Focus Germany

The worst is (probably) over

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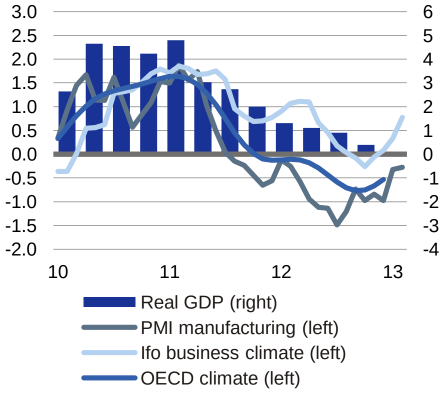
In 1983, a catchy song by "Geier Sturzflug" poking gentle fun at life on the shop floor stormed to the top of Germany's single charts. Encouraging workers to "roll up their sleeves and boost GDP", the band coined a phrase that German business seems to have really taken to heart. There is much to suggest that the economy returned to a growth path – albeit only a modest one – in the first quarter after a 0.6% contraction of real GDP in the closing quarter of 2012. New order intake and industrial output had already begun to pick up in December, so there was a growth overhang in production from the outset in Q1. Besides, business sentiment had already started to brighten four months ago. Recently, the PMI manufacturing index edged above the critical mark of 50 that represents the dividing line between recession and growth, and the ifo business climate index noticeably outstripped its long-term average of close to 101 in February at 107.4. What is more, the latest rise in the ifo index – the fourth in a row – underpins hopes that what is known as the "three times rule" will ring true. This rule says that usually a cyclical turning point is reached when the ifo index rises for three times running. All in all, Q1 holds good prospects of Germany repeating that familiar refrain and "boosting GDP again".

Risks lurk mainly in the external environment

Nonetheless, substantial risks continue to lurk in the external economic environment in particular. The crisis surrounding America's public finances has not been banished by any means. The "fiscal cliff" on everyone's lips at the end of last year has only been slightly postponed at best. The US debt ceiling and sequester (i.e. extensive automatic budget cuts) are spectres that continue to haunt the US economy, and in Germany's immediate European neighbourhood the recession is dragging on in the current quarter especially in the southern periphery of the eurozone – albeit at a slightly more moderate pace. The support demanded in many quarters from the "strong man of Europe" to help stimulate growth in the periphery by bolstering the economy at home would presumably do little to redress the problem. The divergence in the economic development of the eurozone members thus continues, especially since in the wake of the parliamentary elections in Italy the political uncertainties have not decreased. While the centre-left alliance headed by Pier Luigi Bersani gained a majority in the lower house, none of the alliances running for the Senate managed to secure an absolute majority. Whether such circumstances will produce a stable government that tackles the reforms necessary is one big question mark. This also appears to be the judgement of the financial markets, which after initial euphoria displayed disappointment with the outcome. So a return to the polls is certainly a possible option, perhaps after an interim government has managed to push through a reform of the electoral law.

Real GDP growth & leading indicators 1

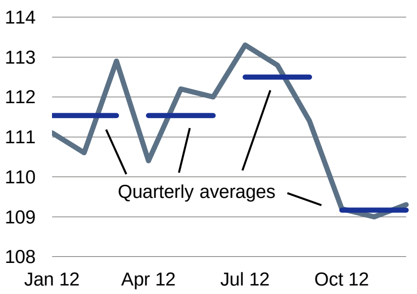
Standardised values (lhs); % yoy (rhs)



Sources: Federal Statistical Office, Markit, ifo, OECD

Industrial production 2

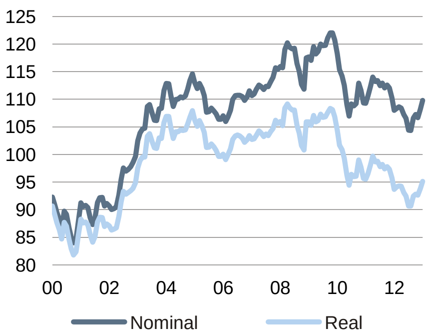
2005=100



Source: Federal Statistical Office

EUR: Effective exchange rate 3

Vis-a-vis 40 trading partners,
Index Q1 1999=100



Source: ECB

Growth to average a meagre 0.3% in 2013

For 2013 as a whole we continue to forecast GDP growth of 0.3% in Germany. The economy started into the new year better than we had anticipated. In fact, there are already signs of a slight upturn in Q1. At the same time, however, it is still labouring under a "residual burden". The decline in real GDP in Q4 2012 provides a poor starting basis for 2013. The German economy carried over a 0.3% growth underhang into 2013 that still has to be overcome. It follows that even though we forecast more dynamic growth for the second half of the year in particular, GDP will probably only expand by a meagre 0.3% on an annual average. In our opinion, private consumption will continue to be the growth driver with an increase of 0.6%, underpinned by a still robust labour market. The ifo employment barometer was up again recently, for instance. By contrast, the negative contribution from net exports in the current year will cost about 0.3 percentage points of growth. As a matter of fact, net exports substracted 0.8 percentage points from overall GDP growth in Q4 2012 as German exports had slumped by 2% in real terms. True, the export prospects for the German economy have improved substantially over the past few months according to the findings of company surveys, especially on account of noticeably higher orders from Asia in particular. Nonetheless, a sustainable recovery of German exports is not to be expected until H2 in view of the still sluggish growth in the eurozone, which still absorbs no less than nearly 40% of total German exports.

"Currency war" probably only a storm in a teacup for Germany to date

Are these expectations too optimistic, or does the German economy have to batten down the hatches in the face of the "currency war"? We don't think so. For one thing, analyses show that Germany is not as sensitive to exchange rate developments as other European countries are because of the type of goods it exports (almost 50% of German exports consist of machinery and transport equipment, i.e. capital goods). For another, the real, trade-weighted euro exchange rate has appreciated by around 5% since its nadir in mid-2012, yet it is still about the same percentage away from its last zenith in April 2011 and 12% below its level in October 2009. Against this backdrop, the "currency war" has, to date, probably not been anything more than a storm in a teacup, for Germany at least.

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Economic forecasts

	Real GDP (% growth)			Consumer Prices* (% growth)			Current Account (% of GDP)			Fiscal Balance (% of GDP)		
	2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Euroland	-0.5	-0.3	1.1	2.5	1.6	1.6	0.9	1.3	1.6	-3.3	-2.7	-2.3
Germany	0.7	0.3	1.5	2.0	1.7	1.6	6.3	5.6	5.4	0.2	-0.4	-0.2
France	0.0	-0.3	1.0	2.2	1.5	1.6	-2.1	-2.0	-2.3	-4.6	-3.6	-2.8
Italy	-2.2	-0.9	0.5	3.3	1.8	1.5	-1.0	-0.3	-0.2	-2.9	-2.3	-2.5
Spain	-1.4	-1.1	0.6	2.4	2.2	1.3	-0.8	0.0	-0.2	-7.9	-6.1	-5.1
Netherlands	-0.9	-0.1	1.7	2.8	2.3	1.8	9.0	9.0	9.5	-4.0	-3.2	-2.0
Belgium	-0.2	0.0	1.0	2.6	1.8	1.7	0.0	0.5	1.0	-3.4	-3.3	-2.6
Austria	0.7	0.9	1.3	2.6	2.0	1.9	1.2	1.8	2.1	-3.1	-2.8	-2.5
Finland	-0.1	0.0	1.2	3.2	2.5	2.2	-1.7	-1.0	-0.5	-0.8	-0.8	-0.5
Greece	-6.5	-4.2	0.9	1.0	0.1	-0.2	-6.0	-4.0	-3.0	-7.0	-6.1	-5.0
Portugal	-3.2	-1.2	0.8	2.8	1.0	1.2	-1.5	0.0	1.0	-5.3	-4.8	-3.4
Ireland	0.5	1.0	1.9	1.9	1.4	1.5	2.0	2.5	3.0	-7.8	-7.7	-5.5
UK	0.2	0.9	1.8	2.8	2.5	2.2	-4.7	-4.4	-3.5	-5.3	-6.7	-5.9
Denmark	-0.6	1.0	1.5	2.4	2.0	1.8	5.2	5.0	4.5	-4.4	-3.0	-2.0
Norway	3.0	2.0	2.5	0.7	1.6	2.0	15.0	14.0	13.0	12.5	12.0	11.5
Sweden	1.2	1.2	1.9	0.9	0.6	1.5	7.5	6.5	6.0	-0.5	-0.5	0.0
Switzerland	1.0	1.5	1.7	-0.7	0.4	0.8	11.0	10.5	10.0	0.0	0.2	0.5
Czech Republic	-0.8	1.0	3.4	3.3	2.5	2.1	-1.8	-1.6	-1.7	-3.5	-3.2	-2.7
Hungary	-1.3	0.0	1.6	5.7	4.1	3.5	0.9	1.5	0.9	-3.0	-2.9	-2.8
Poland	2.0	1.6	2.3	3.7	2.2	2.1	-3.5	-3.1	-3.8	-3.6	-3.5	-2.9
United States	2.2	1.7	2.9	2.1	2.3	2.5	-3.1	-3.4	-3.6	-7.1	-6.4	-5.4
Japan	1.9	1.0	0.4	0.0	-0.1	1.9	1.0	1.6	2.3	-9.6	-9.5	-7.6
World	2.9	3.1	3.9	3.3	3.3	3.5						

*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

						2012				2013			
	2010	2011	2012	2013F	2014F	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F
Real GDP	4.2	3.0	0.7	0.3	1.5	0.5	0.3	0.2	-0.6	0.1	0.4	0.4	0.3
Private consumption	0.9	1.7	0.6	0.6	1.0	0.2	0.2	0.0	0.1	0.1	0.2	0.4	0.3
Gov't expenditure	1.7	1.0	1.4	1.3	0.7	0.6	-0.3	0.7	0.4	0.3	0.5	0.1	0.1
Fixed investment	5.9	6.2	-2.5	0.2	3.1	-1.0	-1.9	-0.4	-0.7	0.7	1.0	0.6	0.6
Investment in M&E	10.3	7.0	-4.8	-1.4	4.4	-1.1	-3.0	-2.2	-2.0	0.5	0.9	1.0	1.0
Construction	3.2	5.8	-1.5	1.9	1.9	-0.8	-1.4	0.7	-0.1	0.9	1.0	0.3	0.3
Inventories, pp	0.6	0.2	-0.5	0.0	0.0	-0.2	-0.1	-0.3	0.2	0.0	0.0	0.0	0.0
Exports	13.7	7.8	3.7	3.1	5.4	0.7	3.3	1.5	-2.0	1.0	1.4	1.6	1.3
Imports	11.1	7.4	1.8	4.2	5.5	-0.7	2.3	0.6	-0.6	1.4	1.6	1.7	1.6
Net exports, pp	1.7	0.6	1.0	-0.3	0.3	0.7	0.7	0.5	-0.8	-0.1	0.0	0.1	0.0
Consumer prices*	1.1	2.1	2.0	1.7	1.6	2.1	1.9	2.0	2.0	1.9	1.7	1.7	1.5
Unemployment rate, %	7.7	7.1	6.8	6.9	6.7	6.8	6.8	6.8	6.9	6.9	6.9	6.9	6.8
Budget balance, % GDP	-4.1	-0.8	0.2	-0.4	-0.2								
Balance on current account, % GDP	6.0	5.7	6.3	5.6	5.4								

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

Germany: Strong enough to rescue Europe?

