



Germany: NRW election positive for Merkel

- Last Sunday the CDU won the important election in North Rhine-Westphalia (NRW), defeating the SPD in its major stronghold (33 vs 31.2%). The result indicates an end to the SPD's upswing following the nomination of Schulz as Chancellor Merkel's contender, and thus confirms our earlier cautious view on the likely sustainability of this development.
- The result is likely to provide a strong boost for Merkel's campaign for the federal election (on September 24). However, with another four months to go and regional topics having played an important role in voters' decision in NRW, Merkel urged her party not to become too complacent.
- The SPD's worst historical outcome in NRW has severely hit the party, not least because Martin Schulz has his constituency there. NRW MP Hannelore Kraft resigned from all positions in the party leadership to signal that the SPD's defeat was a purely regional event. But NRW elections have always mattered for Berlin and the (negative) spill-over for Schulz' campaign and his topic of social inequality is unlikely to be prevented.
- Among the smaller parties the FDP scored its best result ever in NRW with 12.6%. This provides strong tailwind for its frontrunner Lindner and the return of the FDP into the parliament in Berlin in autumn. The Greens as part of the governing coalition in NRW lost substantially with likely contagions for their performance in the federal elections. The AfD entered its 13th state parliament albeit with a very modest result of 7.4%.
- CDU and FDP have a tight majority in the parliament. With the SPD and the Greens refusing to cooperate with the CDU in NRW, a CDU-FDP coalition seems to be the likely option of government formation.
- In the most important polls the CDU is about 9pps ahead of the SPD, i.e. nearly as much as prior to Mr. Schulz' promotion (14pps in Dec. 2016). Only slight changes, i.e. further gains of about 2pps, would open the prospect of a CDU-FDP coalition on the federal level, too. However, the past few weeks have demonstrated how fast the political sentiment can change and an increasing number of voters tend to decide on short notice.

Small federal elections

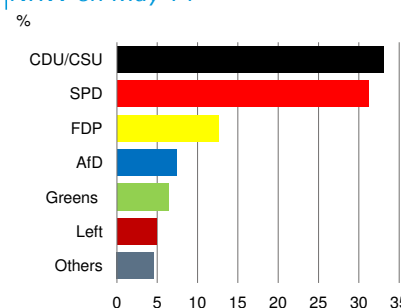
Last Sunday's election in North Rhine-Westphalia (NRW) was the last and most important signpost prior to the federal election on September 24. About four months ahead of the date, 13,1m Germans, i.e. 21% of the country's overall electorate, were called to cast their ballot. Given NRW's size and its various regions, state elections there are said to be "small federal elections". With 17,9m people NRW has more inhabitants than the neighboring Netherlands (17m). And the state's GDP (2016: EUR 670bn, i.e. one fifths of Germany's overall GDP, too) is only slightly lower than that of the neighbor country (EUR 697bn).

NRW's economic and political landscape is very diverse. It comprises traditionally conservative regions like Eastern Westphalia as well as liberal ones like

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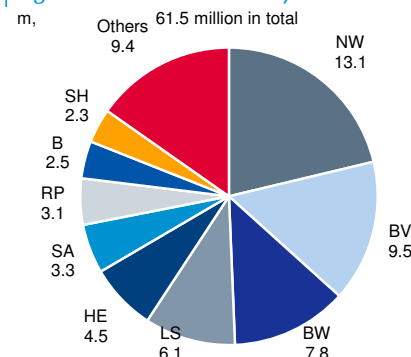
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Figure 1: Result of the state election in NRW on May 14



Source: Wahlrecht.de, Deutsche Bank

Figure 2: Regional breakdown of the eligible voters in Germany*



* NW North Rhine-Westphalia, BV Bavaria, BW Baden-Wuerttemberg, LS Lower Saxony, HE Hesse, SA Saxony, RP Rhineland-Palatinate, B Berlin, SH Schleswig-Holstein. Source: Federal Statistical Office, Deutsche Bank



