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**Book**

# Still highly fragile

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- **German economy – even more fragile.** After very weak Dec data, a small drop in Q4 GDP seems likely. Looking forward, the coronavirus provides a substantial risk for the expected global recovery, as hopes were pinned on an improvement of the Chinese economy. We assume that the corona outbreak will likely shave off 0.2pp of Germany's Q1 GDP, making a technical recession quite probable during the winter half.
- **Public finances: Look back at 2019 and outlook for 2020/21.** Despite a surprisingly hefty surplus of 1.5% of GDP, we expect some rapid fiscal deterioration in 2020/21. The high 2019 federal surplus has led to a clash in the government over how the additional funds will be used. Tax policy is likely to be one of the key battlegrounds ahead of the 2021 federal election.
- **German labour market: Slowing momentum.** Although the labour market is still in good shape, there are unmistakable skid marks from the economic slowdown. Employment has continued to decline almost exclusively in temp agencies. Leading indicators still point towards a relative stability of the labour market.
- **German auto industry: Still mixed signals**. The German auto industry sends gradually more positive signals. Capacity utilisation increased significantly at the start of Q1. Production and export expectations also rose amid a moderate recovery of global car demand. Sector growth will probably remain low in 2020, though.
- **Berlin housing market: Rent cap likely to cause the property cycle to decouple from the super cycle for a few years?** If the rent cap is indeed compatible with the constitution, the situation for investors will fundamentally change. Risk-averse short-term investors have good reasons to withdraw from Berlin. For long-term investors, however, Berlin should remain an attractive market.
- **Private households in Germany: Regional differences in banking.** In the lending and deposit-taking business with retail customers, there are substantial differences between the federal states. Per capita loan volumes in east Germany are significantly lower than in the west. Savings banks have a country-wide market share of 25-35%, whereas cooperative banks have a much stronger presence in the south and west than in the east and north. In east Germany, the deposit overhang is particularly large.
- **(Political) storm over Germany – CDU leader AKK announces resignation**. CDU leader AKK unexpectedly announced to step down from CDU leadership and organize her succession on a convention in summer. While developments in Berlin will certainly be in flux, our best guess would be that this time the next CDU leader will also become the CDU's chancellor candidate in the 2021 federal elections.


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## Key Economic Forecasts

Figure 1: Economic Forecasts

| | Real GDP (% growth) | | | Consumer Prices* (% growth) | | | Current Account (% of GDP) | | | Fiscal Balance (% of GDP) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020F | 2021F | 2019 | 2020F | 2021F | 2019 | 2020F | 2021F | 2019 | 2020F | 2021F |
| Euroland** | 1.2 | 0.8 | 1.2 | 1.2 | 1.0 | 1.2 | 2.5 | 2.1 | 1.8 | -0.9 | -1.1 | -1.2 |
| Germany | 0.6 | 0.7 | 1.1 | 1.4 | 1.0 | 1.4 | 7.8 | 6.7 | 6.1 | 1.5 | 0.5 | 0.0 |
| France | 1.2 | 1.2 | 1.2 | 1.3 | 1.3 | 1.2 | -0.8 | -0.2 | -0.2 | -3.2 | -2.4 | -2.3 |
| Italy | 0.2 | 0.5 | 0.6 | 0.6 | 0.7 | 1.0 | 3.1 | 2.7 | 2.7 | -2.2 | -2.4 | -2.3 |
| Spain | 2.0 | 1.6 | 1.6 | 0.8 | 1.0 | 1.4 | 0.6 | 0.4 | 0.3 | -2.1 | -2.4 | -2.2 |
| Netherlands | 1.7 | 1.6 | 1.6 | 2.7 | 1.8 | 1.7 | 10.0 | 9.8 | 9.6 | 0.7 | 0.2 | 0.0 |
| Belgium | 1.3 | 1.1 | 1.3 | 1.2 | 1.3 | 1.6 | -1.0 | -1.0 | -1.0 | -1.5 | -2.0 | -2.0 |
| Austria | 1.5 | 1.4 | 1.4 | 1.5 | 1.6 | 1.6 | 2.0 | 1.8 | 1.8 | 0.4 | 0.2 | 0.3 |
| Finland | 1.6 | 1.2 | 1.3 | 1.1 | 1.1 | 1.1 | -1.5 | -1.5 | -1.0 | -0.9 | -1.1 | -1.1 |
| Greece | 1.4 | 1.7 | 2.0 | 0.5 | 0.3 | 1.7 | -2.5 | -2.0 | -1.5 | 1.2 | 0.5 | 0.4 |
| Portugal | 1.9 | 1.5 | 1.6 | 0.3 | 0.5 | 1.0 | -0.2 | -0.5 | -0.7 | -0.3 | -0.2 | 0.2 |
| Ireland | 5.4 | 3.0 | 3.5 | 0.9 | 0.9 | 0.8 | 3.0 | 4.0 | 5.0 | 0.4 | 0.0 | 0.2 |
| UK | 1.2 | 1.0 | 1.4 | 1.8 | 1.4 | 1.7 | -5.3 | -4.7 | -4.3 | -2.2 | -2.8 | -2.6 |
| Sweden | 1.1 | 1.1 | 1.5 | 1.7 | 1.6 | 1.7 | 3.7 | 4.0 | 4.4 | 0.4 | 0.1 | 0.2 |
| Denmark | 1.9 | 1.5 | 1.5 | 0.7 | 1.2 | 1.3 | 7.0 | 6.9 | 6.9 | 2.0 | 0.5 | 0.0 |
| Norway | 1.2 | 1.9 | 1.8 | 2.2 | 1.9 | 2.0 | 6.8 | 6.0 | 6.4 | 7.5 | 7.3 | 7.3 |
| Switzerland | 0.9 | 1.9 | 1.5 | 0.4 | 0.5 | 0.9 | 10.1 | 10.2 | 10.3 | 1.1 | 1.1 | 0.9 |
| Poland | 4.0 | 3.8 | 3.6 | 2.3 | 3.8 | 3.5 | -0.3 | -0.7 | -0.6 | -1.0 | -0.8 | -1.1 |
| Hungary | 5.0 | 3.5 | 3.5 | 3.4 | 3.8 | 3.4 | -1.0 | -0.8 | -0.6 | -1.7 | -1.2 | -1.0 |
| Czech Republic | 2.5 | 2.3 | 2.7 | 2.8 | 2.8 | 2.4 | 0.9 | 0.7 | 0.9 | 0.8 | 0.4 | 0.3 |
| United States | 2.3 | 2.1 | 2.2 | 1.8 | 2.0 | 2.0 | -2.7 | -3.5 | -3.5 | -4.6 | -4.6 | -4.3 |
| Japan | 1.0 | -0.1 | 1.2 | 0.5 | 0.5 | 0.7 | 3.5 | 3.8 | 4.2 | -2.6 | -2.8 | -2.6 |
| China | 6.1 | 5.8 | 6.2 | 2.9 | 3.6 | 2.0 | 1.5 | 1.2 | 0.9 | -4.5 | -4.7 | -4.0 |
| World | 3.1 | 3.1 | 3.6 | 3.0 | 3.2 | 2.8 | | | | | | |

*Consumer price data for European countries based on harmonized price indices except for Germany. This can lead to discrepancies compared to other DB publications.
*Source : National Authorities, Deutsche Bank*

Figure 2: Forecasts: German GDP growth by components, % qoq; annual data % yoy

| | 2018 | 2019 | 2020F | 2021F | 2020 Q1F | 2020 Q2F | 2020 Q3F | 2020 Q4F | 2021 Q1F | 2021 Q2F | 2021 Q3F | 2021 Q4F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Real GDP | 1.5 | 0.6 | 0.7 | 1.1 | -0.1 | 0.1 | 0.4 | 0.3 | 0.1 | 0.2 | 0.3 | 0.3 |
| Private consumption | 1.3 | 1.6 | 1.2 | 1.0 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 |
| Gov't expenditure | 1.4 | 2.5 | 1.5 | 1.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Fixed investment | 3.5 | 2.5 | 1.9 | 2.1 | 0.4 | 0.4 | 0.6 | 0.6 | 0.3 | 0.4 | 0.5 | 0.5 |
| Investment in M&E | 4.4 | 0.4 | -0.5 | 1.8 | -0.2 | 0.1 | 0.5 | 0.5 | 0.0 | 0.3 | 0.4 | 0.5 |
| Construction | 2.5 | 3.8 | 3.7 | 2.7 | 0.8 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 |
| Inventories, pp | 0.3 | -0.9 | -0.3 | -0.1 | 0.0 | 0.1 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 |
| Exports | 2.1 | 0.9 | 1.7 | 2.1 | -0.1 | 0.2 | 0.9 | 0.7 | 0.4 | 0.4 | 0.4 | 0.4 |
| Imports | 3.6 | 1.9 | 2.9 | 2.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 |
| Net exports, pp | -0.4 | -0.4 | -0.4 | -0.1 | -0.3 | -0.2 | 0.1 | 0.0 | -0.1 | -0.1 | -0.1 | -0.1 |
| Consumer prices* | 1.7 | 1.4 | 1.0 | 1.4 | | | | | | | | |
| Unemployment rate, % | 5.2 | 5.0 | 5.1 | 5.2 | | | | | | | | |
| Industrial production** | 1.1 | -4.7 | -2.0 | 3.0 | | | | | | | | |
| Budget balance, % GDP | 1.9 | 1.5 | 0.5 | 0.0 | | | | | | | | |
| Public debt, % GDP | 61.9 | 59.2 | 57.1 | 55.4 | | | | | | | | |
| Balance on current account, % GDP | 7.4 | 7.8 | 6.7 | 6.1 | | | | | | | | |
| Balance on current account, EUR bn | 241.4 | 267.1 | 236.0 | 220.0 | | | | | | | | |

*Inflation data for Germany based on national definition. This can lead to discrepancies to other DB publications. **Manufacturing (NACE C)
*Source : Federal Statistical Office, Deutsche Bank Research*

## German economy – even more fragile

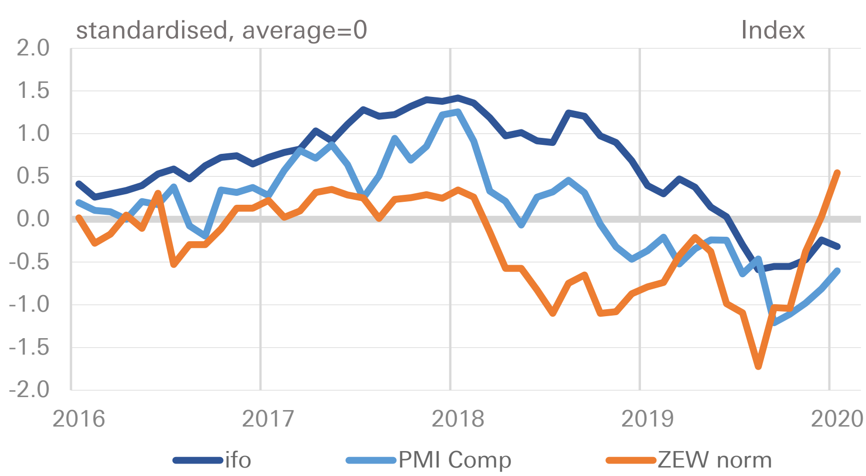
- Following very weak December data a small drop in Q4 GDP seems likely.
- Jan survey data was consistent with a stabilisation of growth in Q1. But these surveys were compiled before the outbreak of the coronavirus in China made headlines.
- The outbreak of the coronavirus provides a substantial risk for the expected global recovery, as hopes were pinned on an improvement of the Chinese economy. This is particularly true for Germany, where weak Chinese demand was an important driver behind the export deceleration in 2019. We assume that the corona outbreak will shave off 0.2pp of Q1 GDP, making a technical recession during the winter half quite probable.

The title of our German economic outlook for 2020, published in mid-December, was „Fragile – handle with care". Seven weeks later and one month into 2020 this description seems even more accurate. Surveys among financial market participants improved strongly in January, as did the Dax reaching a new all-time high on Jan. 21st only to fall by more than 3% thereafter on concerns driven by the coronavirus. Jan surveys within the corporate sector were not affected by these concerns given their cut-off dates. Still, they made for less enthusiastic reading than ZEW or the Sentix index (both surveys are conducted among financial markets participants), but were at least still supporting our expectation of a gradual improvement of the German economy.

### Negative Q4 GDP print back on the cards

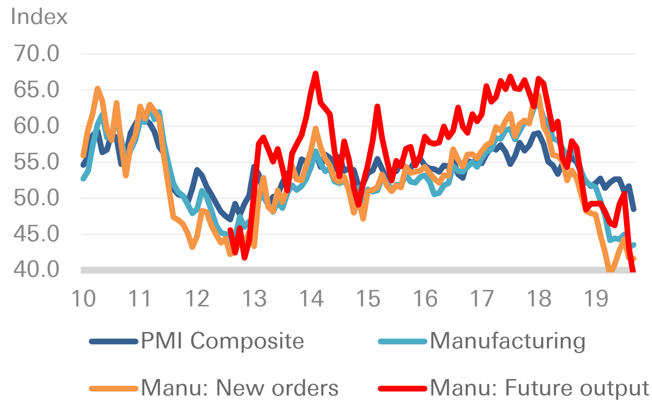
However, despite the improvement in sentiment indicators which started at the end of Q3, the poor Dec. readings for IP (-3.5% mom), retail sales (-3.3%) and orders (-2.1%) suggest that Q4 GDP might drop again after mustering a meagre 0.1% rise in Q3. The Dec numbers from the industrial sector might in part be the result of a high number of bridge days according to the Economic Ministry and Dec. data sometimes sees substantial revisions, due to delayed company reporting after the Christmas holidays. Still the 1.9% drop in Q4 IP clearly shows that the industrial recession is far from over.

Figure 3: German confidence indicators



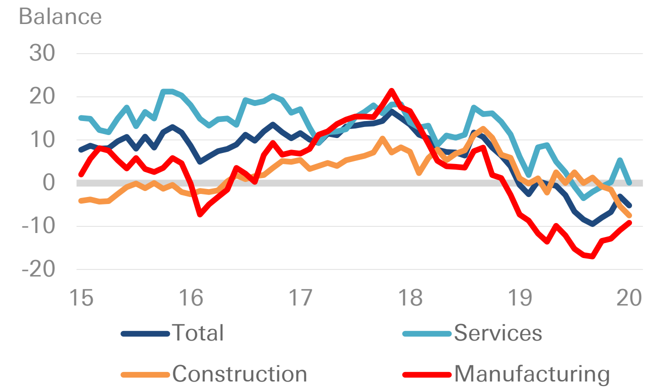

*Source : Bloomberg Finance LP, ifo, IHS Markit*

Figure 4: PMI: Weak forward-looking components




Source : IHS Markit

Figure 5: ifo expectations




Source : ifo

## Composite PMI back in expansion territory

The composite PMI (51.1) is now clearly back in expansion territory after averaging at 48.9 in the Sep. '19/Nov.'19 period, with the more forward-looking components posting the biggest gains (future output 57.7, + 10.5 compared with Aug. low, new orders 51.3, +6.3). The manufacturing PMI (45.2) is still firmly in the red, but a 16.3 points gain since Aug 2019 has propelled the future output index to 55.4, its highest reading since Aug. 2018. The orders/inventory ratio climbed above 1 for the first time since Sep. 2018.

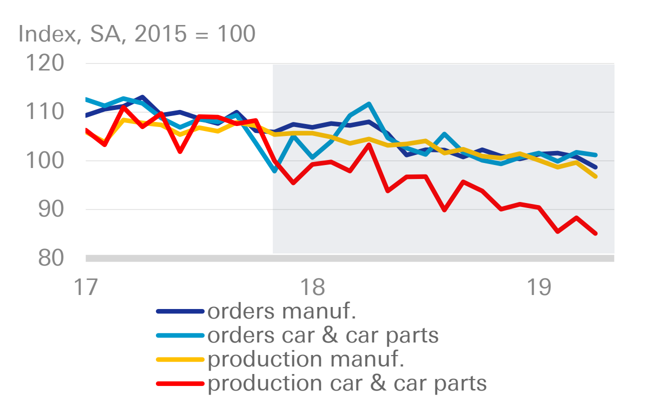
## Ifo index: More of a mixed bag

By contrast, the ifo index clearly missed consensus expectation (+0.7) with the headline falling 0.4 p. The main driver – a 1 point decline in the expectations component – was due to a correction in the services sector where the expectations fell back to 0.1 after rising strongly in Dec. (from 0.2 to 5.3). In the manufacturing sector the balance of opinions regarding the current assessment rose to a six-month high. Expectations continued to improve but the balance (-9.2) remained strongly in the red. While production expectations and the assessment of inventories improved, the export outlook retraced somewhat after its strong gain in Dec.