— Measures to bolster Germany's domestic economy – as called for recently in some quarters – would make an only minor contribution towards stabilising the economies on the periphery of the euro area.

— Our calculations show that one additional percentage point of German GDP growth, by inducing higher imports and travel expenditures, would improve the current accounts of these countries by EUR 3 ¼ bn at best, or 0.1% of GDP. The growth stimuli generated in the region would be correspondingly small.

— Moreover, such measures are not the appropriate means to boost economic growth on a sustainable basis, as experience has clearly shown once again over the past few years in particular.

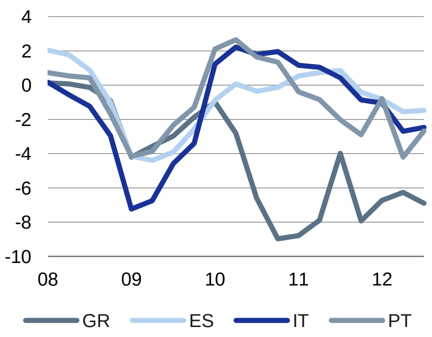
— Therefore, temporarily higher exports to Germany cannot take the place of fundamental reforms that are necessary and now being implemented in the peripheral countries. The most the former can do is minimally cushion the impact.

— The risks of such a policy do not seem to be commensurate with the expected effects. So no experiments, please!

No experiments!

GIPS in deep recession 1

Real GDP, % yoy



Source: Eurostat

Once again, Germany has its work cut out. With people referring to the – in some cases – deep recession in the southern periphery of the euro area and to the additional burdens on competitiveness triggered by the appreciation of the euro, there have been calls for the "strong man" of Europe to increase consumption at home. They say this would boost the exports and GDP growth of the weaker euro economies. This is the tenor of demands addressed to Berlin recently, by France, among others. Even Chancellor Angela Merkel pointed to this actually undisputed correlation at the press conference during Spanish Prime Minister Mariano Rajoy's recent visit to Berlin. She said that German consumption could help Spanish exports.[1] No doubt a tangible surge in German demand for imports would be helpful in tackling the current economic crisis in Spain and the other peripheral countries. However, a German economic stimulus programme – a Keynesian spending programme or tax cuts, for example – is unlikely to be a suitable means to this end. Supply-side reforms, such as increasing the retirement age or the labour participation rate by, for instance, improving the compatibility of family and working life would probably also give domestic demand a fillip. Nonetheless, such reforms only feed through in the medium to long run and thus would be unsuitable as an emergency stimulus to mitigate the deep recession in the peripheral countries. Moreover, the augmented labour supply would be a drag on wage growth and thus further boost Germany's competitiveness. In the medium to long run the current account surplus would in fact increase.

According to our calculations, even one additional percentage point of German GDP growth would only improve the combined current accounts of the four countries Greece, Portugal, Italy and Spain (the GIPS) by EUR 3 bn or so at best, or 0.1% of GDP, and generate a similar amount of growth in these countries. These calculations factor in not only the stimulating effects on exports but also correspondingly higher German travel expenditures in these countries.

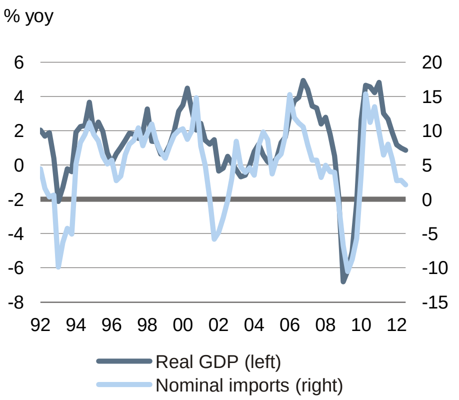
[1] Transcript (in German) of Merkel and Rajoy press conference during the 24th German-Spanish government consultations, February 4, 2013. (http://www.bundesregierung.de/Content/DE/Mitschrift/Pressekonferenzen/2013/02/2013-02-04-merkel-rajoy.html).

Moreover, the developments of the past few years in particular have shown that such measures have an only temporary impact and do not strengthen economic growth on a sustainable basis. One further negative effect would be increased borrowing and thus a further rise in public-sector debt in Germany. The currently unusually robust health of Germany's public finances and the ability to meet the debt ratio target would be jeopardised. Then there is the question of which measures should be used to stimulate growth in Germany and above all how these should be funded. Thus, the risks of such a policy are not at all commensurate with the very minor impact to be expected in the peripheral countries.

What could Germany do?

To answer this question we calculated the income elasticity of German import demand for the individual countries of the periphery, i.e. analysed how German imports from the respective peripheral countries of the eurozone would change if German economic growth were one percentage point higher. In addition, the southern peripheral countries could benefit from German travel expenditures, which are more heavily dependent on households' disposable income than GDP as a whole. To account for this effect we examined the income elasticity of German travel expenditures. The results of our analysis are based on the assumption of ceteris paribus, that is, that all the other factors relevant for imports and/or travel expenditures remained constant. Moreover, we only looked at the direct effects. This means that third-market effects, that is to say demand effects from third countries on the economies of the southern periphery induced by higher German economic growth are not recorded either. Equally, we did not record how possibly lower export and hotel prices resulting from the adjustments triggered by the deep recessions in these countries might have correspondingly stimulated demand. This is no doubt a constraint.[2] Nonetheless, we believe our approach is valid, since third-market effects can probably be ignored and dynamic adjustment processes can scarcely be modelled in the current situation. Besides, we consider these effects to be even weaker than the already small direct effects anyway.

Germany: Economic growth & imports 2



Source: Federal Statistical Office

GIPS reap below-average benefits of German import demand

Our analysis shows that the income elasticity of German import demand for products from Greece, Portugal and Spain is greater than 1, but far below average in comparison with products from the rest of the world. Only demand for Italian goods reacted roughly in line with the average. Based on the percentage change in Germany's real GDP and the percentage growth of total nominal import demand for the period from Q1 1992 to Q3 2012 our analysis arrives at an average income elasticity of 3.7.[3] Factoring in the price development of GDP, which amounted to about 1.4% p.a. on average from 1992 to 2011, this corresponds to income elasticity of roughly 2 in terms of real import growth, as often found in the literature. So, over the past 20 years on average, an increase in real GDP of 1% went hand in hand with an increase in real imports of 2%.

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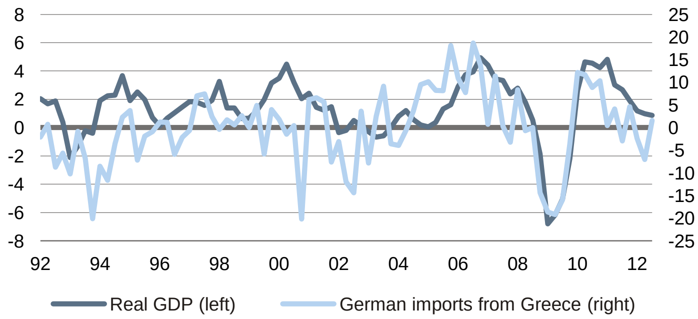
[2] Given the improving price competitiveness of the peripheral countries, the actual effect could turn out to be slightly more pronounced.

[3] Income elasticity of demand is usually understood to mean the volume-based reaction of demand brought about by a change in real income. However, since bilateral foreign trade price statistics are not available, we have based our analysis on nominal German imports. While this distorts the income elasticity of German import demand by the total of foreign export price changes to the upside, it also simplifies further calculations.

Germany: Economic growth & imports from Greece 3

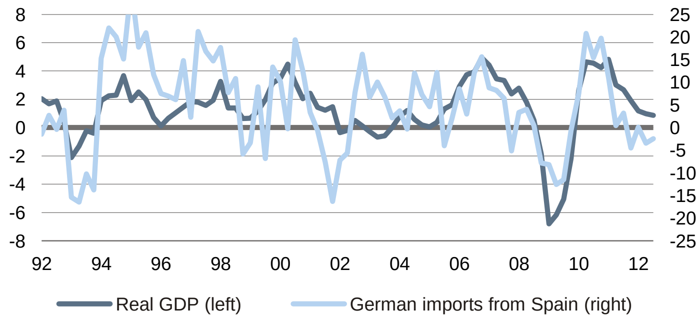
% yoy (left), % yoy (right)



Source: Federal Statistical Office

Germany: Economic growth & imports from Spain 4

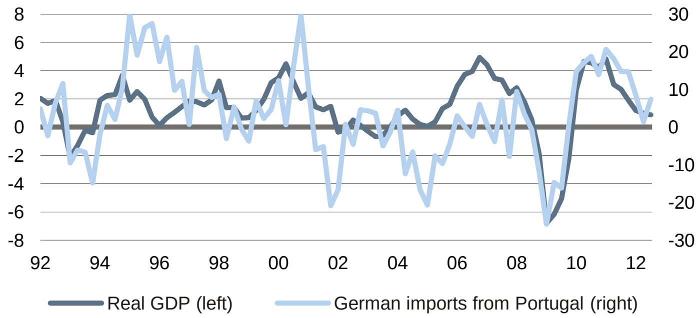
% yoy (left), % yoy (right)



Source: Federal Statistical Office

Germany: Economic growth & imports from Portugal 5

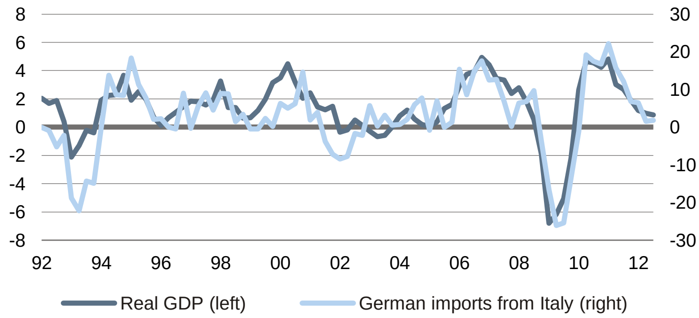
% yoy (left), % yoy (right)