Duesseldorf and the university cities, especially Bonn and Münster, where besides the Liberals also the Greens used to be strong. Of course, the Ruhr area, NRW's and Germany's urban-industrial heartland, in some regard still reminds of the traditional cliché. This region still suffers from relatively weak economic growth and difficulties to master the structural change from Germany's former centre of coal mining and heavy manufacturing to a modern service oriented economy. The unemployment rates in cities like Duisburg, Dortmund and Essen are among the highest in West Germany. These cities, however, contrast e.g. to dynamic clusters of mechanical engineering and automobile parts suppliers in Northeast and South Westphalia. Nevertheless, real GDP growth in NRW has (mostly) been below average in the past years – since 2010: 1.4% p.a. compared to 2% p.a. for the overall German economy.

But it is more than for the state's sheer size that last Sunday's election deserves attention. NRW and especially the Ruhr area with its more than 5m inhabitants is a traditional SPD stronghold. It is said to be a kind of antipode to Bavaria, Germany's second-largest and traditionally conservative state. NRW is also the home of Martin Schulz, the SPD's frontrunner in the federal election campaign.

Harbinger for political changes on the federal level?

NRW often was a harbinger for political changes on the federal level. One example is the formation of a coalition between the SPD and the FDP in the 1960ies. In the state election in 1966 the SPD outstripped the CDU for the first time. A few months later the SPD managed to persuade the FDP to leave the then state government coalition with the CDU and to join forces for a SPD-FDP coalition. After the federal election in 1969 such a coalition was established on the federal level, too. A more recent example is the 2005 state election when the then SPD-Greens coalition in NRW lost its majority. This preceded the same result on the federal level. As a result in autumn 2005 Angela Merkel took over from former SPD Chancellor Schröder. On the other hand in all elections since 1949, the SPD has never managed to win (or defend) the chancellorship if it did not also obtain the most Bundestag votes in NRW. The outcome of the recent election – weakened SPD and particularly Greens and strengthened CDU and particularly FDP – might thus signal upcoming changes on the federal level as well.

Boost for Chancellor Merkel's campaign

The CDU's success in NRW confirms the party's recent upward trend manifest in rising popularity ratings and in the two victories in the elections in the Saarland on March 26 and in Schleswig-Holstein a week ago. Only a couple of weeks ago at the peak of the media hype following Martin Schulz' nomination as the SPD's chancellor candidate things looked quite different. Back then the SPD has caught up with the CDU in the polls and Schulz' popularity rating even surpassed Chancellor Merkel's rating.

However, the conservatives did not panic, but stayed on target. Chancellor Merkel kept her focus on her government's most pressing issue, primarily European politics, i.e. Brexit, the EU relations with Turkey and the refugee issue. Mr. Laschet, the CDU's frontrunner in NRW, simply intensified his campaign. Laschet also focused on NRW's structural problems, i.e. the relative high unemployment rate and the relatively low growth rates which have fallen short of the overall German average in the past years, deficits in education and infrastructure and internal security issues. Obviously, this more aggressive strategy paid off.

Now that this year's series of state elections has ended with a treble the CDU is able to start its federal election campaign with unexpected tailwinds. The party's

Figure 3: Results of former state elections in NRW

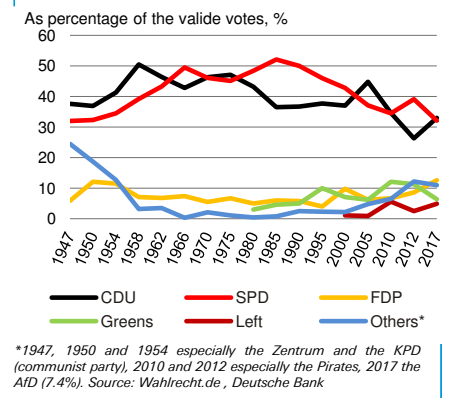
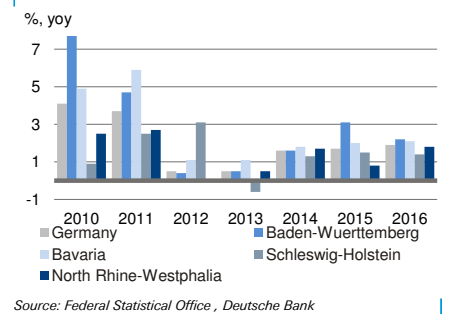


