



New SPD frontrunner unlikely to defeat Merkel

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Germany: Strong 2016 GDP growth of 1.9% supported by temporary tailwinds. 2016 GDP growth picked up further relative to the previous two years (1.9% vs. 1.7%). Growth was strongly tilted towards consumption thanks to several tailwinds (refugee crisis, low inflation, labour market strength), while slowing exports weighed on private equipment investment: With several tailwinds fading and a strong workday effect weighing, GDP growth looks set to slow to 1.1% in 2017. Recent sentiment indicators herald some upside risks for the current quarter. However, the 2.3 point drop in the expectations component of the January ifo index seems to corroborate our more cautious stance.

The view from Berlin. Martin Schulz's unexpected nomination likely to push the SPD's campaign but unlikely to derail Merkel. In an unexpected turn, SPD party leader Gabriel announced that he would not run against Angela Merkel. Instead Martin Schulz, the former president of the European Parliament, will be the party's frontrunner. Mr. Schulz's nomination could boost the SPD's campaign for the federal election on September 24, given his rhetorical skills and his track record as a successful campaigner in the 2014 European election. The SPD will primarily campaign for social justice, in line with Schulz's own political views. But he will probably advocate intensified German support for the partner countries in Southern Europe, i.e. a more expansive fiscal policy stance in Germany, too. Even with Schulz, the SPD will hardly become strong enough to establish a coalition with the Greens and the Left. Mr. Schulz, who in Brussels co-operated closely with the conservative COM President Juncker, will most likely enter a renewed grand coalition if necessary, but might be less inclined to play second fiddle than current vice-chancellor Gabriel.



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Economic forecasts

	Real GDP (% growth)			Consumer Prices* (% growth)			Current Account (% of GDP)			Fiscal Balance (% of GDP)		
	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
Euroland	1.7	1.3	1.5	0.2	1.4	1.5	2.9	2.8	2.5	-1.8	-1.5	-1.5
Germany	1.9	1.1	1.5	0.5	1.6	1.6	8.8	8.2	7.8	0.5	0.5	0.2
France	1.2	1.3	1.1	0.3	1.2	1.3	-0.5	-0.3	-0.1	-3.2	-3.2	-3.1
Italy	0.9	0.7	0.7	-0.1	1.0	1.2	2.9	2.7	2.3	-2.3	-2.3	-2.3
Spain	3.3	2.5	2.2	-0.4	1.7	1.7	1.9	1.7	1.7	-4.4	-3.2	-2.8
Netherlands	2.1	2.1	1.5	0.1	1.0	1.2	10.5	10.2	10.2	-1.1	-0.7	-0.5
Belgium	1.2	1.1	1.3	1.8	2.0	1.8	1.0	1.0	1.0	-3.0	-2.5	-2.6
Austria	1.3	1.5	1.6	1.0	1.8	1.6	2.6	2.8	3.1	-1.4	-1.2	-1.0
Finland	1.5	1.2	1.5	0.4	1.3	1.4	-0.6	-0.4	-0.3	-2.3	-2.2	-1.7
Greece	0.3	1.4	1.6	0.2	1.3	1.0	1.0	1.2	1.5	-3.7	-2.4	-2.2
Portugal	1.2	1.2	1.1	0.7	1.4	1.5	0.5	0.7	0.7	-2.8	-2.5	-2.5
Ireland	3.3	2.8	3.0	-0.2	1.1	1.4	12.0	10.0	8.0	-1.1	-1.1	-1.0
UK	2.0	1.2	1.1	0.7	2.3	2.7	-5.2	-4.8	-4.0	-3.3	-2.9	-2.5
Denmark	1.0	1.7	1.8	0.3	1.1	1.4	6.5	6.5	6.5	-2.1	-2.5	-1.9
Norway	0.7	1.6	1.8	3.5	2.7	2.5	4.4	6.2	7.0	3.7	3.9	4.2
Sweden	3.2	2.0	2.3	1.0	1.7	1.9	4.6	4.2	4.4	0.1	-0.2	0.0
Switzerland	1.4	1.5	1.7	-0.3	0.5	0.7	9.5	9.3	9.0	-0.1	-0.1	-0.1
Czech Republic	2.6	2.7	2.7	0.7	2.2	2.2	2.1	1.0	0.5	-0.2	-0.6	-0.6
Hungary	2.4	3.0	2.8	0.4	2.2	2.9	5.6	4.5	4.1	-1.8	-2.5	-2.3
Poland	2.8	3.2	3.4	-0.6	1.6	1.8	-0.5	-1.3	-1.5	-2.6	-3.0	-2.9
United States	1.6	2.5	3.6	1.3	1.9	2.2	-2.8	-3.4	-4.1	-3.2	-3.1	-2.5
Japan	1.0	1.1	1.4	-0.1	0.6	1.2	3.7	3.6	3.7	-4.7	-4.5	-4.0
China	6.7	6.5	6.0	2.0	2.5	2.6	2.4	2.1	1.8	-4.0	-4.0	-4.0
World	3.0	3.5	3.9	4.2	5.2	4.4						

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

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

						2016				2017			
	2014	2015	2016	2017F	2018F	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F
Real GDP	1.6	1.7	1.9	1.1	1.5	0.7	0.4	0.2	0.5	0.4	0.3	0.4	0.4
Private consumption	0.9	2.0	2.0	1.2	1.4	0.6	0.2	0.4	0.4	0.3	0.3	0.4	0.3
Gov't expenditure	1.2	2.8	4.2	2.2	1.0	1.1	1.2	1.0	1.1	0.3	0.3	0.3	0.3
Fixed investment	3.4	1.7	2.5	0.9	2.4	1.6	-1.6	0.0	0.5	0.7	0.4	0.4	0.6
Investment in M&E	5.5	3.7	1.7	-1.5	2.4	1.1	-2.3	-0.6	-1.0	0.5	0.2	0.3	0.2
Construction	1.9	0.3	3.1	2.2	2.8	2.3	-1.9	0.3	1.8	1.1	0.5	0.5	0.9
Inventories, pp	-0.3	-0.5	-0.4	-0.1	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Exports	4.1	5.2	2.5	1.8	3.7	1.4	1.2	-0.4	0.4	0.6	0.8	1.1	1.0
Imports	4.0	5.5	3.4	2.5	4.2	1.5	0.1	0.2	0.6	0.7	0.9	1.3	1.1
Net exports, pp	0.4	0.3	-0.1	-0.2	0.0	0.0	0.6	-0.3	-0.1	0.0	0.0	0.0	0.0
Consumer prices*	0.9	0.2	0.5	1.6	1.6	0.3	0.1	0.5	1.1	2.5	1.4	1.3	1.1
Unemployment rate, %	6.7	6.4	6.1	6.2	6.6	6.2	6.1	6.1	6.0	6.1	6.2	6.3	6.4
Industrial production	1.5	0.5	1.3	0.8	1.2								
Budget balance, % GDP	0.3	0.7	0.6	0.5	0.2								
Public debt, % GDP	74.9	71.2	68.2	65.9	63.5								
Balance on current account, % GDP	7.3	8.5	8.8	8.2	7.8								
Balance on current account, EUR bn	213	256	275	265	259								