Source: Federal Statistical Office

Germany: Economic growth & imports from Italy 6

% yoy (left), % yoy (right)



Source: Federal Statistical Office

Regression summary 7

Dependent variable: Nominal imports from …, % yoy

Explanatory variable: Real GDP, % yoy

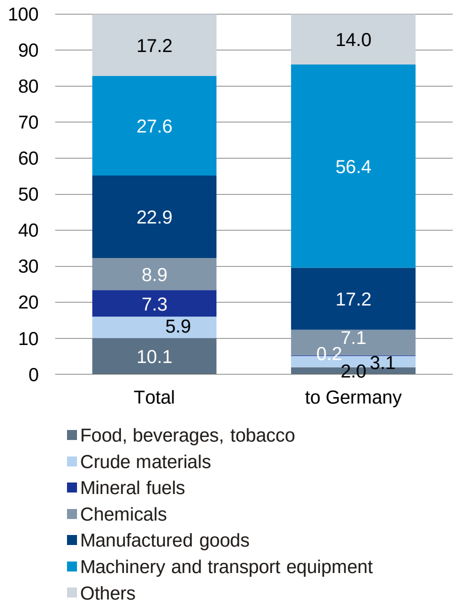
83 periods from 1992 Q1 to 2012 Q3

	Coeff	T-Value	R^2	DW
Italy	3.66	12.23	0.65	2.15
Spain	2.56	5.80	0.29	2.07
Portugal	2.97	5.64	0.28	1.65
Greece	2.26	5.80	0.29	2.04
GIPS	3.25	11.12	0.60	2.10
EMU	3.54	12.54	0.66	2.14
Ex-EMU	3.85	10.49	0.58	2.30
World	3.72	12.09	0.64	2.20

Sources: Federal Statistical Office, DB Research

Portugal: Exports by type of goods 8

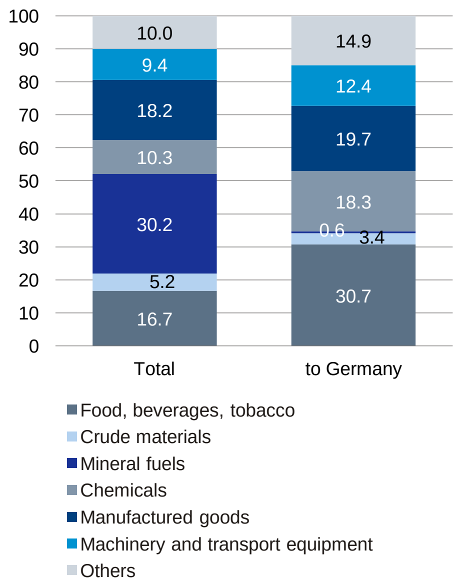
2011, in %



Sources: OECD, UN

Greece: Exports by type of goods 9

2011, in %



Sources: OECD, UN

The goods structure is the key!

Among the GIPS, the income elasticity of German demand for imports is far below average in Greece and Spain, at 2.3 and 2.6 respectively. Portugal shows a higher reading at 3.0. Only in Italy is the reading relatively close, at 3.7, to average income elasticity in general.

The above can be explained especially by the type of goods constituting German imports from these countries. Over 30% of German imports from Greece consist of food products, whose income elasticity as a whole is probably less than 1. According to Engel's Law, the share of food expenditure in total expenditure decreases as income increases. At 17%, food accounts for a relatively large share in Spain as well. The high reading of income elasticity for Portuguese goods is surprising at first glance, but can likewise be explained by the goods structure. Over 55% of German imports from Portugal fall into the category of machinery and transport equipment. Most of these imports are automobiles from the Volkswagen Autoeuropa plant in Palmela, nearly 40% of whose output of about 130,000 units per year is shipped to Germany. In normal times, the income elasticity of car demand is well over 2. In Italy, about three-quarters of the goods delivered to Germany are classified as machinery and transport equipment, manufactured goods or chemical products.

Germany a major trade partner for the GIPS

For Italy, Germany is export market No. 1 with a 13% share of total Italian exports. For Portugal and Spain, Germany ranks second in importance in terms of exports with shares of roughly 14% and close to 11%, respectively, and for Greece Germany ranks No. 3 with an export share of nearly 8%.

GIPS: Export markets in 2011 10

	Greece	Portugal	Spain	Italy
Exports (EUR bn)	20.2	43.1	222.6	376.5
(% GDP)	9.7	25.2	20.9	23.8
Ranking				
1	IT (9.5%)	ES (25.1%)	FR (17.8%)	DE (13.3%)
2	TR (7.9%)	DE (13.7%)	DE (10.6%)	FR (11.8%)
3	DE (7.9%)	FR (12.2%)	PT (8.4%)	US (5.9%)
4	CY (6.1%)	Angola (5.4%)	IT (8.4%)	ES (5.4%)
5	BG (5.5%)	GB (5.3%)	GB (6.8%)	CH (5.4%)

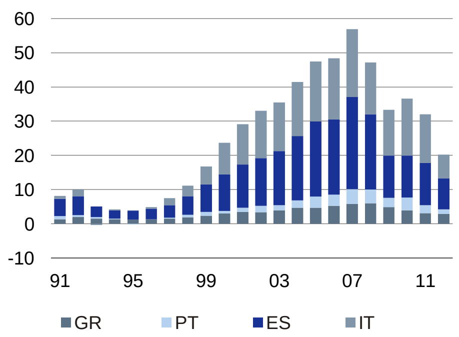
Source: IMF

Expect only marginal effects in the GIPS

Now if real German GDP were to increase by 1%, German imports from Greece would rise by an additional 2.3% on average, from Spain by 2.6%, Portugal 3.0% and Italy 3.7%. In euro terms, with total German imports from Greece worth around EUR 2 bn and from Italy up to nearly EUR 50 bn this would work out to additional import income in these countries ranging from EUR 0.04 bn in Greece to nearly EUR 2 bn in Italy. Relative to the GDP of the respective country this would have been an increase of merely 0.02% in Greece and about 0.12% in Italy. Spain and Portugal range between them at about 0.05% and 0.09%, respectively. Given these magnitudes, we believe that stimulating the German economy would produce only marginal growth effects in the GIPS countries. Taking all the GIPS countries together, exports to Germany would rise by little more than EUR 2 ½ bn, or 0.1% of GDP, and the trade balance would improve to a similar degree.[4]

External adjustment process in the GIPS countries already well advanced

Germany: Shrinking trade surplus with GIPS countries 11



Source: Federal Statistical Office

The adjustments in the external economies of the southern peripheral countries are making notable progress. Italy, for example, whose external trade pattern differs relatively noticeably from that of the other GIPS countries, reported a trade surplus of EUR 17 bn for 2012. But the adjustments in Greece, Portugal and Spain have been remarkable so far as well. Since 2008, when these countries taken together ran a trade deficit of EUR 152 bn, equivalent to over 10% of their economic output, exports have picked up by 4% per year, while imports have declined by over 3% on average every year because of the deep recession in those countries. Correspondingly, the trade deficit has shrunk by 64% as of 2012 to merely EUR 55 bn or close to 4% of GDP. Germany has done its bit in this regard. The bilateral trade deficit of the three countries in relation to Germany fell during this period by 64%, to EUR 13 bn.

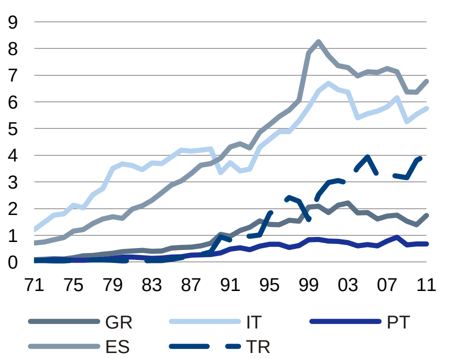
While Germany can continue to do its part in the external adjustment process of these countries, the fact that on average merely about 12% of the GIPS exports are shipped to Germany suggests that this country is not in a position to make a really noticeable contribution. The over EUR 2 ½ bn improvement in the trade balance of the GIPS countries, which we calculated on the basis of a one percentage-point increase in German growth, would scarcely be equivalent to 5% of the trade deficit of those countries.

Spending by German tourists in the GIPS countries: Can it help?

One further channel for supporting the adjustment process in the GIPS and stabilising their economies via a stimulation of Germany's domestic economy lies in increased spending by German holidaymakers in the southern peripheral countries. Travel expenditures are strongly predicated on disposable income, so if real disposable incomes in Germany were to increase, the countries on the periphery would also stand to benefit. While German imports from the GIPS countries totalled close to EUR 80 bn in 2012, it is estimated that German tourists spent merely EUR 16 ½ bn in those countries in that year, with 45% of revenues going to Spain, nearly 40% to Italy, 11% to Greece and 4% to Portugal.

Shrinking German travel expenditures in GIPS countries 12

EUR bn



Source: Deutsche Bundesbank

GIPS less appealing as holiday destinations

Moreover, the GIPS countries have lost favour with German tourists over the past few years. After having skyrocketed from 1970 to 2000, German travel expenditures in the GIPS countries started to decline from about 2000. This was to the benefit of countries outside EMU, Turkey in particular. Spending by German holidaymakers has fallen by a total of roughly 5% in the GIPS since

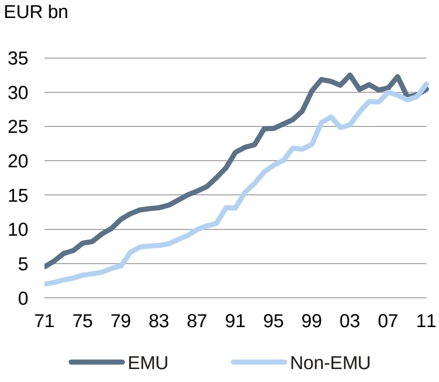
[4] The Bundesbank and the European Commission also report moderate effects in their findings. According to the European Commission the current account balances of the GIPS would increase by only about 0.02% of their GDP on an increase in German demand for imports (European Commission (2012). Current Account Surpluses in the EU, European Economy 9/2012, p. 109). Bundesbank simulations of potential policy measures to bring down the German current account surplus – e.g. by increasing the retirement age, boosting the labour participation rate or lowering profit-related corporate taxation – show that the various measures do reduce the surplus, but only to a minor degree and only temporarily (Bundesbank (2011). Germany's external position against the background of increasing economic policy surveillance, Monthly Report – October 2011, pp. 41-59).

2000, with Greece and Portugal recording the sharpest declines at 14% and 16%, respectively. In Spain the decline came to about 8%, while Italy was the only GIPS country that reported a slight increase.

