Deutsche Bank
Research

Focus Germany

September 6, 2017

Booming economy – will wages follow?

Author
Barbara Böttcher
+49 69 910-31787
barbara.boettcher@db.com

Dieter Bräuninger
+49 69 910-31708
dieter.braeuninger@db.com

Eric Heymann
+49 69 910-31730
eric.heymann@db.com

Jochen Möbert
+49 69 910-31727
jochen.moebert@db.com

Marc Schattenberg
+49 69 910-31875
marc.schattenberg@db.com

Stefan Schneider
+49 69 910-31790
stefan-b.schneider@db.com

Editor
Stefan Schneider

Deutsche Bank AG
Deutsche Bank Research
Frankfurt am Main
Germany
E-mail: marketing.dbr@db.com
Fax: +49 69 910-31877

www.dbresearch.com

DB Research Management
Stefan Schneider

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Germany: Booming but wage-inflation still missing. We have lifted our 2017 GDP forecast from 1.6% to 1.9%. 2018 we revised only marginally up (from 1.7% to 1.8%) as we expect euro-induced export headwinds to counteract domestic strength. In H1 the economy expanded with an annualized rate of 2.6%. With EUR appreciation feeding through only gradually and capex picking up, GDP growth should slow only marginally in H2. 2018 kicks off with wage negotiation in key sectors. The strong labour market suggests wage settlements north of 3%, but the (classic) Phillips curve nexus is only weak and other factors could weigh.

Wage Round in 2018: Economy versus structural issues. With the number of persons in employment at the highest level since the reunification of Germany, the labour market environment points to a strong bargaining position of unions in the 2018 wage round. Of late, releases of the unions increasingly include structural claims such as more work autonomy or protection against structural changes like, for instance, digitisation. Any concessions of the employers, however, would probably come at the expense of wage demands. In view of high utilisation and labour shortage in key sectors, employers should go to any lengths in this round to avoid agreements that might, de facto, lead to a reduction of available working hours – which argues for stronger wage increases. Overall, we therefore expect a dynamic bargaining round, with wage growth exceeding the five-year average of 2.5%.

Germany industry: Extremely positive sentiment, output forecast lifted to 3%. On the back of excellent sentiment indicators and robust overall output and order intake figures for H1 2017 we have raised our manufacturing output forecast for Germany from 1.5% to 3% for 2017 as a whole. German industrial companies are extremely optimistic, particularly given that output growth is moderate in comparison to earlier upswings and that there are numerous economic and political risks, albeit receding. It almost seems as if companies have gotten used to a kind of “new normal”. Perhaps the majority of them is already content with industrial output growth rates of around 3%.

The view from Berlin: TV debate no game changer for the federal election. It is unlikely that the debate changed Merkel’s prospect to remain chancellor. Based on her popularity, Merkel’s CDU/CSU enjoys a clear lead over the SPD of around 13-15ppt according to various polls. Given the record-high number of undecided voters, though, Schulz' performance might increase turnout. This would help to distance the smaller parties and improve the SPD position as renewed coalition partner as a coalition of the CDU/CSU with the liberal FDP is still on the very brink of a majority in the Bundestag and a so-called Jamaica coalition between CDU/CSU, FDP and the Greens might meet political resistance. Coalition talks will not start before mid-October as until then the potential partners will be campaigning in the state elections of Lower Saxony.

Booming economy – will wages follow?

Economic forecasts

	Real GDP (% growth)			Consumer Prices* (% growth)			Current Account (% of GDP)			Fiscal Balance (% of GDP)		
	2016	2017F	2018F	2016	2017F	2018F	2016	2017F	2018F	2016	2017F	2018F
Euroland	1.7	2.2	2.0	0.2	1.5	1.4	3.5	3.0	2.6	-1.5	-1.3	-1.3
Germany	1.9	1.9	1.8	0.5	1.6	1.6	8.4	8.0	7.8	0.8	0.5	0.2
France	1.1	1.7	1.7	0.3	1.1	1.1	-0.9	-0.5	-0.6	-3.4	-3.0	-2.7
Italy	0.9	1.5	1.2	-0.1	1.4	1.2	2.6	2.6	2.3	-2.4	-2.3	-2.2
Spain	3.2	3.0	2.5	-0.3	2.0	1.5	1.9	1.8	1.7	-4.5	-3.4	-2.5
Netherlands	2.2	3.2	3.3	0.1	1.2	1.3	8.5	10.2	10.2	0.4	1.1	0.5
Belgium	1.2	1.9	2.0	1.8	2.2	1.7	-0.4	0.0	0.5	-2.6	-2.1	-1.8
Austria	1.6	2.4	1.9	1.0	2.1	1.8	1.7	2.0	2.3	-1.6	-1.0	-0.8
Finland	1.9	2.5	1.9	0.4	0.9	1.2	-1.1	-0.5	0.0	-1.9	-0.8	-0.4
Greece	0.0	1.5	2.7	0.0	1.2	0.8	-0.6	-0.5	0.0	0.7	-2.0	-1.5
Portugal	1.4	2.6	1.7	0.6	1.4	1.4	0.9	0.4	0.4	-2.0	-1.6	-1.4
Ireland	5.1	4.5	3.7	-0.2	0.3	1.1	3.3	4.5	3.5	-0.6	0.0	0.0
UK	1.8	1.6	1.0	0.6	2.6	2.7	-4.4	-3.8	-3.5	-2.9	-2.9	-2.6
Denmark	1.7	1.6	1.8	0.3	1.2	1.4	6.5	7.5	7.3	-2.1	-1.2	-0.7
Norway	0.7	1.3	1.9	3.6	2.0	2.0	4.4	6.1	6.4	3.0	3.6	3.8
Sweden	3.0	2.7	2.4	1.0	1.6	1.8	4.7	4.8	4.8	2.0	0.7	0.7
Switzerland	1.3	1.5	1.9	-0.3	0.3	0.3	9.5	11.2	11.0	-0.1	0.5	0.5
Czech Republic	2.3	2.8	2.1	0.7	2.5	2.1	1.1	1.1	1.0	0.6	-0.6	-0.6
Hungary	2.0	3.8	3.5	0.4	2.3	2.5	5.5	3.0	2.3	-1.9	-2.3	-2.4
Poland	2.7	3.4	3.2	-0.6	1.8	2.0	-0.3	-1.1	-1.2	-2.5	-2.9	-3.0
United States	1.5	2.1	2.4	1.3	2.1	1.9	-2.6	-2.9	-3.2	-3.1	-3.6	-2.8
Japan	1.0	1.8	0.7	-0.1	0.3	0.4	3.7	3.6	3.5	-3.5	-3.5	-3.1
China	6.7	6.7	6.3	2.0	1.7	2.7	1.8	1.3	1.1	-3.8	-4.0	-4.0
World	3.1	3.6	3.7	4.3	5.2	4.3						

*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

						2017				2018			
	2014	2015	2016	2017F	2018F	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Real GDP	1.9	1.7	1.9	1.9	1.8	0.7	0.6	0.6	0.5	0.5	0.4	0.3	0.3
Private consumption	1.0	1.7	2.1	1.8	1.8	0.4	0.8	0.4	0.4	0.4	0.5	0.3	0.3
Gov't expenditure	1.5	2.9	3.7	1.5	1.1	0.2	0.6	0.3	0.3	0.3	0.3	0.3	0.3
Fixed investment	3.7	1.5	3.1	3.6	3.1	2.7	1.0	1.1	1.0	0.7	0.7	0.7	0.6
Investment in M&E	5.9	3.9	2.2	2.2	3.8	2.1	1.2	1.5	1.0	1.0	0.8	0.8	0.5
Construction	2.3	-1.4	2.7	4.7	3.5	3.4	0.9	1.0	1.2	0.7	0.7	0.7	0.7
Inventories, pp	-0.3	-0.3	-0.2	-0.1	0.1	-0.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Exports	4.6	5.2	2.6	3.7	3.8	1.6	0.7	1.2	1.0	1.0	1.0	1.0	1.0
Imports	3.6	5.6	3.9	4.4	4.6	0.4	1.7	1.2	1.1	1.0	1.2	1.2	1.2
Net exports, pp	0.4	0.2	-0.3	0.0	0.0	0.6	-0.4	0.1	0.0	0.1	0.0	0.0	0.0
Consumer prices*	0.9	0.2	0.5	1.6	1.6	1.9	1.7	1.6	1.3	1.3	1.6	1.9	1.8
Unemployment rate, %	6.7	6.4	6.1	5.7	5.5	5.9	5.7	5.7	5.7	5.6	5.5	5.4	5.4
Industrial production**	1.5	1.1	1.4	3.0	1.8								
Budget balance, % GDP	0.3	0.7	0.8	0.5	0.2								
Public debt, % GDP	74.9	71.2	68.3	65.9	63.4								
Balance on current account, % GDP	7.3	8.3	8.4	8.0	7.8								
Balance on current account, EUR bn	213	253	263	259	260								