Figure 6: German investment cycle


Source : Deutsche Bundesbank, ifo

Figure 7: Auto sector remains in the doldrums



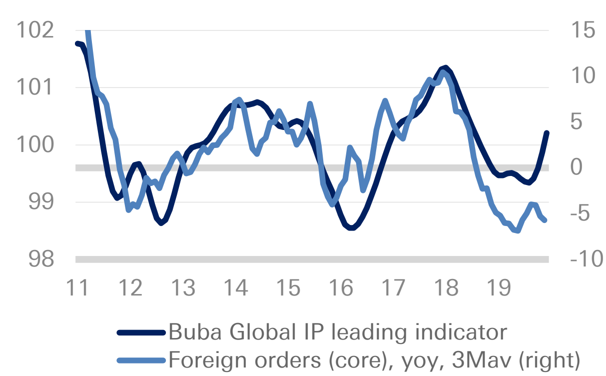

Source : Federal Statistical Office

## Phase 1 deal to reduce Chinese demand for German exports

The Buba's leading indicator for global IP rose by 0.4pp in January to stand at 100.6. This is the 4th consecutive increase. Still, the indicator is in part based on PMI surveys, where the Jan readings were not yet affected by the coronavirus, so the signal might be too optimistic.

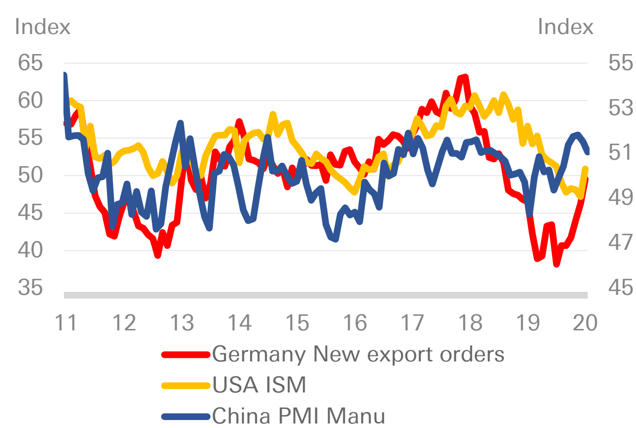
One explanation why exporters have provided more cautious answers in the ifo survey might be that it has begun to dawn on German exporters that the Phase 1 deal between the US and China, albeit decreasing trade policy uncertainty, will divert demand from their Chinese costumers to US competitors. Model simulations by the ifW research institute show that EU exports to China will be around USD 10.8bn lower in 2021, with the bulk (USD 9.3bn) hitting manufacturing (aircrafts -3.7bn, machines -12.4bn and autos -2.4bn), with Germany and France suffering the biggest losses.

Figure 8: Foreign orders & global IP




Source : Deutsche Bundesbank

Figure 9: German new export orders (PMI): Hoping for China

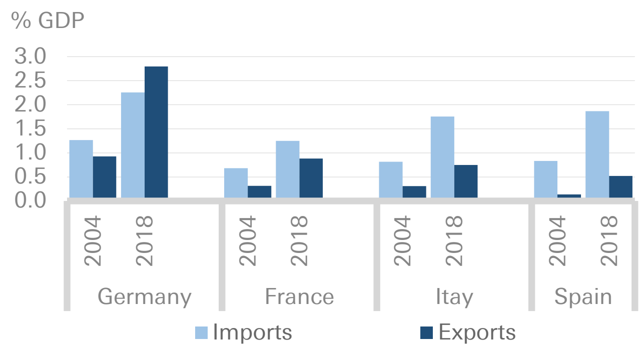



Source : Haver Analytics LP, Deutsche Bank Research

## Coronavirus – another negative impact to exporters' sentiment?

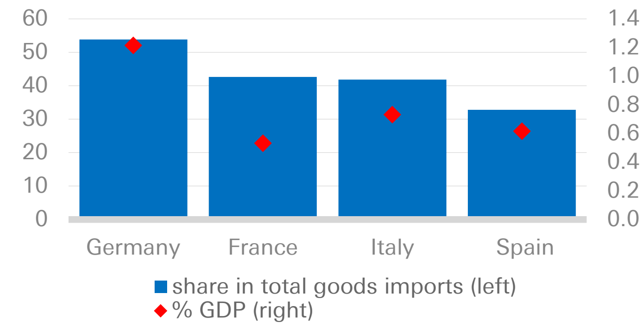
Given Germany's large exposure to global trade – despite an only meagre 0.9% real increase, exports (goods & services) accounted for 41% of GDP in 2019 – hopes in the industrial sector, where output has been falling for the last 1 ½ years, were pinned on a recovery in global demand. This has been evident in sentiment data, where the assessment of new export orders (PMI) has been rising by 11.4 points compared to its trough in Aug 2019, with the index level (49.6) suggesting at least a stabilisation. More forward-looking export expectations in the ifo index have improved, too, although companies responded more cautiously in January already, with the balance of opinions receding from 2 (Dec) to 0.9. The change was most prominent in the capital goods sector, where the strong improvement in the export outlook (from -3.7 in Aug to 8.9 in Dec.) suffered a clear setback in Jan (3.8). As mentioned above, the survey periods of the ifo and the PMI surveys ended too early for the coronavirus to leave its imprint, so further corrections are probably on the cards.

Figure 10: Goods trade with China




*Source : Eurostat, Haver Analytics LP, Deutsche Bank Research*

Figure 11: Machinery & transport equipments imports from China




*Source : Eurostat, Haver Analytics LP, Deutsche Bank Research*

## GDP impact negative – but extent highly uncertain

In our global forecast update we assume that the virus peaks in February and economic activity will recover over the remainder of the year and into 2021. This is mainly based on the experience with SARS. We expect that activity will return more or less fully to normal by the end of April. That is, activity in China will have been affected substantially negatively well into the first quarter and will then recover in Q2, leaving growth for the year as a whole, down only moderately. The negative shock to China's growth is likely being transmitted to the rest of the world via various channels, including stoppages of travel, transportation and trade, volatility in commodity prices and broader asset markets, as well as disruption of production in numerous global supply chains that run through China. It is probably fair to say that the risks with regard to this assumption are largely skewed to the downside.

The deceleration of Chinese growth during 2019 clearly showed up in German exports. After expanding by 8.6% (goods, nom) in 2018 the growth rate slowed to 2.4% in the first eleven months of 2019, with the 3M average yoy rate being negative since August. With the Chinese economy expected to bottom out at the turn of the year, the auto industry, in particular, was hoping for some improvement in Chinese demand as it expected some pent-up demand to materialise. Sector experts estimate that some 35% of German OEM's global turnover is generated in China (German OEMs have no major production sites in the Hubei Province). If, as we expect, the coronavirus will reach its peak pretty soon, demand might just be shifted further back into 2020. Still, in H1 a negative impact seems to likely. Due to the above-average margins enjoyed in China, even a temporary setback will feed through via the profit channel and make corporates even more cautious. Of course the virus will also make itself felt on the supply side. There are already some reports that supply chain problems are starting to show up in Korea. Other sectors such as electrical engineering, where China is the largest export market, are also concerned, especially as their exports to China expanded by a rather disappointing 4% in 2019. The German ifo institute calculates – based on the experience of the SARS pandemic – that a 1 percentage point lower annual GDP growth in China would shave off only some 0.06pp of German growth. However the authors warn that already the number of infected people now is larger than during SARS. Given the measures to contain it, the economic impact has probably exceeded SARS too. Also, in 2003 there was no real evidence that supply chains were affected, which could become a factor soon (shipping from China to northern Europe takes roughly 4 weeks). Fiat Chrysler, for example, just warned that one of its European production sites is likely to shut down within two weeks if sourcing problems continue. Given the above mentioned heightened relevance of China for corporate sentiment at the current junction we are concerned that this time the impact might be higher. We therefore have cut our GDP forecasts for Q1 from +0.1% qoq to -0.1% , the number for Q2 from 0.25 to 0.1% and lifted Q3 from 0.3% to 0.4%, as we expect some modest catching up. This brings our annual growth rate down to 0.7% from 1.0%. These GDP adjustments are driven by the assumption about the future spreading of the virus. As our assumptions are probably at the more benign end of possible scenarios, we have tried to compensate somewhat by assuming slightly stronger impact on the economy, which is admittedly largely guesswork, too.

## Technical recession in the winter half, after all?

Given the likely negative impact from calendar factors on December data, we might see some technical bounceback in January. But if our assumption that the corona outbreak might shave off some 0.2pp from German Q1 GDP materialises, we could finally see a technical recession in Germany, with two albeit small GDP declines in Q4 ’19 and Q1 ’20.

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## Public finances: Look back at 2019 and outlook for 2020/21. Into the new decade with plenty to spare, but leave it with empty pockets?

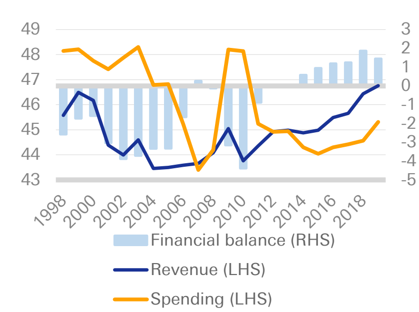
- Despite weak growth, the general government closed 2019 with a surprisingly hefty surplus of EUR 49.8 bn (1.5% of GDP). This notwithstanding, the fiscal trend is pointing clearly downwards as public spending is finally increasing at a greater rate than revenue. Given the continued high growth of primary government spending (welfare services, investments) and moderate tax relief (e.g. partial abolition of the solidarity surcharge from 2021), we are likely to see some rapid fiscal deterioration from a structural perspective.
- The government's surplus is likely to stand at just 0.5% of GDP by 2020 and finally disappear entirely by 2021. The structural balance (i.e. the fiscal balance adjusted for economic development and excluding one-off effects) is likely to only account for 0.4% of GDP in 2020 and may even slip into negative territory in 2021 (-0.1%) (2019: 1.1%).
- The unexpectedly high surplus in the 2019 federal budget of EUR 13.5 bn (vs. a planned deficit of roughly EUR 5.8 bn) has led to a clash in the federal government over how the additional funds of around EUR 17 bn will be used. The CDU/CSU are keen to use the resources to lower taxes (including the complete removal of the solidarity surcharge for all taxpayers or the lowering of corporation tax or the renewable energy surcharge), whereas the SPD is calling for a top-up of investments and furthermore pressing ahead with the extension of the welfare state.
- As the counterfinancing of the basic pension via the introduction of a financial transaction tax remains highly questionable and the current financial plan until 2023 still provides for minimum global spending of roughly EUR 5 bn per year (EUR 20 bn in total), these additional funds appear to have already been allocated. It is very doubtful indeed whether there will be any further leeway for tax cuts (such as the lowering of Germany's high corporation tax rate compared to the rest of the world, restructuring of income tax bands to relieve the burden on the middle class or the lowering of the renewable energy surcharge promised for 2021 to compensate for increased spending as a result of the climate change package).
- Overall, the tension between coalition partners when it comes to future budget priorities is only likely to get worse, despite the improved budget surplus. There are many indications that tax policy is likely to be one of the key battlegrounds ahead of the 2021 German federal election.

### Despite the stagnation in economic development, the general government closed 2019 with a surprisingly hefty surplus ...

The general government – comprising the federal government, the federal states, local authorities and the social security system (pension, health, unemployment, care) – posted a surplus for the eighth year in succession despite the government's expansive spending policy (consolidated general government sector according to national accounts data; Maastricht definition) (see chart 12). At EUR 49.8 bn (1.5% of GDP), the surplus was significantly short of the record-breaking figure that had been posted in the previous year (2018: EUR 62.4 bn or 1.9%), but it was still surprisingly high given sluggish economic performance (global uncertainty, industrial recession) and a measly growth rate of just 0.6%. As in previous years, all authorities and the social security system contributed to the budget surplus, in spite of varied development at different levels of government (see chart 13).

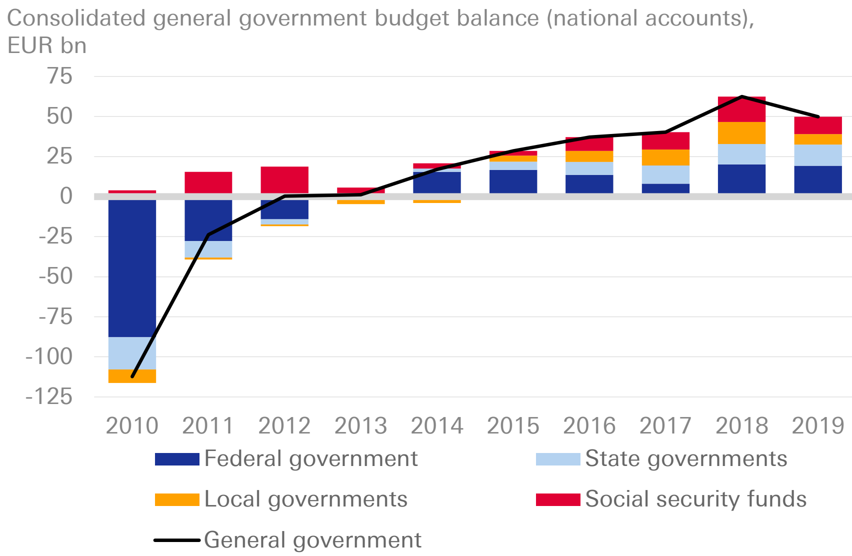
Figure 12: Falling government budget surplus

% of GDP (gen. government - national accounts)




*Source : Federal Statistical Office, Deutsche Bank Research*

Figure 13: Budget surplus remained large in 2019

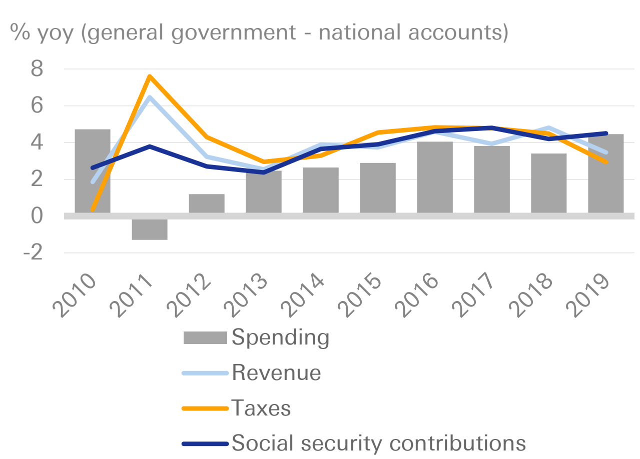



*Source : WEFA, Federal Statistical Office, Deutsche Bank Research*

## ... but the fiscal trend is pointing clearly downwards: Spending is increasing at a greater rate than revenue

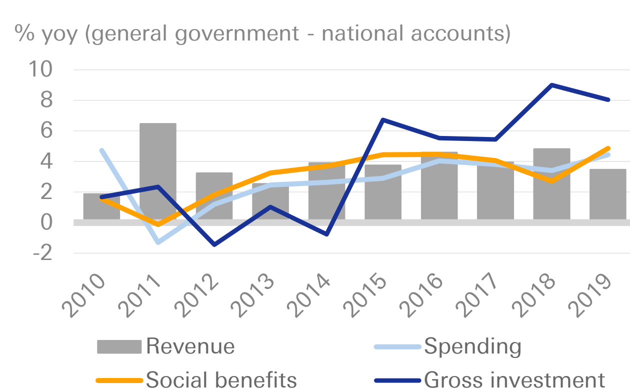
Notwithstanding another surplus, it's still worth noting that the fiscal trend is already pointing clearly downwards. Tax revenue growth sliding from 4.7% (2015–2018 average) to just 2.5% is just one factor; growth in social security contributions – which actually accelerated from 4.2% in 2018 to 4.5% in 2019 due to the ongoing employment market boom (new record employment levels, high wage/salary increases) – is also likely to fall significantly in the medium term. We are already seeing indications of an employment market shortfall (shortage of skilled workers) and, from 2025 onwards, employment levels are actually forecast to fall due to demographic developments. In addition, spending is already increasing at a higher rate compared to revenue (see chart 14). Social benefits (+4.9%) as well as gross investment (+8.0%) have risen significantly (see chart 15).