By contrast, German travel expenditures in Turkey have nearly doubled since 2000, totalling an estimated EUR 4 ½ bn in 2012. This is two and a half times the amount spent by German tourists in Greece and already equals 70% of the figure in Spain. Non-EMU countries have seen German travel expenditures increase by over 20% since 2000, reflecting the trend towards holidays in far-flung destinations.

Virtually negligible effects from travel expenditures

German travel expenditures in non-EMU countries rising above average 13



Source: Deutsche Bundesbank

To estimate the impact of a one percentage-point increase in German GDP growth on the expenditures of German holidaymakers in the GIPS countries, we performed calculations – as in the case of German imports – to determine the income elasticity of German household demand for holiday travel to GIPS destinations. To do so, we correlated the percentage change in travel expenditures in the individual GIPS countries for the period from 1971 to 2011[5] with the concurrent percentage change in nominal disposable income.[6] Here, too, it emerges that the reaction of German travel expenditures to a 1% increase in nominal disposable income works out at a below-average 1.25 in the GIPS countries in comparison with 1.53 in the non-EMU countries. However, the readings differ appreciably between the GIPS countries: Greece and Portugal show disproportionately pronounced elasticities at 2.56 and 2.25, respectively, while in Italy and Spain the elasticities are only 1.10 and 1.05, respectively. However, the high elasticities in Greece and Portugal overstate the actual situation since they are based on a period in which these countries were "discovered" as holiday destinations and related expenditures boomed accordingly. For example, German tourists spent merely EUR 87 m in Greece in 1971, with expenditures rising to over EUR 2.2 bn by the beginning of 2000.

Raising nominal disposable income by 1% would add 2.56% to German travel expenditures in Greece and 1.05% in Spain.

Regression summary 14

Dependent variable: German travel expenditures in …, % yoy
Explanatory variable: Nominal disposable income, % yoy
Annual data, 1972-2011

	Coeff	R^2	p-Value	DW
Total	1.51	0.65	0.00	2.06
EMU	1.55	0.57	0.00	2.20
Non-EMU	1.53	0.32	0.00	2.28
GIPS	1.25	0.21	0.00	1.88
GR	2.56	0.20	0.00	2.44
IT	1.10	0.10	0.05	2.00
PT	2.25	0.12	0.03	1.79
ES	1.05	0.14	0.02	1.66

Sources: Federal Statistical Office, Deutsche Bundesbank, DB Research

[5] German travel expenditures in Portugal and Greece are only available as annual data. To ensure we had sufficient data for our model we extended our observation period in comparison to before.

[6] Germany's Federal Statistical Office publishes only nominal figures for the disposable income of private households. It follows that the income elasticities of travel expenditures calculated on this basis have to be adjusted for inflation (DB Research forecast for 2013: 1 ¾%). Correspondingly, we factored in a 2 ¾% nominal increase in disposable income for our calculation of the impact of a 1% real increase in disposable income.

Given an estimated inflation rate of 1 ¾%, a 1% increase in real disposable income is equal to a 2 ¾% increase in nominal disposable income. Such an increase would imply additional spending of EUR 200 m by German tourists in Italy as well as in Spain. These volumes would be virtually negligible as a share of GDP in those countries at 0.01% and 0.02%, respectively. Even though these elasticities are higher in Greece and Portugal the changes would be expected to trigger additional travel revenues of merely EUR 40 m and EUR 130 m, respectively, since German tourists only spent an estimated EUR 1.8 bn and EUR 0.7 bn in these countries, respectively, in 2012. However, this is based on the assumption that the spending trend observed since 2000 does not continue and that German tourists spend their money as they have on average since the 1970s.

Total impact likely only 0.1% of GIPS GDP

Stimulating Germany's domestic economy by one percent of real GDP would prove to have an extremely modest total impact on the trade balances and economic growth of these countries. Increased imports from and higher travel expenditures in the GIPS countries would probably not exceed EUR 3 ¼ bn, or 0.1% of GDP. In view of these minor effects the risks of such a policy would probably not be commensurate with the results anticipated. The hopes being pinned on the prospect of stabilising the GIPS economies by increasing demand in the home market of the "strong man" of Europe will not be fulfilled. Furthermore, the very experience of the past few years has shown once again that temporary economic stimuli are unable to boost economic growth on a long-term horizon. When the stimulus programmes expire, the growth dynamics revert to their underlying level – a fact impressively confirmed by the growth trend since 2009. True, GDP growth accelerated rapidly in many countries in 2010 and appeared to refute the warnings issued by the IMF that a recession triggered by a financial or banking crisis lasts longer and is more pronounced than one induced solely by a cyclical downswing. However, once the stimulus programmes had run their course and the central banks ceased to pursue their easing policy to the same extent as in 2008/2009 there was a noticeable decrease in economic growth. Greater German demand for products from the peripheral countries and higher German travel expenditures may cushion the impact of the adjustments in these countries to a certain extent. However, they can scarcely take the place of the reforms necessary there. So no experiments, please!

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Additional German imports from and travel expenditures in GIPS countries if German GDP growth or disposable income growth rise by 1 pp 15

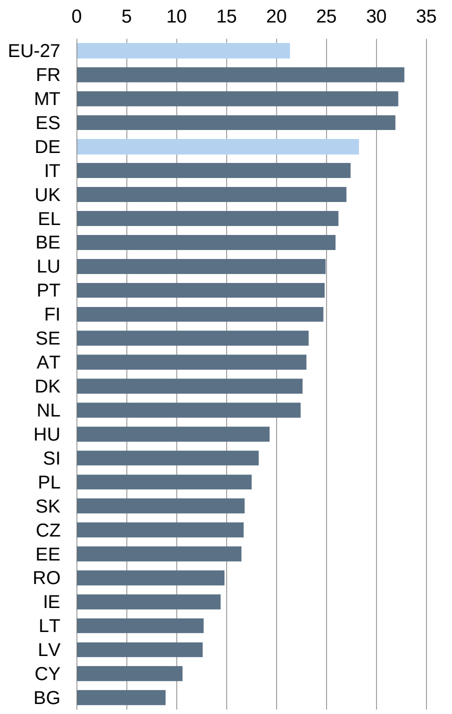
	Goods imports*				Travel expenditures*				Total		
	2012	Income elasticity	Additional imports**		2012	Income elasticity	Additional expendi-tures ***		2012	Additional expendi-tures	
	EUR bn		EUR bn	% GDP	EUR bn		EUR bn	% GDP	EUR bn	EUR bn	% GDP
Total	911.0				66.2				977.2		
thereof											
Italy	49.8	3.66	1.82	0.12	6.5	1.10	0.20	0.01	56.3	2.02	0.13
Spain	22.6	2.56	0.58	0.05	7.5	1.05	0.22	0.02	30.1	0.79	0.08
Portugal	5.0	2.97	0.15	0.09	0.7	2.25	0.04	0.03	5.7	0.19	0.12
Greece	1.9	2.26	0.04	0.02	1.8	2.56	0.13	0.06	3.7	0.17	0.09
GIPS	79.3	3.27	2.59	0.09	16.5	1.29	0.58	0.02	95.8	3.18	0.11

* Estimated
** If real GDP growth rises by 1 pp
*** If nominal disposable income risis by 2.75% (with an inflation rate of 1.75% this corresponds to 1% real income growth)
Sources: Federal Statistical Office, DB Research

Corporate taxation in 2013 and the federal election

Effective Average Tax Rates in the EU, 2011 | 1

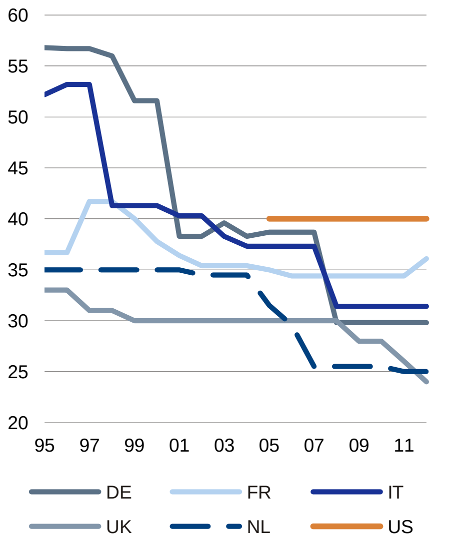
%, non-financial sector



Sources: European Commission, ZEW

Adjusted top statutory tax rate on corporate income | 2

%, incl. surcharges and averages of local taxes



Sources: Eurostat, DB Research

— In contrast with their views on EU policy, there are substantive differences between the ruling coalition and the opposition with regard to taxation and (re-)distribution policy.

— Proposals by the SPD and the Greens range from (among others) raising the top income tax rate (49% plus surcharges) and introducing a wealth tax to broadening the trade tax base and increasing the final withholding tax on investment income ("Abgeltungsteuer").

— If implemented in full, these proposals could jeopardise Germany's attractiveness as a place to invest because they create negative incentives for companies and private households with higher (capital) income.

The last major reform of corporate taxation in Germany dates back to 2008, i.e. over four years ago. Among other things, the reform reduced the corporation tax rate to 15% and introduced the final withholding tax on investment income ("Abgeltungsteuer"). Most of the reforms announced by the CDU/CSU/FDP government in their coalition agreement for the current term (pertaining to VAT rates, trade tax and group taxation, for instance) could not be implemented. As regards location-related tax conditions, however, the reforms implemented since the late 1990s have helped improve Germany's position considerably (the improvements include the reduction of the standard corporation tax rate to 15% at present, the lowering of the peak income tax rate, the transition to the partial income method, tax-free disposals of corporate stakes held by joint-stock corporations and the introduction of the final withholding tax).

Germany ranks in upper third in terms of corporate taxation

Nonetheless, a raft of other countries have also made efforts to enhance their own location-related tax conditions. Measured in terms of the tax load on corporations, Germany ranks in the upper third. Across the EU, however, the trend towards reducing corporation tax rates is slowing appreciably. From 2011 to 2012 the average burden in the EU-27 (corporation tax plus local levies) increased in fact for the first time since 1996. Several member states have made changes both to their tax rates and to the way they calculate their bases of assessment. The two changes may be represented in an indicator referred to as the effective tax rate.[7] The effective average tax rate in Germany is around 28% and thus higher than in many other European countries. Given the tight budgets not only in many European countries but also in the United States, tax burdens are likely to trend upwards – also for corporates. In Germany, the outcome of the federal election in autumn will have a decisive impact on the extent to which the tax burden in Germany is going to change – however, the changes will probably not feed through as concrete legislative measures before 2014 at the earliest.