Figure 4: Real GDP growth in selected German federal states





major topics, i.e. internal security, the economy and sustainable fiscal policy, seem to go down well – better than the SPD’s vague call for “social justice”. The CDU’s recent upswing is likely to boost its campaign. And Angela Merkel might benefit twice as Mr. Laschet as well as the successful Saarland MP Kramp-Karrenbauer belong to her close allies. Nevertheless, especially the NRW result should be put in perspective. Compared to former results it means just a return to normal - in the five elections from 1990 to 2010 the CDU got 38.2% on average, i.e. the poor result in 2012 (26.3%) was an exception.

A nightmare for the SPD

The SPD has been hit hard. In the Saarland its left-wingers ambitions to establish a coalition with the Greens and the Left died (not at least as these ambitions prevented the Saarlanders from voting for the SPD), in Schleswig-Holstein the SPD-lead government was voted out and now the same happened with the SPD-Greens coalition in NRW.

This latest defeat in particular is likely to be problematic for the SPD. Many parts of NRW are longstanding SPD territory. Martin Schulz has his constituency in NRW. The party’s regional top candidate, Hannelore Kraft, did run as the incumbent. She has been in office since 2010 but could not leverage these advantages and stepped down from all official party posts on the election day’s evening. While she has always been more popular than Mr Laschet, there seemed to be a clear sentiment for change within the electorate. Exit polls have shown that voters assigned a greater competence to the CDU to address their major concerns namely education, persistent failures to improve the infrastructure and to cope with the more recent challenges of internal security.

Furthermore, Mrs. Kraft and the NRW SPD have advocated political proposals in line with Schulz’ ideas, e.g. intensified public spending on crèches, Kindergartens, schools and other state infrastructure to enhance “social equality”. Kraft assuming the full responsibility of the SPD’s defeat is unlikely to keep it a regional event and prevent the negative spill-over to the federal SPD. Thus, the question mark behind Schulz’ major campaign topic and his chances to return the SPD has become even bigger.

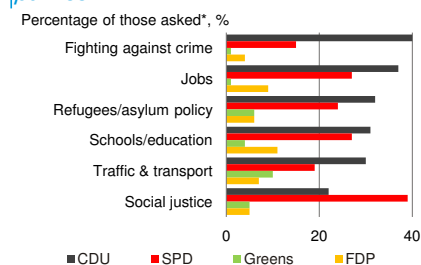
FDP with a historic victory

Among the smaller parties the FDP has special reason to celebrate the outcome. With 12.6% the Liberals reached their best result ever in a state election in NRW. Already in Schleswig-Holstein the FDP has reached a double digit result. Thus the FDP which had mixed results in the 2016 state election and missed the 5% threshold in the Saarland is back on stage. The party benefited from the omnipresence of its leader Christian Lindner. He was the FDP’s frontrunner in NRW and he is its top candidate for September 24. Lindner has frequently criticized the SPD stating its approach was “backward-looking” as well as Chancellor Merkel stating she was solely status quo oriented (FAZ net 28.04.). Therefore, the historic victory in NRW is a shot in the arm for Mr. Lindner and his fellow campaigners. The recent double triumph has brought him much closer to his major political goal, namely to lead the FDP back into the Bundestag (federal parliament), i.e. to get enough votes to pass the 5% threshold.

Mixed picture with regard to the Greens, the AfD and the Left

In contrast to the FDP the Greens could not repeat their Schleswig-Holstein (SH) success (12.9%). They only got 6.4%, i.e. almost halved their 2012 result (11.3%). This is in line with the unfavourable trend in the polls on the federal level. But it

Figure 5: Competences of the major parties in NRW



*Survey conducted prior to the election. Source: Forschungsgruppe Wahlen, Deutsche Bank



also demonstrates the importance of regional factors. In contrast to SH the polls (Forschungsgruppe Wahlen) have indicated very poor popularity ratings for the Greens' regional frontrunner, the NRW Secretary of Education Sylvia Löhrmann, who was often criticised for her school policy.

