

Press Release

For editors

21 November 2014

Commerzbank Research: Growth in Europe remains slow in 2015

- **Growth Forecasts 2015: Germany + 1.1%, euro zone + 0.8%**
- **Contrasting monetary policies: rate hikes by the Fed, ECB heading for QE**
- **Weak euro and higher dividends drive DAX at record high of 10,800 points**

The economy in Europe is not making any substantial headway according to Commerzbank's economic forecast 2015. The economists expect for the euro zone an unchanged economic growth rate of 0.8%. In Germany the GDP will not rise by more than 1.1% in 2015 after 1.5% in 2014. By contrast, the US could become an engine of growth for the global economy in 2015 with a GDP increase of 2.9%, which is why the US Federal Reserve Fed is expected to lift interest rates for the first time since nine years. Commerzbank's economists expect an ongoing zero-interest rate policy of the European Central Bank (ECB) for the euro zone. This may shift more money into riskier investments like stocks and push the major German stock index DAX to 10,800 points by the end of 2015.

"The growth outlook in the euro zone for the coming year is sobering. Growth remains painfully slow," said Commerzbank chief economist Joerg Kraemer. For 2016, he expects economic growth of only 1.0% in the euro zone. "At this slow pace, it will take another two years before the euro countries in total will have reached an economic level the same as before the 2008 financial crisis," he said.

Kraemer identified the slowdown of growth in the emerging markets as major reason for the current economic weakness in Germany. However, the economy would gradually be pushed from falling oil prices, a declining euro exchange rate and low interest rates. This will also help promote private consumption, so that the German economy should grow a little more again after the spring 2015. But Germany may not expect a stronger growth rate of 1.5% before 2016.

In 2015 Commerzbank's economists expect the capital markets worldwide to be dominated by the contrasting monetary policy of the Fed and the ECB. While the Fed gradually exits from an ultra-loose monetary policy and begins raising interest rates mid-year, the ECB would be ready to pursue an opposite course by starting QE, i.e. purchasing government bonds on a large scale to fight a weak economy and low inflation. That was, the ECB extends the de facto zero interest rate policy in the euro area for years. "The

markets are likely to be torn between a loosening ECB and a Fed tightening," said Kraemer on the contrasting monetary policies across the Atlantic.

The prospect of rising US interest rates should largely benefit the dollar, however the euro may suffer. The foreign exchange strategists at Commerzbank expect a price of 1.15 dollars per euro at the end of 2015, ten cent lower than in November 2014. Yields on Germany's ten-year government bonds (Bunds) could reach new lows in the first quarter of 2015 because of the looming government bond purchases by the ECB. But at year-end 2015, the Bund yields may be back at 1.0% again, as European government bonds could not completely decouple from the rising interest rates in the United States.

Despite the strong economy in the US in 2015, the equity markets on the Wall Street offer little upside potential because of rising interest rates there. Commerzbank's equity strategists expect the S&P 500 to gain just 50 points to 2,100 points until the end of next year. However, the European and especially the German shares could perform better. European corporates' profits should benefit from the decline of the euro on the FX markets. The analysts expect for the DAX 19 dividend increases and also with increasing payout ratios a record dividend payout of € 30.2 billion. In the ongoing low interest rate environment, the dividend yield should become more interesting for investors. With 3.1% for the DAX the dividend yield is about twice as high as that of corporate bonds. According to the equity experts at Commerzbank, the DAX is to rise to 10,800 points by the end of 2015, but volatility should remain high and price fluctuations may range from 9,000 to 11,000 points.

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Forecasts Commerzbank Economic Research

Growth rates of real Gross Domestic Product (GDP) in % year-on-year

	2014	2015	2016
Euro zone	0.8	0.8	1.0
Germany	1.5	1.1	1.5
France	0.4	0.5	0.7
Italy	-0.3	0.1	0.5
Spain	1.4	2.3	2.3
USA	2.2	2.9	2.8
China	7.3	6.5	6.5
World	3.1	3.2	3.5

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