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

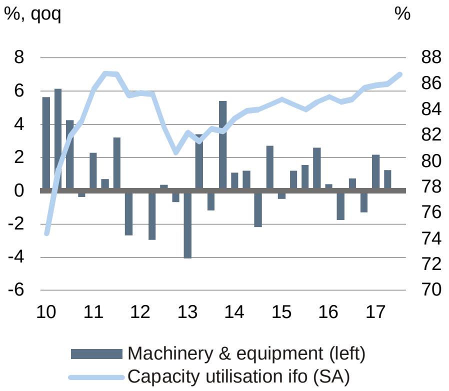
Germany: Booming but wage-inflation still missing

— Following favourable growth patterns within Q2 GDP details, upwards revisions to previous quarters and strong August survey data – despite the recent EUR strength – we have lifted our 2017 GDP forecast from 1.6% to 1.9%. 2018 we revised only marginally up (from 1.7% to 1.8%) as we expect euro-induced export headwinds to counteract domestic strength.

— In H1 the economy expanded at an annualized rate of 2.6%. With EUR appreciation feeding through only gradually and capex picking up, GDP growth should slow only marginally in H2.

— 2018 kicks off with wage negotiations in key sectors. The strong labour market suggests wage settlements north of 3%, but the (classic) Phillips curve nexus is weak and other factors could weigh.

Capex and utilisation rate 1

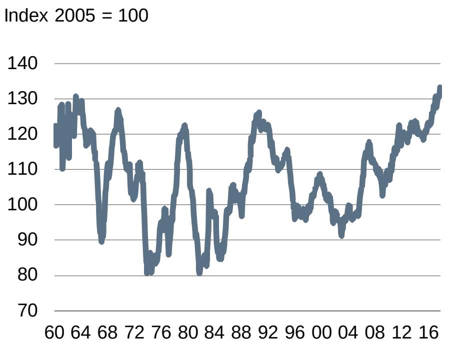


Source: Federal Statistical Office

GDP growth continues to surprise positively

GDP hardly slowed after Q1's 0.7% surge. The contribution from private consumption (0.4pp) was even stronger than in Q1 and continued to be the main driver of GDP growth in Q2 (0.6% qoq). The wait-and-see attitude of investors has finally come to an end, providing one missing link in the cyclical upswing. In H1 investment in machinery & equipment has expanded with an annualized growth rate of 6.9%. As policy uncertainty has been gradually receding this year and with capacity utilization less than 2 points shy of its previous high in Q2 2007 and business confidence around record levels, capex should remain robust in H2. The outlook is even better for construction investment. Residential investment (60% of total construction) expanded with an annualized growth rate of 9.5% in H1. The ifo business climate in the construction industry has been rising rapidly for the last 2 years. In August it has reached the highest level since the record of the series in 1960!

Business climate construction sector 2



Source: ifo

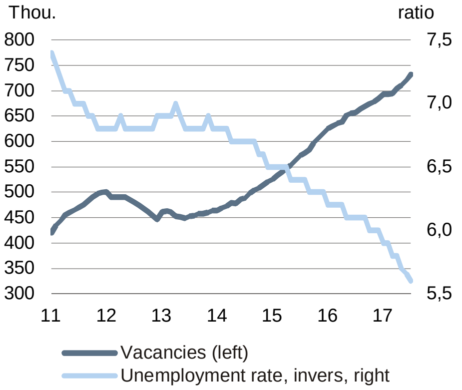
EUR appreciation to put a lid on export growth in 2018

The PMI export order assessment jumped almost 3 points in Aug, suggesting that the 2.5% (yoy) loss in price competitiveness (3.5% ytd) brought about by the strong EUR is not yet felt in Germany's export industry. In H1 exports expanded 6.1% yoy or 3.9% in real terms. Exports to China (14.2%), Japan (10.9%) as well as Russia (28.1%) rose strongly. Deliveries to the UK, Germany's third-largest export destination with a share of 7.1% (2016) fell 2.9% yoy in H1. Exports to Turkey (1.8% share) declined 9.7%. But the 3.7 point decline in ifo export expectations, albeit from a very strong July level, hints that the stronger EUR could leave its mark by year-end. This fits with past experience that it takes about 2 quarters for fx movements to feed through into exports. Long-term elasticities (between 0.6 and 0.7), suggest that export growth will be curtailed by about 1 ½ to 2pp over the next 5 quarters. Therefore, we do expect that export growth will not pick up further in 2018 and remain below 4%, despite our expectation that global trade growth is set to expand more rapidly in 2018 than in the current year. Most estimates pin the elasticity of German exports with world trade/demand at or above 1. Given that there seems to be a pick-up in the global capex cycle, German exports might benefit more than the average historic elasticities would suggest. However, China's shift towards the production of more sophisticated investment goods might have reduced Germany's advantage in this respect.

Competitiveness & exports 3

Sources: Bundesbank, Deutsche Bank Research

Labour market: Approaching full-employment 4



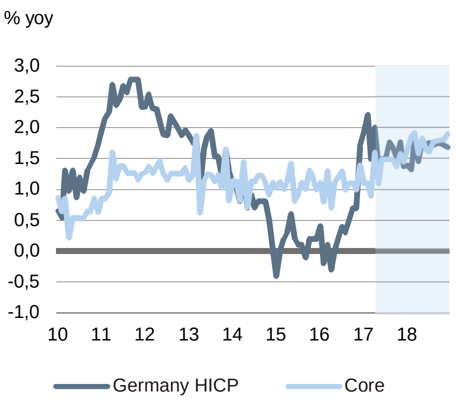
Source: Deutsche Bundesbank

Germany: Economic forecast 5

(% yoy, unless stated)	2016	2017F	2018F
Real GDP	1.9	1.9	1.8
Private consumption	2.1	1.8	1.8
Gov't expenditure	3.7	1.5	1.1
Fixed investment	3.1	3.6	3.1
Inventories, pp	-0.2	-0.1	0.1
Exports	2.6	3.7	3.8
Imports	3.9	4.4	4.6
Net exports, pp	-0.3	0.0	0.0
HICP	0.4	1.7	1.6
Public debt, % GDP	68.3	65.9	63.4
Unemployment rate, %	6.1	5.7	5.5
Budget balance, % GDP	0.8	0.5	0.2
Balance on current account, % GDP	8.4	8.0	7.8

Sources: Federal Statistical Office, Deutsche Bank Research

Core inflation drifting higher 6



Sources: Eurostat, Deutsche Bank Research

Labour market: Bottlenecks become more visible

With respect to the short-term economic outlook, this month's federal elections should be a non-event, although a renewed Grand Coalition could result in a somewhat more expansionary fiscal stance than the CDU teaming up with smaller partners. With exports curtailed by the strong EUR, growth momentum in 2018 will have to rely again on domestic demand. Domestic demand growth has consistently improved over the last 3 years reaching 2.4% in 2016. Since mid-2016 it has been expanding at an annualized rate of 4.8%. While investment is increasingly contributing to growth, it counts for only $^{1}/_{5}$ of GDP. Therefore, the onus will fall on private consumption (share of 53.2%). Contrary to our expectations, employment growth has so far not slowed. On the contrary, it accelerated slightly during the year reaching 1.6% yoy in July. The acceleration has been even more visible in jobs paying social security contributions which have lately been growing by 2.6%. While employment intentions are close to all-time highs, the reported number of vacancies has reached 741k in August (+11.6%) – marking the highest level since the time series started in 2000. This suggests that employment growth will have to slow from close to 1 ½% in 2017 to probably around ¾% in 2018 mostly due to a lack of supply.

Wages to (finally) move higher in 2018

This makes the upcoming wage round even more interesting, especially since the almost non-existent nexus between the unemployment rate and wages has been the ultimate missing link in the economy – but not only in Germany. With IG Metall the construction industry and the public sector contracts up for renewal in early 2018, wage settlements could be north of 3%, compared to 2.3% (ytd). This should prolong private consumption's strong run, while probably being still manageable for companies with regard to profits. However, IG Metall seems to focus more on working time flexibility. The office workers in the insurance industry just settled for a 2% wage increase in Nov '17 followed by another 1.7% in Dec '18, in exchange for talks about how to deal with digitization. So IG Metall's focus on flexibility is certainly not just a red herring. But with capacity utilization in some subsectors of the metal industry having jumped by 5 or more pp in 2017 and the lack of workers index in construction industry at record high, we feel that employers in these booming sectors might be induced to pay for pushing this issue – which most likely will not only increase administrative costs but also might easily result in lower weekly hours – further down the road (see also "Wage round in 2018: Economy versus structural issues").