*Inflation data for Germany based on national definition. This can lead to discrepancies to other DB publications.
Sources: Federal Statistical Office, German Bundesbank, Federal Employment Agency, Deutsche Bank Research

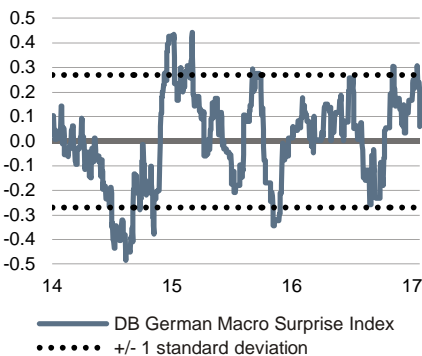


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DB German Macro Surprise Index

1

Average of last 20 z-scores of data surprises



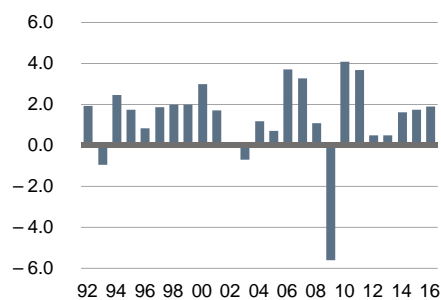
Values above (below) 0 indicate the data came in better (worse) than expected

Sources: Bloomberg Finance LP, Deutsche Bank Research

Strong GDP growth for third year in a row

2

Real, % yoy



Source: Federal Statistical Office

Half of 2016 GDP growth came from government

3

Contrib. to yoy real GDP, pp



Sources: Federal Statistical Office, Deutsche Bank Research

Germany: Strong 2016 GDP growth of 1.9% supported by temporary tailwinds

- 2016 GDP growth picked up further relative to the previous two years (1.9% vs. 1.7%). Growth was strongly tilted towards consumption thanks to several tailwinds (refugee crisis, low inflation, labour market strength), while slowing exports weighed on private equipment investment. Nearly half of GDP growth was provided by government expenditure.
- Overall, the results were broadly in line with our expectations and do not alter our outlook: With several tailwinds fading and a workday effect weighing, GDP growth looks set to slow to 1.1% in 2017. While sentiment points to upside risk in the near-term we remain unconvinced.

2016 growth: Broad-based, but tilted towards consumption ...

The German economy grew by 1.9% in 2016, which was in line with our expectations and slightly above the Reuters consensus of +1.8%. It was also in line with our forecast from December 2015. This was the strongest growth rate since 2011 and moderately above the previous two years (1.6% and 1.7%).

Growth was broad-based with all major domestic GDP components growing, but it was strongly tilted towards consumption with private (+2.0% vs. 2.0% prev.) and government (+4.2% vs. 2.7%) consumption contributing 1.9 pp in total to headline GDP growth. Gross fixed investment picked up moderately (2.5% vs. 1.7%) as construction surged, while equipment investment slowed. Gross fixed investments (0.5 pp) was offset by inventories falling (-0.4 pp drag) the third year in a row and net exports being a small drag (-0.1 pp) given the material slowdown of exports (+2.5% vs. +5.2%) and the lesser one by imports (+5.5% vs. +3.4%).

... and weaker than it looks

While this is a very strong result overall given the external headwinds, we think the strength of headline growth is overstating the underlying momentum.

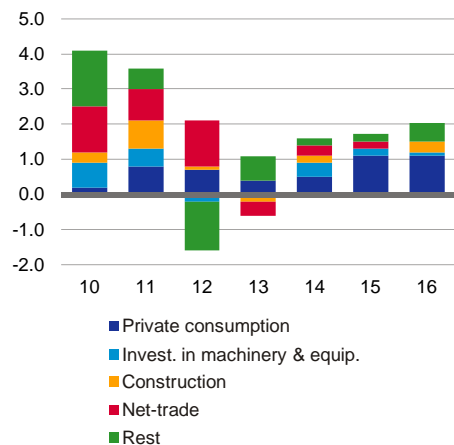
- Nearly half of GDP growth came from government expenditure with government consumption (+4.2% vs. 2.7%) growing the most since reunification given the surging expenditures related to the refugee crisis that shows up especially in spending by municipalities. Government investment (+5.8% vs. 3.4%) grew the most since 2009 thanks to equipment (e.g. military) and construction investment. Government consumption should slow substantially given the much smaller numbers of refugees arriving in Germany over the course of 2016 compared to 2015 (280.000 vs. 890.000). Government investment should also slow down somewhat given the high level and capacity constraints.
- Private consumption was supported by the positive impact on real incomes from low inflation as well as the refugee influx (spending of cash support provided by the government shows up in private consumption). Both effects will disappear over the course of this year.
- Equipment investment is an important gauge of demand/export expectations. However, the slowdown from 3.7% to 1.7% in 2016 even understates the weakness of private investment demand, which slowed from 2.7% to only 0.9%. We have long argued that the moderate level of capacity utilization combined with slowing export growth and the elevated level of uncertainty will weigh on investment. This should continue to be the case especially in H1 2017 due to the tightly packed political calendar.



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Private consumption contributing more than half of GDP growth in 2016 4

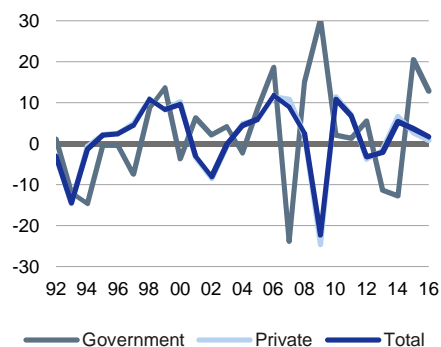
Growth contribution to yoy real GDP growth, pp