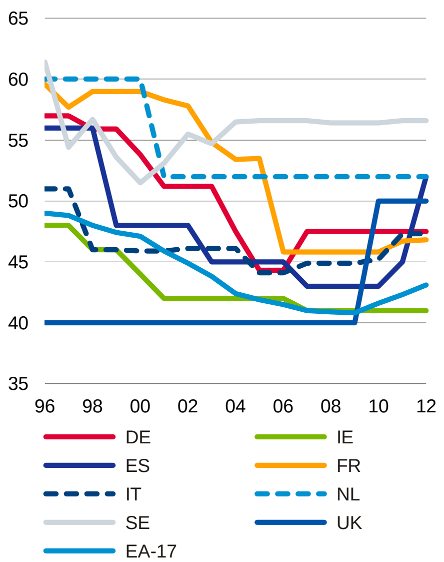
Parliamentary election holds key to potential tax reforms

The above suggests that no further significant changes to corporate taxation are to be expected in campaign year 2013. The reason is that the positions taken

[7] A location for investment is partly chosen on the basis of the effective average tax rate. It is calculated as the difference between an investment's pre-tax capital value and its after-tax value divided by the discounted return. Decisions regarding investment volumes are partly influenced by the effective marginal tax rate.

Top personal income tax rates EU 3

%, including surcharges

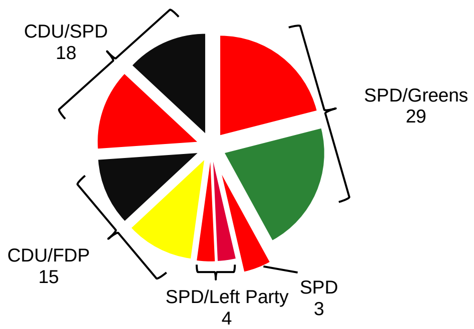


Source: European Commission

(e.g. annual tax act 2013 and "cold progression") by the CDU/CSU/FDP and the opposition SPD/Greens have become too firmly entrenched for impasses in the two chambers of parliament, the Bundestag and the Bundesrat, to be overcome ahead of the election. But unlike the CDU and the FDP, the SPD and the Greens have already hammered out firm plans for extensive changes to tax law if they should form the next government. However, these plans are not as specific in other fields as they are with regard to the introduction of a wealth tax.[8] As things stand today, the plans of the SPD and the Greens would entail a whole package of tax hikes (e.g. introduce a wealth tax or levy, raise the peak income tax rate, broaden the trade tax base, change the taxation of investment income etc.). By contrast, the CDU and even the FDP are currently not pursuing any extensive tax reform plans that would be linked with major burdens or major relief, since in their eyes (at least what is stated) budget consolidation takes precedence. Equal treatment of debt and equity capital funding remains a vague target in the area of corporate taxation, as does rejection of heavier burdens resulting from a higher inheritance tax or the introduction of a wealth tax. The CDU is focused on providing tax relief in a few selected areas (better ways to set off losses during the start-up phase, reduction of "cold progression", energy efficiency refurbishment, research funding and venture capital funding). However, the CDU is also in favour of launching a financial transaction tax. The FDP has abandoned the idea of introducing a system featuring just a few tax brackets for the time being; its focus currently remains "only" on abolishing cold progression. Changes to corporate taxation and the trade tax reform (e.g. abolition of additions to financing charges) are still a vague target.

Distribution of seats in the Bundesrat 4

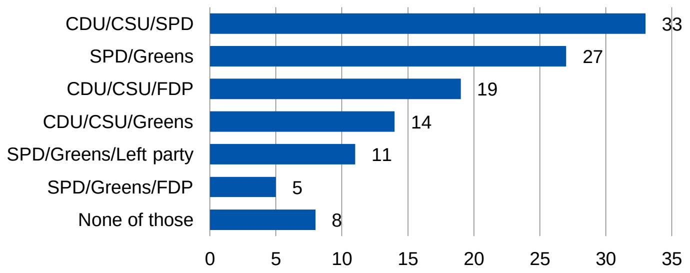
69 seats in all



Source: Bundesrat

Which party coalition would be good for Germany? 5

%, February 2013



Sources: FAZ, Allensbach

Bundesrat majority is crucial

Nearly all the legislative processes for setting tax policy require passage of a bill through the Bundestag and the Bundesrat, the latter chamber representing the Länder (states). At present, finding a voting majority in these chambers is fraught with difficulty. The recent election in Lower Saxony changed the voting majority in the Bundesrat (SPD, Greens and Left Party together can now count on a majority of 36 seats). This year, besides the federal election, there are going to be elections in two further Länder (Hesse and Bavaria) that are now governed by a coalition comprising the CDU or CSU and the FDP. Current opinion polls suggest that the state of Hesse might usher in a new SPD/Green coalition government. In the event that the SPD and the Greens win the federal election, an SPD/Green coalition could count on comfortable majorities (without the need of support by the Left Party) in both chambers of parliament. Whether they would make better use of these majorities than the CDU/CSU/FDP did at

[8] So far, though, none of the political parties has presented a detailed election manifesto. The information compiled here and in the accompanying tables is based on party convention resolutions and position papers published over the past three years.

the beginning of their term in 2009 remains to be seen, however.[9] The situation would be different under a CDU/SPD (grand) coalition as the CDU and the SPD would not have a majority in the Bundesrat, having to rely instead on FDP and/or Green support. The impact on tax policy would be virtually unpredictable in the case of a grand coalition in particular.

Expect higher tax burdens if SPD/Greens form next government

The reforms being considered by the SPD and the Greens discussed above point towards a significant increase in the tax burden – also for corporates (estimates for the SPD plans look for the total added burden to reach as much as EUR 30-40 bn p.a.). However, the structure of business in Germany (with its large share of partnerships) means that a distinction needs to be made between the corporate level and the shareholder level. After all, the measures sought by the current opposition parties would not have an equal impact on the two levels. There would be tangible additional burdens on shareholders in particular, that is in the taxation of natural persons – this would primarily result not only from the proposed increase in the peak tax rate, but also from an increase in the rate for the final withholding tax on investment income (SPD: to 32%; Greens: abolition of the same while introducing a partial income method and abolishing tax exemptions on corporates' realised capital gains). At the corporate level and thus for joint-stock corporations in particular there would be less of an additional burden. It would result mainly from the plan to increase the taxation of capital (wealth tax and a broadening of additions to financing charges [like interest payments and rents] in the case of trade tax).

Corporate tax measures being discussed by the SPD

— Introduction of wealth tax (1% rate for natural persons and legal entities, declining-balance exemption of EUR 2 m)
— Increase in additions to trade tax including broadening of scope to include freelancers and the self-employed
— Inheritance tax reform (with revenue increase)
— Property tax reform
— Raising of final withholding tax on investment income to 32%
— Abolition of tax exemption for REITS
— Limitation on deductibility of executive compensation (EUR 500,000)
— Raising of peak tax rate to 49% from EUR 100,000 income threshold (also: progression zone between EUR 64,000 and EUR 100,000)
— Introduction of financial transaction tax
— Reduction of subsidies (e.g. aviation fuel)
— Improve tax environment for research funding
— Improved depreciation scope (accelerated depreciation schedules)
— Introduction of common consolidated corporate tax base

Corporate tax measures being discussed by the Greens

— Increase in additions to trade tax including broadening of scope to include freelancers and the self-employed
— Funding neutrality
— Efforts to combat tax flight and avoidance
— Introduction of harmonised tax base and minimum tax rates in Europe
— Call to rescind tax exemption on realised capital gains at the corporate level
— Peak tax rate of 49% from taxable income threshold of EUR 80,000
— One-off wealth levy to be spread over 10 years
— Abolition of final withholding tax on investment income and introduction of partial income method
— Tax credit for R&D expenditure
— Reform of limits (i.e. increased limits) on the tax deductibility of paid interest (“Zinsschranke” – earning stripping rule)
— Reform and doubling of inheritance tax
— Introduction of tax-exempt retained earnings for SMEs
— Property tax reform
— Limitation on deductibility of salaries as operating expense to a maximum of EUR 500,000 p.a.

[9] In 2009, the CDU/CSU and the FDP enjoyed majorities in the Bundestag and the Bundesrat – however, they did not launch major legislation in the area of tax policy.

As things stand today, it is difficult to estimate the scope of potential additional burdens, since detailed proposals do not exist for all the tax possibilities envisioned. The specific additional burdens hinge, furthermore, not only on the size of the company in question but also on the international links between (group) companies, so blanket changes in taxation can only be summed up with difficulty. Model calculations for the SPD plans suggest that additional burdens at the company level (SMEs) will be between 8% and 10% higher than the 2011 tax load.[10] At the shareholder level the tax load would rise even more (over 20%). Regarding the specific business structure medium-sized companies could be worst affected.

Wealth tax

To make things simpler we shall assume for a given period that at the beginning of said period an investment of 100 units is made. Given a wealth tax rate of 1% at the beginning of this period, the tax burden works out at 1 unit. With a return on investment of 2 (=2%), the 1% wealth tax rate equals a charge on current earnings/income (e.g. an income tax) of 50%. With a return on investment of 4, the charge on earnings falls to 25%. This clearly shows the earnings dependency.

Assuming that the current earnings are subject to a charge of 30% (as for example for joint-stock corporations in Germany via corporation tax plus trade tax) the total charge on the investment returns (from which the taxes have to be generated so that wealth assets do not have to be disposed of) increases to 55% (30% plus 25% = 55% = [1+1.2]/4) on a return of 4 and a wealth tax of 1%. This would obviously not be very conducive to growth.

For more details see Hey, Maiterth and Houben (2012).

The possible introduction of a wealth tax is a major unknown quantity in this regard, though. From the standpoint of a company or an entrepreneur, the key issue is the extent to which it would be possible to exempt company assets from wealth tax (SPD) or grant them preferential tax treatment (Greens). As desirable as such an intention in the context of such a tax may be, it is just as doubtful whether this could work in the first place. After all, the separation of company and personal assets is already one of the particularly "hot" issues in the debate currently raging between taxpayers and tax administrations and in the fiscal courts. With regard to inheritance tax it emerges in addition that extensive relief arrangements trigger constitutional issues. The biggest problem related to wealth tax is and remains, however, the valuation aspect, that is, how does one find a method that can suitably – and in as standardised a way as possible – take stock of real assets (this is currently also a matter of intensive debate in the context of property tax reform) in order to limit the huge expense of gathering the respective data.

The fact is that a re-introduction of the wealth tax would significantly raise the tax load on capital and corporate assets (the SPD proposal[11] provides that in principle legal entities would also be liable to the tax, so corporate profits would be impacted too) and would lead to a problematic taxation of capital (wealth tax as a tax on projected earnings) – this applies in particular during phases of cyclical slowdowns. In this event, the marginal tax burden would depend on the return generated[12]. This means that low-yielding investments would bear a heavier burden – in the current interest rate environment this would probably hit many companies especially hard and/or trigger relocation trends. The numerical example to the left illustrates the problem and highlights how little a wealth tax would be conducive to growth.