Figure 14: Tax revenue growth is slowing, social security contributions growing briskly




*Source : Federal Statistical Office, Deutsche Bank Research*

Figure 15: Finally, public spending is growing faster than revenue



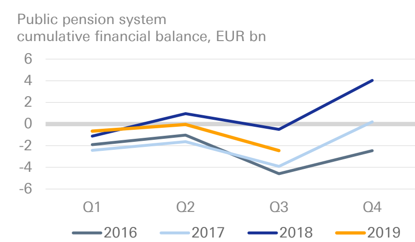

*Source : Federal Statistical Office, Deutsche Bank Research*

Given government plans to boost public investment in transport (railway lines), digital technology (fibreglass, mobile technology), protecting the environment (tax incentives for environmentally-friendly building renovation and e-mobility, structural aid as part of the phasing out of coal energy) and research and development, as well as the continued expansion of the welfare state (basic pension), significant spending growth has already been earmarked for the medium term.

## Municipality surpluses already declining noticeably – demographic developments and expansion of social services affecting welfare systems

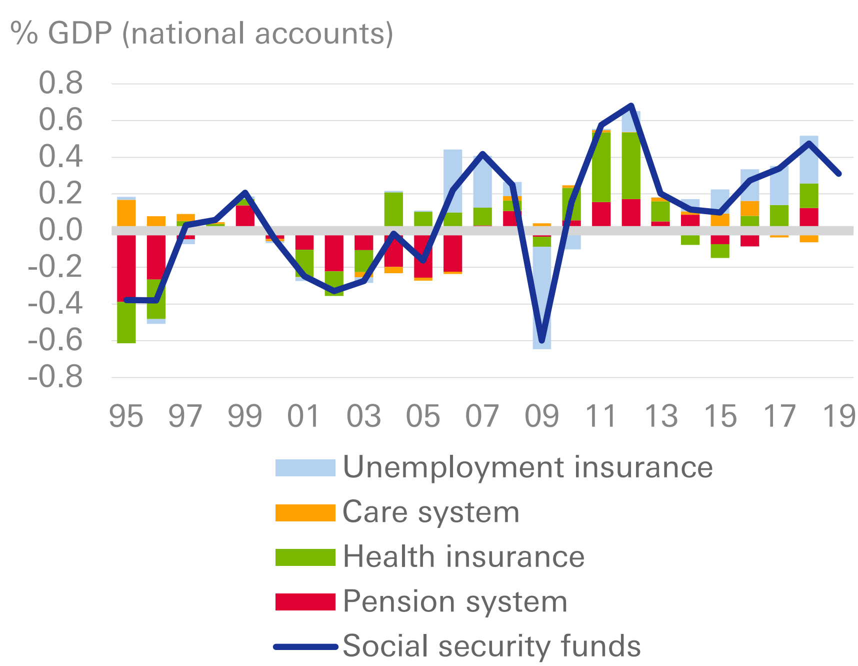
Surprisingly, the surplus at federal level only declined marginally to EUR 19.2 bn (2018: EUR 20.1 bn), whereas federal state budgets saw their surplus increase slightly by EUR 0.5 bn to EUR 13.3 bn. At the municipal level, the surplus was roughly halved to EUR 6.6 bn (2018: EUR 13.7 bn) (see chart 13). Even though detailed figures on municipal revenue and spending from national accounts have yet to be published, financial statistics (extending up to and including Q3 2019) suggest that the major rise in spending was the primary factor in the surplus decrease. At an extremely high level of 7.6% yoy, spending in the third quarter of 2019 increased much more dynamically than revenue (4.6% yoy). This steep rise in spending is likely to have been caused by considerably higher investment in physical capital (+13% yoy), including investment in the construction of administrative buildings, schools, hospitals and roads. Social spending also rose considerably in 2019 according to the Bundesbank (+4.6% yoy).

Figure 16: Financial situation of the public pension system is deteriorating




*Source : Deutsche Bundesbank, Deutsche Bank Research*

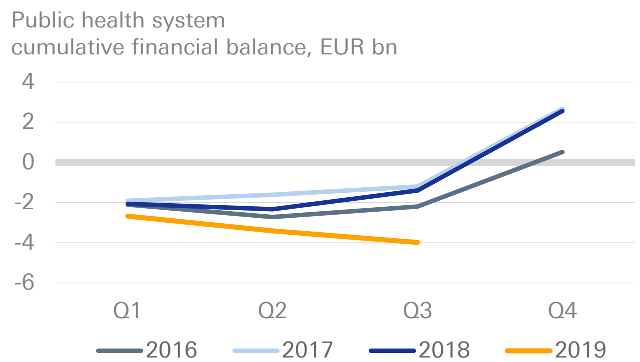
Figure 17: Financial balance of social security funds




*Source : Federal Statistical Office, Deutsche Bank Research*

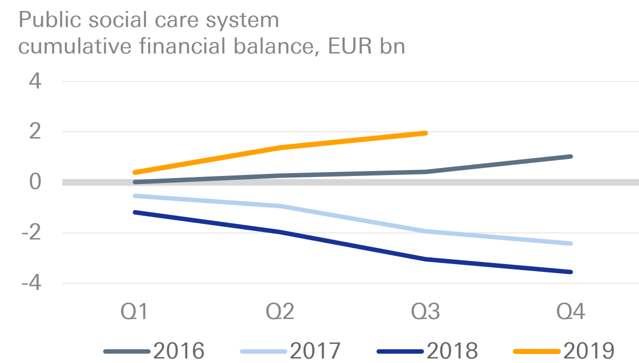
The social security system, which is likely to come under significant financial pressure from midway through the 2020s due to the ageing population and the associated decline in employment, is still posting a surplus thanks to the still solid employment market (a lagging indicator for economic activity). That being said, the surplus did fall to EUR 10.7 bn (2018: EUR 15.9 bn) (see chart 17), which is likely to be (partly) a result of past expansion of welfare services (mothers' pension, retirement at 63). Payments into individual social security systems (according to national accounts data) have not yet been published, however financial statistics suggest that the fiscal situation has deteriorated across the board (with the exception of care[1] ).

Figure 18: Public health system could post deficits for 2019




*Source : Deutsche Bundesbank, Deutsche Bank Research*

Figure 19: Financial situation of the public social care system has improved thanks to a rise in the contribution rate



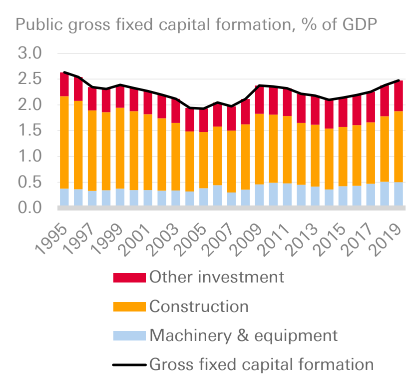

*Source : Deutsche Bundesbank, Deutsche Bank Research*

The accumulated balances of the statutory pension and health insurance system in the first three quarters of 2019 were considerably lower than the comparative values in the same period of 2018 (see charts 16 and 18). The downward trend is already beginning to take shape and is likely to continue on the back of additional spending (basic pension, extension of the duration of short-time allowances) and the imminent demographic tipping point – unless the government takes prompt action by cutting welfare services, increasing contribution rates and/or increasing the retirement age. There are no signs (yet) that the government is considering such steps. In fact, the opposite is the case. For instance, the government introduced a so called "double stop line" for the public pension system, which implies that the contribution rate to the general public pension system will not rise above 20% (current rate: 18.6%) and the pension level will not decrease below 48% (current level: 48.2%).

## Finance policy unchanged: High social spending and more investment, but barely any relief for the taxpayer

The IMF recently doubled down on its calls for Germany to make greater use of its fiscal room for manoeuvre – in other words spend more – to help boost domestic growth. According to IMF managing director Kristalina Georgieva, additional government investment (including in public infrastructure) is required to stimulate long-term growth in Germany and cut the trade surplus. Yet another state surplus – and a surprisingly high one at that – will undoubtedly be further grist to the mill for critics that Germany's financial policy is "far too restrictive". However, such calls are hard to make sense of given the high levels of government spending (particularly on welfare services and on investment) (see charts 22 and 20) and the

Figure 20: Public-investment-to-GDP ratio has been on the rise for many years

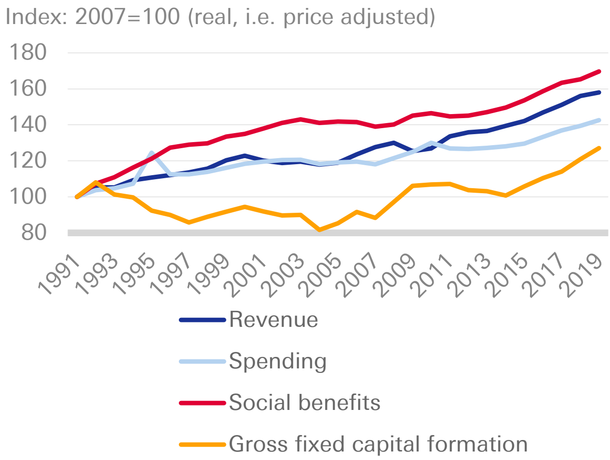



*Source : Federal Statistical Office, Deutsche Bank Research*

1 The 0.5% increase in contribution rates in 2019 resulted in an improvement to the care system's fiscal situation, for the time being at least.

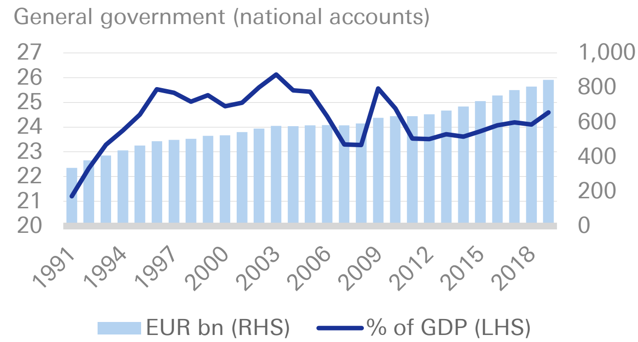
corresponding expansive fiscal policy.

Figure 21: Public social benefits are soaring, public investment is catching up




*Revenue, spending and social benefits: price adjustment is based on GDP deflator.*
*Source : Federal Statistical Office, Deutsche Bank Research*

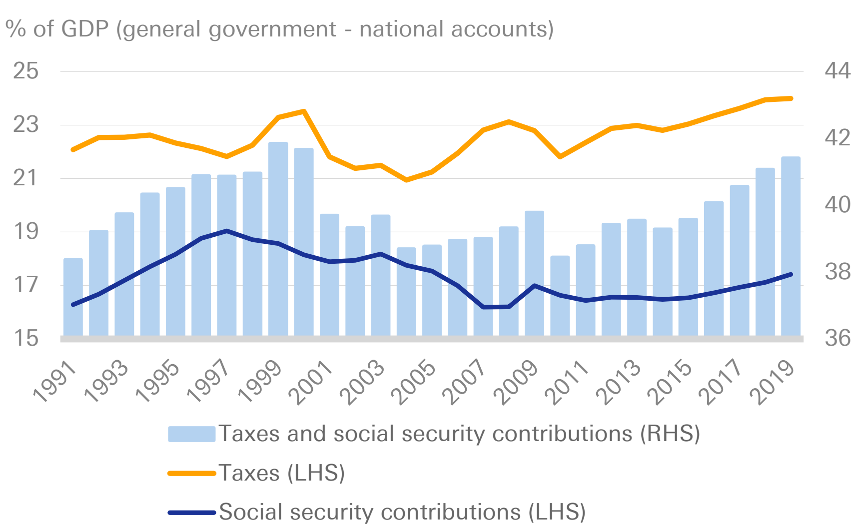
Figure 22: Public social spending ratio has been on the rise again for many years




*Source : Federal Statistical Office, Deutsche Bank Research*

The federal government may have failed to deliver on many things over the past few years, including relieving the burden of high income and corporation taxes, but not spending enough money is certainly not an accusation that could be laid at its door. It's worth remembering that the tax rate reached a new post-reunification record in 2019, at 24% of GDP. The tax and contribution ratio, which measures the total burden through taxes and social security contributions, has been rising unabatedly for many years and is now only just short of the high level recorded in the year 2000 (see chart 23). Instead of using the significant budget surpluses posted over the past few years to provide some relief in terms of revenue, the government has continued to ramp up its spending.

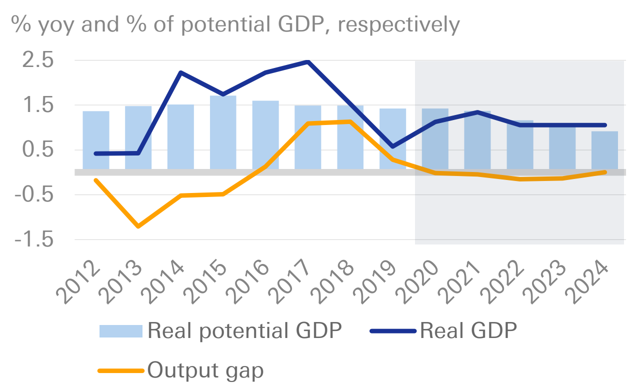
Figure 23: Tax and contributions ratio continues to rise




*Source : Federal Statistical Office, Deutsche Bank Research*

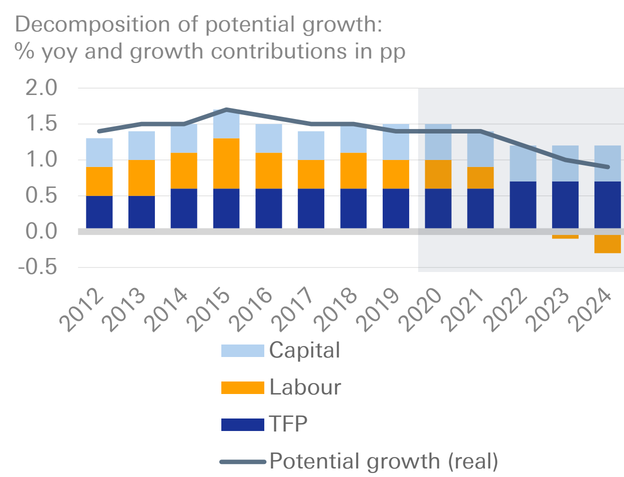
In view of the positive developments on the employment market and the significant reduction in interest spending – where, according to our preliminary estimates, the German government might have saved roughly a cumulative EUR 500 bn since 2008 (equivalent to around 14.5% of 2019 GDP) – the government has been enticed into expanding the welfare state. Without the drastic drop in interest rates, the German government would have posted a financial deficit of around EUR 25 bn in 2019 compared to the actual surplus of almost EUR 50 bn. The government even appears to be ignoring its own forecasts suggesting that the German economy is nearing a demographic cliff edge if it fails to attract any additional immigration (see chart 27). This tipping point is likely to arrive midway through the 2020s when the baby boomer generation retires and starts to draw on their pensions instead of paying into them.

Figure 24: Potential growth rate will decrease considerably very soon




*Source : Federal Ministry of Finance*

Figure 25: Foreseeable decline in employment will weigh on economic growth



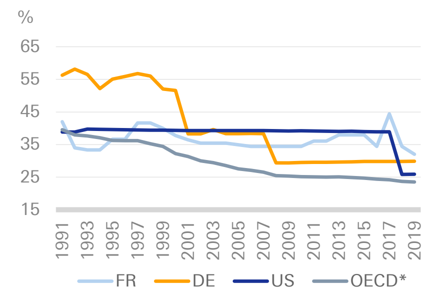

*Source : Federal Ministry of Finance*

The decline in employment levels will apply pressure on (real) potential growth and have a stronger effect on government revenue through weaker tax growth. The government expects potential growth rates to slide from 1.5% to just 0.9% by 2024 (see chart 24 and 25). The number of people in employment, which rose to a new record high in 2019 of 45.26 million, is likely to begin to decline from as early as 2022 (see chart 27). These trends are likely to cause the social security system – which appears in good shape at first glance – some serious financial woes in the very near future. This could ramp up the pressure to finance the shortfalls through higher taxes/social security contributions in the medium term. This would further curtail incentives to work and have an additional impact on growth potential. Ultimately this could have an added effect on the German economy's competitiveness and its appeal as a location for businesses. When it comes to taxes on business, Germany's attractiveness has been increasingly fading compared to other key industrialised economies over the past few years (see chart 26). All told, unabated spending from the German government (particularly on the pension system) is threatening economic competitiveness and therefore the long-term financial foundations of the welfare state.