Sources: Federal Statistical Office, Deutsche Bank Research

Weak private equipment investment 7

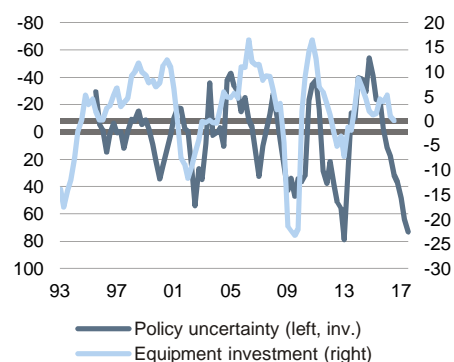
Machinery & equipment investment, % yoy



Source: Federal Statistical Office

Political uncertainty could weigh on investment 8

Change yoy, index points, 4Q avg., 3Q lead (left); % yoy, real (right)



Sources: Federal Statistical Office, "Measuring Economic Policy Uncertainty" by S. Baker, N. Bloom & S. Davis

Incomes: Tilted towards labour income thanks to strong employment and wage growth

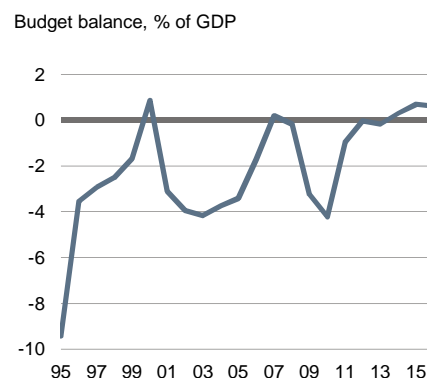
Nominal disposable income grew by 2.8% (real: +2.3%) thanks to the ongoing strength of the labour market and muted inflation. Gross wages grew by 3.7% in 2016. Except for 2013 (1.7%) the last seven years showed growth of well above 3% (average 3.8%). In 2016, income growth was driven by employment growth (+1.0% vs. +0.9%) as well as gross wages per employee (2.5% vs. 2.7%). As a result and given moderate productivity growth unit labour costs continued to grow at around 1.5% for the fourth year in a row.

Strong wages push up labour costs 5



Source: Federal Statistical Office

Ongoing surpluses 6



Source: Federal Statistical Office

Monetary social benefits (e.g. pensions) also continued to rise strongly (+3.3% vs. +3.8%). In contrast, incomes operating surpluses and property income grew by only 2.2% (1.8% prev.) and by only 1.2% on average in the last seven years; a sign of overall flat profitability and low interest rate environment. The savings ratio inched up to 9.8% – the third small increase in a row (2013: 9.0%).

Government: Budget surplus despite refugee influx

The government surplus at 0.6% of GDP was about in line with our expectation of 0.5%. This was only a very small deterioration relative to 2015 (0.7%) despite the substantial expenditures related to the refugee influx and is likely to be seen sceptical by other European nations as well as the EU Commission with Germany one of the few EU countries achieving a surplus therefore having more fiscal room for an expansionary policy according to the EU Commission. While we expect another sizeable surplus in 2017 (0.5%) they will shrink in the years thereafter given the ageing population, potentially more government spending by the next administration relating e.g. to geopolitical challenges as well as the slowdown of the structural build-up of employment. The budgets of municipalities (EUR -0.2 bn vs. EUR 4 bn) and Laender deteriorated substantially in 2016 given refugee spending, but this was largely compensated by the social security system (EUR 6.8 vs. 2.1 bn) that benefitted from the further labour market improvement. Public debt dropped from 71.2% of GDP to 68.1%.

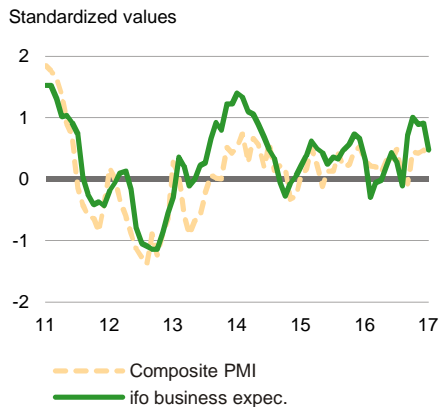
2016 GDP growth implies strong Q4 in line with expectations (DBe: 0.5%)

As usual, the Q4 growth rate and a revised quarterly profile will only be published in February (headline 14th & details 23rd). Assuming no changes to Q1-Q3, Q4 GDP growth could be in +0.5% & 0.8% range. During the press conference the Federal Statistical Office mentioned a rate of "around half a



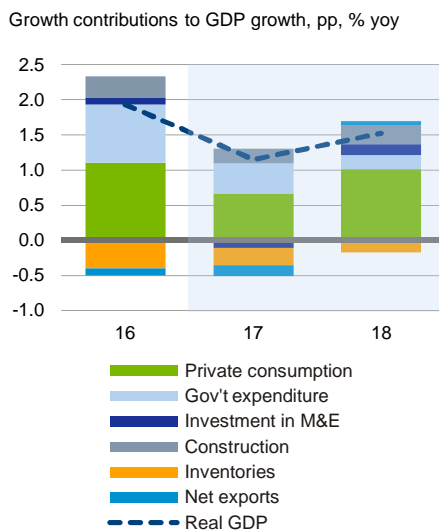
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Solid sentiment 9



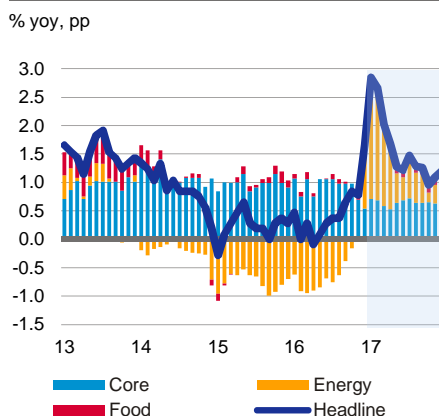
Sources: Markit, ifo, Deutsche Bank Research

Domestic economy should remain major contributor to GDP growth 10



Sources: Statistisches Bundesamt, Deutsche Bank Research

Energy pushes up inflation in 2017 11



Sources: Federal Statistical Office, Deutsche Bank Research

percent" (n-tv). We expect 0.5% qoq based on the available hard data, while sentiment points to upside risks (PMI/ifo: +0.6/+0.8% qoq). Sentiment data for January signals Q1 2017 growth of 0.5% which is slightly above our forecast of 0.4% qoq. Overall, with headline and GDP component growth broadly in line with our expectations we see little need to revise our forecast much beyond some fine tuning after the release of the quarterly results.

Outlook 2017: Solid, despite diminished tailwinds¹

The German economy is expected to shift down a gear in 2017, and we forecast a growth rate of 1.1%. Although this means that the rate will be almost halved, around half of this is due to a working day effect. Working day adjusted growth slows from 1.8% to 1.4% only. This would still put the rate of growth above the medium-term potential rate based on Germany's demographic outlook and productivity trends.