Implementation of tax reforms not before H2 2014 at the earliest

Even if there is a change of government and an SPD/Green coalition comes to power, reasons of legislative technique[13] suggest that the tax objectives pursued by the SPD and the Greens could not be implemented until the second half of the year 2014 at the earliest (wider reforms like a wealth tax rather in early 2015). Moreover, the already long-debated issue of property tax reform – whose constitutionality has recently been seriously called into question – could also contribute towards further exacerbation of the tax load at the company level. In the possible event of a changeover to more up-to-date market value readings for the tax base it cannot be ruled out that property taxes might also be

[10] See Spengel & Evers (2012). Steuerpolitische Programme der Bundestagsparteien. Der Betrieb. Vol. 13, p. 705ff.
[11] Draft put forward by the Länder Rhineland-Palatinate, Baden-Wuerttemberg, Hamburg and North Rhine-Westphalia.
[12] See Hey, Maiterth and Houben (2012). Zukunft der Vermögenbesteuerung. IFSt No. 483.
[13] The 2014 budget will first be fully drafted by the current government. Experience tells us that with a change of government in autumn of election year and with the passage of time until a new government is formed, there remains relatively little time to make major amendments to the budget for the following year.

increased. Several different models are already being discussed at present. For shareholders there is also the prospect of higher inheritance tax on the horizon, since there are signs that the preferential treatment of company assets might likewise be declared unconstitutional and, besides, the SPD and the Greens would like to raise this tax (Greens want to double the revenue generated).

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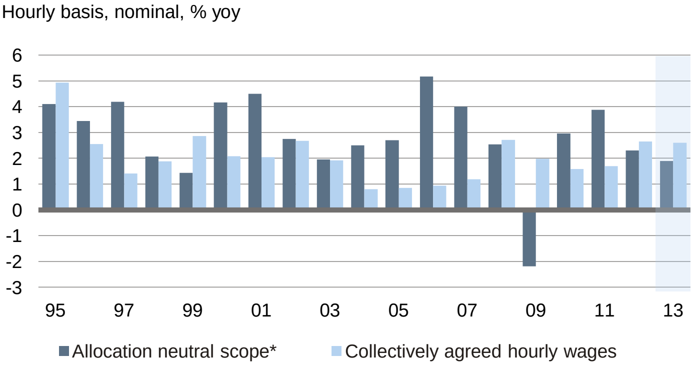
Chart of the month

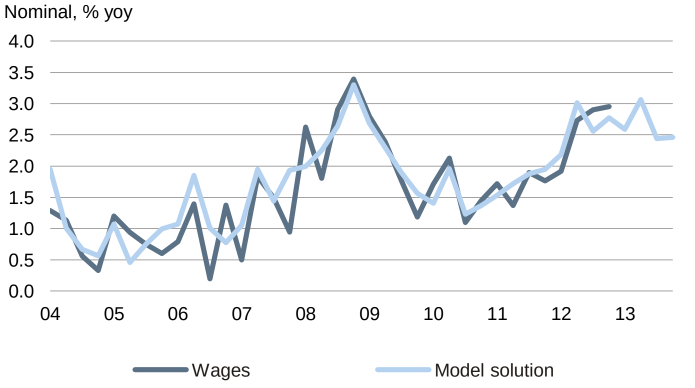
Collectively agreed wages and the allocation neutral scope



* Inflation rate + productivity growth

Sources: Federal Statistical Office, DB Research

Collectively agreed hourly wages: Forecast and actual data



Sources: Deutsche Bundesbank, Federal Statistical Office, DB Research

Pay rise of slightly over 2 ½% in 2013 as well

The first round in the 2013 wage negotiations has now begun. The public-sector employees of the federal states demand a pay rise of 6.5%. Other pay demands are hardly lower, either. At the same time, the Bundesbank has warned of overly high wage agreements which could jeopardise the continuing increase in employment.

Last year as well, many pay demands exceeded 6%. True, the full effects of the collective bargaining agreements will not make themselves felt until this year, especially as many pay rises were only agreed in the course of last year. However, at 2.7% in the economy on average, the increase in hourly wages in 2012 lagged behind demands as usual.

According to our model, the collectively agreed hourly wages will rise by a good 2 ½% in 2013 and thus roughly to the same extent as in the previous year (2012 nominal: +2.6%; real: +0.6%).[14] The calculation takes into consideration the core inflation and the productivity growth of the last two years, as well as the unemployment rate forecast for the current year. The forecast is roughly unchanged in a year-on-year comparison because the slightly higher core inflation was more or less offset by the fall in productivity due to the 2012 growth dip. The unemployment rate hardly has an effect as we expect it to be roughly unchanged in 2013.

Taking this result as a basis, the allocation-neutral scope should be exceeded for the second time in a row in 2013 as productivity will probably rise only little and inflation is likely to weaken.[15] The allocation-neutral scope (sum of productivity growth and inflation rate) indicates which wage increase is possible without worsening companies' profitability from the cost side – which could have employment effects. For this reason the Bundesbank's warning is not unjustified, especially if the moderate "exceeding" of the years 2012/13 should become a rising trend.

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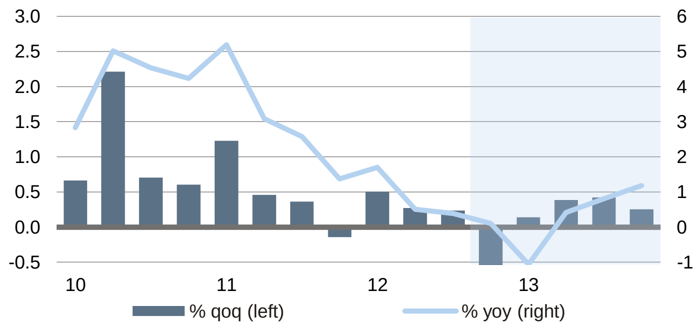
[14] For details on the models used see Current Issues No 523: Germany: No longer the island of the blessed. August 23, 2011

[15] The non-exhausting of the scope in 2010 and 2011 was still a repercussion of the labour hoarding in the crisis year 2009 in which the scope was exceeded by far.

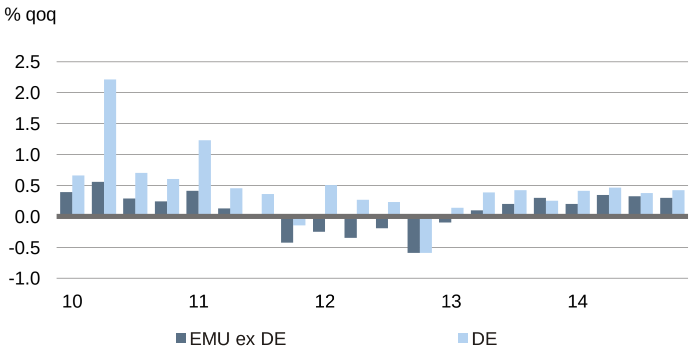
Chartbook: Business cycle (1)

Real GDP growth



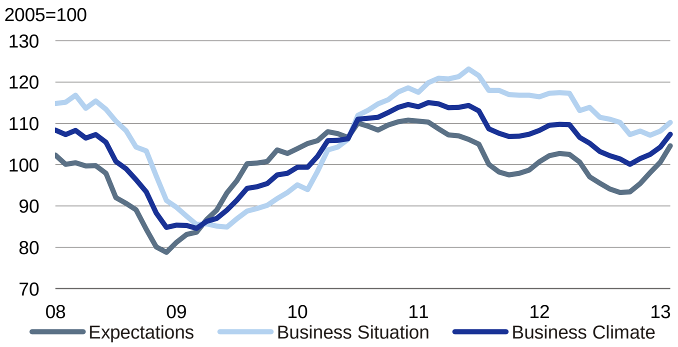
Sources: Federal Statistical Office, DB Research

GDP growth: DE vs EMU



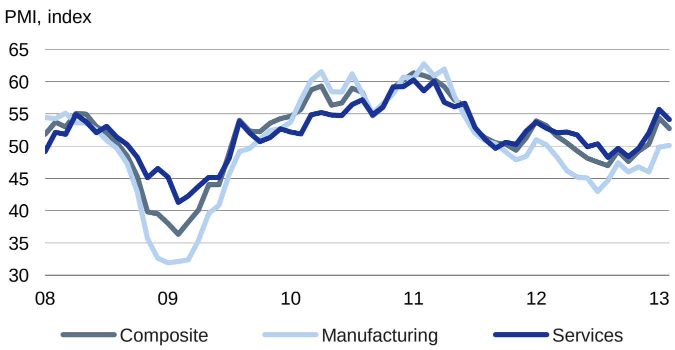
Source: Eurostat

Ifo index - total economy



Source: ifo

Purchasing manager index



Source: Markit

— At +0.7% GDP growth was much lower in 2012 compared to 2011 (+3.0%). In addition, growth slowed strongly during the year from +0.5% qoq in Q1 2012 to -0.6% qoq in the last quarter.

— Strong exports especially in the first half of the year and to a lesser extend consumption contributed positively to overall growth. Investment in machinery & equipment as well as construction were a drag on growth.

— Increases in the ifo index and somewhat higher growth in China point towards a recovery in Germany in spring. Due to the weak winter half our forecast for 2013 GDP growth is ¼%.

— Despite weakening GDP growth the German economy fared fairly well compared to other EMU countries which experienced stagnation or even negative growth.

— Considering the remaining adjustment needs in several EMU countries the EMU economy should remain in recession until early 2013 and set out on a very low growth trajectory thereafter. On average EMU GDP should decline by 0.5% in 2012 and 0.3% in 2013.

— The ifo index delivered a positive surprise again in Feb. After increases in the previous three months were driven primarily by better expectations the assessment of the current situation also improved substantially in Feb. Accordingly a technical recession should be avoided. *We expect a small positive GDP growth rate in Q1.*

— Manufacturing and construction companies were the main drivers of the ifo's fourth consecutive rise.

— A warning: This is reminiscent of early 2012, when better sentiment did not show up in yoy growth rates of industrial production and was later reversed.

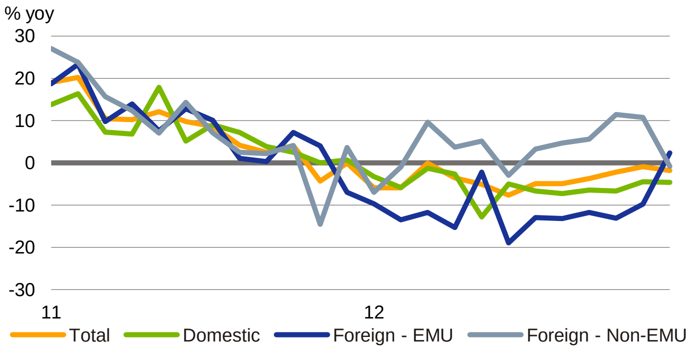
— The manufacturing PMI at 50.1 rose above the growth threshold of 50 in Feb., the first time since Feb. 2012. The marked increase of foreign orders (due to Asian demand) drove up total orders despite domestic orders remaining weak.