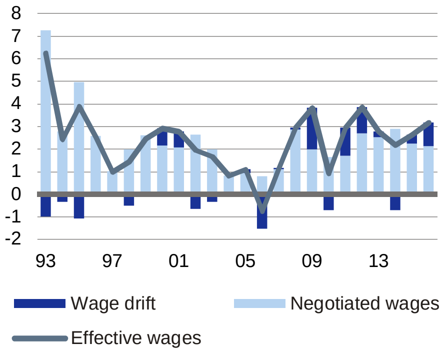
Core inflation gravitating towards to 2% in 2018

Headline inflation has more or less normalized, standing at 1.8% in August. While the 1.4pp increase from August 2016, when inflation stood at just 0.4%, has to a large extent been due to basis effects in energy prices and higher food prices, core has clearly picked up too, from 1% one year ago to around 1 ½% recently. In 2018 imports should dampen inflation, mainly because of the stronger EUR. With the positive output gap reaching 2pp during 2018, domestic prices pressures, by contrast, should increase, although imported goods prices should dampen. All told, the average headline rate in 2018 will probably be barely changed from this year's 1.6%, while core should gravitate towards 2%.

Stefan Schneider (+49 69 910-31790, stefan-b.schneider@db.com)

2016: Lower negotiated wage growth 1

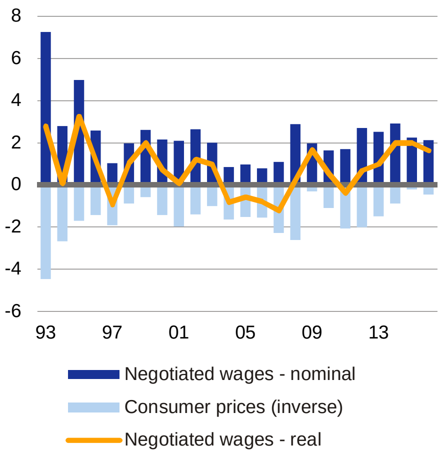
Total economy, % yoy, hourly basis



Sources: Federal Statistical Office, Deutsche Bank Research, Deutsche Bundesbank

2016: Slight decline in real wage growth 2

% yoy, hourly basis



Sources: Federal Statistical Office, Deutsche Bundesbank, Deutsche Bank Research

Wage round in 2018: Economy versus structural issues

— Following the moderate outturn in 2016, negotiated wage growth in the first two quarters of 2017 was more dynamic. According to Deutsche Bundesbank data, year-over-year negotiated wages, inclusive of all ancillary agreements, were up 2.5% and 2.1% in Q1 and Q2, respectively.[1]

— With the number of persons in employment at the highest level since Germany's reunification, the labour market environment points to a strong bargaining position of unions in the 2018 wage round.

— Of late, releases of the unions increasingly include structural claims such as more work autonomy or protection against structural changes like, for instance, digitisation. Any concessions of the employers, however, would probably come at the expense of wage demands.

— In view of high utilisation and labour shortage in key sectors, employers should go to any lengths in this round to avoid agreements that might, de facto, lead to a reduction of available working hours – which argues for stronger wage increases. Overall, we therefore expect a dynamic bargaining round, with wage growth exceeding the five-year average of 2.5%.

— From a broader macroeconomic point of view, more dynamic wage growth in Germany, in combination with the resulting positive consumption impulse, would also contribute to further normalisation of the inflation environment in EMU.

At present, one of the most widely discussed macroeconomic phenomena is the weakened relationship between wage resp. consumer price inflation and measures of resource utilisation such as unemployment, capacity utilisation or the output gap – combined as the "Phillips curve" in its various forms.[2] In many cases, they constitute the core components of monetary modelling – from separate inflation forecasts to models of optimal monetary policy. In recent years, however, using models that are based on this relationship for forecasting core inflation left much to be desired. They regularly overstate the trend, because, in reality, wages edged up only moderately, despite solid capacity utilisation, which gave rise to the debate as to whether this is a lagged cyclical effect of the financial and economic crisis or a structural change.

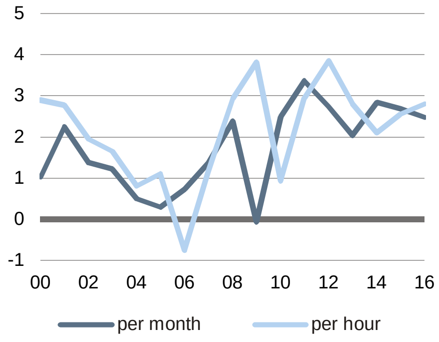
Given that wage growth is a key domestic driver of core inflation, we now take a closer look at the outlook for the upcoming wage negotiations in Germany. In the final analysis, the outcome is also of European interest, as German price changes have a weight of 28% in the EMU inflation rate.

[1] As reported by the Federal Statistical Office in its press release of 30 August 2017, negotiated wages including one-off payments – as measured by the index of agreed monthly earnings – increased by 3.8% compared with the same quarter a year earlier. This discrepancy is mainly due to different time policies of the accounting for the payments.
[2] Rakau, O. (2017). Core inflation – still subdued despite dynamic environment. Focus Germany. 8 March 2017. Deutsche Bank Research.

2.5% wage growth on monthly basis

3

Gross wages and salaries, % yoy



Source: Federal Statistical Office

Negotiated wages in 2017/18: Gathering momentum

After the wage round in 2016 yielded only a moderate increase of 2.1% in negotiated wages, inclusive of all ancillary agreements, recent figures of the Deutsche Bundesbank indicate that wage growth in the first half of 2017 was more dynamic. Including all ancillary agreements, year-over-year negotiated wages in Q1 and Q2 were up by 2.5% and 2.1%, respectively.

In the end, effective wages in 2016 partly anticipated wage growth in the first half of 2017. Courtesy of bonus payments, fringe benefits and other special payments that are not covered by collective bargaining, they exceeded negotiated wages by a full percentage point compared with the previous year. In real terms, however, negotiated wages were dampened, as consumer prices simultaneously edged up by 1.7%.

Given the – from the point of view of the employees – favourable labour market environment, overall dynamics are likely to remain positive in 2018. The table below gives an overview of the major wage negotiations in the months ahead.

Wage negotiations in selected* sectors

4

Sector	Expiry date	Wage demands	Result	Employees
Cleaning Trade	October 31, 2017			429.400
Private transport (Lower Saxony, Hesse, Rhineland-Palatinate)	October 31, 2017			159.000
Metals and electrical engineering (west and east)	December 31, 2017			3.499.200
Manufacturing (wood & plastic) (Lower Saxony, Bremen, Westphalia-Lippe, Hesse, Rhineland-Palatinate, Baden-Wuerttemberg, Bavaria, Saxony-Anhalt, Thuringia, Saxony)	December 31, 2017			177.800
Deutsche Post AG	January 31,2017			130.000
Volkswagen AG	January 31,2017			110.000
Civil service (federal and municipal level)	February 28, 2018			2.447.100
Construction	February 28, 2018			699.000
Painting and varnishing (excl. Saarland)	March 31, 2018			114.600
Hotels and catering (Bavaria)	April 31, 2018			144.700
Chemicals (North Rhine, Hesse, Rhineland-Palatinate)	July 31, 2018			234.000
Hotels and catering (North Rhine-Westphalia)	July 31, 2018			118.100
Chemicals (Schleswig-Holstein, Hamburg, Lower Saxony, Bremen, Westphalia, Baden-Wuerttemberg, Bavaria, west Berlin)	August 31, 2018			268.300
Printing	August 31, 2018			138.000

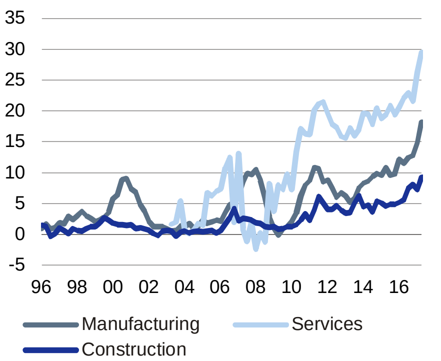
*Negotiations for more than 100,000 employees

Sources: WSI-Tarifachiv, Deutsche Bank Research

Recent releases of the Federal Statistical Office underscore this tendency. In July 2017, roughly 44.2 million persons resident in Germany were in employment according to provisional calculations, an all-time high since German reunification. At the same time, capacity utilisation in Germany continued to edge up. In this environment, early labour market indicators also point to increasing shortages of manpower.