The slowdown is based on our expectation that the strong tailwinds that have benefitted private consumption and government spending alike will taper off due to rising inflation and the marked decrease in the number of refugees entering the country. As energy prices rise due to oil prices, inflation is expected to climb from 0.5% to 1.6%. We have also assumed that the influx of refugees will remain at about the level seen in the autumn of 2016 (16,000 per month), i.e. much lower than back in the autumn of 2015 (180,000 per month). With growth of at least one percent, private consumption is, however, likely to remain the main growth pillar thanks to the sustained robust situation on the labour market combined with the increase in the minimum wage. Government spending and gross fixed capital formation in construction are also likely to outstrip the average growth seen over the past five years, increasing by at least 2% and providing a boost to the domestic economy. The increase in construction investment that we are forecasting comes nevertheless as a disappointment in light of the considerable excess demand in the residential construction segment and the government's infrastructure plans. Capacity bottlenecks due to the shortage of skilled workers and state/regulatory hurdles are, however, likely to stand in the way of greater supply growth.

The outlook for Germany's export economy presents a mixed picture. While the global economy is expected to show stronger growth in 2017, the European economy is likely to lose momentum. Since this region accounts for a very large proportion of German exports, this means that any acceleration in demand will only be marginal. All in all, we expect Germany's export growth to remain weak. Together with the ongoing political uncertainty, this will create an unfavourable investment environment and is likely to put a damper on industrial production. We expect machinery and equipment investment to decline in 2017, although it should pick up during the course of the year. Note that the negative year-on-year rate of machinery and equipment investment is solely due to a negative carry-over effect which might be altered by possible revisions of 2016's quarterly profile. Thanks to the robust domestic economy, Germany should once again be able to generate a slight budget surplus.

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¹ See for details Focus Germany – Outlook 2017: Solid, despite diminished tailwinds, Deutsche Bank Research, 21 December 2016.



The view from Berlin

Martin Schulz's unexpected nomination likely to push the SPD's campaign but unlikely to derail Merkel

Last Tuesday SPD leader Gabriel unexpectedly announced major switches among the party's top personnel: Martin Schulz, until recently president of the European Parliament (EP), will replace Gabriel in two regards. First Schulz and not Gabriel is to run as the party's candidate for chancellorship, i.e. as Angela Merkel's opponent. This decision, which is already approved by the party's executive committee, came as a big surprise, given recent reports that party leader Sigmar Gabriel was willing to run. Second, Schulz shall replace Gabriel as SPD party leader, too. The new leader shall be elected at an extraordinary party convention in March. This will be a test for the support from his party. Mr. Gabriel has refrained from both positions not least citing private reasons. But he has also recognized his difficulties to propel the SPD's meagre popularity ratings, given his failure to succeed in this respect for quite some time now. "If I now stand, I would fail and so with me would the SPD" Gabriel told the Stern magazine (translation FT).

This changes among the SPD's top echelons will be accompanied by a cabinet reshuffle among the SPD's ministers. Gabriel, so far Federal Minister for Economic Affairs, will take over the Foreign Office from Frank-Walter Steinmeier (SPD), who very likely will be elected as the new Federal President on February 12. Brigitte Zypries, who was Minister of Justice from 2002 to 2009 and has been state secretary and Gabriel's right-hand woman in the past few years, will succeed her boss as the new Minister for Economic Affairs. Compared to the top news these changes are of minor importance as the federal government is unlikely to launch major initiatives in the remaining few months until the federal election on September 24.

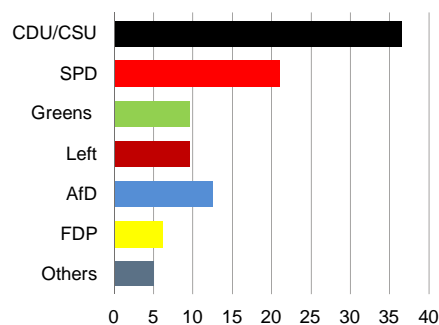
Mr. Schulz's nomination has the potential to boost the SPD's election campaign. For quite some time the SPD has been struggling with poor approval ratings. Mr. Gabriel, confronted with low individual popularity ratings, too, has not been able to put his party back on track for success. With meagre ratings of 21% on average in recent surveys, the SPD is about 15pps behind the CDU/CSU and thus lacks any real prospect for regaining power at the federal level. There are indications that Martin Schulz might perform better.

The 61-year-old Schulz is said to be a passionate politician and a good speaker, knowing how to address the broad public and especially his party's (potential) followers. In his speeches in Germany, he has frequently made his mark as a proponent of traditional social-democratic ideas, i.e. solidarity and social justice, besides his engagement for the European idea and especially for extension of the EP's influence and powers. According to surveys, he has much better prospects as Chancellor Merkel's opponent than Sigmar Gabriel. In early January 57% and 56% of those asked in the ARD-Deutschland-Trend stated they were satisfied with the performance of Mr. Schulz and Angela Merkel, respectively, while Mr. Gabriel at 43% even ranked behind CSU leader Seehofer (45%). Germany's top managers from private and public enterprises, too, appear to be convinced that Mr. Schulz is the most promising SPD candidate. According to a recent survey (Allensbach, FAZ) only 19% of the managers took the view that Mr. Gabriel should run while 46% and 26% named Martin Schulz and Olaf Scholz, Hamburg's popular First Major, respectively.

Albeit long-known in Brussels, Schulz will be a relatively new face on the domestic political scene, in contrast to Chancellor Merkel, who has been in office for more than 11 years now. This might give the SPD's campaign new momentum at least for the time being. A special survey (ARD Deutschland-

Major German political parties' popularity*

Most recent surveys from January 2017, %

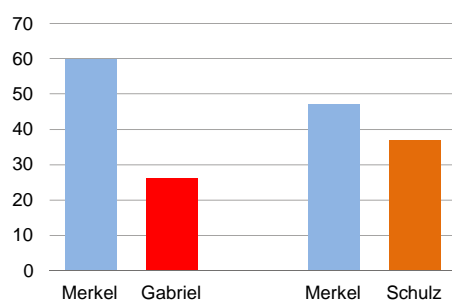


* Average of major surveys (Allensbach, Infratest Dimap, Forsa, Forschungsgruppe Wahlen, TNS Emnid)

Source: Wahlrecht.de

Leading SPD politicians' prospects for the imminent campaign

Whom the Germans would prefer as chancellor in a direct comparison, % of those asked