## Higher spending on public investments meets increasing scarcity in supply

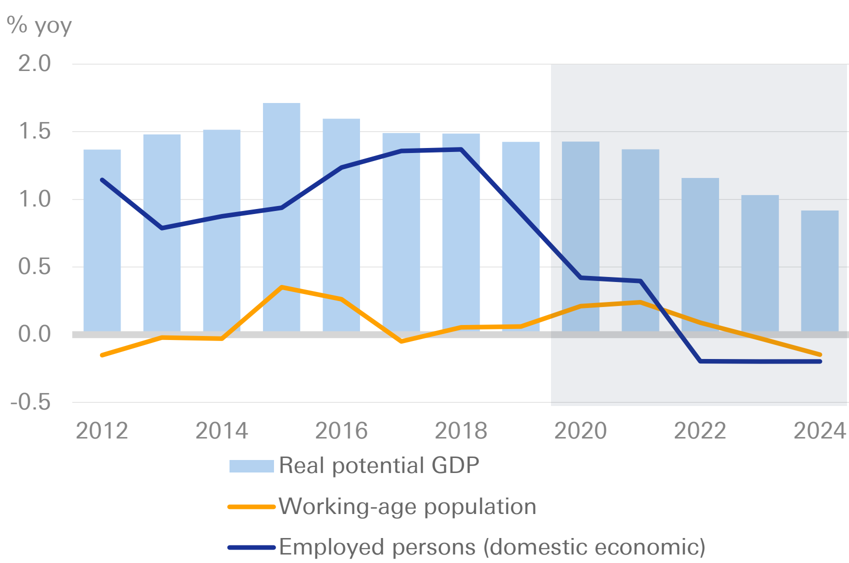
Public investment has been climbing considerably for some years now as part of Germany's efforts to modernise its transport infrastructure (such as motorway bridges and roads). Public (gross) fixed capital formation grew by 6.9% in 2019 alone (2018: 8.7%). Public construction investment rose by as much as 11.6% (2018: 9.6%) (see chart 28). The issue that only slow progress is being made (in parts) in the modernisation and expansion of public infrastructure is obviously not down to the lack of funding. Instead, it is the effect of various structural obstacles. These include the fact that the German construction industry is operating at extremely high capacity and also the increasing dearth of skilled workers (such as construction engineers), low staffing levels at municipal authorities (including building authorities), laborious and time-consuming planning and approval procedures and public resistance against certain projects through civic participation initiatives and legal challenges (such as the expansion of wind power plants).

Figure 26: Statutory corporate tax rates (total) in an international comparison



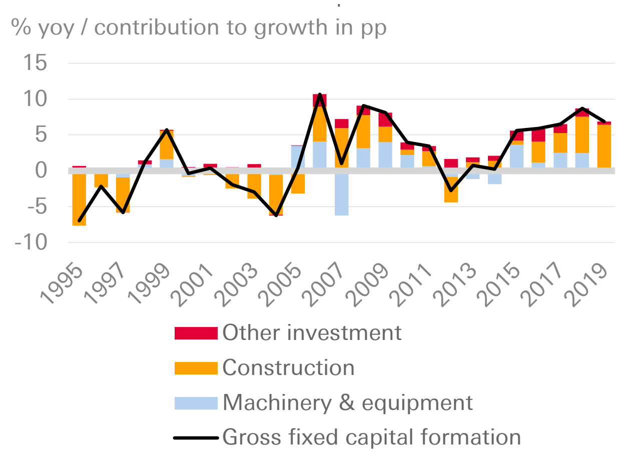

* Simple average
Source : OECD, Deutsche Bank Research

Figure 27: Employment is set to start declining soon



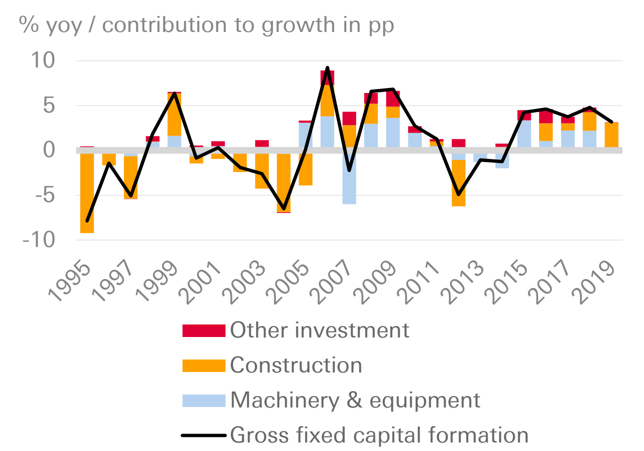

Source : Federal Ministry of Finance

Figure 28: Public investment is rising briskly in nominal terms




Source : Federal Statistical Office, Deutsche Bank Research

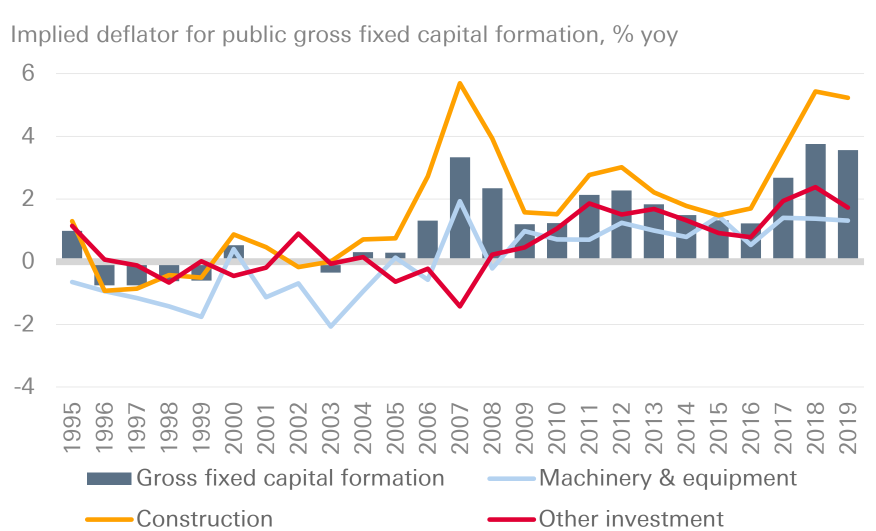
Figure 29: Growth of public investment remains steady in real (price adjusted) terms




Source : Federal Statistical Office, Deutsche Bank Research

It will take time to clear away these structural obstacles. The aforementioned constraints also explain why investment growth is significantly lower in real terms (i.e. price-adjusted) than nominally (see chart 28 and 29). Shortage of supply (in terms of construction capacities, engineers, etc.) ultimately leads to price rises. As a result, additional short-term funding for investment in public construction won't provide any assistance, rather will only exacerbate the existing upward price trend (see chart 30). Against this backdrop, calls from the SPD leadership to invest more in schools, hospitals and roads should be viewed critically. What is needed is for investment to remain stable over the next 10 to 20 years. Major increases in investment have already been earmarked in the latest budget plans (at federal, state and municipality level). Given the current backlog (with roughly EUR 20 bn of approved investments – only at the federal level – still waiting to be called upon), it remains doubtful as to whether this investment will ever actually be realised to the desired extent.

Figure 30: Price pressures remain high for public investment



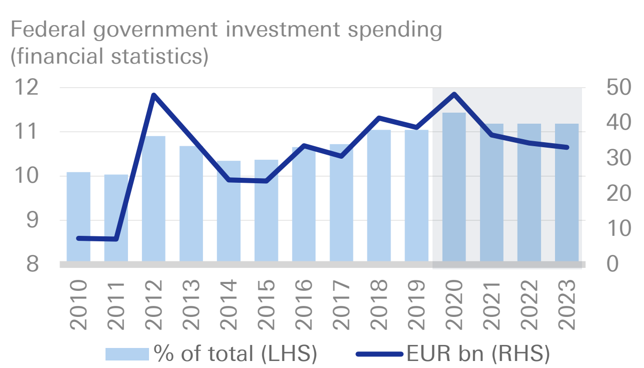

Source : Federal Statistical Office, Deutsche Bank Research

What's clear is that it is the structural issues in the employment market, the construction industry and in administrative and planning processes that are standing in the way of what is now, in some areas, urgently necessary modernisation of public infrastructure (such as the expansion of regional train transport or installation of digital networks), and not a balanced budget or the debt brake anchored into basic law. Furthermore, government commitments on expanding social services and welfare (mothers' pension, basic pension, retirement at 63, double stop line) are putting the sustainability of public debt and hence the medium- to long-term stability of public investment in jeopardy. After all, the debt brake is likely to still be in place in five years' time (unless there will be the necessary parliamentary two-third majorities in both chambers – the Bundestag and Bundesrat – to abolish the debt rule). This means the government is running the risk of cutting its spending significantly to the (lower) revenue level. This could then also have an impact on investment.

## Unexpectedly high federal surplus divides the government and triggers confrontation over future allocation of funding

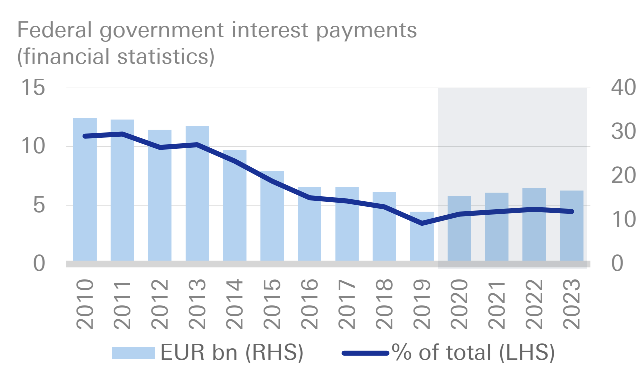
The unexpectedly high surplus in the federal budget has led to a clash in the federal government over how the additional funds will be used. The CDU/CSU are keen to use the resources to lower taxes (including the complete removal of the solidarity surcharge for all taxpayers or the lowering of corporation tax or the renewable energy surcharge), whereas the SPD is calling for further spending on welfare (basic pension) and a top-up of investments. The terms (eligibility) of the basic pension and how it will be financed remain major bones of contention. The basic pension is set to be introduced on 1 January 2021, benefiting some 1.4 million people and initially costing around EUR 1.4 bn per year. The legislative process is still ongoing, particularly as a means of the planned financing the initiative – namely the introduction of a financial transaction tax – remains highly doubtful. However, the coalition partners have seemingly agreed on a compromise, according to press reports, implying that the introduction of the basic pension will indeed take place in 2021.Recently the SPD leadership has appeared open to discussions over lowering income tax, with suggestions including bringing the partial abolition of the solidarity surcharge – currently planned for 1 January 2021 – forward by six months. With Olaf Scholz vehemently defending the balanced budget policy ("black zero") in the name of coalition partners CDU/CSU, the question first and foremost must be how much of the fiscal surplus can be allocated.

Figure 31: Federal government investment spending is set to remain on a high level according to the financial plan




*Source : Federal Ministry of Finance, Federal Statistical Office, Deutsche Bank Research*

Figure 32: Federal government interest payments continued to fall in 2019




*Source : Federal Ministry of Finance, Federal Statistical Office, Deutsche Bank Research*

## Additional financial room to manoeuvre already all but exhausted

The federal government generated an unexpected (record-breaking) surplus of EUR 13.5 bn (with reference to financial statistics). The surplus arose due to spending falling short of planned figures and greater revenue being generated than originally expected. Lower-than-expected interest payments (EUR 11.9 bn instead of EUR 17.5 bn; 2018: EUR 16.5 bn), military spending (EUR 1.5 bn) and spending on education and research (EUR 0.8 bn) curbed spending in particular. According to the German Ministry of Finance, spending on investment was also lower than expected at EUR 0.9 bn. In terms of revenue, unclaimed EU payments of EUR 5.4 bn had a positive impact.

Originally the government was targeting a financing deficit of EUR 5.8 bn, the majority of which was to be financed through the depletion of reserves (EUR 5.5 bn). However, thanks to the surplus, the reserves can remain untouched. Instead, the surplus has been used to stock up existing reserves. EUR 13 bn has been added to the asylum reserve, which now stands at EUR 48.2 bn (approximately 1.4% of forecast GDP in 2020). A further EUR 0.5 bn has been used to form a reserve to "guarantee long-term planning and financial security for arms investment" .[2] According to the German government, the improved budget surplus has freed up EUR 17 bn in additional funds. With the financing of the basic pension (which seems set to cost only between 2021 & 2023 approximately EUR 4.4 bn) still to be decided and the current financial plan (until and including 2023) providing for minimum global spending of roughly EUR 5 bn per year (EUR 20 bn in total[3] ), these additional funds appear to have already been allocated.

Still, Finance Minister Scholz could still be able to find enough money to bring forward the partial abolition of the solidarity surcharge. The top 10% of taxpayers will, of course, barely benefit at all from this measure being brought forward (and corporations not at all), as the partial abolition only applies to 90% of taxpayers anyway. It is doubtful indeed whether there will be any further leeway for tax cuts (such as the lowering of Germany's high corporation tax rate compared to the rest of the world, restructuring of income tax bands to relieve the burden on the middle class or the lowering of the renewable energy surcharge promised for 2021 to compensate for increased spending as a result of the climate change package). This means that the tension between coalition partners when it comes to future budget priorities is only likely to get worse, despite the improved budget surplus. There are many indications that tax policy is likely to be one of the key battlegrounds ahead of the 2021 German federal election.

## Surplus may well disappear by 2021

While the government continues to benefit from lower interest spending (with Bund yields falling or even negative against the backdrop of ultra-expansionary monetary policy), there is likely to be a slowdown in revenue growth due to the slump in economic development. Given the continued high growth of primary government spending (welfare services, investments) and moderate tax relief (e.g. partial abolition of the solidarity surcharge from 2021), we are likely to see some rapid fiscal deterioration from a structural perspective. We expect the general government's structural primary balance (fiscal balance before interest spending)

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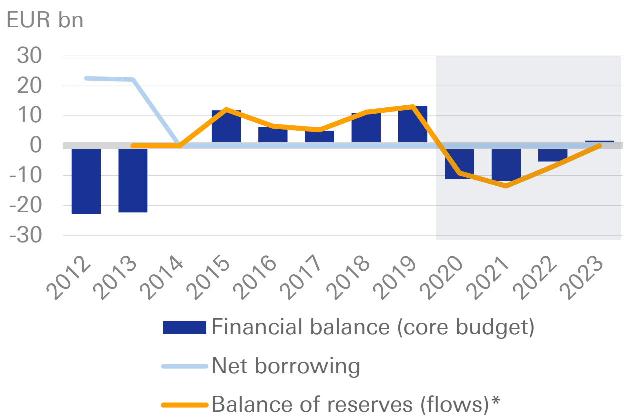
2 Instead of using budget surpluses to repay debt, the German federal government continues to finance spending or deficits in future budgets through tapping financial reserves so that it is able to maintain the "black zero" balanced budget on paper. This must be viewed critically in terms of transparency (see Focus Germany: Increasing headwinds but fiscal surplus (still) rising, from 4 October 2018).

3 Spending must be lowered by this amount according to current plans.

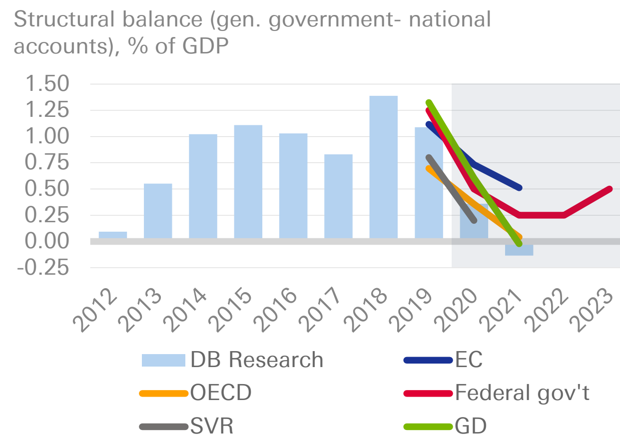
to decline by 0.8% of GDP in 2020 and 0.5% of GDP in 2021. The government's surplus is likely to stand at just 0.5% of GDP by 2020 and finally disappear entirely by 2021.