Companies experience labour shortage 5

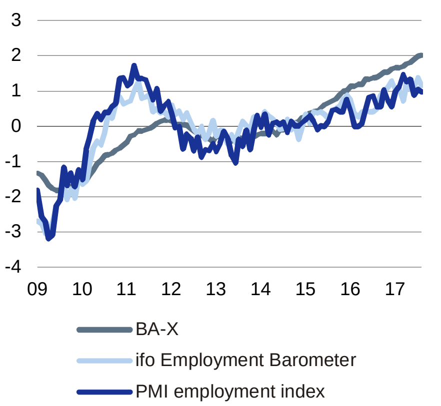
Labour shortage as limiting factor, share of companies, %



Source: EU Commission

Strong labour demand 6

Standardised values (since 2009)



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

The upcoming wage round comprises negotiations for roughly 8.6 million unionised employees. In January, the "Metalltarifrunde 2018", which by itself covers around 3.5 million employees in the metal and electrical engineering sector, will set the ball rolling. According to the unions' releases, the focus will primarily be on working time demands, along with wage claims. Subsequently, negotiations for roughly 2.4 million civil servants (federal and municipal level), the respective occupational groups and 0.7 million members of the German construction union IG Bau will follow. For some 80% of the employees falling under the 2018 wage round, negotiations will hence already be conducted at the beginning of the year. Generally, wage agreements for the metal and electrical engineering industry are regarded as a guide-post for the subsequent negotiations.

Wage claims and more working time flexibility

Bargaining demands of employees usually encompass higher wages and one-off payments. Whilst it can generally be assumed that about half of the unions' claims will be fulfilled, employees should be in a strong bargaining position, courtesy of the current labour market situation, and might, as a consequence, push through considerable demands.

In the unions' demands and initiatives available to date, the focus has, on closer examination, re-shifted to working time issues, along with the impact of forthcoming digitisation. In view of the ageing workforce, this will certainly be no exception in future. At advanced working age, employees are likely to have a higher preference for more working time sovereignty and support for in-service advanced training.

IG Metall, for instance, calls for greater time sovereignty, including the entitlement to part-time work, in combination with the contractually granted right to return to full-time employment, and wage compensation for leaves of absence related to further training, care of children or ill family members. It will take until 14 September though, before the collective bargaining commission of metal and electrical engineering industry takes its final decision on the claims – particularly with respect to wages.

In the recent collective agreement for insurance industry, the service sector union ver.di explicitly negotiated measures for further training pertaining to the digitisation of the workplace. Under the maxim "protection in the digital age", the agreement comprises entitlement rules for advanced training of employees whose jobs might fall victim to digitisation. Moreover, the union managed to push through rules on working time sovereignty, as described above.

The final claims for the 2.4 million civil servants are unlikely to be published before January 2018. As many employees in this sector enjoy strong protection against dismissal, higher wages and more working time flexibility might take a front seat.

Negotiating on equal terms

With the claims announced to date and the unions' current initiatives addressing working time sovereignty and digitisation, the employees' list of demands is filled to the brim. Of course, not all of these goals can be achieved to equal degrees in upcoming negotiations. For employers, this leaves the door open to offset increases in negotiated wages against calls for more working time flexibility and commitments to qualification measures. As a result, pay increases in some sectors could turn out more moderate. In return, employees might see a greater number of their non-monetary demands fulfilled. However, taking into account sector-specific characteristics, working time flexibility may be feasible to only a limited extent, or employees do not share the same view on the impact of forthcoming digitisation. Moreover, employers might be tempted to give in to labour representatives' medium-term demands, rather than agreeing to longer-term collective agreement regulations. In view of the economic outlook and, in particular, the current labour market situation in Germany, employers will likely be more willing to make concessions in the upcoming wage round, provided measures which could lead to a reduction in individual working time are avoided. But in sectors that are running at full steam – particularly construction industry, to which digitisation and import competition are only of subordinate importance – wage growth well above 3% is a conceivable scenario.

Last but not least, the unions' ambitious demands are also encouraged by the statements of some economic institutes. The International Monetary Fund, for instance, stresses that German wage and price inflation plays a key role in the normalisation of euro area inflation. In its recent monthly report, the Bundesbank pointed out the relevance of positive wage growth for private consumption. Moreover, the European Commission also recommends higher real wages to create additional incentives for taking up work.

Continued persistence of low inflation expectations to normalise only slowly

Following particularly moderate wage increases in recent years, the 2018 wage round looks set to yield stronger growth. As a consequence, domestic impulses on core inflation ought to increase, which points to a gradual normalisation of the relationship between wage and / or consumer price inflation and the measures of capacity utilisation like unemployment or the output gap.

The past years were characterised by risks emanating from the European sovereign debt crisis. Given the long-lasting, unstructured and fairly "event-oriented" way in which politics coped with the crisis, economic prospects have brightened very slowly. Against this backdrop, core inflation also remained subdued for an extended period, which prompted a lower anchoring of inflation expectations. Hence, recent moderate wage agreements were not really surprising.

Moreover, global factors also had a dampening effect on wages but are likely to have peaked by now. Increasing economic integration, for example, acted as a positive supply shock on the globalised labour market.[3] This also left its mark on employees in Germany. They doubtlessly were aware of the relocation of manufacturing sites abroad and the internationalisation of production chains. Despite high domestic utilisation, this development also promoted wage restraint and hence persistent low core inflation. But, as recent protectionist calls illustrate, there is a political limit to global integration.

Conclusion

Together with the firming shortage of skilled labour, the ongoing increase in the number of vacancies and in light of our current GDP forecast, this supports our view of a continued rise of negotiated wages in the year ahead, all the more so as relatively long-term wage contracts in core sectors expire in the first quarter of next year. As wage negotiation partners were rather cautious about the economic outlook when these contracts were concluded in early 2016, the agreed wage increases were very moderate in retrospect. In 2018, possible

[3] Goodhart, Ch. and M. Pradhan (2017). Demographics will reverse three multi-decade global trends. BIS Working Papers No. 656.

demands for extra compensation and the tight labour market situation could prompt stronger wage growth of – in some instances – more than 3%.

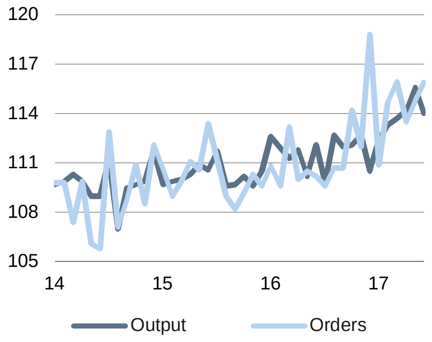
But it is not only the employees who will focus on these wage agreements. Stronger wage growth in Germany would also make life, respectively the normalisation of monetary policy, easier for the ECB. As we already mentioned in 2016, export opportunities of other countries in the euro area would improve should German consumption strengthen further.[4]

Marc Schattenberg (+49 69 910-31875, marc.schattenberg@db.com)

[4] Rakau, O.and H. Peters (2016). Moderate wage round in 2016. Focus Germany. 28 January 2016. Deutsche Bank Research.

Output increases in H1 2017 | 1

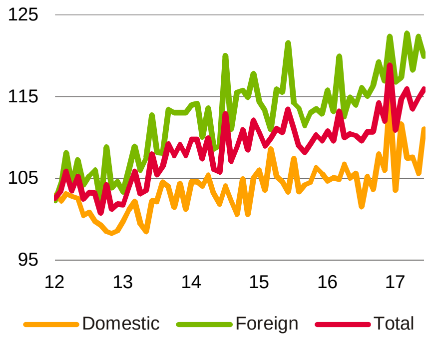
Start of the year showed quite good results



Source: Federal Statistical Office

Uneven order development | 2

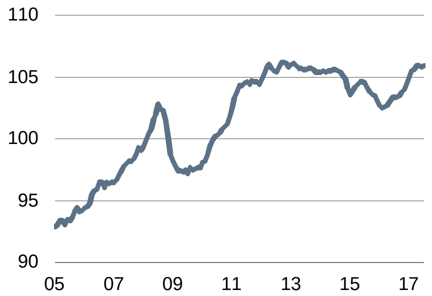
Manufacturing industry in DE, orders, 2010=100



Source: Federal Statistical Office

Producer prices exceed pre-year level | 3

Producer prices in the manufacturing sector DE, 2010=100



Source: Federal Statistical Office

German industry: Extremely positive sentiment, output forecast lifted to 3%

— On the back of excellent sentiment indicators and robust overall output and order intake figures for H1 2017, we have raised our manufacturing output forecast for Germany from 1.5% to 3% for 2017 as a whole. Of course, this does not rule out setbacks in the monthly data – like the one in June. Still, relatively flat output development during the remainder of 2017 would already be sufficient to reach a figure of 2% for the year as a whole.

