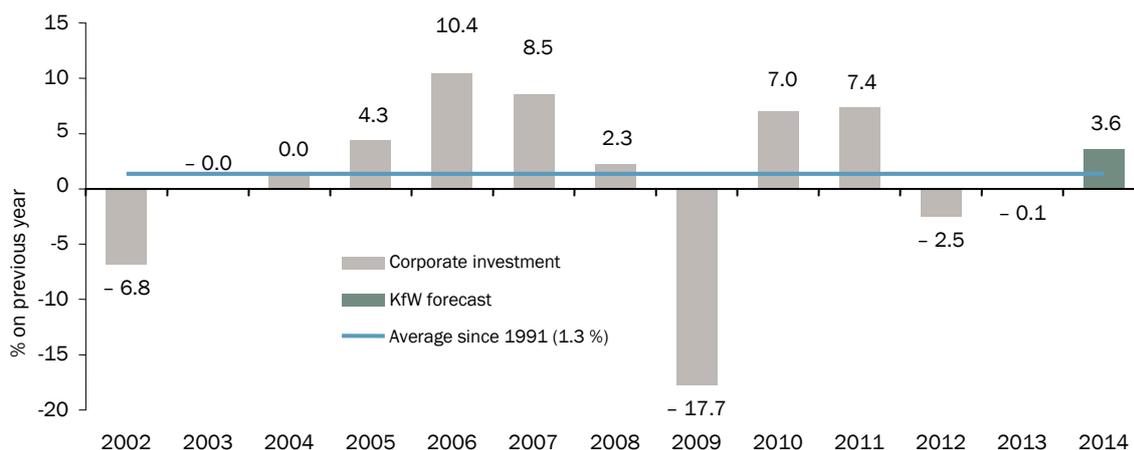


## KfW Investment Barometer Germany

### Corporate investment: Gradual recovery

- Although corporate investment fell during the fourth quarter of 2012, the dramatic drop that had been feared did not materialise.
- This allows us to raise our forecast for this year slightly. We expect corporate investment in 2013 to be around zero. This forecast obscures the fact that investment will pick up in the second half of the year.
- The full effects of the recovery on the financial markets and in the eurozone will not be felt until 2014. German corporate investment should then grow by a good 3½%. Given the situation in the eurozone, however, significant downward risks remain. ,

#### Corporate investment in Germany, adjusted for price and calendar effects



Source: KfW Economic Research, SNA database: February 2013

#### Decline bottomed out in the fourth quarter

The still-weak economic environment is reflected in German investment activity. In the fourth quarter of 2012 German corporate investment fell for the fourth time in succession. In 2012 as a whole it thus shrank by 2.5%, despite the extraordinarily favourable interest environment. Nonetheless, both the relatively moderate decline in the fourth quarter (-0.3% on the previous quarter) and the most recent business surveys do indicate that the worst is now behind us.

#### Gradual recovery – Investment to pick up in the second half of the year

Although the first six months will bring only restrained growth in investment due to low capacity utilisation (currently just 82 %), the upward economic trends will make their presence more keenly felt in the second half of the year:

- The global economy, and especially the USA, are regaining ground in 2013. Moreover, the eurozone recession is likely to at least lose some of its bite. Early indicators such as new orders received for capital goods (currently 1.4 % up on the average for the previous quarter), and the investment intentions reported by export companies in surveys, suggest that the German export sector will gain vitality over the course of the year.
- Interest rates are low, and access to credit is good on the whole. In 2012 this was not enough to boost investment, as increased capacities and a disappointing trend in demand had reduced capacity utilisation. For the time being companies are able to meet additional demand from reserve capacities. However, once capacity utilisation begins returning to its long-time average value (around 85 %), the low interest level will facilitate expansive capital investment, and investment activity will gain momentum.
- Beyond this growth in capital investment, the energy turnaround is creating incentives to increased efficiency and cost reduction, and will trigger investment in rationalisation measures.

We have therefore set our forecast for corporate investment in 2013 as a whole at just below zero, i.e. -0.1 %. With a GDP growth rate of 0.9 %, our macroeconomic forecast is significantly more positive – thanks chiefly to increasing private consumption and stable growth in housing construction. In 2014 corporate investment – then buoyed by a more stable recovery in the eurozone – could gain 3.6 %, GDP 1.7 %.

The high downward risks remain unchanged. Chief among these are the developments in the eurozone.

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