Figure 33: Federal government's plans to post budget deficits at least until 2022




*Financial balance: excluding payments to / withdrawels from reserves.*
**refugee reserve fund only*
*Source : Federal Ministry of Finance, Deutsche Bank Research*

Figure 34: Fiscal policy remains expansionary

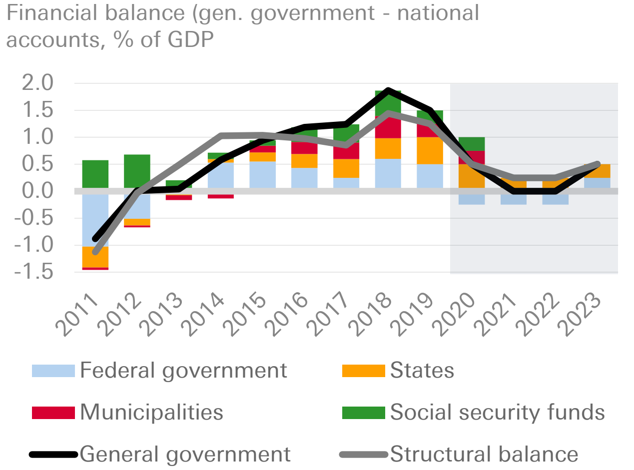



*Source : Federal Statistical Office, national and international sources, Deutsche Bank Research*

The government's surplus is likely to stand at just 0.5% of GDP by 2020 and finally disappear entirely by 2021. The structural balance (i.e. the fiscal balance adjusted for economic development and excluding one-off effects) is likely to only account for 0.4% of GDP in 2020 and may even slip into negative territory in 2021 (-0.1%) (2019: 1.1%). By way of comparison: The federal government expects the structural balance to only amount to ¼% of GDP by 2021/22. The economic research institutes involved in the joint economic forecast exercise submitted to the government believe that there will be no structural budget surplus from 2021 (see chart 34).

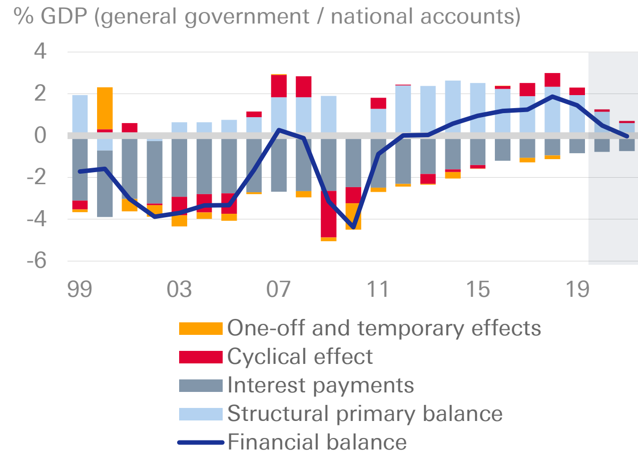
Despite these developments and thanks to the negative interest rate/growth differential, general government debt should continue to fall in relation to nominal GDP, for the time being at least. The level of debt may have already fallen below the Maastricht limit of 60% of GDP in 2019 (figures are yet to be published by the Bundesbank). According to our forecast, debt levels should dip below the 60% mark by this year at the latest. It could fall to around 55% by 2021. The long-term forecast paints a much bleaker picture when it comes to public debt. Demographic trends are set to leave a significant mark on fiscal performance and social insurance systems as early as midway through the decade. This is likely to reverse the debt trend (despite low interest rates) shortly afterwards. Considerable costs associated with making the German economy carbon-neutral will only make things worse. The planned withdrawal from coal-based energy, earmarked for 2038, alone is likely to cost at least EUR 50 bn, with funds required for structural compensation, early retirement schemes for affected coal workers and compensation to coal power plant operators. There are numerous reasons why German public finances will enter the decade with plenty to spare, but leave it with empty pockets.

Figure 35: Financial surplus is likely to vanish by 2021




*Forecasts: Stability Council*
*Source : Federal Statistical Office, Stability Council, DB Research*

Figure 36: General government budget outlook




*Source : Federal Statistical Office, AMECO, OECD, Federal Ministry of Finance, Deutsche Bank Research*

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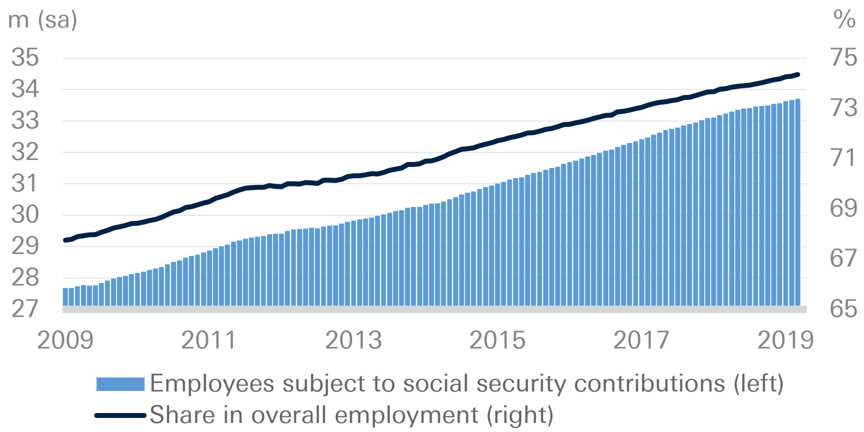
## German labour market: Slowing momentum

Total employment and the number of employees subject to social security contributions reached a further record level in the final quarter of 2019. In Q4, 81k new jobs were created, after only 41k in Q3 and 43k in Q2 in 2019. Although the German labour market is still in good shape, there are unmistakable skid marks from the economic slowdown, particularly in manufacturing employment.

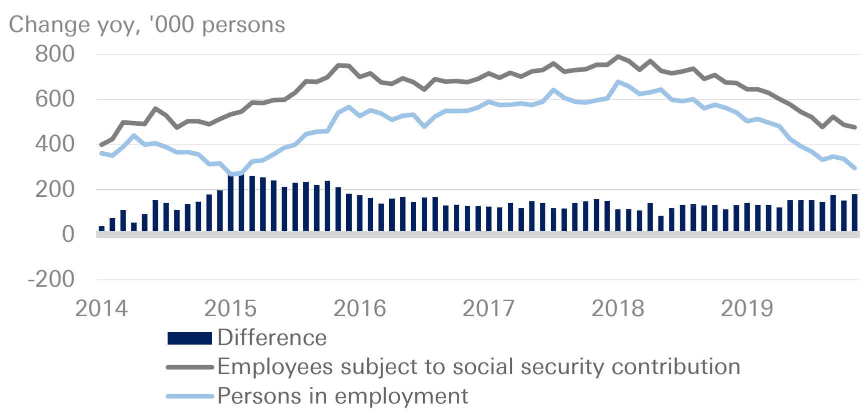
Figure 37: Continued growth in employment s.t. social security contributions




*Source : Deutsche Bundesbank, Deutsche Bank Research*

As expected, the yoy growth rate continued to decelerate. In December, the number of persons employed increased by 0.6% yoy (Q4: 0.7% yoy) and employment subject to social security contributions increased in November by 1.4% yoy (Q4: 1.5% yoy). The flattening will continue in 2020.

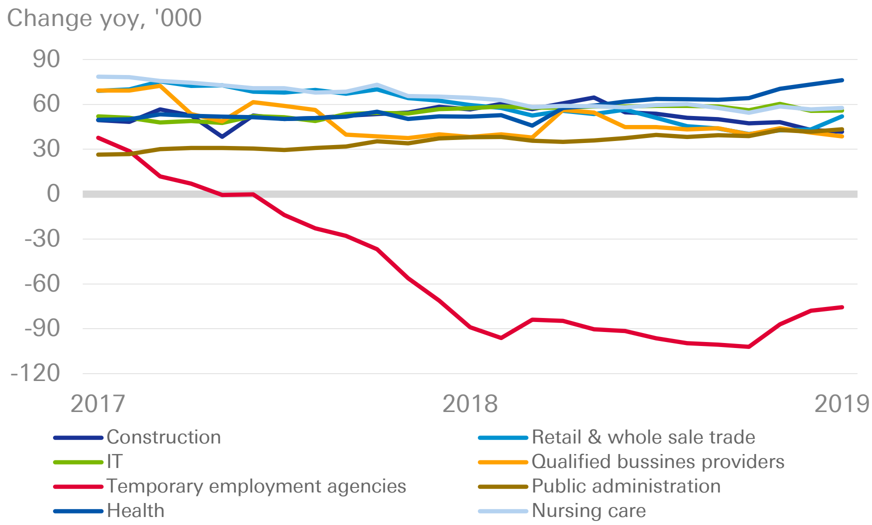
Figure 38: Ongoing but slowing employment growth




*Source : Federal Employment Agency, Federal Statistical Office, Deutsche Bank Research*

Beyond economic headwinds, structural adjustment problems (car industry) will increasingly take hold. But for the current year we still expect employment to rise by about 130k (+0.3%) after about 400k in 2019 (+0.9%).

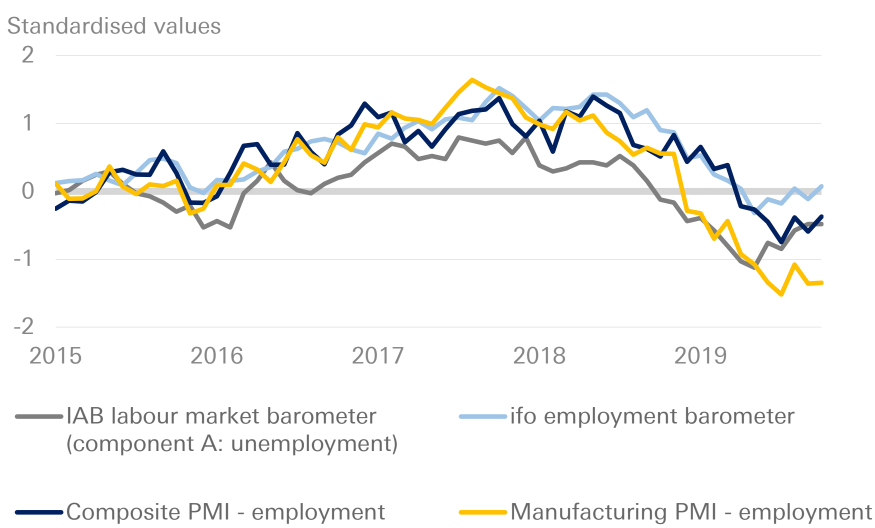
Figure 39: Employees subject to social security contributions, selected branches




*Source : Federal Employment Agency, Deutsche Bank Research*

At present (data up to November 2019), employment has continued to decline almost exclusively in temp agencies (-76k yoy). By contrast, there was still a notable increase in employment compared to the previous year in health, social & care, IT services, retail and wholesale trade as well as in qualified business providers and, of course, in the construction industry.

Figure 40: Labour market indicators: General stabilisation but negative outlook for manufacturing

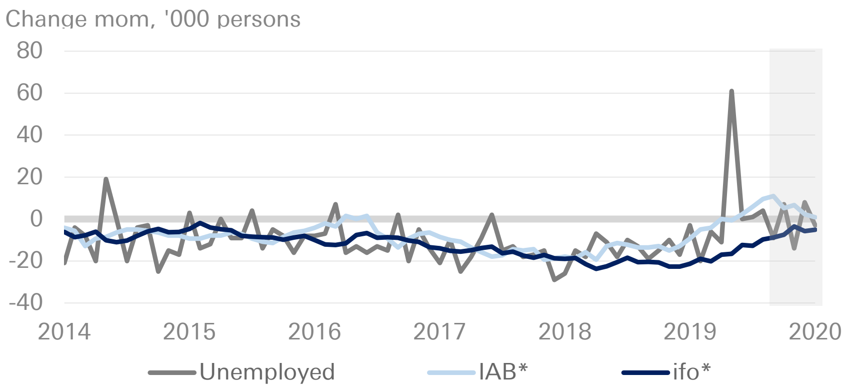



*Source : ifo, IAB, IHS Markit, Federal Employment Agency*

The leading indicators of the ifo and IAB (employment barometer) as well as the sub-components of the purchasing managers' indices (PMI) still point – despite their strong declines towards a relative stability in the labour market. However, the development is heterogeneous, with further job growth in construction and services, while jobs are being cut in manufacturing (automotive: Nov: -1.8%

compared to peak in 2018). In sum, however, job growth should continue to predominate, at a slower pace compared to previous years.

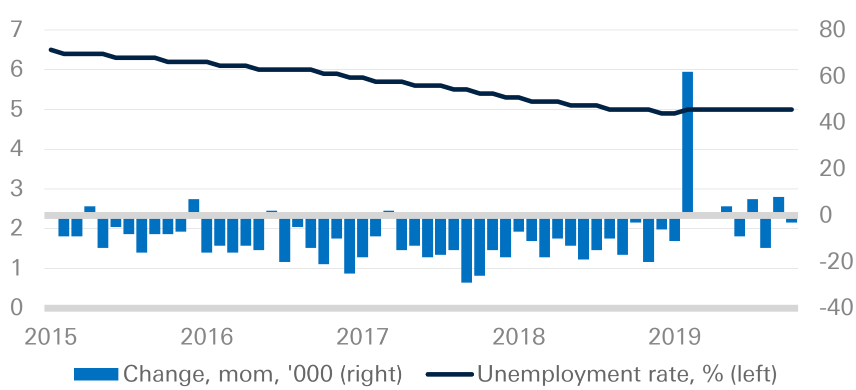
Figure 41: : IAB and ifo barometer pointing to higher unemployment (sa)




** Simple linear regression of unemployment change on the basis of leading labour market indicators (lagged by 1 resp. 2 months). In May 2019, we saw that seasonally adjusted unemployment rose by an extraordinary 62k, due to the one-off effect from the special review of the placement status of ALG II recipients. Without this effect the increase would have been 20k - 30k.*
*Source : ifo, IAB, Federal Employment Agency*

For further development, it is crucial when the export oriented industry will bottom out, and whether the service sector can continue to hold its own despite the industrial recession. According to the most recent survey results on the employment component of the services PMI (Jan. 54.8 after 53.7 in Q4 and 54.5 in Q3 2019), this sector has regained strength as a job creator. After having virtually stagnated in the last 6 months, unemployment is likely to decline slightly in Q1 (-15k). However, this presupposes that the industrial sector will actually stabilise.

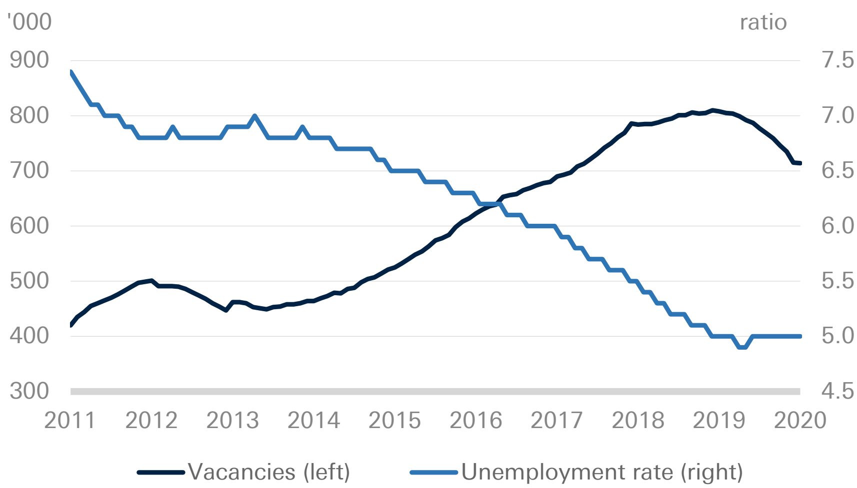
Figure 42: Decrease in unemployment has come to a halt




*Source : Federal Employment Agency*

We expect that the decline in demand for labour will show up in higher short-time working. According to estimates by the Federal Employment Agency (BA), the number of short-time workers will increase to 117k in February (107k Jan.). By comparison, there were only about 29k short-time workers in February 2019. (2009 peak: 1.4m ).

Figure 43: Labour market: Near full employment but cyclical skid marks




*Source : Deutsche Bundesbank*

The number of vacancies – albeit slowly shrinking (Jan. 713k after 732k in Q4 and 768k in Q3 2019) – still points to healthy demand for qualified workers.

For 2020, we expect employment growth to slow to 0.3%, unemployment to rise by 50k to a good 2.3m, and as a result the unemployment rate to rise slightly to 5.1%.