Source: Forschungsgruppe Wahlen: ZDF Politbarometer January 13, 2017

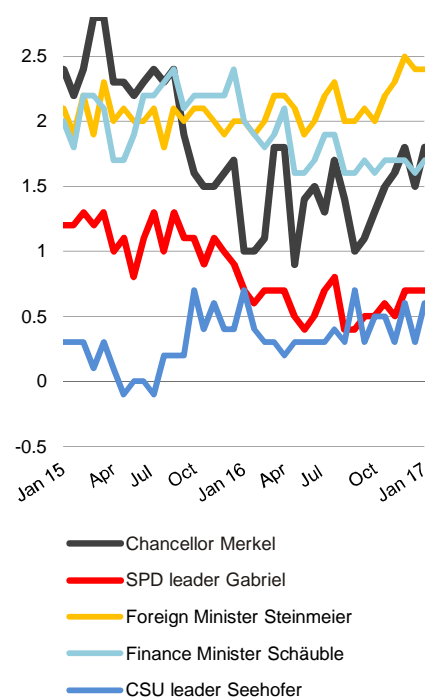


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Major politicians' approval ratings

3

Approval rating for the respective politician on a scale from -5 to +5

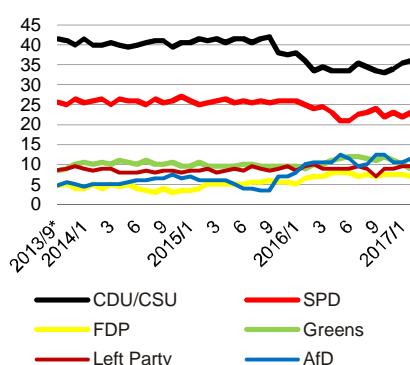


Source: Forschungsgruppe Wahlen, ZDF Politbarometer

German parties' popularity

4

Results of the Allensbach survey, %



* Result of the federal election on September 22

Source: IfD Allensbach

Trend) one day after Schulz's nomination is indicative of such reasoning. According to the survey 64% of those asked and even 81% of the SPD supporters amongst them stated that he is a good candidate for the SPD. Furthermore, if Germans could elect the chancellor in a direct ballot, Schulz would get 41% of the votes and thus even catch up with Merkel, also at 41%. However, these are spontaneous statements and hardly a new trend, so far.

Schulz has already demonstrated his ability to campaign successfully, when he was the SPD's top candidate for the European election in May 2014. In this election the SPD got 27.3% of the votes in Germany. This was a substantial increase of 6.5pps compared to the previous EP election in 2009. The result also exceeded the SPD's popularity ratings that hovered around 26% at the time. Due to this success Mr. Schulz has become one of the SPD's political heavyweights, while he has been a member of the party's executive committee since 1999.

In the imminent campaign Schulz will be in a position to act in line with his and his party's ideas. In contrast to Mr. Gabriel, who is a member of Merkel's cabinet and also Vice Chancellor, Schulz can challenge the Chancellor more directly and consistently. This might also have been Schulz's reason for not taking over the Foreign Office despite frequent speculation in the media. Mr. Gabriel would have faced another dilemma, too. It would have been difficult for him to consistently advocate the SPD's key campaign issues, namely social justice and broader redistribution, without conflicting with positions he had advocated as the Economy Minister.

However, Schulz's nomination also entails some risks for the SPD. So far Schulz has no experience with major government positions. Before becoming a member of the EP in 1999, he was the mayor of a small town (with about 35,000 inhabitants) near Aachen for about 10 years. Prior to that he worked as a bookseller. His critics have stressed the difference between his tasks as President of the EP and that of a Federal Chancellor. In Strasbourg and Brussels, Schulz had to arrange compromises by balancing divergent interests – in doing so he benefited from his close network among European politicians and his knowledge of several European languages. A head of government, however, has to take tough decisions, too. And it is questionable whether intransparent “horse-trading” is still accepted among the general public. Furthermore his regional background as a politician from North Rhine-Westphalia (NRW) could become a problem if the SPD suffered marked losses in the state election there on May 14. This election in Germany's most populous state is said to be the litmus test for the general election in September. According to current polls, the ruling SPD-Green coalition in NRW is unlikely to retain its majority due to a substantial weakening of the SPD, which shows only a narrow lead over the CDU with 32% vs 30% (election outcome 2012: SPD 39%, CDU 26%).

However, all in all the decision in favour of Schulz is likely to be positive for the SPD. But the party would need an enormous upswing in popularity, by about 7pps at least, to alter the arithmetic of German political landscape substantially. Only with such a boost would the pet project of the left in Germany, namely a red-red-green coalition (r2g) between the SPD, the Left Party and the Greens, be arithmetically feasible. However, it seems unlikely that such a strong tailwind will emerge in favour of the SPD notwithstanding the new candidate. In addition, with respect to important issues like internal and external security including relations with Russia the SPD's political ideas hardly fit with those of the left. In addition, Mr. Schulz is not known as a friend of such an alliance.

The recent nominations do not signal a new course for the SPD. Like Gabriel, Schulz belongs to the SPD's traditionalist wing, and both have been close allies. The SPD will primarily campaign for social justice in line with Schulz's own political beliefs. But he is likely to bring European policy issues to the limelight,

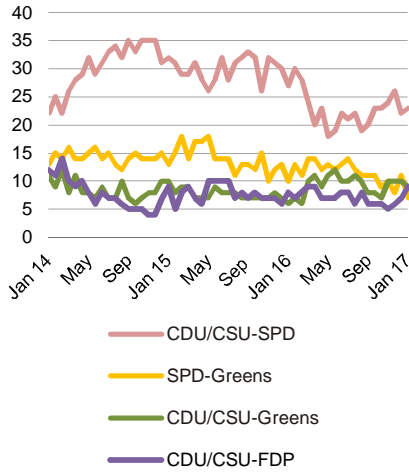


New SPD frontrunner unlikely to defeat Merkel

The Germans' favourite government coalitions

5

% of those asked



Source: Forschungsgruppe Wahlen; ZDF Politbarometer

too. In contrast to the CDU/CSU and especially Finance Minister Schäuble, he will probably advocate intensified German support for the partner countries in Southern Europe at least in the form of a more expansive fiscal policy stance in Germany.

If the SPD were to moderately gain support in the next months and thus be able to spoil the CDU/CSU's prospect for a coalition with the Greens, Mr. Schulz and his party would likely be confronted with the CDU/CSU's request to participate in a renewed grand coalition. Martin Schulz, who as President of the EP co-operated closely and efficiently with the conservative President of the European Commission Jean-Claude Juncker, would likely not resist such an alliance. In such a scenario the SPD would probably not only insist on more political clout but also bring in a self-confident and power-conscious new Vice-Chancellor.