— German industrial companies are extremely optimistic, particularly as output growth is moderate in comparison to earlier upswings and given that there are numerous economic and political risks, albeit receding. It almost seems as if companies have gotten used to a kind of “new normal”. Perhaps the majority of them is already content with industrial output growth rates of around 3%. Or perhaps the optimism stems from the fact that the (German) economy is doing so well, notwithstanding these risks.

In Q2 2017, manufacturing output in Germany was up 1.3% qoq in real terms. This was the fourth increase in a row and the strongest since Q1 2016. Order intake rose less dynamically, at +0.8% qoq, in Q2 2017. Moreover, it is still quite volatile from month to month and has not yet entered a stable uptrend. Overall, the industry has done quite well during the first half of 2017. In working-day-adjusted terms, industrial output grew 2.1% yoy.

Since aggregate growth over the whole period from 2011 until 2016 amounted to only 3.3% in real terms, the figure for H1 2017 is clearly a good result. Nevertheless, output growth of c. 2% yoy should not really be a reason to be overjoyed. In former upswings, industrial output growth was often much stronger. For example, output rose an aggregate 22.6% between 2003 and 2008. During the same time, manufacturing producer prices rose just above 10% – but they were up only 0.8% between 2011 and 2016. Still, we should take into account that commodity price inflation also was stronger between 2003 and 2008. While manufacturing producer price inflation currently amounts to 2.3% yoy, the pick-up took place almost exclusively in commodity-related sectors (metals production, chemical industry) and in the food sector. There are no signs of broad-based producer price inflation.

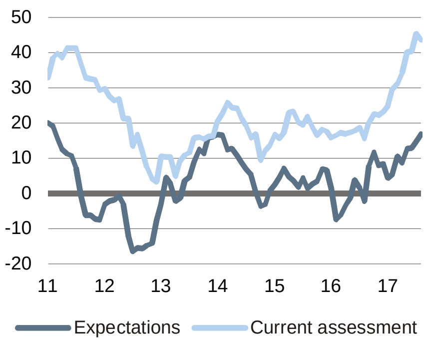
Why is sentiment so buoyant?

While industrial activity is robust, but not exceptionally strong overall, it is remarkable that sentiment indicators for the German industrial sector have been rising strongly for a few months now. The ifo business climate index for the manufacturing sector reached its highest level since German unification in August 2017. Company managers are particularly optimistic about the current situation.

This is remarkable because the political and economic risks are quite large. The Brexit decision and the resultant uncertainties, President Trump’s critical stance towards free trade in general and the German trade surplus in particular, the political tensions between the EU and Russia and/or Turkey, the refugee crisis, terrorist attacks in Europe and the verbal altercations between the US and North Korea are only some examples. The recent appreciation of the euro versus the US dollar puts another burden on German export-oriented companies, since it is beginning to filter through in the companies’ export outlooks. Maybe, however, the outcome of the French election has raised hopes that more reforms there might ultimately have positive spill-over effects in other EMU countries.

Manufacturing: Business sentiment reaches record high 4

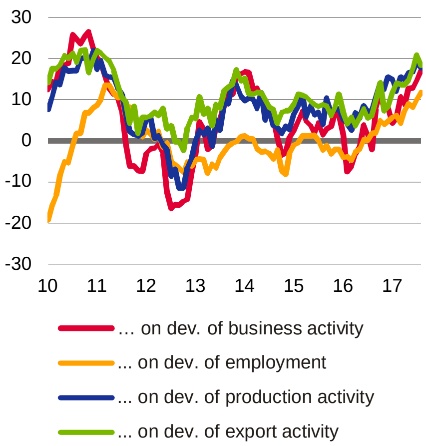
Manufacturing industry in DE, balance of positive and negative company reports



Source: ifo Institute

Sentiment indicators in the German industry in positive territory 5

Company expectations, balance of positive and negative company reports



Source: ifo Institute

The outlook for investment spending has improved, with the revisions of previous quarters, and going forward the strong PMI and ifo surveys. The pick-up is still modest compared to previous cycles, but at least investors' wait-and-see attitude is disappearing. We now expect investment in machinery & equipment to expand 2.2% in 2017 (previous forecast +1.1%). At the beginning of Q3, capacity utilisation was more than 3 pp above the long-term average.

Content with the "new normal"?

Conjecture abounds regarding just why German industrial companies are currently so exuberant. Perhaps the companies have gotten used to a kind of "new normal" to some extent. Perhaps the majority of them is already content with industrial output growth rates between 2% and 3% – in good economic times, mind. Or perhaps the optimism stems from the fact that the (German) economy has not yet run into major obstacles despite the considerable economic and political risks – that "things are actually going well", despite many indications to the contrary.

Output forecast for 2017 lifted to 3%

Back to our growth forecasts: On the back of excellent sentiment indicators and robust overall output and order intake figures for H1 2017, we have raised our manufacturing output forecast for Germany from 1.5% to 3% for 2017 as a whole. Of course, we might see setbacks in the monthly data – like the one in June. Still, relatively flat output development during the remainder of 2017 would already be sufficient to reach a figure of 2% for the year as a whole. And a "real" economic slowdown seems very unlikely. We expect that the stronger euro will dampen output in 2018, but only to a limited extent in H2 2017. We therefore forecast output growth of 1 ¾% for 2018. Somewhat higher domestic investment in machinery and equipment might stimulate production during the coming year. Producer prices might rise 2-3% in each of the two coming years.

Employment in the industrial sector reached a record level in 2017. The tight labour market will probably result in higher wage demands in upcoming wage negotiations. In response, employment looks set to rise less strongly in 2018 than in the current year.

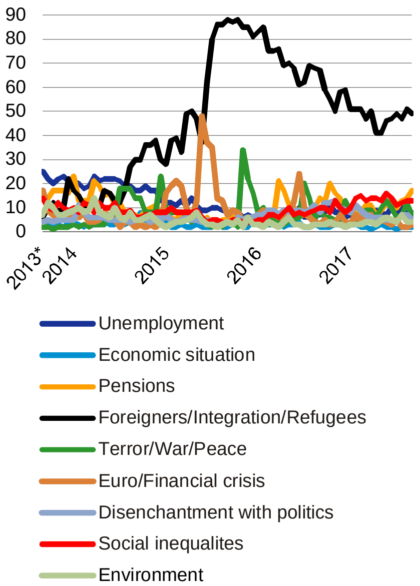
Eric Heymann (+49 69 910-31730, eric.heymann@db.com)

The view from Berlin

TV debate no game changer for the federal election

Most important problems in Germany 1

Max. 2 answers, percentage of those asked, %

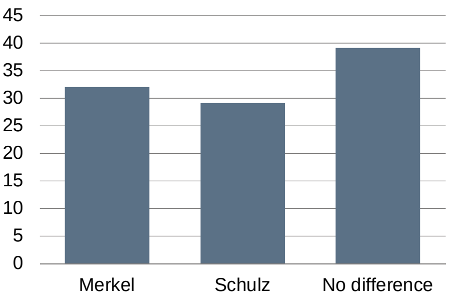


* From the federal election (September 22) onwards

Source: Forschungsgruppe Wahlen: ZDF Politbarometer (September 1, 2017)

No clear winner of the TV debate 2

Who performed better, % of those asked



Source: Forschungsgruppe Wahlen

As the highlight of a thus-far uninspiring election campaign, Chancellor Merkel and her social democratic rival Martin Schulz exchanged arguments in Sunday's TV debate. Ahead of the debate Mr. Schulz and his party perceived it as an ideal opportunity to challenge the Chancellor and to reverse the downward trend in the SPD's approval ratings, which have declined from 32% in February to only about 23% in the latest polls. This reasoning was substantiated. On Sunday more than 16 million people, i.e. about 26% of the electorate (about 62m), watched the debate. According to a survey (IfD Allensbach) conducted several days prior to the event, 46% of those who intend to cast their ballot remained undecided. Studies (e.g. from Mainz University) have found that such TV contests can have a noteworthy effect on the audience, primarily undecided voters, and increase voter turnout. However, to generate a lasting impact, the relevant participant must clearly outperform his or her opponent.

