Germany’s economic growth in the second quarter was driven by consumption and a rebound in investment as a recovery in the 17-nation euro area, its biggest trading partner, bolstered confidence.

Capital investment rose 1.9 percent from the three months through March, the first expansion in three quarters, and consumption increased 0.5 percent, data from the Federal Statistics Office in Wiesbaden showed today. Gross domestic product climbed 0.7 percent in the period, the office said, confirming an Aug. 14 estimate. The economy grew 0.5 percent from a year earlier when adjusted for working days.

Economic expansions in Germany and France have led the euro region out of its longest-ever recession, backing up European Central Bank President Mario Draghi’s forecast for a gradual recovery in the region. Euro-area services expanded in August for the first time in 19 months, while a gauge of German factory output rose to the highest level in more than two years. Germany’s Bundesbank has warned of a slowdown in coming months.

“New growth hopes for the rest of the euro zone are stimulating German confidence, which in turn could lead to higher German economic growth,” said Carsten Brzeski, an economist at ING Groep NV in Brussels. “The expected slowdown after the exceptionally strong second quarter should be mild.”

**Domestic Demand**

Investment in plant and machinery climbed 0.9 percent in the second quarter, the first increase since 2011, today’s report showed. Construction output surged 2.6 percent. Household spending gained 0.5 percent and government consumption was up 0.6 percent. Domestic demand added 0.5 percentage point to growth, while net trade contributed 0.2 percentage point. Exports rose 2.2 percent and imports advanced 2 percent.

German business sentiment as measured by the Ifo research institute rose for a third month in July, and a survey of purchasing managers by London-based Markit Economics showed manufacturing and services output expanded in August. That signals that Europe’s largest economy may be on track for a sustained upswing after stagnating in the first quarter and contracting 0.5 percent at the end of last year.

That bodes well for Chancellor Angela Merkel, who is seeking a third term as German leader in Sept. 22 elections. Her Christian Union has 41 percent support, compared with 22 percent for the Social Democratic Party, according to a poll by Forsa for Stern magazine and RTL television released Aug. 21.

**Slowdown Risk**

While the expansion in Europe’s largest economy will continue, it will also “normalize and stabilize” in the rest of the year, the Frankfurt-based Bundesbank said this week. In July, the central bank warned of increasing signs of an economic slowdown. It forecasts growth of 0.3 percent this year and 1.5 percent in 2014.

Italy and Spain remained in recession in the three months through June even as the euro-area economy grew 0.3 percent, the first expansion in seven quarters. Draghi, who has vowed to foster the recovery by keeping interest rates low for an extended period, will present new GDP forecasts on Sept. 5. The ECB in June predicted a contraction of 0.6 percent this year and growth of 1.1 percent in 2014.

“Chances of stronger growth in the second half of the year have clearly increased,” said Christoph Weil, senior economist at Commerzbank AG in Frankfurt. “Still, we remain skeptical about a major upswing in the euro zone.”

**Broad-Based Growth**
Germany’s economy is supported by a jobless rate of 6.8 percent, near a two-decade low, that helps to boost private consumption, improving confidence in a euro-region recovery that encourages investment, and growth in the U.S. and emerging Asian markets that bolsters exports.

Hamburger Hafen & Logistik AG, which handles about 80 percent of containers at Hamburg, Europe’s third-largest port, raised its 2013 volume forecast on Aug. 14 after Asian and Baltic Sea traffic gathered pace. Hochtief AG (HOT), Germany’s largest construction company, reported second-quarter earnings that beat analyst estimates the same day as profit at its Asian and American units compensated for losses in Europe.

Manufacturing growth, record exports, looser bank lending and a housing recovery are raising the odds that the U.S. economy, the world’s largest, will accelerate after GDP rose at a 1.7 percent annualized rate in the second quarter. The Chinese economy, the second-biggest, may be strengthening after a two-quarter slowdown. A gauge of the nation’s factory output this month showed a return to growth after the biggest decline in more than a year.

“Global demand is advancing and if the domestic economies in struggling euro counties stabilize further, we will embark on a stable growth path,” said Alexander Koch, an economist at UniCredit Group in Munich. “We’ve already seen a recovery in German exports, which should continue in the coming months, and domestic consumption isn’t doing too bad either.”

To contact the reporter on this story: Jana Randow in Frankfurt at jrandow@bloomberg.net

To contact the editor responsible for this story: Craig Stirling at cstirling1@bloomberg.net