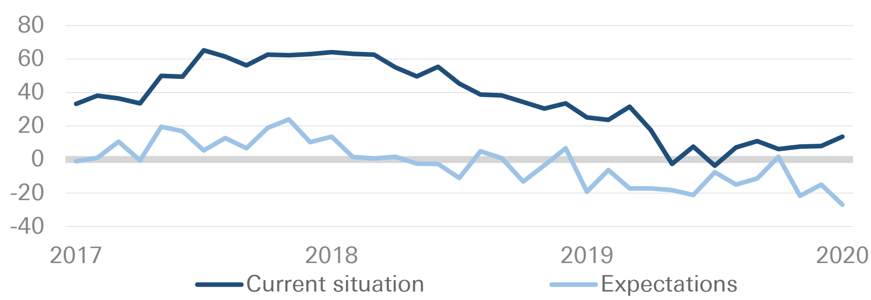
*Marc Schattenberg (+49) 69 910-31875*

## German auto industry: Still mixed signals

The automotive industry is the largest industrial sector in Germany, measured by revenue. Its performance will decide when and to what extent the German manufacturing industry will overcome the recession that has started in Q3 2018. Domestic automotive production (including suppliers) declined by close to 12% in real terms in 2019, the second decrease in a row. Weak global car demand was a main burden. What is more important, car models that are produced in Germany reached the end of their life cycle in 2019. This special factor is a reason why the German automotive industry with its international production sites performed better than the automotive production in Germany. Indicators such as capacity utilisation and orders show that the trough in the sector might have been reached. It would be a massive setback for the German automotive industry, though, if the US government were to introduce higher tariffs on automotive imports from the EU. The discussion is still not off the table and may have contributed to renewed decline in business expectations in the industry.

Figure 44: ifo business climate in the German automotive industry

balance of positive and negative company reports (%)

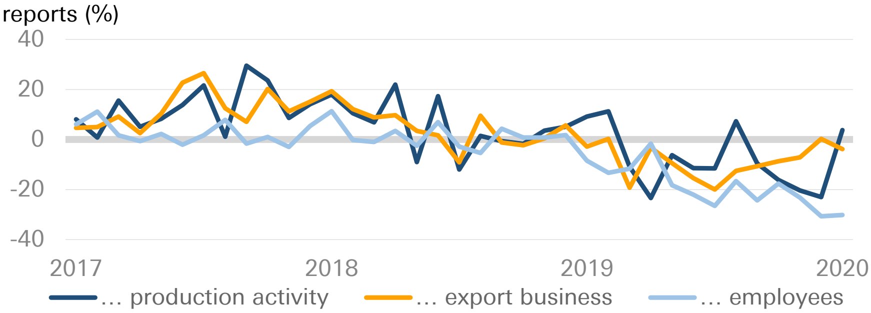



*Source : ifo*

**Figure 44:** Business expectations in the German automotive industry have been almost entirely negative since the beginning of 2019. There was even a further deterioration at the latest reading; statements by US President on auto tariffs in Davos might be one reason. On balance, companies have been slightly more optimistic about the current situation since August. Order backlog in the sector has been quite stable on a high level during the last few months.

Figure 45: ifo expectations with regard to ...

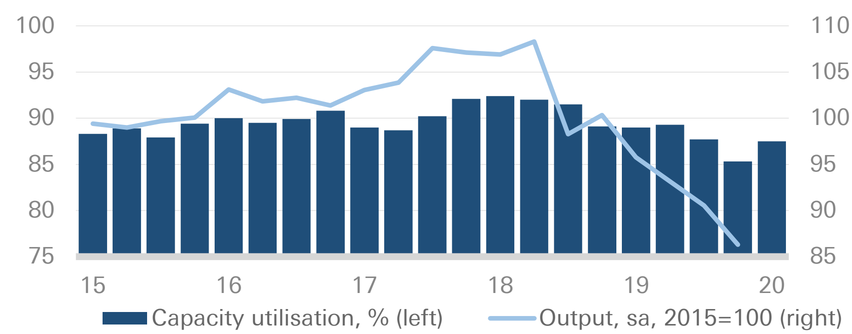
Automotive industry in Germany, balance of positive and negative company reports (%)




*Source : ifo*

**Figure 45**: The subcomponents of the ifo survey show a mixed picture. Production and export expectations have recovered of late, indicating that the cyclical trough might be near. Employment expectations, however, were negative at the beginning of 2020. Employment, a lagging indicator, has started to decline in the auto sector in mid-2019 and will continue to do so in the next few months, not least due to the sector's structural adjustment towards e-mobility.

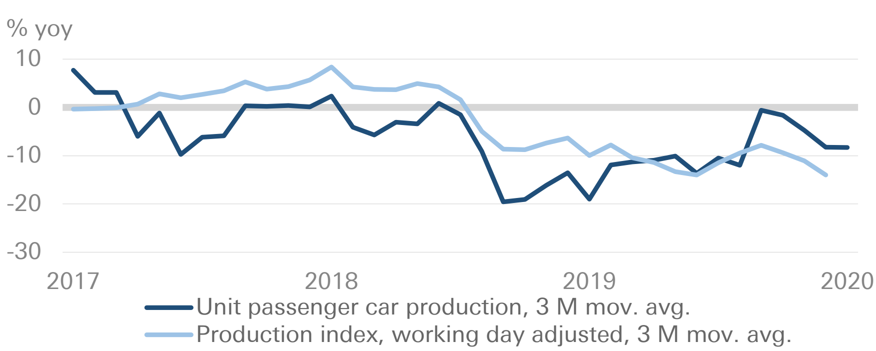
Figure 46: Output and capacity utilisation in the German automotive industry




*Source : Federal Statistical Office, ifo*

**Figure 46**: At the beginning of Q1 2020, capacity utilisation in the German auto industry increased considerably and for the first time since Q2 2019. However, it is still well below the value of 2018. The increase in capacity utilisation at the latest reading is another indication that the trough in the current cycle has been reached. We expect global car demand to increase moderately in 2020 with China being "the great unknown" even more so after the recent outbreak of the coronavirus, which will have a negative effect on car sales in Q1 2020. Still, utilisation and production could pick up again in H1 2020 (see also figure 49).

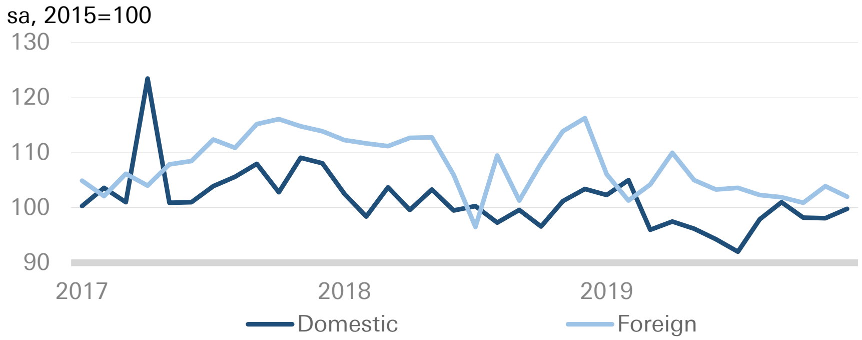
Figure 47: Automotive production in Germany




*Source : Federal Statistical Office, VDA*

**Figure 47**: German car production was considerably down in year-on-year terms throughout 2019. Domestic passenger car production (in unit terms) decreased by 9% in 2019. The decline in the output index, which also includes qualitative criteria (such as better equipment of cars), was even larger last year (-11.7%). Production index could increase slightly in 2020 as a whole on the back of the recovery of global car demand and new models entering the market that are produced in Germany. However, growth rate is expected to be modest and downside risks have increased after the corona outbreak.

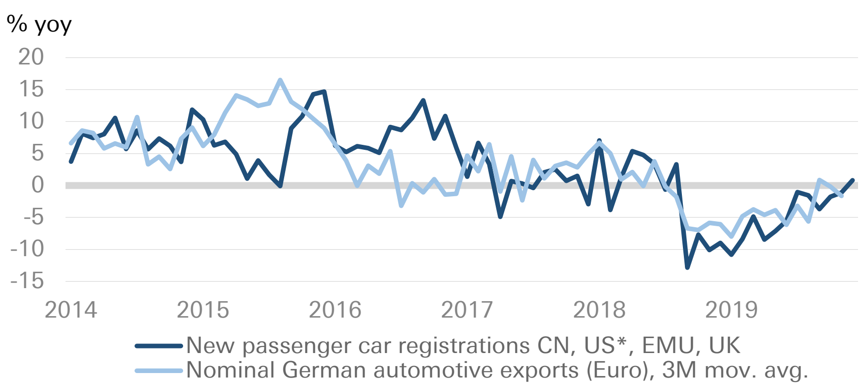
Figure 48: New orders in the German automotive industry




*Source : Federal Statistical Office*

**Figure 48**: Domestic and foreign order intake developed quite stable during the last few months even though foreign orders disappointed in December. Development of orders are still a sign for bottoming out of the automotive business cycle. German new passenger car registrations increased by 5% in 2019 and reached the highest level since 2009, the year of the scrappage premium in Germany.

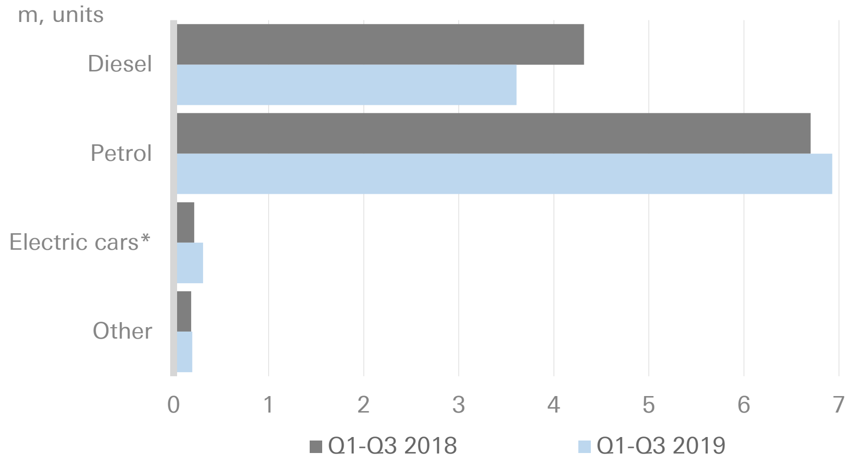
Figure 49: Global car demand and German automotive exports




** Light vehicles*
*Source : ACEA, Bureau of Economic Analysis, China Automotive Information, Federal Statistical Office*

**Figure 49**: Weak demand in important German export markets towards the end of 2018 and in 2019 weighed on auto exports. On average, passenger car exports (in unit terms) declined in 2019 by 13%. However, a relative improvement in global car demand is in sight. Before the corona outbreak, we expected Chinese car demand (which has been weak for close to two years) to surprise on the positive side in 2020. However, the corona outbreak will now drag down car demand significantly in Q1 2020. Still, backlog and replacement demand could provide stimulus as soon as the virus is under control. We should also not forget that consumer sentiment might improve due to the first trade agreement with the US. We will watch attentively. We are cautious for the European and US car markets.

Figure 50: New passenger car registrations in the EU by propulsion technology




** Battery electric, plug-in hybrid, range extender, fuel cell*
*Source : ACEA*

**Figure 50:** Barring the economic cycle, carmakers and suppliers continue their efforts to ramp up production of electric vehicles and the corresponding supplier parts and equipment in their plants respectively. More and more models are available on the market. By 2021 at the latest, the $CO_2$ emissions of all new passenger cars in the EU are to be reduced to 95 g/km on average. If the auto industry fails to reach this goal, it will have to pay fines. The share of electric vehicles will have to rise to 10-15% of all new car registrations (from currently less than 3%) if the sector as a whole is to avoid paying fines. Still, EVs are likely to account for only a small share of total passenger car production in 2020. The evolutionary change in propulsion technologies is not yet strongly reflected in production figures. Output value, however, benefits, as current prices for electric vehicles are on average higher than those for their counterparts with combustion engines. At the same time domestic production is negatively influenced since some production sites are being retrofitted in order to ramp up production of electric vehicles (capacity is not fully available during restructuring of these plants). Being largely driven by the above-mentioned strict European $CO_2$ emission limit values for new passenger cars rather than market forces, technological change is a major challenge (not only for Germany, but) for the global automotive industry. Unless electric vehicles are heavily subsidized, consumer acceptance continues to be low. High investment hence contrasts with a small market. Again: This is not a problem that is idiosyncratic to the German automotive industry. The German auto industry is better prepared for the electric mobility future than Germany as an industrial location for car producers. In fact, a number of factors on the cost side have deteriorated compared to other locations over the last few years (e.g. corporate taxes, wages, electricity prices).

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## Berlin housing market: Rent cap likely to cause the property cycle to decouple from the super cycle for a few years[4]

- The key message is: If the rent cap is indeed compatible with the constitution, the situation for investors will fundamentally change. Moreover, future political majorities might decide to extend the provision (which is currently limited to a period of five years) in 2025. Risk-averse short-term investors have good reasons to withdraw from Berlin. For long-term investors, however, Berlin should remain an attractive market.

In all probability, a judicial review procedure will clarify whether the proposed rent cap in Berlin is compatible with the German constitution. A decision is likely by autumn 2020. With lawyers' opinions being divided, the outcome of the procedure is uncertain.

Former rent control efforts, such as the "rent brake", a review of the rent index, the residential construction summit, etc. were just side effects of the real estate boom in Germany. Due to the housing shortage, they only dampened the uptrend in rents, if at all. With its new housing policy and the rent cap, the city of Berlin is taking radical measures to try and overturn market mechanisms. Developments in Berlin will probably have a major impact on housing policy in Germany as a whole.

The Berlin Senate aims to freeze rents across the private housing market for five years. For this purpose, it adopted the "rent cap" at the end of January 2020; the decision will probably enter into force by the end of February and freeze rents retroactively at the level of June 2019.

Rents may not be raised at all before 2021 and by 1.3% per year afterwards. The rent cap will not resolve the key problem, which is a housing shortage. Quite the opposite; it will increase demand and reduce supply. There will be numerous attempts to work around the restrictions, which may render useless the Senate's efforts to create affordable housing.

The super cycle in Berlin is continuing. The number of inhabitants is rising, the labour market is booming, and real GDP has been growing at a rate of almost 4% per year during the last few years. In addition, Berlin, with its strong, knowledge-oriented services sector, is to some extent protected against global risks.

**In the long run, the negative effects of the rent cap on the housing market will become evident. That is why we do not think that the rent cap will remain in place beyond 2030. Due to its economic super cycle, Berlin is still an attractive location for long-term investors.**

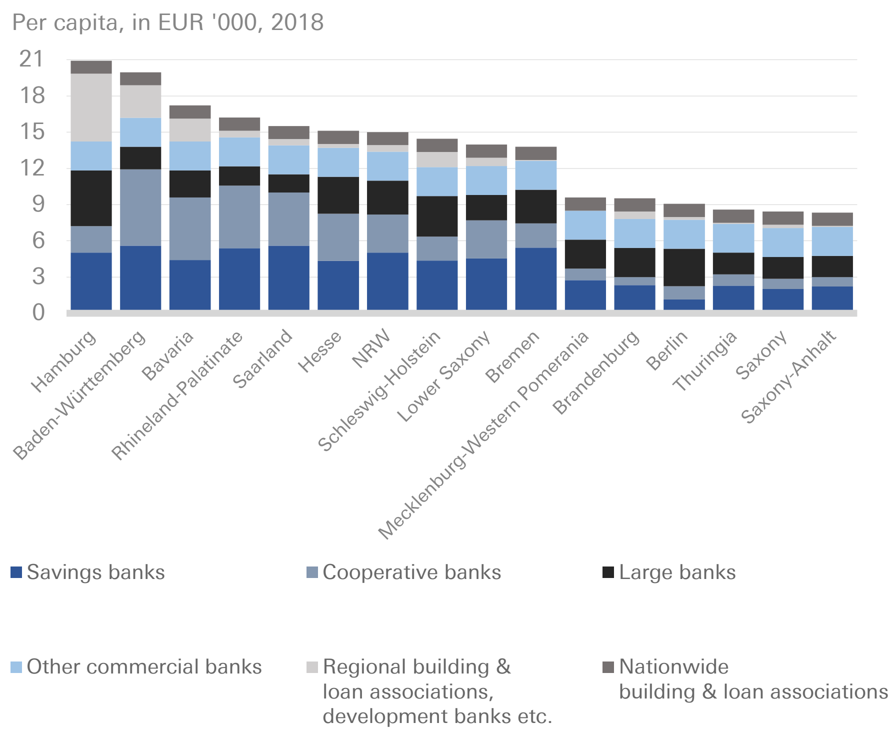
*Jochen Möbert, (+49) 69 910-31727*

4 forthcoming February 2020.