Of course, the SPD hoped that the 61-year-old Schulz could do so, as he is widely considered a passionate politician and an outspoken speaker who knows how to address the broad public. For the more cautious Chancellor, such debates are said to be purely a matter of duty and not her favourite turf. During the debate the contenders primarily focussed on migration and foreign policy. Schulz was able to use his position outside of the cabinet to take a more critical stance towards foreign leaders. He made clear, in particular, that he would end accession talks with Turkey and demand more solidarity of Eastern European member states on the migration issue. European politics, i.e. reforms of the euro area, were not discussed. Despite Schulz' attempts to distance himself from the Chancellor, differences remained marginal on the vast majority of topics. Given the relatively lengthy debate on refugee and foreign policy, Schulz was hardly able to elaborate on his campaign's major issue, social justice. And Germany's business community seemed disappointed that its requests as well as the economy in general played only a marginal role in the debate.

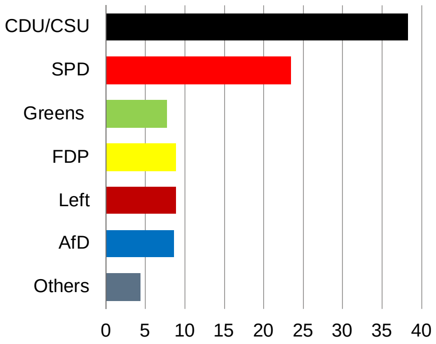
According to polls conducted around the TV debate (Forschungsgruppe Wahlen), Schulz was able to outperform expectations with 51% of viewers (36% as expected) whereas for 77% Merkel performed as expected (11% better than expected). On expertise Merkel scored better than Schulz (41% vs 18%), on social politics Schulz (49% vs 15%). Merkel took a clear lead in the question of who was better prepared to steer Germany through globally uncertain times (55% vs 15%). Asked about possible coalitions, Merkel distanced herself from the AfD. Schulz, however, avoided ruling out a coalition with the Left party, a contentious issue in the SPD and in the broader SPD electorate. Schulz might feel emboldened by the fact that he made up some ground in his overall positioning as 44% of those polled have a better impression of him after the debate than before and more people could imagine him as chancellor (39% vs 33% before the debate). However, 53% of those asked still want Merkel to remain chancellor, a lead of 14ppt over Schulz.

Merkel likely to remain chancellor

In our view it is unlikely that the TV debate has fundamentally changed the prospects for Merkel to remain chancellor. Merkel and her party have entered the campaign's final stage from a strong position. In the past weeks all major surveys have indicated a clear lead of the CDU/CSU over the SPD of around 13-15ppt (about 38% vs. 23% to 24%). So while polls suggest that the runner-up slot will go to the SPD, the excitement is more in the battle for the third place.

Major political parties' popularity on the federal level* 3

Surveys published end-July and early Sept 2017, %

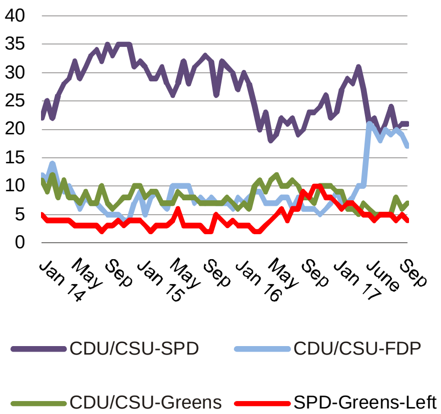


* Average of major surveys (Allensbach, Infratest Dimap, Forsa, Forschungsgruppe Wahlen, TNS Emnid)

Source: Wahlrecht.de

The Germans favourite government coalitions 4

% of those asked



Source: Forschungsgruppe Wahlen: ZDF Politbarometer (September 1, 2017)

In the major surveys the average approval ratings of the four smaller parties that will likely gain seats in the Bundestag have recently all hovered between 7.5% and 9%. Amongst these, the AfD has gained slightly following the terrorist attacks in and near Barcelona. The Left seem to have gotten some tailwind from the SPD's ongoing weakness. The FDP has frequently reached about 9% in the past week's polls. After failing to pass the 5% threshold in 2013, the FDP will likely be able to celebrate its return to the Bundestag. Compared to the other smaller competitors, the Greens' performance has been less stable. For more than a year the party has been in a slight downward trend. This might reflect the Greens' difficulties with profiling given the parties ideological divide between a more leftish fundamentalist wing and a centrist camp represented by the Greens' two top candidates. At present it is hard to tell which of the four parties will finish third on September 24, but for the FDP and the Greens it matters in particular as a strong result would vastly improve their chances to join a coalition government with the CDU/CSU without the need to find a third coalition partner.

Coalition talks likely to drag on for some time

While CDU/CSU grandees, especially Finance Minister Schäuble, have repeatedly stated that they prefer a coalition with the liberals (FDP), it is open whether such an alliance will reach the necessary majority of Bundestag seats. According to most recent polls, only a renewed grand coalition or a so-called Jamaica coalition among the CDU/CSU, the FDP and the Greens would work. Supposing these polls are right, government formation could take quite some time as for neither of the parties involved would a renewed CDU/CSU-SPD coalition or a Jamaica coalition be a matter of the heart. Until October 15 the potential partners are campaigning in Lower Saxony. The competition there is all the more intense as the present SPD-Greens coalition is likely to lose its majority according to recent surveys (polling institute Infratest dimap). In this situation coalition talks in Berlin or even officially stated coalition preferences could hamper competitors in Lower Saxony from fully exploiting their pool of potential voters. Therefore, even preliminary talks would start only in mid-October. And after, that every step would be complicated and take its time. The SPD has already announced that it will make official talks with the CDU the subject of a party member referendum. According to observers the risk of a members' veto or the party grandees' immediate reluctance to join a coalition at all is the higher, the poorer the SPD's election result turns out to be. Even if this does not happen, negotiation on a joint government programme would be tricky given the parties' different approaches in major fields such as fiscal policy (continued consolidation vs intensified public spending). In the end party members will be asked again to finally decide on the negotiation outcome. In case of a conservative-green or a Jamaica coalition, the Greens seem likely to proceed similarly. Here potential negotiators must consent on controversial issues, too - including asylum, energy and transport policy (future of diesel). All this could drag on for two months or so, as it did last time, in autumn 2013. Thus, it should be no surprise if Germans once again have to wait for Merkel's potential re-election as Chancellor, in mid-December. In contrast, a conservative-liberal coalition would probably be established much sooner.

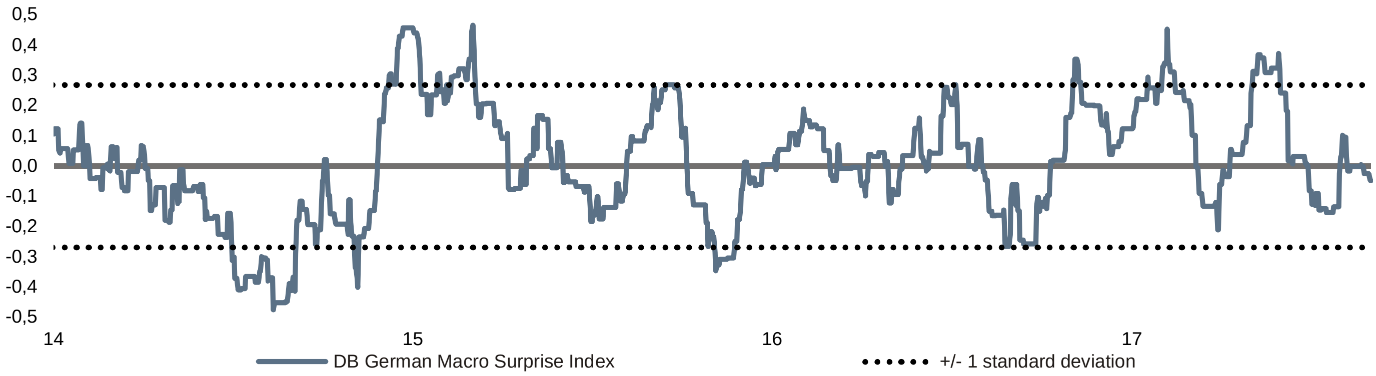
Barbara Böttcher (+49 69 910-31787, barbara.boettcher@db.com)
Dieter Bräuninger (+49 69 910-31708, dieter.braeuninger@db.com)

Booming economy – will wages follow?

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.