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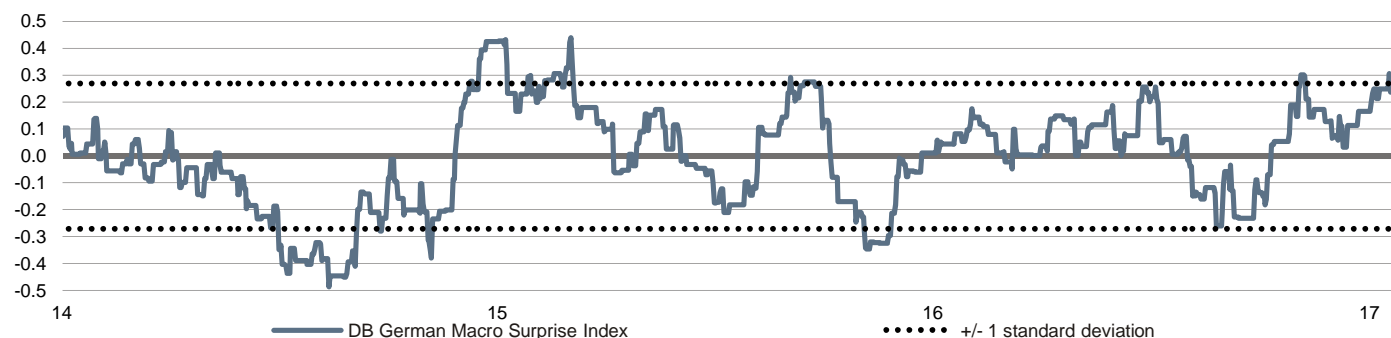
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DB German Macro Surprise Index

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.²

DB German Macro Surprise Index

Average of last 20 z-scores of data surprises



Values above (below) 0 indicate the data came in better (worse) than expected

Sources: 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)	10 2016	07/12/16	0.5	0.8	-0.3	-0.2	0.4
GRCAEU Index	Current Account Balance (EUR bn)	10 2016	09/12/16	19.4	22.0	-2.6	-1.1	0.1
GRZECURR Index	ZEW Survey Current Situation	12 2016	13/12/16	63.5	59.0	4.5	0.5	0.7
GRZEWI Index	ZEW Survey Expectations	12 2016	13/12/16	13.8	14.0	-0.2	0.0	0.5
GRCP20YY Index	CPI (% yoy)	11 2016	13/12/16	0.8	0.8	0.0	0.2	0.3
GRIFPBUS Index	IFO Business Climate	12 2016	19/12/16	111.0	110.6	0.4	0.2	0.6
GRIMP95Y Index	Import Price Index (% yoy)	11 2016	22/12/16	0.3	-0.2	0.5	0.7	0.9
MPMIDEMA Index	Markit Manufacturing PMI	12 2016	02/01/17	55.6	55.5	0.1	0.1	0.5
GRUECHNG Index	Unemployment Change (000's mom)	12 2016	03/01/17	-17.0	-5.0	12.0	0.3	0.6
MPMIDESA Index	Markit Services PMI	12 2016	04/01/17	54.3	53.8	0.5	0.6	0.8
GRIORTMM Index	Factory Orders (% mom)	11 2016	06/01/17	-2.5	-2.4	-0.1	-0.1	0.5
GRFRIAMM Index	Retail Sales (% mom)	11 2016	06/01/17	-1.7	-0.9	-0.8	-0.4	0.3
GRCAEU Index	Current Account Balance (EUR bn)	11 2016	09/01/17	24.6	22.1	2.5	0.4	0.7
GRIPIMOM Index	Industrial production (% mom)	11 2016	09/01/17	0.4	0.6	-0.2	-0.1	0.5
GRZECURR Index	ZEW Survey Current Situation	1 2017	17/01/17	77.3	65.0	12.3	1.7	1.0
GRZEWI Index	ZEW Survey Expectations	1 2017	17/01/17	16.6	18.4	-1.8	-0.2	0.4
GRCP20YY Index	CPI (% yoy)	12 2016	18/01/17	1.7	1.7	0.0	0.2	0.3
MPMIDESA Index	Markit Services PMI	1 2017	24/01/17	53.2	54.5	-1.3	-1.4	0.1
MPMIDEMA Index	Markit Manufacturing PMI	1 2017	24/01/17	56.5	55.4	1.1	1.1	0.9
GRIFPBUS Index	IFO Business Climate	1 2017	25/01/17	109.8	111.3	-1.5	-1.3	0.1

Sources: Bloomberg Finance LP, Deutsche Bank Research

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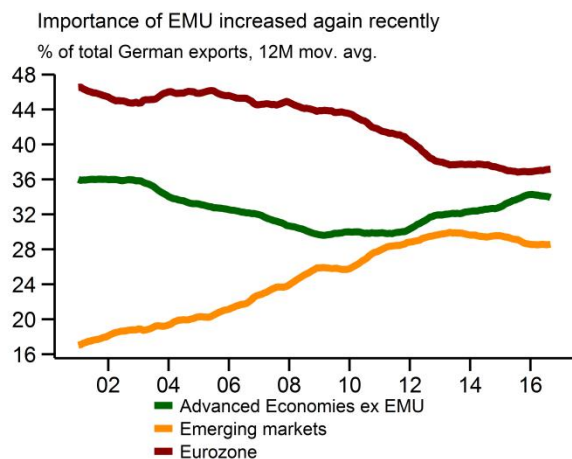
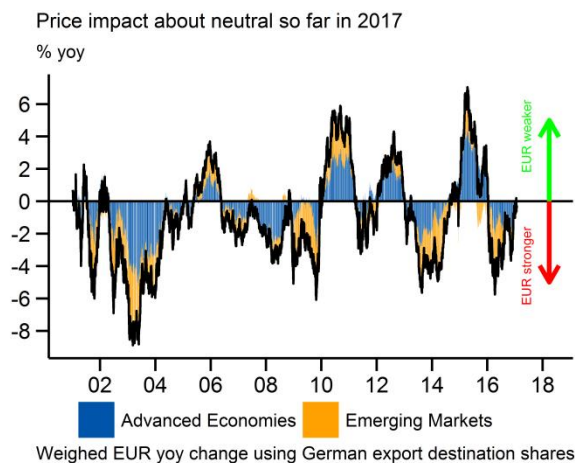
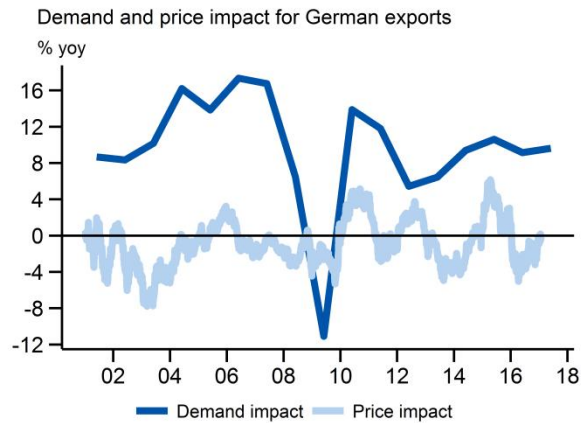
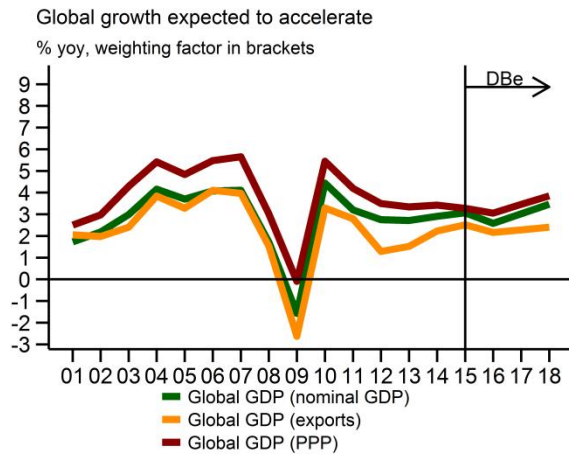
² See for details Focus Germany. August 4, 2014.



