The German economy’s return to growth in the first quarter was hampered by declines in construction activity and investment as a severe winter and a recession in Europe damped demand.

Construction fell 2.1 percent from the fourth quarter and capital investment dropped 1.5 percent, the Federal Statistics Office in Wiesbaden said today. Gross domestic product increased 0.1 percent, the office said, confirming a May 15 estimate. From a year earlier, the economy shrank 0.2 percent when adjusted for working days.

With the 17-nation euro area mired in recession and the coldest March in a quarter-century freezing building activity, Europe’s largest economy has relied on domestic demand to haul it back to growth. GDP fell 0.7 percent in the fourth quarter of 2012.

“The somewhat disappointing first-quarter result was due mainly to the cold weather and the sensitivity of companies to developments in the rest of Europe,” said Gerd Hassel, an economist at BHF Bank AG in Frankfurt. “While that uncertainty hasn’t quite fully dissipated yet, there should be a rebound in construction activity in the second quarter and we could see better-than-expected results.”

Household spending rose 0.8 percent in the first quarter, while public spending fell 0.1 percent, today’s report showed. Exports declined 1.8 percent and imports dropped 2.1 percent. Domestic demand didn’t add to growth as stronger consumption was offset by weaker investment, while net trade contributed 0.1 percentage point to GDP.

**European Recession**

The Bundesbank, which in December predicted growth of 0.4 percent this year and 1.9 percent in 2014, will publish new forecasts next month.

The euro-area economy shrank more than economists forecast in the three months through March, extending its recession to a record sixth quarter. GDP in the region fell 0.2 percent after a decline of 0.6 percent in the previous quarter.

Poor economic data prompted the European Central Bank to cut its benchmark interest rate to a record low of 0.5 percent this month, and President Mario Draghi has said he’s ready to lower borrowing costs again if the economy worsens. Still, the Frankfurt-based central bank predicts a gradual recovery in the second half of the year.

**Business Confidence**

While surveys of purchasing managers still point to a contraction in euro-area activity, data released yesterday were better than economists anticipated. German business confidence
probably remained unchanged this month after falling in April and March, according to a Bloomberg News survey. That report is due at 10 a.m. in Munich today.

“The first half has been very sluggish for the global economy and Germany will feel some pain from that,” said Aline Schuiling, an economist at ABN Amro Bank NV in Amsterdam. “However, we still believe in the scenario of a recovery later this year as less austerity in the euro area may take some of the weight off.”

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