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
GRIMP95Y Index	Import Price Index (% yoy)	6 2017	25/07/2017	2.5	2.9	-0.4	0.0	0.4
GRIFPBUS Index	IFO Business Climate	7 2017	25/07/2017	116.0	114.9	1.1	0.7	0.8
GRFRIAMM Index	Retail Sales (% mom)	6 2017	31/07/2017	1.3	0.2	1.1	1.1	0.9
MPMIDEMA Index	Markit Manufacturing PMI	7 2017	01/08/2017	58.1	58.3	-0.2	-0.2	0.3
GRUECHNG Index	Unemployment Change (000's mom)	7 2017	01/08/2017	-9.0	-5.0	4.0	0.0	0.5
MPMIDESA Index	Markit Services PMI	7 2017	03/08/2017	53.1	53.5	-0.4	-0.4	0.3
GRIORTMM Index	Factory Orders (% mom)	6 2017	04/08/2017	1.0	0.5	0.5	0.2	0.6
GRIPIMOM Index	Industrial production (% mom)	6 2017	07/08/2017	-1.1	0.2	-1.3	-1.1	0.1
GRCAEU Index	Current Account Balance (EUR bn)	6 2017	08/08/2017	23.6	24.5	-0.9	-0.6	0.3
GRCP20YY Index	CPI (% yoy)	7 2017	11/08/2017	1.7	1.7	0.0	0.2	0.3
GRZECURR Index	ZEW Survey Current Situation	8 2017	22/08/2017	86.7	85.2	1.5	0.1	0.5
GRZEWI Index	ZEW Survey Expectations	8 2017	22/08/2017	10.0	15.0	-5.0	-0.6	0.3
MPMIDESA Index	Markit Services PMI	8 2017	23/08/2017	53.4	53.4	0.0	0.0	0.5
GRGDPPGQ Index	GDP (% qoq)	6 2017	25/08/2017	0.6	0.6	0.0	-0.1	0.3
GRIMP95Y Index	Import Price Index (% yoy)	7 2017	25/08/2017	1.9	2.3	-0.4	0.0	0.4
GRIFPBUS Index	IFO Business Climate	8 2017	25/08/2017	115.9	115.5	0.4	0.1	0.5
GRCP20YY Index	CPI (% yoy)	8 2017	30/08/2017	1.8	1.8	0.0	0.2	0.3
GRUECHNG Index	Unemployment Change (000's mom)	8 2017	31/08/2017	-5.0	-6.0	-1.0	-0.2	0.4
GRFRIAMM Index	Retail Sales (% mom)	7 2017	31/08/2017	-1.2	-0.6	-0.6	-0.2	0.4
MPMIDEMA Index	Markit Manufacturing PMI	8 2017	01/09/2017	59.3	59.4	-0.1	-0.1	0.3

Sources: Bloomberg Finance LP, Deutsche Bank Research

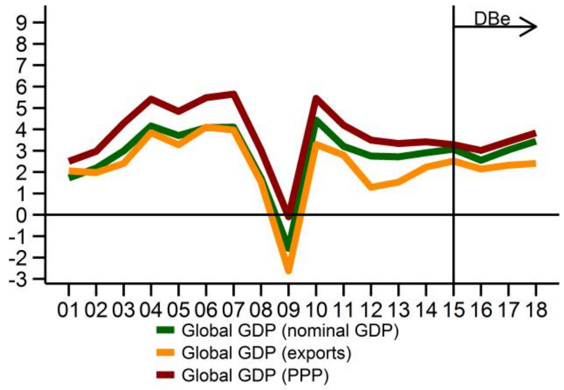
Updated by Sebastian Becker and Jochen Möbert (+49 69 910-31727, jochen.moebert@db.com)
Source: Heiko Peters (2014). DB German Macro Surprise Index. Focus Germany, 4 August 2014.

German Export Indicator

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).[5]

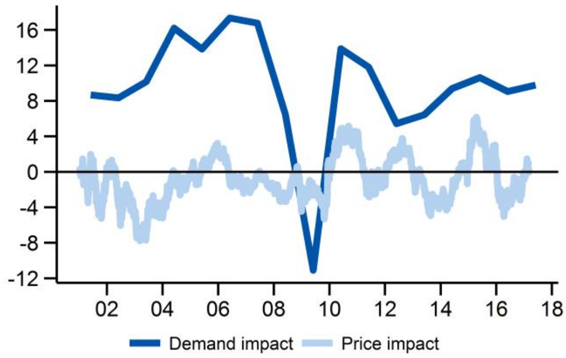
Global growth expected to accelerate

% yoy, weighting factor in brackets



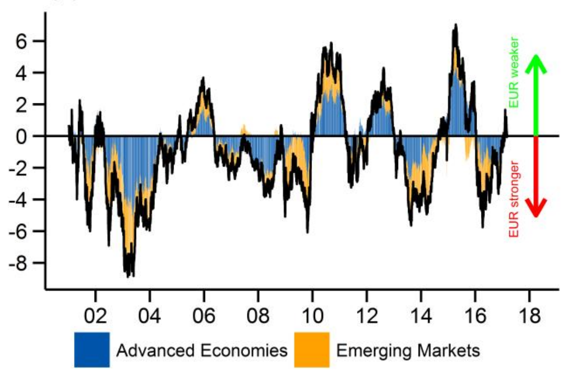
Demand and price impact for German exports

% yoy



Price impact about neutral so far in 2017

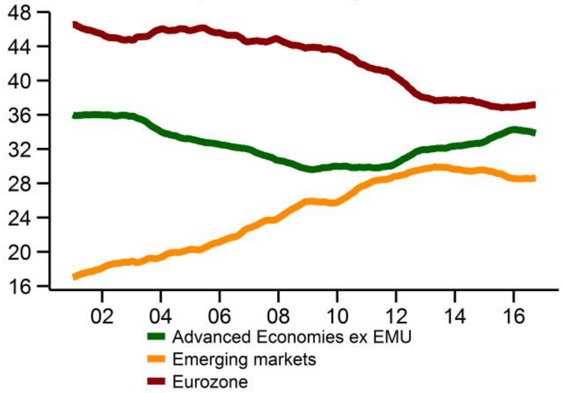
% yoy



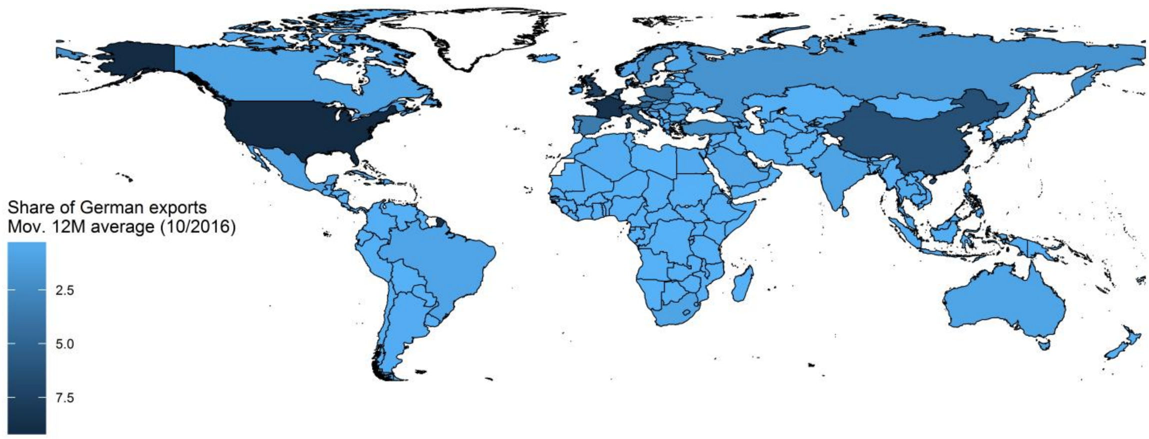
Weighed EUR yoy change using German export destination shares

Importance of EMU increased again recently

% of total German exports, 12M mov. avg.



German exports focus on Europe, the USA and China



Sources: Eurostat - Comext, Deutsche Bank Research

Jochen Möbert (+49 69 910-31727, jochen.moebert@db.com)

[5] See for details Focus Germany, March 3, 2016.