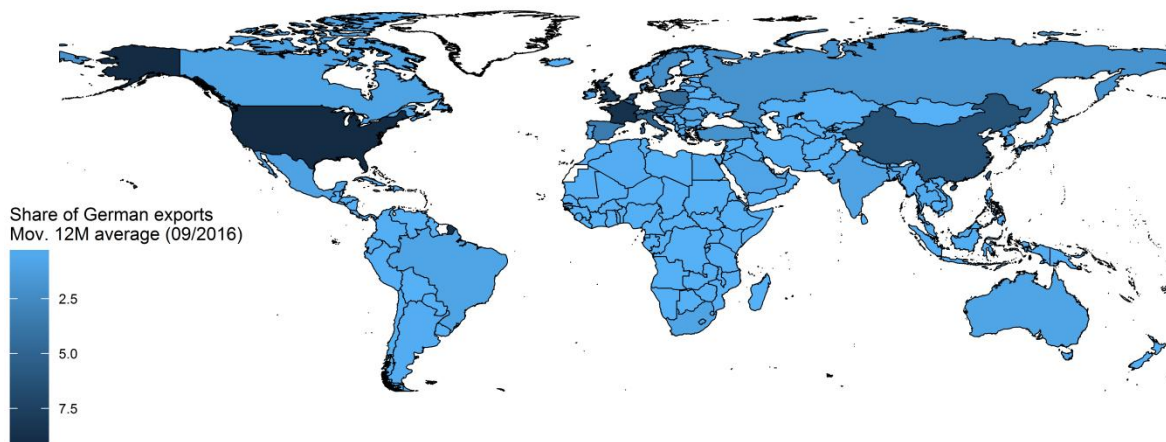
New SPD frontrunner unlikely to defeat Merkel

Export Indicator: demand impact slightly stronger in 2017 – price impact about neutral recently

The Export Indicator identifies the effects on German exports of changes in global demand on the one hand, and currency movements on the other (price impact).³



German exports focus on Europe, the USA and China



Sources: Eurostat - Comext, Deutsche Bank Research

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³ See for details Focus Germany, March 3, 2016.



New SPD frontrunner unlikely to defeat Merkel

Germany: Events of economic-, fiscal- and euro-politics

Date	Event	Remarks
3 Feb	Informal European Council, Malta	Head of States and Governments from 27 Member States will debate on the future of an EU 27 and prepare the celebrations to mark the 60th anniversary of the Treaty of Rome.
12 Feb	Election of the Federal President	Given the agreement of the CDU, CSU and SPD party leaders in November 2016, the Federal Convention is very likely to elect Frank-Walter Steinmeier (SPD), to date Minister for Foreign Affairs, with a huge majority.
20-21 Feb	Eurogroup and ECOFIN, Brussels	Situation in the euro area, thematic discussion on growth and jobs – Investment: common principles.
9 March	ECB Governing Council meeting, press conference	Review of the monetary policy stance.
9-10 March	European Council, Brussels	Poss. debate on the implementation of strategies for the Single Market (digital single market, capital market union and energy union) as part of the Bratislava Roadmap.
15 March	Elections in the Netherlands	The right-wing PVV is currently the most popular party (~20%), marginally above PM Rutte's VVD conservatives. Polls suggest a government can be formed without the PVV.
17-18 March	G20 Finance Ministers and Central Bank Governors Meeting, Baden-Baden	Debates on structural reforms to strengthen economic resilience, on measures to improve investment conditions, esp. in Africa ('Compact with Africa' initiative), on enhancing reliability and fairness in taxation and on digitalization among others.
20-21 March	Eurogroup and ECOFIN, Brussels	Fiscal surveillance: (poss.) EDP implications of the Commission winter forecast, macro-economic imbalances procedures – in depth reviews of euro area countries, thematic discussion on growth and jobs – pensions, (poss.) Greece – state of play among others.
25 March	EU Heads of states and governments, Rome	Meeting to celebrate the 60s anniversary of the Treaty of Rome, finalising the reflection process on the EU's future.
26 March	State election in the Saarland	Establishment of a renewed CDU-SPD coalition headed by MP Kramp-Karrenbauer likely, as both parties lack feasible alternative options.
End-March	UK government	Triggering Art. 50 TEU? We still consider a notification by end-March the most likely scenario.
7-8 April	Eurogroup and informal ECOFIN, Malta	(Poss.) Thematic discussion on growth and jobs – ease of doing business and non-price competitiveness, preparation of international meetings: exchange rate developments among others.
21-23 April	IWF and World Bank Spring Meeting, Washington D.C.	Debates on the situation in the global economy and on international financial markets as well as foreign exchange markets.