— The manuf. sector's recovery is likely to remain muted in Q1 as the PMI output component remained low.

— The services PMI remained in expansion mode despite falling modestly. While the order intake normalised, business expectations rose substantially.

Chartbook: Business cycle (2)

New manufacturing orders



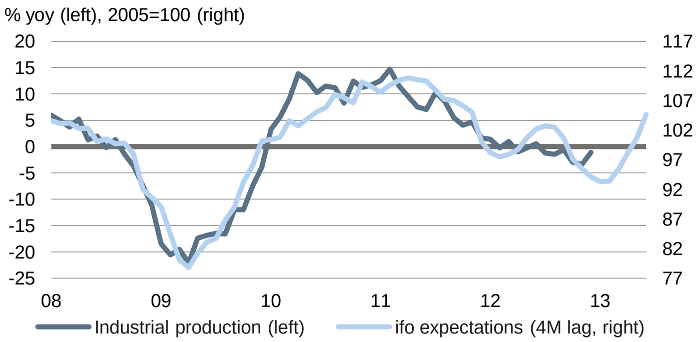
Source: Federal Statistical Office

— Demand for German goods seems to have stabilised at the end of 2012. Core orders (excl. e.g. airplanes and trains) rose slightly in Q4 after heavy losses in Q3.

— Including the volatile big ticket orders new orders rose by 0.8% in Dec. after falling 1.8% in Nov. and +3.9% in Oct.

— Compared to the previous year the order level is still down by more than 1% (two months average). Somewhat improved sentiment and slightly faster growth in China suggests that orders could improve gradually in the next few months.

Industrial production and ifo expectations



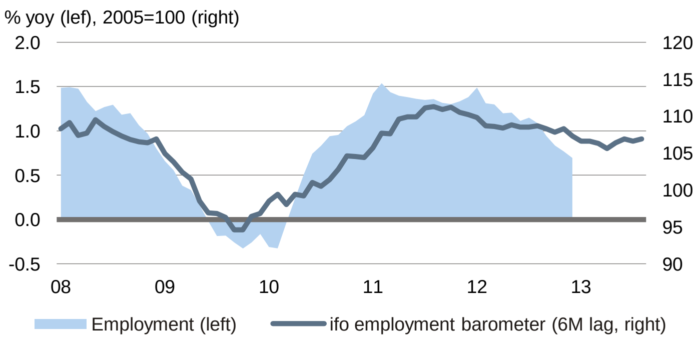
Sources: ifo, Federal Statistical Office

— Industrial production slumped in Q4 2012. Despite a small plus of 0.3% month-on-month in Dec. output decreased by a good 3% in Q4 – mainly due to weakness in Oct./Nov.

— The Q4 weakness was most pronounced for investment goods (-4.4%) and the automotive sector (-8%). Construction output fell strongly too (-2.9%) due to a slump in December.

— Sentiment as well as new orders point to subdued output trend going into Q1 with only modest monthly gains.

Employment and ifo employment baromter

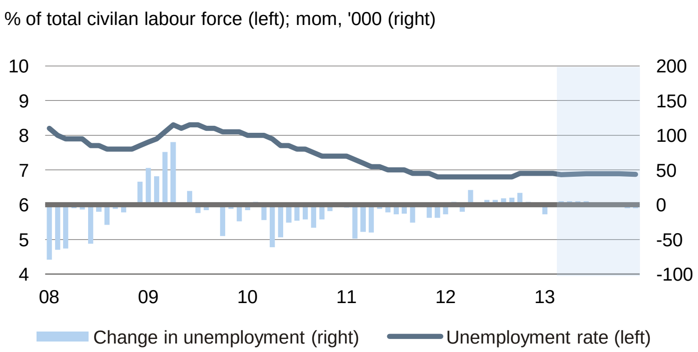


Sources: ifo, Federal Employment Agency

— The number of employed persons is still 0.6% higher than a year ago in Jan and with 41.4 m it hovers near a historic high. The level of employees subject to social security payments is up 1.2% yoy.

— Employment growth tapered off in 2012. While employment grew by 30,000 per month on average in H1, there was only an increase of 15,000 in H2. After falling in Sep/Oct 2012, employment grew again on average by 28,000 in the last 3 months.

Unemployment



Sources: Federal Employment Agency, DB Research

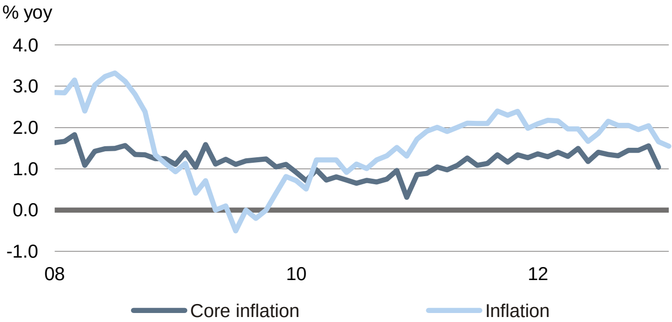
— The labour market started good into 2013. After starting to increase in H2 2012 (on average by 8,000 per month), the number of unemployed persons fell again slightly in the last three month. The unemployment rate remained constant at 6.9% in February.

— Early indicators – ifo, PMI, BA-X – point to a robust labour market in the coming months. Starting in Q2/Q3 the labour market should improve again.

— The unemployment rate should average 6.9% in 2013, only slightly higher than in 2012 (6.8%).

Chartbook: Business cycle (3)

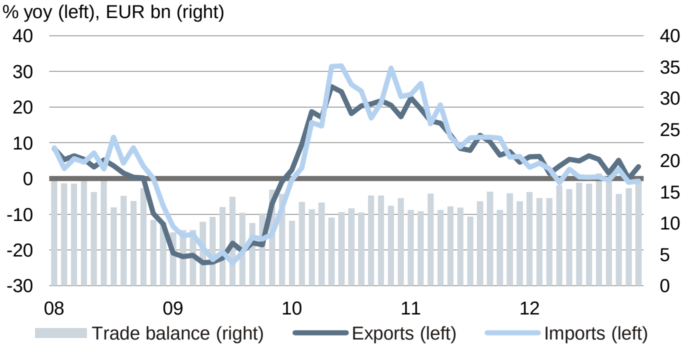
Inflation rate and core inflation rate



Sources: Federal Statistical Office, DB Research

- After averaging 2.0% in 2012 the inflation rate dropped to 1.7% in January and even further to 1.5% in February (preliminary).
- The slowdown in energy and food inflation was likely the main driver of the more muted inflation in February, while the core inflation continued to hover around 1%.
- Considering falling import prices (-0.8% yoy), low producer price inflation and weak growth the inflation rate should remain well below 2% in the next months. We expect it to average 1.7% in 2013.

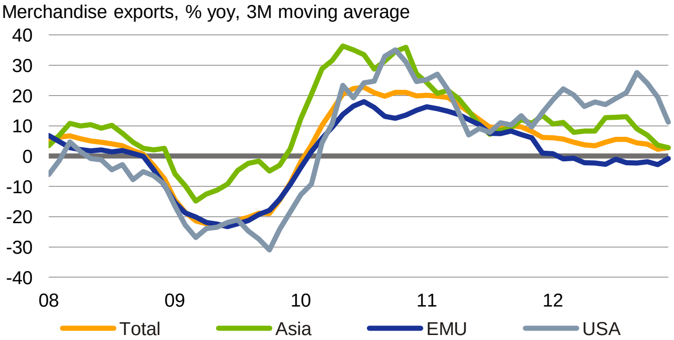
Merchandise trade



Source: Deutsche Bundesbank

- World trade decelerated in 2012. It was up 2.3% (Jan.-Nov.) after 5.8% in 2011. German merchandise exports also slowed in 2012 (+3.4% vs. +11.5% before).
- The year-on-year growth rate was volatile over the last months. The 3-months-average exports were up nearly 3% in December. In January 2012 the growth rate was still above 6%.
- In 2012 the trade balance reached its second highest level (EUR 188 bn or 7.1% of GDP) after 2007. Exports rose by 3.4% while imports increased by only 0.7%.

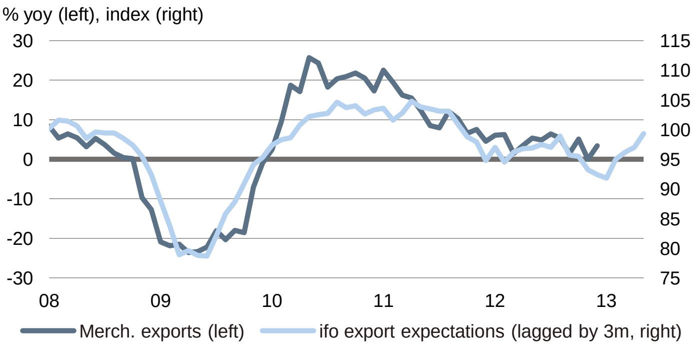
German merchandise exports by destination



Source: Deutsche Bundesbank

- Since the onset of the euro crisis EMU's share in German exports has dropped by almost 10 percentage points to around 38% (Asia 17% and the US 8%).
- In the wake of the euro crisis and the recession in several EMU countries exports to EMU have fallen below their pre-year level.
- So far, exports to Asia and the US have managed to compensate for the declines in exports to EMU, which was mainly due to automobile exports.

Exports & ifo export expectations



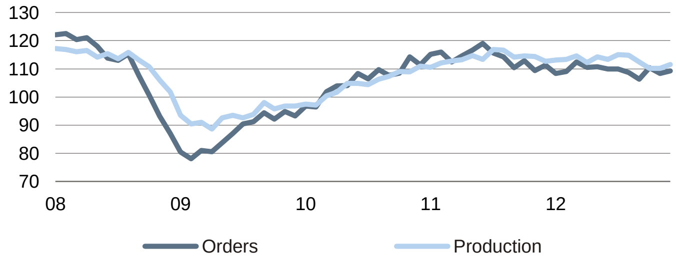
Sources: Deutsche Bundesbank, ifo

- Exports should remain weak at the start of 2013 according to ifo export expectations. Despite significant increases in the last three months the sentiment indicator only exceeded its long-term average in February.
- Imports should remain stable, by comparison, due to the high level of employment and moderate increases in real income.
- The growth contribution from net exports should become negative in the winter half. In Q4 2012 it removed 0.8pp from the quarterly growth rate.