For the Left the NRW election was the fifth one in a West German state in a row where the party failed to pass the 5% threshold. Albeit it was a tight defeat in NRW (4.9% compared to 2.5% in 2012) a red-red-green coalition on the federal level has receded into the distance according to the latest polls, too.

The AfD managed to pass the 5% threshold and is now represented in 13 out of 16 state parliaments. However, with 7.4% it clearly fell short of its ambitions and the recent polls. While it is likely they will enter the federal parliament as well, the importance and influence of this eurosceptical, right-wing party is far less than such political forces could assume in neighbouring countries.

CDU-FDP coalition seems to emerge as the only politically feasible option in NRW

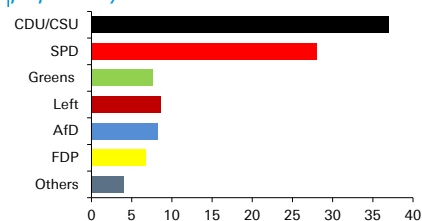
Arithmetically, last Sunday's election result has opened different option for the formation of a new CDU-lead government coalition. However, soon after the election it became clear that the number of options politically feasible for Mr. Laschet would be very limited. Repeating similar statements prior to the election at first the FDP as well as Greens have expressed their unwillingness to cooperate with each other in a so-called Jamaica coalition with the CDU. Then the SPD has ruled out a grand coalition. This left Mr. Laschet with the sole option of a CDU-FDP coalition. With together 100 seats out of 199 seats in total this alliance would just manage to achieve a very small one-seat majority in the state parliament. While at first the FDP has played hard-to-get, too, as the CDU and FDP led a tough election campaign against each other, meanwhile both partners seem to acquire a taste for such a conservative-liberal alliance. On Tuesday Mr. Lindner, e.g., stressed that there are no insuperable barriers to a black-yellow alliance in NRW. (t-online.de/nachrichten/Deutschland).

The political sentiment in Germany has swung back

The result of the latest state elections as well as the recent polls indicate a renewed swing in the political sentiment in Germany. The CDU as well as the FDP seem to experience an unexpected upswing. In our sample of important polls at present the CDU is about 9pps ahead of the SPD, i.e. nearly as much as prior to the nomination of Mr. Schulz as Chancellor Merkel's contender (14pps in December 2016). According to the latest polls only slight changes, i.e. further gains of about 2pps, are necessary to open the prospect of CDU-FDP coalition on the federal level, too. However, the past few weeks have also demonstrated how fast the political sentiment can change these days. Therefore, CDU campaigners have warned to see the win of the federal elections as a fast-selling item.

Now that a decisive phase for the federal election campaign has started the major parties are likely to focus more on their major topics. CDU leader, Chancellor Merkel, has announced that the CDU-CSU's joint election platform will be finished by early July. According to Merkel education, training and research as well as internal and external security will be the major topics, but the issue of social justice would be important, too. This is in line with findings from an Infratest dimap institute analysis (published by Spiegel online). According to this analysis in all three recent state elections "social justice" was the most important issue for the voter's decision followed by the two topics economy/jobs

Figure 6: Major political parties' popularity on the federal level*



* Average of major surveys (Allensbach, Infratest Dimap, Forsa, Forschungsgruppe Wahlen, TNS Emnid) . Source: Wahlrecht.de, Deutsche Bank



and schools/education. Obviously, the CDU was able to perform on the SPD's major playground, too.

Commenting on the SPD's defeat in NRW Mr. Schulz and other party officials stated that the SPD should be more specific on its major topic. On Tuesday the SPD has published a preliminary but still incomplete draft election platform which shows that the party intends to supplement Mr. Schulz' call for "social justice" by proposals in the fields of education and innovation but also internal security. The strong overlapping of election topics of the two bigger parties show that they both target the so-called political centre, the middle of the electorate.



Appendix 1

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