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

Date	Event	Remarks
7 Sep	ECB Governing Council meeting, press conference	We continue to expect a slow ECB exit. Specifically, we expect a decision to "slow and extend" QE – probably on October 26, with 7 September only a risk – with QE extended to mid-2018 at a slower pace of EUR 40bn per month.
15-16 Sep	Eurogroup and ECOFIN, Tallinn	Thematic discussion on growth and jobs: economic resilience in EMU; (poss.) Greece – state of play.
24 Sep	Federal election	According to recent polls the CDU/CSU will come in as the strongest party by far. However, it is still open which parties will build the next coalition government.
9-10 Oct	Eurogroup and ECOFIN, Luxembourg	Debates on exchange rate developments, thematic discussion on growth and jobs – financing of labour tax cuts, (poss.) Portugal - Post Programme Surveillance – 6th review, Greece – state of play.
19-20 Oct	European Council, Brussels	(Poss.) Debates on the future of the EU and (poss.) on the Brexit negotiations.
26 Oct	ECB Governing Council meeting, press conference	We expect a pre-announcement of tapering. See above September 7
6-7 Nov	Eurogroup and ECOFIN, Brussles	(Poss.) economic situation – Commission's 2017 autumn forecast and inflation developments. Thematic discussion on growth and jobs – QPF: Investment in human capital, among others.

Source: Deutsche Bank Research

Dieter Bräuninger (+49 69 910-31708, dieter.braeuninger@db.com)

Germany: Data calendar

Date	Time	Data	Reporting period	DB forecast	Last value
6 Sep 2017	8:00	New orders manufacturing (% mom, sa)	July	0.3	1.0
7 Sep 2017	8:00	Industrial production (% mom, sa)	July	0.6	-1.1
8 Sep 2017	8:00	Trade balance (EUR bn, sa)	July	20.9	21.2
8 Sep 2017	8:00	Merchandise exports (% mom, sa)	July	1.1	1.5
8 Sep 2017	8:00	Merchandise imports (% mom, sa)	July	1.0	1.3
15 Aug 2017	8:00	Real GDP (% qoq)	Q2 2017	0.8	0.6
22 Sep 2017	9:30	Manufacturing PMI (Flash)	September	58.8	59.3
22 Sep 2017	9:30	Services PMI (Flash)	September	53.2	53.4
25 Sep 2017	8:00	Real GDP (% qoq) - Details	Q2 2017	0.8	0.6
25 Sep 2017	10:30	ifo business climate (Index, sa)	September	115.7	115.9
28 Sep 2017	14:00	Consumer prices preliminary (% yoy, nsa)	September	1.8	1.8
29 Sep 2017	8:00	Retail sales (% mom, sa)*	August	1.0	-1.2
29 Sep 2017	09:55	Unemployment rate (%, sa)	September	5.7	5.7

*An earlier data release may be possible due to the Federal Statistical Office.
Sources: Deutsche Bank Research, Federal Statistical Office, Federal Employment Agency, ifo, Markit

Sebastian Becker, Marc Schattenberg, Jochen Möbert (+49 69 910-31727, jochen.moebert@db.com)

Booming economy – will wages follow?

Financial Forecasts

	US	JP	EMU	GB	CH	SE	DK	NO	PL	HU	CZ
Key interest rate, %											
Current	1.125	-0.10	0.00	0.25	-0.75	-0.50	0.05	0.50	1.50	0.90	0.25
Dec 17	1.375	-0.10	0.00	0.25	-0.75	-0.50	0.05	0.50	1.50	0.90	0.25
Mar 18	1.375	-0.10	0.00	0.25	-0.75	-0.50	0.05	0.50	1.50	0.90	0.75
Jun 18	1.625	-0.10	0.00	0.25	-0.75	-0.50	0.05	0.50	1.50	0.90	0.75
3M interest rates, %											
Current	1.32	0.06	-0.33	0.28							
Dec 17	1.58	0.05	-0.30	0.40							
Mar 18	1.58	0.05	-0.30	0.40							
Jun 18	1.83	0.05	-0.30	0.40							
10Y government bonds yields, %											
Current	2.15	0.01	0.33	1.06							
Dec 17	2.75	0.05	0.60	1.40							
Mar 18	2.80	0.00	0.70	1.55							
Jun 18	2.85	0.00	0.80	1.65							
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	1.19	109.32	0.92	1.29	1.14	9.46	7.44	9.28	4.25	306.39	26.07
Dec 17	1.17	116.00	0.91	1.29	1.05	9.50	7.46	9.75	4.10	310.00	26.00
Mar 18	1.18	117.00	0.92	1.28	1.06	9.38	7.46	9.69	4.20	312.50	25.93
Jun 18	1.19	118.00	0.93	1.28	1.08	9.25	7.46	9.63	4.28	315.00	25.85

Sources: Bloomberg Finance LP, Deutsche Bank Research

Booming economy – will wages follow?

German data monitor

	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Apr 2017	May 2017	Jun 2017	Jul 2017	Aug 2017	Sep 2017
Business surveys and output											
Aggregate											
Ifo business climate	108.1	110.7	111.2	114.3		113.1	114.6	115.2	116.0	115.9	
Ifo business expectations	102.5	105.5	104.3	106.1		105.2	106.4	106.8	107.3	107.9	
Industry											
Ifo manufacturing	102.6	105.4	106.1	109.5		107.9	110.3	110.4	112.0	112.3	
Headline IP (% pop)	0.2	0.0	1.2	1.8		0.7	1.2	-1.1			
Orders (% pop)	0.1	4.2	-1.0	0.8		-2.1	1.1	1.0			
Capacity Utilisation	84.8	85.7	85.9	86.0	86.7						
Construction											
Output (% pop)	1.7	-1.6	4.6	5.2		-0.5	-1.1	-1.1			
Orders (% pop)	-4.6	8.2	0.4	-2.6		0.4	-6.6	3.9			
Ifo construction	126.8	129.5	128.4	130.3		129.8	130.6	130.4	131.5	133.3	
Consumer demand											
EC consumer survey	-2.5	-1.5	-0.6	3.6		2.8	3.1	5.0	5.2	3.3	
Retail sales (% pop)	0.8	1.6	0.7	0.9		0.1	0.1	1.3	-1.2		
New car reg. (% yoy)	4.2	-0.3	6.7	0.0		-8.0	12.9	-3.5	1.5	3.5	
Foreign sector											
Foreign orders (% pop)	1.8	3.1	-0.4	1.0		-3.6	3.4	-2.0			
Exports (% pop)	-0.2	2.4	2.8	1.6		0.9	1.5	-2.7			
Imports (% pop)	1.7	3.5	3.6	1.4		1.1	1.3	-4.4			
Net trade (sa EUR bn)	61.2	60.1	59.9	61.3		19.8	20.3	21.2			
Labour market											
Unemployment rate (%)	6.1	6.0	5.9	5.7		5.8	5.7	5.7	5.7	5.7	
Change in unemployment (k)	-28.3	-32.0	-59.7	-41.0		-14.0	-8.0	6.0	-8.0	-5.0	
Employment (% yoy)	1.2	1.3	1.5	1.5		1.5	1.5	1.5	1.6		
Ifo employment barometer	109.0	111.1	110.3	111.1		111.4	110.8	111.0	112.1	111.2	
Prices, wages and costs											
Prices											
Harmonised CPI (% yoy)	0.4	1.0	1.9	1.6		2.0	1.4	1.5	1.5	1.8	
Core HICP (% yoy)	1.1	1.2	1.0	1.4		1.6	1.1	1.5	1.5		
Harmonised PPI (% yoy)	-1.7	0.2	2.8	2.8		3.4	2.8	2.4	2.3		
Commodities, ex. Energy (% yoy)	2.9	19.2	32.7	8.9		16.5	8.3	2.0	2.7	4.8	
Crude oil, Brent (USD/bbl)	46.6	51.1	54.5	50.8		53.8	51.4	47.6	49.1	51.9	52.5
Inflation expectations											
EC household survey	6.2	10.0	18.9	17.6		17.4	17.5	17.9	15.1	15.8	
EC industrial survey	3.0	6.2	13.0	12.2		11.7	13.4	11.4	11.9	10.4	
Unit labour cost (% yoy)											
Unit labour cost	1.6	2.2	1.0	2.5							
Compensation	2.1	2.2	2.5	2.4							
Hourly labour costs	2.7	3.8	1.0	3.8							
Money (% yoy)											
M3	6.6	5.7	6.0	5.6		5.1	4.9	5.6	4.6		
M3 trend (3m cma)	6.4	5.5	5.5	5.0		5.5	5.3	5.2	5.0		
Credit - private	2.6	2.9	3.3	3.8		3.1	3.2	3.8	3.8		
Credit - public	-0.1	8.9	21.0	4.1		11.5	9.9	4.1	0.3		

% 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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Marketing
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Printed by: HST Offsetdruck Schadt & Tetzlaff GbR, Dieburg

ISSN (Print) 2510-5248 / ISSN (Online) 2512-0824