## Private households in Germany: Regional differences in banking

In which federal states have retail customers taken out the highest loans, and from whom? Thanks to the regional banking statistics of the Bundesbank, it is not only possible to identify regional differences in borrowing and bank deposits in Germany, but the data also shed light on regional focuses of the individual banking groups whose reasons in part go back surprisingly far into the past.

Figure 51: Loans to private households (excl. self-employed)

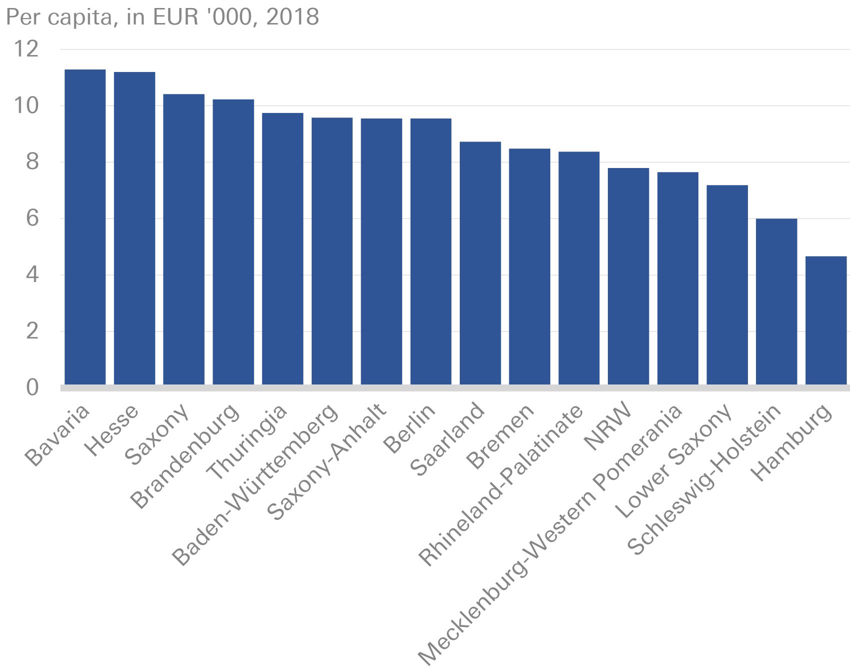



*Source : Deutsche Bundesbank, Federal Statistical Office, company reports, Deutsche Bank Research*

30 years after the fall of the Berlin Wall, per capita loan volumes in east Germany are significantly lower than in the west. The latter, in turn, is characterised by a certain north-south divide. Both facts are partly linked to the distribution of income and the cost of living. Savings banks, Germany's number one in retail banking, have a market share of roughly 25-35% in lending throughout the country. Cooperative banks are ranked second, though their market position varies a lot: due to historical reasons, their strongholds are located in the south and west; in the north and east, however, they are only thinly represented. The third-largest banking group are large commercial banks. They have a fairly balanced position nationwide, but achieve an above-average market share of usually 20-25% in east Germany and the city states.

On the deposit side, the picture is, in principle, similar. Here, however, other commercial banks, which are dominated by direct banks, have outstripped large banks and now rank third in the nationwide comparison. As regards deposit volumes, the spread between the federal states is, on balance, smaller than with respect to credit volumes. Equally, looking at the different types of deposits, there are no major differences between regions: sight deposits represent the largest block, followed by savings deposits and time deposits, which have suffered a sharp decline.

Figure 52: Deposit overhang with private households




*Source : Deutsche Bundesbank, Federal Statistical Office, company reports, Deutsche Bank Research*

In retail banking, German banks run a high deposit overhang – an average deposit volume of around EUR 24,000 per capita compares with a loan volume of just around EUR 14,900. In east Germany, the gap is particularly large, which might be explained by pronounced risk aversion or less experience with securities. On the whole, the deposit overhang almost exclusively pertains to savings banks, credit cooperatives and other commercial banks, with the former two running surpluses across all federal states. At the savings banks, the loan-to-deposit ratio is just 52%. Given the ECB's current negative interest rate policy, such an "investment plight" is particularly challenging. At the large banks, on the other hand, loan volumes are higher than deposit volumes in three federal states, at least.

Some regional focuses of individual banking groups have persisted a very long time. In light of digitisation and the decreasing importance of branches, fundamental movements in market allocation might now be possible – for the first time in decades.

For more details, see also (in German) [Private Haushalte in Deutschland: Regionale Unterschiede im Bankgeschäft.]

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# The View from Berlin: (Political) storm over Germany – CDU leader AKK announces resignation

- The leader of the conservative CDU, Annegret Kramp-Karrenbauer (AKK), in a surprise move today announced she will step down from CDU leadership, citing the different party-internal approaches towards the far-right AfD and the related political turbulences in the East German state of Thuringia.
- Her resignation will not be immediately effective as the change at the helm of the CDU will need an extraordinary party convention. AKK announced she will organise her succession in summer and hand over the party leadership to whomever will be chosen at this federal party convention. While developments in Berlin will certainly be in flux, our best guess would be that this time the next CDU leader will also become the CDU's chancellor candidate in the 2021 federal elections.
- The big question on everyone's mind: will this be Friedrich Merz who enjoys strong support of the CDU base and is campaigning actively on the regional level, filling town halls? Or Armin Laschet, the PM of NRW, who is rather a politically moderate and might be more accessible for the Green party when it comes to the potential formation of a conservative-green coalition after the next federal elections?

## What happened exactly?

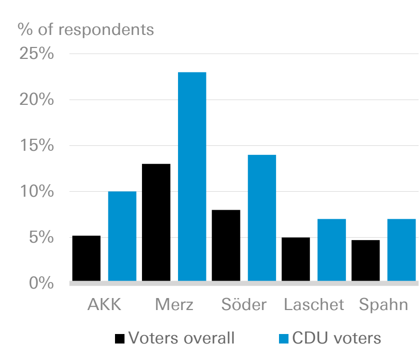
Since yesterday, Germany – together with wide parts of Northern/Western Europe – has been caught in the heavy storm "Ciara" (in Germany it is called "Sabine") that led to major disruptions and damages across the country. Major disruptions and damages of a political dimension have been triggered by a "political thriller" that started last week in the small East German state of Thuringia and today culminated with the announced resignation of CDU party chair Annegret Kramp-Karrenbauer (AKK).

AKK's sudden announcement took many observers by surprise but was not entirely unexpected. AKK has been heavily criticized for her handling of the toxic political situation in Thuringia. There, national political uproar was triggered last week when the state parliament elected Thomas Kemmerich, the candidate of its smallest party, the liberal FDP, as Prime Minister with votes not only from his own party but also from the CDU – and the far-right (especially in Thuringia partly extreme right) AfD.

The election of an FDP state PM with votes from the AfD is considered breaking a political taboo as all German centrist parties so far explicitly refused any cooperation with the far-right. The AfD in Thuringia even freely admitted that they did not vote for their own candidate in order to achieve this result, which was interpreted as a political coup to emphasize their growing political weight and to embarrass the political center.

The CDU leadership, including AKK and Chancellor Merkel immediately sharply criticized the voting of their party's regional branch in Thuringia. But the fact that the leader of the Thuringia CDU Mike Mohring ignored instructions from Berlin and then refused to support new elections (that AKK called for) after Kemmerich announced to step down as PM under (late) pressure from its own party leadership was understood as lack of leadership and crisis management on the part of AKK. As the CDU also rejects supporting the previous and popular PM Bodo Ramelow from the Left party, it remains entirely unclear how the political deadlock in Thuringia will

Figure 53: Survey – who should be the next German Chancellor?




Source : dpa/YouGov

be solved.

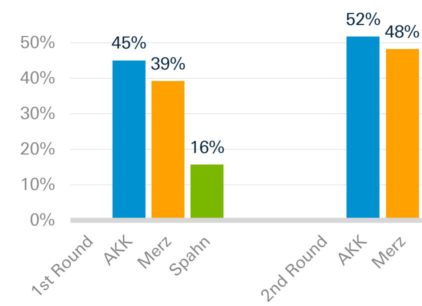
## What is behind the current escalation?

The developments in Thuringia are the immediate trigger but not the only factor explaining AKK's decision to step down from the helm of the CDU as her brief tenure was characterized by a number of political mishaps. She repeatedly ranked below her peers in popularity surveys among the German electorate and her CDU leadership was controversial within the party right from the start, when Chancellor Merkel decided against rerunning for the party chair and promoted AKK as her preferred successor. At the end of the day, AKK has been struggling to improve the profile of the CDU, her own popularity and her standing as strong political leader.

AKK won the contest for party leadership against her main contender Friedrich Merz from the business friendly conservative camp within the CDU at the party congress in December 2018, but only with a slim majority (see figure 54). Merz showed himself cooperative after the vote, but it remained clear that he did not abandon his ambitions for party leadership and chancellor candidacy. Before last year's convention, it remained unclear whether supporters of Merz would call for a renewed vote on the party leadership and would question the party leader's traditional prerogative for chancellor candidacy. At the congress itself, AKK's opponents decided against an outright revolt against her and AKK herself forced the opponents to fall in line as she included in her convention speech a sort of vote of confidence. But the (at the surface) broadly positive response at the convention can be rather understood as an external display of unity than an end of the leadership struggle. The question of who would lead the CDU into the 2021 parliamentary election remained the elephant in the room.

The chaos around the Thuringia elections, however, cannot only be attributed to weak managerial skills on the part of AKK. Her attempt to bridge the differences between the conservative and the more liberal wings within her party was admittedly an overwhelmingly difficult task to begin with. Thuringia was just the final straw, disclosing the deep political rifts within the CDU and the fundamental lack of programmatic consensus that will determine the CDU and its leadership in the upcoming post-Merkel era.

Figure 54: Results of the CDU chairman elections 2018




Source : Die Zeit

## What could be the immediate political fallout?

It is reported that AKK did not consult the other CDU executives ahead of today's announcement, leaving her party even more confused on its future leadership and timeline ahead of regional elections in the city state of Hamburg on February 23. In Hamburg, traditionally (and mostly) ruled by mayors from the social democrats (SPD), the CDU is not a major political force and the race will likely be decided between incumbent First Mayor Peter Tschentscher from the SPD and his Second Mayor Katharina Fegebank from the Green party who, together, rule the city state in a government coalition. But even as the CDU and FDP appear out of competition in Hamburg already anyway, they might still feel fallout of the Thuringia and leadership crisis.

## Who will be the next CDU party leader and CDU/CSU chancellor candidate?

AKK wants to organize her succession at the helm of the CDU at some point "in summer" but it is not clear to what extent the upcoming decisions and timeline are still really in her hands. An extraordinary party convention which is required to elect a new CDU leader can be called for on quite short notice, with the CDU executives to decide on it. Whenever the vote will take place, Friedrich Merz, a former chairman of the CDU/CSU parliamentary group and Armin Laschet, the PM of North Rhine-Westphalia, currently seem to be the most promising candidates (as per German media). We note further contenders could throw their hat in the ring.

- **Friedrich Merz** continues to enjoy strong support from the CDU base, above all from the CDU's youth organisation. He has just announced he would lay down his position at BlackRock and is since actively campaigning on regional level filling the town halls. Merz retired from politics in 2009 after expressing his disappointment with the politics of chancellor Merkel. Like Armin Laschet, Friedrich Merz comes from the biggest state association of the CDU, NRW. In contrast, after his return to politics, Merz has triggered a hype about himself. Especially the youth organisation, Junge Union, cheers for Merz due to his free-market friendly and conservative claims. He might therefore benefit from a sentiment among conservative and business representatives that the quality of the German industrial place is increasingly at risk – all the more as Merkel has catered to the social policy interests of the SPD during the last years.
- **Armin Laschet**, currently PM of NRW, is widely seen as a more moderate CDU grandee who still manages to enforce a more rigid policy in domestic and security matters on the state level. He might be an easier partner for the Green party which is likely to be the kingmaker in any next government formation on the federal level. Laschet has over 25 years of political experience in federal and state parliaments. Before becoming the PM of a liberal-conservative coalition in NRW, he held several senior roles in the government and in the CDU. Moreover, since the start of the coalition in 2017, he has gained broad popularity among CDU members. Regarding political opinions he is seen as a liberal/center politician.
- **Jens Spahn**, one of AKK's contenders in the 2018 party convention is rather unlikely to re-run for CDU-leadership.

AKK emphasized that party chair and chancellor candidacy belong together and one can expect that the CDU's decision within the next months on its future leader will also be a decision on who will lead the 2021 campaign.

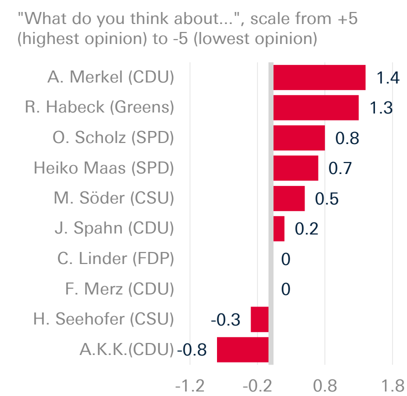
Regarding the question of chancellor candidacy, the Bavarian PM from the CDU's sister party CSU and party leader Markus Söder is frequently mentioned; however, he repeatedly rejected the notion and we note candidates from Bavaria traditionally have a hard time convincing voters outside their own state.

As regards AKK's own political future, she clarified at today's press conference that she aims to remain defense minister after handing over the party leadership, a post she took over last summer when her predecessor Ursula von der Leyen was nominated as next Commission President.

## What does this mean for the Groko in Berlin?

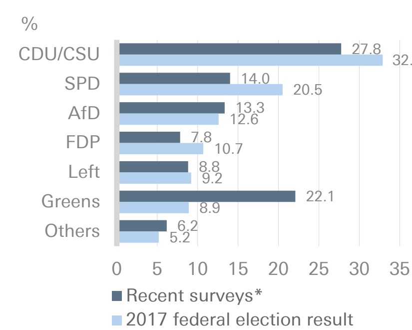
We do not expect the events in Thuringia and AKK's announcement to immediately impact the stability of the grand government coalition between CDU/CSU and SPD in the short-term. All coalition partners have intrinsic motivation to limit the further damage to their voter support that might be caused by a breakup ahead of the 2021 elections. Chancellor Merkel, whose role in the unfolding of recent events remains difficult to assess, remains one of the most popular German politicians and a majority of voters favors a continuation of the current government until next year (see figure 55).

Figure 55: Popularity ranking of important German politicians




*Source : Forschungsgruppe Wahlen Politbarometer Jan 2020*

Figure 56: Major political parties' popularity & result of the last federal election




** Average of major recent surveys (Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, Infratest dimap, INSA)*
*Source : Wahlrecht.de, February 10, 2020*

However, the SPD recently moved further to the left when it elected the Groko-critical duo of Norbert Walter-Borjans and Saskia Esken as party chairs at its party congress in December rather than the Groko proponent and Finance Minister Olaf Scholz. Regarding the work of the Groko over the rest of its legislative period, an election of Friedrich Merz from the economically and fiscally conservative wing of the CDU would certainly make collaboration within the coalition more difficult than under the leadership of Laschet. This also extends to the tense relationship between a CDU leader Merz and Chancellor Merkel.

However, even if Merz was elected, we expect him to assume a rather constructive role in the coalition – given the relatively short period until the elections in autumn 2021.

But even though it is not our baseline, as both CDU/CSU and SPD increasingly suffer from infighting and lack of a clear response to the rise and political maneuver of the right-wing AfD, the coalition partners' need to differentiate themselves from each other at some point might potentially lead to a premature breakup of their loveless marriage – setting either the (cumbersome) path to early elections or leading to a minority government.

We thank Hagen Blöcher for his contributions.