Source: Deutsche Bank Research

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Germany: Data calendar

Date	Time	Data	Reporting period	DB forecast	Last value
30 Jan 2017	14:00	Consumer prices preliminary (Index, sa), pch mom (yoy)	January	0.1 (2.6)	0.7 (1.7)
31 Jan 2017	08:00	Retail sales (Index, sa), pch mom	December	-0.2 (0.0)	-1.7 (0.0)
3 Jan 2017	10:00	Unemployment rate (% , sa)	January	6.0	6.0
6 Feb 2017	08:00	New orders manufacturing (Index, sa), pch mom	December	4.0	-2.5
7 Feb 2017	08:00	Industrial production (Index, sa), pch mom	December	0.0	0.4
9 Feb 2017	08:00	Trade balance (EUR bn, sa)	December	22.7	21.8
9 Feb 2017	08:00	Merchandise exports (EUR bn, sa), pch mom (yoy)	December	0.1	3.9
9 Feb 2017	08:00	Merchandise imports (EUR bn, sa), pch mom (yoy)	December	-1.1 (4.5)	3.5 (3.8)
14 Feb 2017	08:00	Real GDP (Index, sa), % qoq	Q4 2016	0.5 (0.0)	0.2 (0.0)
21 Feb 2017	09:30	Manufacturing PMI (Flash)	February	55.5	56.5
21 Feb 2017	09:30	Services PMI (Flash)	February	53.5	53.2
22 Feb 2017	10:30	ifo business climate (Index, sa)	December	109.5	109.8

Sources: Deutsche Bank Research, Federal Statistical Office, Federal Employment Agency, ifo, Markit

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Financial forecasts

	US	JP	EMU	GB	CH	SE	DK	NO	PL	HU	CZ
Key interest rate, %											
Current	0.625	-0.10	0.00	0.25	-0.75	-0.50	0.05	0.50	1.50	0.90	0.05
Mar 17	0.625	-0.10	0.00	0.25	-0.75	-0.50	0.05	0.50	1.50	0.90	0.05
Jun 17	0.875	-0.10	0.00	0.25	-0.75	-0.50	0.05	0.50	1.50	0.90	0.05
Dec 17	1.125	-0.10	0.00	0.25	-0.75	-0.50	0.05	0.50	1.50	0.90	0.05

3M interest rates, %

Current	1.04	0.06	-0.33	0.36
Mar 17	0.98	0.05	-0.30	0.40
Jun 17	1.23	0.05	-0.30	0.40
Dec 17	1.48	0.05	-0.30	0.40

10J government bonds yields, %

Current	2.56	0.09	0.43	1.56
Mar 17	3.00	0.05	0.40	1.60
Jun 17	3.60	0.05	0.50	1.75
Dec 17	3.10	0.00	0.85	1.90

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	1.07	113.36	0.85	1.26	1.07	9.44	7.44	8.92	4.36	310.98	27.01
Mar 17	1.03	117.00	0.90	1.14	1.06	9.46	7.46	9.08	4.53	313.27	27.00
Jun 17	1.00	120.00	0.89	1.12	1.04	9.39	7.46	9.05	4.51	315.51	27.00
Dec 17	0.95	125.00	0.90	1.06	1.00	9.25	7.46	9.00	4.55	320.00	26.07

Sources: Bloomberg, Deutsche Bank



New SPD frontrunner unlikely to defeat Merkel

German data monitor

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Aug 2016	Sep 2016	Oct 2016	Nov 2016	Dec 2016	Jan 2017
Business surveys and output											
Aggregate											
Ifo business climate	106.8	107.8	108.0	110.6		106.3	109.5	110.5	110.4	111.0	109.8
Ifo business expectations	100.6	101.8	102.3	105.6		100.1	104.5	106.0	105.4	105.5	103.2
Industry											
Ifo manufacturing	100.6	101.9	102.5	105.3		100.8	104.1	105.8	104.8	105.2	104.4
Headline IP (% pop)	1.8	-0.8	0.3			2.9	-1.3	0.5	0.4		
Orders (% pop)	0.8	-0.3	0.6			0.9	-0.4	5.0	-2.5		
Capacity Utilisation	85.0	84.4	84.8	85.7	86.0						
Construction											
Output (% pop)	1.4	-5.3	1.9			1.0	-1.3	2.0	4.0		
Orders (% pop)	6.7	0.2	-5.2			-1.9	1.7	9.0	-1.0		
Ifo construction	122.7	124.6	126.9	129.8		126.2	128.4	129.0	129.6	130.7	129.2
Consumer demand											
EC consumer survey	-6.1	-3.2	-2.5	-1.5		-2.5	-2.9	-2.5	-1.2	-0.7	
Retail sales (% pop)	0.6	-0.3	0.2			0.0	-1.4	2.7	-1.7		
New car reg. (% yoy)	4.5	9.4	4.2	-0.3		8.3	9.4	-5.6	1.5	3.7	
Foreign sector											
Foreign orders (% pop)	2.1	-1.4	2.6			-0.2	-0.1	4.6	-2.3		
Exports (% pop)	0.5	0.4	-0.1			3.4	-0.9	0.5	3.9		
Imports (% pop)	-0.1	-1.2	1.4			1.9	-0.8	1.2	3.5		
Net trade (sa EUR bn)	61.5	65.6	62.0			21.4	21.1	20.7	21.8		
Labour market											
Unemployment rate (%)	6.2	6.1	6.1	6.0		6.1	6.1	6.0	6.0	6.0	
Change in unemployment (k)	-37.0	-28.7	-21.3	-27.0		-8.0	-1.0	-14.0	-6.0	-17.0	
Employment (% yoy)	1.2	1.1	0.9			0.8	0.8	0.8	0.7		
Ifo employment barometer	108.4	108.3	109.0	111.2		108.6	110.1	110.7	111.1	111.8	
Prices, wages and costs											
Prices											
Harmonised CPI (% yoy)	0.1	0.0	0.4	1.0		0.3	0.5	0.7	0.7	1.7	
Core HICP (% yoy)	1.1	1.0	1.1	1.2		1.0	1.1	1.1	1.0	1.4	
Harmonised PPI (% yoy)	-2.8	-2.6	-1.7	0.2		-1.6	-1.4	-0.4	0.1	1.0	
Commodities, ex. Energy (% yoy)	-14.6	-6.5	2.9	19.2		4.1	4.7	9.1	19.3	29.5	
Oil price (USD)	35.1	46.9	47.0	51.1		47.1	47.3	51.4	47.1	54.9	
Inflation expectations											
EC household survey	5.3	3.6	6.2	10.0		7.2	6.4	7.4	11.8	10.8	
EC industrial survey	-2.4	1.7	3.0	6.2		1.6	2.7	5.4	6.8	6.3	
Unit labour cost (% yoy)											
Unit labour cost	2.1	0.4	1.5								
Compensation	2.6	1.9	2.3								
Hourly labour costs	3.8	0.7	2.6								
Money (% yoy)											
M3	7.8	7.2	6.6			7.2	6.6	5.3	5.1		
M3 trend (3m cma)						7.1	6.4	5.7			
Credit - private	2.0	2.7	2.6			2.2	2.6	3.0	2.9		
Credit - public	-9.1	9.7	-0.1			9.5	-0.1	4.2	5.3		

% pop = % change this period over previous period.

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



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