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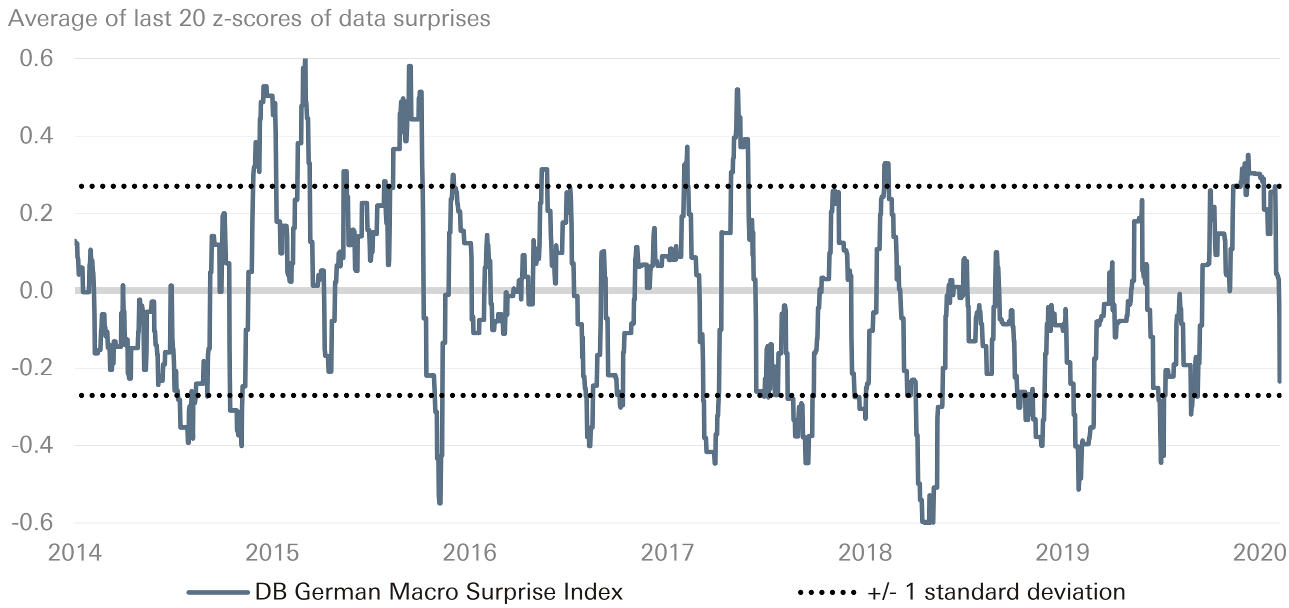
## Deutsche Bank German Macro Surprise Index

The DB German Macro Surprise Index compares published economic data with market forecasts and thus provides clues as to the direction of future forecast revisions.

Figure 57: DB Macro Surprise Index




*Values above (below) 0 indicate the data came in better (worse) than expected*
*Source : Bloomberg Finance LP, Deutsche Bank Research*

### Last 20 published economic data for Germany

| Bloomberg Tickers | Indicator | Reporting month | Publication date | Current value | Bloomberg consensus | Surprise | Standardised surprise | Quantile rank |
|---|---|---|---|---|---|---|---|---|
| GRIPIMOM Index | Industrial production (% mom) | 11 2019 | 09/01/2020 | 1.2 | 0.8 | 0.4 | 0.0 | 0.7 |
| GRTBALE Index | Trade Balance (EUR bn) | 11 2019 | 09/01/2020 | 18.6 | 21.3 | -2.7 | -1.2 | 0.1 |
| GRCAEU Index | Current Account Balance (EUR bn) | 11 2019 | 09/01/2020 | 24.1 | 23.8 | 0.3 | -0.2 | 0.4 |
| GRBTIMMM Index | Imports (% mom) | 11 2019 | 09/01/2020 | -0.6 | 0.1 | -0.7 | -0.3 | 0.4 |
| GRBTEXMM Index | Exports (% mom) | 11 2019 | 09/01/2020 | -2.2 | -0.9 | -1.3 | -0.7 | 0.2 |
| GRCP20YY Index | CPI (% yoy) | 12 2019 | 16/01/2020 | 1.5 | 1.5 | 0.0 | 0.2 | 0.4 |
| GRZECURR Index | ZEW Survey Current Situation | 1 2020 | 21/01/2020 | -9.5 | -13.5 | 4.0 | 0.5 | 0.7 |
| GRZEWI Index | ZEW Survey Expectations | 1 2020 | 21/01/2020 | 26.7 | 15.0 | 11.7 | 1.5 | 0.9 |
| GRIMP95Y Index | Import Price Index (% yoy) | 12 2019 | 29/01/2020 | -0.7 | -0.7 | 0.0 | 0.3 | 0.7 |
| GRUECHNG Index | Unemployment Change (000's mom) | 1 2020 | 30/01/2020 | -2.0 | 5.0 | 7.0 | 0.1 | 0.6 |
| GRCP20YY Index | CPI (% yoy) | 1 2020 | 30/01/2020 | 1.7 | 1.7 | 0.0 | 0.2 | 0.4 |
| GRFRIAMM Index | Retail Sales (% mom) | 12 2019 | 31/01/2020 | -3.3 | -0.5 | -2.8 | -2.0 | 0.0 |
| MPMIDEMA Index | Markit Manufacturing PMI | 1 2020 | 03/02/2020 | 45.3 | 45.2 | 0.1 | 0.1 | 0.6 |
| MPMIDESA Index | Markit Services PMI | 1 2020 | 05/02/2020 | 54.2 | 54.2 | 0.0 | 0.0 | 0.5 |
| GRIORTMM Index | Factory Orders (% mom) | 12 2019 | 06/02/2020 | -2.1 | 0.6 | -2.7 | -1.3 | 0.1 |
| GRIPIMOM Index | Industrial production (% mom) | 12 2019 | 07/02/2020 | -3.5 | -0.2 | -3.3 | -2.7 | 0.0 |
| GRBTEXMM Index | Exports (% mom) | 12 2019 | 07/02/2020 | 0.1 | 0.5 | -0.4 | -0.3 | 0.4 |
| GRBTIMMM Index | Imports (% mom) | 12 2019 | 07/02/2020 | -0.7 | 0.3 | -1.0 | -0.4 | 0.3 |
| GRCAEU Index | Current Account Balance (EUR bn) | 12 2019 | 07/02/2020 | 29.4 | 23.5 | 5.9 | 1.4 | 0.9 |
| GRTBALE Index | Trade Balance (EUR bn) | 12 2019 | 07/02/2020 | 15.2 | 15.0 | 0.2 | 0.0 | 0.5 |

*Updated by Marc Schattenberg and Jochen Moebert (+49) 69 910-31727, jochen.moebert@db.com*
*Source : Heiko Peters (2014). DB German Macro Surprise Index. Focus Germany, 4 August 2014*

## Germany: Data calendar

| Date | Time | Data | Reporting period | DB forecast | Last value |
|---|---|---|---|---|---|
| 14 Feb 2020 | 8:00 | Real GDP (% qoq) | Q4 2019 | 0.0 | 0.1 |
| 21 Feb 2020 | 9:30 | Manufacturing PMI (Flash) | February | 45.0 | 45.3 |
| 21 Feb 2020 | 9:30 | Services PMI (Flash) | February | 54.0 | 54.2 |
| 24 Feb 2020 | 10:30 | ifo business climate (Index, sa) | February | 96.1 | 95.9 |
| 25 Feb 2020 | 8:00 | Real GDP (% qoq) - Details | Q4 2019 | 0.0 | 0.1 |
| 28 Feb 2020 | 9:55 | Unemployment rate (%, sa) | February | 5.0 | 5.0 |
| 28 Feb 2020 | 14:00 | Consumer prices preliminary (% yoy, nsa) | February | 1.6 | 1.7 |
| 4 Mar 2020 | 8:00 | Retail sales (% mom, sa)* | January | 1.8 | -3.3 |
| 6 Mar 2020 | 8:00 | New orders manufacturing (% mom, sa) | January | 0.5 | -2.1 |
| 9 Mar 2020 | 8:00 | Industrial production (% mom, sa) | January | 1.6 | -2.9 |
| 9 Mar 2020 | 8:00 | Trade balance (EUR bn, sa) | January | 18.6 | 18.1 |
| 9 Mar 2020 | 8:00 | Merchandise exports (% mom, sa) | January | 0.5 | 0.1 |
| 9 Mar 2020 | 8:00 | Merchandise imports (% mom, sa) | January | 0.5 | -0.7 |

*An earlier data release may be possible due to the Federal Statistical Office.

*Source : Deutsche Bank Research, Federal Statistical Office, Federal Employment Agency, ifo, IHS Markit*

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## Financial Forecasts

| | US | JP | EMU | GB | CH | SE | DK | NO | PL | HU | CZ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Key interest rate, % | | | | | | | | | | | |
| Current | 1.625 | -0.10 | 0.00 | 0.75 | -0.75 | 0.00 | -0.75 | 1.50 | 1.50 | 0.32 | 2.25 |
| Mar 20 | 1.625 | -0.10 | 0.00 | 0.50 | -0.75 | 0.00 | -0.75 | 1.50 | 1.50 | 0.22 | 2.25 |
| Jun 20 | 1.625 | -0.10 | 0.00 | 0.50 | -0.75 | 0.00 | -0.75 | 1.50 | 1.50 | 0.18 | 2.25 |
| Sep 20 | 1.625 | -0.10 | 0.00 | 0.50 | -0.75 | 0.00 | -0.75 | 1.50 | 1.50 | 0.15 | 2.25 |
| 3M interest rates, % | | | | | | | | | | | |
| Current | 1.73 | 0.02 | -0.40 | | | | | | | | |
| Mar 20 | 1.75 | 0.05 | -0.40 | | | | | | | | |
| Jun 20 | 1.75 | 0.05 | -0.40 | | | | | | | | |
| Sep 20 | 1.75 | 0.05 | -0.40 | | | | | | | | |
| 10Y government bonds yields, % | | | | | | | | | | | |
| Current | 1.57 | -0.06 | -0.41 | 0.56 | | | | | | | |
| Mar 20 | 1.75 | -0.05 | -0.12 | 0.63 | | | | | | | |
| Jun 20 | 1.70 | 0.00 | -0.16 | 0.63 | | | | | | | |
| Sep 20 | 1.55 | 0.00 | -0.26 | 0.60 | | | | | | | |

Exchange rates

| | EUR/USD | USD/JPY | EUR/GBP | GBP/USD | EUR/CHF | EUR/SEK | EUR/DKK | EUR/NOK | EUR/PLN | EUR/HUF | EUR/CZK |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Current | 1.09 | 109.80 | 0.85 | 1.29 | 1.07 | 10.55 | 7.47 | 10.15 | 4.27 | 338.09 | 25.04 |
| Mar 20 | 1.10 | 112.00 | 0.87 | 1.26 | 1.13 | 10.50 | | 9.75 | 4.37 | 336.00 | 25.70 |
| Jun 20 | 1.13 | 110.00 | 0.87 | 1.30 | 1.15 | 10.25 | | 9.50 | 4.32 | 327.00 | 25.60 |
| Sep 20 | 1.17 | 105.00 | 0.87 | 1.34 | 1.13 | 10.50 | | 9.75 | 4.30 | 330.00 | 25.55 |

*Source : Bloomberg Finance LP, Deutsche Bank Research*

## Germany – Data monitor

| | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | Q1 2020 | Sep 2019 | Oct 2019 | Nov 2019 | Dec 2019 | Jan 2020 | Feb 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Business surveys and output** | | | | | | | | | | | |
| Aggregate | | | | | | | | | | | |
| Ifo business climate | 99.6 | 98.5 | 95.1 | 95.4 | | 94.7 | 94.7 | 95.1 | 96.3 | 95.9 | |
| Ifo business expectations | 95.0 | 94.8 | 91.5 | 92.6 | | 90.9 | 91.6 | 92.2 | 93.9 | 92.9 | |
| Industry | | | | | | | | | | | |
| Ifo manufacturing | 98.0 | 95.1 | 91.0 | 91.0 | | 90.5 | 91.0 | 90.9 | 91.2 | 92.8 | |
| Headline IP (% pop) | -0.7 | -1.9 | -0.9 | -2.3 | | -1.4 | -1.4 | 1.0 | -2.9 | | |
| Orders (% pop) | -4.3 | -1.2 | -0.8 | -0.6 | | 1.0 | 0.2 | -0.8 | -2.1 | | |
| Capacity Utilisation | 86.3 | 85.3 | 83.9 | 82.6 | 82.9 | | | | | | |
| Construction | | | | | | | | | | | |
| Output (% pop) | 3.7 | 0.7 | 0.1 | 0.3 | | 2.2 | -1.3 | 2.1 | -2.8 | | |
| Orders (% pop) | -2.2 | -5.7 | 0.6 | | | 4.1 | -2.0 | 14.2 | | | |
| Ifo construction | 111.8 | 113.2 | 112.8 | 111.4 | | 112.7 | 112.0 | 111.6 | 110.6 | 108.6 | |
| **Consumer demand** | | | | | | | | | | | |
| EC consumer survey | -0.2 | -1.7 | -3.1 | -3.3 | | -2.4 | -4.1 | -2.0 | -3.7 | -3.6 | |
| Retail sales (% pop) | 1.8 | 0.2 | 0.6 | -0.7 | | 0.1 | -0.7 | 1.6 | -3.3 | | |
| New car reg. (% yoy) | 0.2 | 0.9 | 6.8 | 13.7 | | 22.2 | 12.7 | 9.7 | 19.5 | -7.3 | |
| **Foreign sector** | | | | | | | | | | | |
| Foreign orders (% pop) | -5.4 | 0.9 | -1.1 | 0.0 | | 0.6 | 2.4 | -2.0 | -4.5 | | |
| Exports (% pop) | 0.6 | -1.4 | 0.6 | 0.8 | | 1.4 | 1.5 | -2.2 | 0.1 | | |
| Imports (% pop) | 0.6 | -0.9 | -0.5 | 0.7 | | 1.2 | 0.4 | -0.6 | -0.7 | | |
| Net trade (sa EUR bn) | | | | | | | | | | | |
| **Labour market** | | | | | | | | | | | |
| Unemployment rate (%) | 5.0 | 5.0 | 5.0 | 5.0 | | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | |
| Change in unemployment (k) | -33.0 | 19.7 | 21.3 | -4.3 | | -9.0 | 7.0 | -14.0 | 8.0 | -3.0 | |
| Employment (% yoy) | 1.1 | 1.0 | 0.8 | 0.7 | | 0.8 | 0.7 | 0.6 | 0.6 | | |
| Ifo employment barometer | 102.4 | 100.6 | 98.8 | 99.0 | | 98.9 | 98.7 | 99.5 | 98.9 | 99.7 | |
| **Prices, wages and costs** | | | | | | | | | | | |
| Prices | | | | | | | | | | | |
| Harmonised CPI (% yoy) | 1.6 | 1.6 | 1.0 | 1.2 | | 0.9 | 0.9 | 1.2 | 1.5 | 1.6 | |
| Core HICP (% yoy) | 1.5 | 1.5 | 0.9 | 1.5 | | 1.0 | 1.1 | 1.8 | 1.7 | 1.3 | |
| Harmonised PPI (% yoy) | | | | | | | | | | | |
| Commodities, ex. Energy (% yoy) | 1.5 | 0.2 | 6.3 | 5.3 | | 6.7 | 3.3 | 3.5 | 9.2 | 9.1 | |
| Crude oil, Brent (USD/bbl) | 63.8 | 68.6 | 62.1 | 62.5 | | 62.3 | 59.7 | 62.7 | 65.2 | 63.4 | |
| Inflation expectations | | | | | | | | | | | |
| EC household survey | 31.7 | 33.8 | 33.7 | 31.6 | | 31.5 | 34.0 | 28.3 | 32.5 | 35.1 | |
| EC industrial survey | 14.4 | 7.1 | 2.2 | 2.7 | | 1.1 | 2.3 | 3.1 | 2.7 | 3.2 | |
| Unit labour cost (% yoy) | | | | | | | | | | | |
| Unit labour cost | 3.1 | 4.3 | 2.9 | | | | | | | | |
| Compensation | 3.0 | 3.3 | 3.3 | | | | | | | | |
| Hourly labour costs | 2.6 | 4.4 | 2.9 | | | | | | | | |
| **Money (% yoy)** | | | | | | | | | | | |
| M3 | 5.1 | 4.8 | 5.1 | 4.6 | | 5.1 | 5.1 | 4.6 | 4.6 | | |
| M3 trend (3m cma) | | | | | | 5.4 | 5.4 | 5.0 | 4.8 | | |
| Credit - private | 4.1 | 4.6 | 4.5 | 4.9 | | 4.5 | 4.7 | 4.8 | 4.9 | | |
| Credit - public | 14.1 | 5.7 | 3.1 | -5.9 | | 3.1 | 6.4 | 9.4 | -5.9 | | |

% pop = % change this period over previous period.

*Source : Deutsche Bundesbank, European Commission, Eurostat, Federal Employment Agency, German Federal Statistical Office, HWWI, ifo, IHS Markit*

# Appendix 1

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