Chartbook: Sectors

Manufacturing: Output and order intake

2005=100, sa



Source: Federal Statistical Office

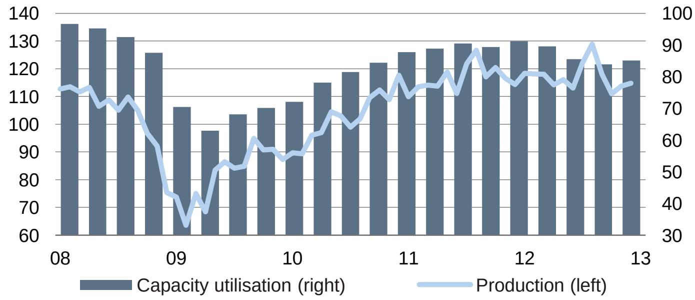
— After marked decreases in Q3 2012 industrial output has stabilised in Q4 2012. Output declined by 1.3% in real terms in 2012. We believe that industrial output is likely to stagnate in 2013.

— Order intake in 2012 was 6% below the level 2011. Orders from other European countries, in particular, have declined markedly, while orders from outside Europe are still supportive.

— Risks to manufacturing activity stem from a continuing economic downturn in major export markets.

Car industry: Output and capacity utilisation

2005=100, sa (left), capacity utilisation % (right)



Sources: Federal Statistical Office, ifo

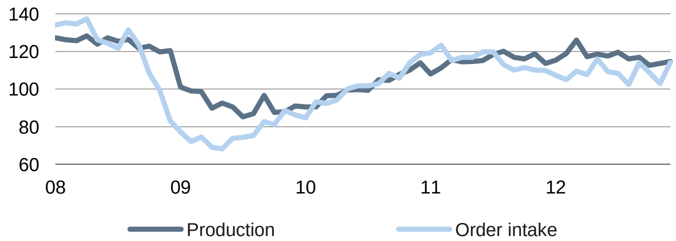
— In Q4 2012 production level in the automotive industry was well below the average of 2012. Output stagnated last year.

— Business expectations have improved for three months in a row recently. On average companies' expectations turned positive in February. Capacity utilisation in the automotive industry has stabilised in Q1 2013.

— Also on account of the statistical underhang we expect output in the automotive industry to fall by 2% in real terms in 2013.

Mechanical engineering: Order intake and output

2005=100, sa



Source: Federal Statistical Office

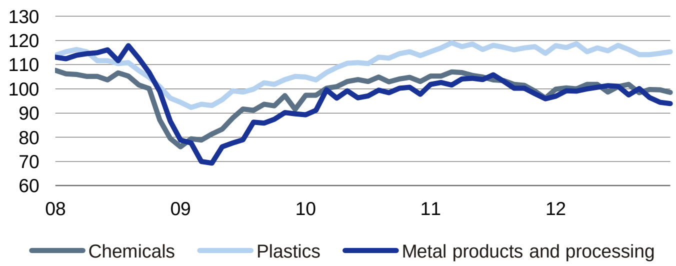
— With the ongoing depletion of order-books in the course of 2012, production momentum in mechanical engineering has slowed. Still, full-year output rose by 1%.

— Order intakes in the mechanical engineering industry have sent mixed signals over the last few months. A gradual stabilisation of the euro area and accelerating growth in Asia could support foreign demand in 2013.

— For 2013 as a whole we expect mechanical engineering output to be flat, with output trending upwards in the course of the year as the sector will start 2013 with an underhang.

Production: Early cycle sectors

2005=100, sa



Source: Federal Statistical Office

— The early-cycle sectors currently show little signs of a major growth rebound in 2013.

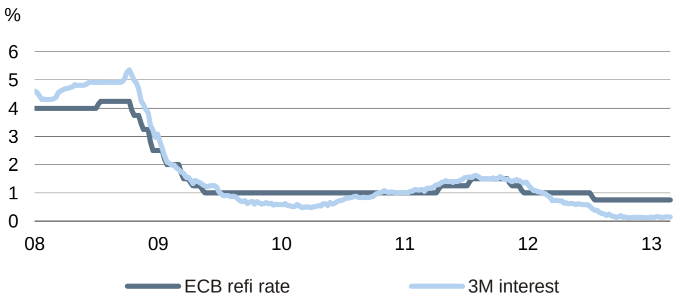
— Over the last few months production in the chemical industry has stabilised. A decline was inevitable in 2012 (-3.6%). In 2013 production should increase by 1.5%.

— Plastics production has stabilised recently and business expectations have improved again of late.

— Output in metal production contracted by 3.6% in 2012, but it could post a marginal increase in 2013.

Chartbook: Financial Markets (1)

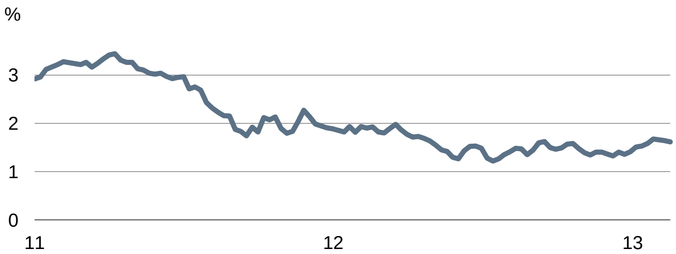
EMU: Refi rate & 3M Interest



Sources: ECB, Global Insight

- The ECB might only cut the refi rate of 0.75% further, if the economy would plummet again or if turbulences in the financial markets would emerge again. The balance sheet reduction of about EUR 347bn since its peak partly due to LTRO repayments could be seen as a first sign for the beginning of the exit from unconventional policy.
- Although it has become less likely recently that a country will apply for an ESM-programme, the ECB stands ready to start the programme of purchasing bonds under strict conditionality (Outright Monetary Transactions, OMT).
- The costs of secured interbank refinancing are at a record low of around 0.15% p.a. (-0.9 pp yoy).

German government bonds: 10Y yields

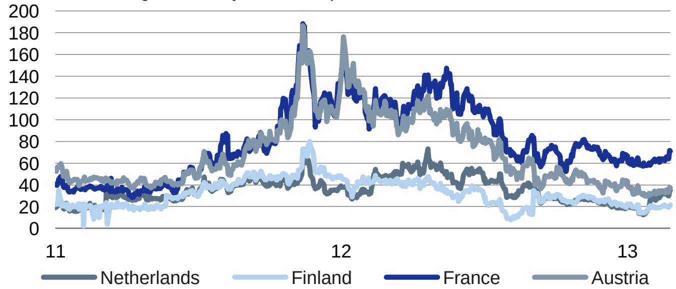


Source: Global Insight

- Indications that the Fed might get second thoughts about its open-ended asset purchase program have resulted in a moderate increase in yields of US treasury bonds at the start of the year.
- Bunds showed a similar development. The yield increased from 1.32 % at the beginning of the year to about 1.50% recently.
- Despite negative real interest rates many investors favour the “safe haven” of Germany – one of the few countries with an AAA-rating in Europe.

EMU: Bond yield spreads

Versus German govt. bond yield, basis points

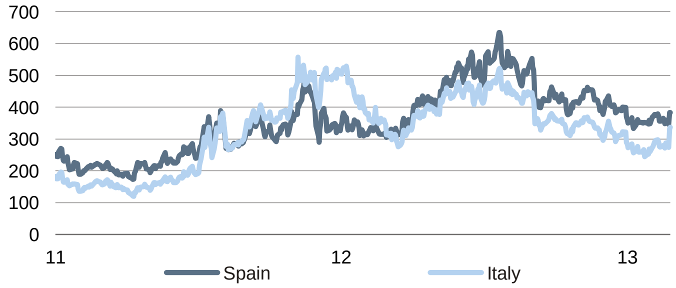


Source: Global Insight

- Intra-EMU bond yield spreads have declined markedly since the announcement by ECB president Draghi that the ECB is ready to do whatever it takes to preserve the euro (26 July) and the clear political commitment – especially by the German government – to hold the Eurozone together.
- In addition Draghi highlighted the stabilisation of bank deposits in peripheral regions, private capital inflows from abroad and the reduction of Target2 imbalances as further signs for defragmentation.

EMU: Bond yield spreads

Versus German govt. bond yield, basis points

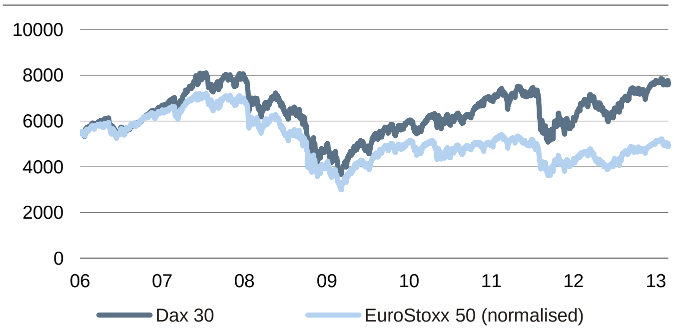


Source: Global Insight

- The yield spreads of Italian and Spanish government bonds were the most sensitive to the prospect of ECB interventions (OMT).
- Since the beginning of September they fell by about 200 and around 280 for Spain and Italy, respectively.
- At the short end (3Y) – the focus of the bond purchasing programme – yield spreads fell by around 40% in Spain and roughly halved in Italy.
- Recently, the political limbo in Italy after the elections created mounting yields.

Chartbook: Financial Markets (2)

Equity indices



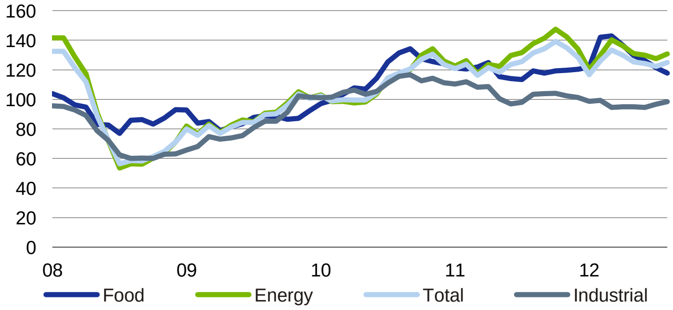
Sources: Global Insight, DB Research

— Currently, the Dax stands at around 7,650 points. The more optimistic assessment of the euro debt crisis sent the Dax rising further, not least because of a lack of investment alternatives in the German bond market due to negative real interest rates. The difference between dividend and bond yields is currently at a 35-year high. Recently, there were ups and downs especially after the election in Italy.

— Since the beginning of the debt crisis the Dax has performed considerably better than European equities. Earnings downgrades for 2013/14 have tapered off recently. Our equity strategists have a 2013 year-end target of 8000 for the DAX and 315 for the Stoxx600.

Raw material prices

HWWI index, 2010=100, based on EUR



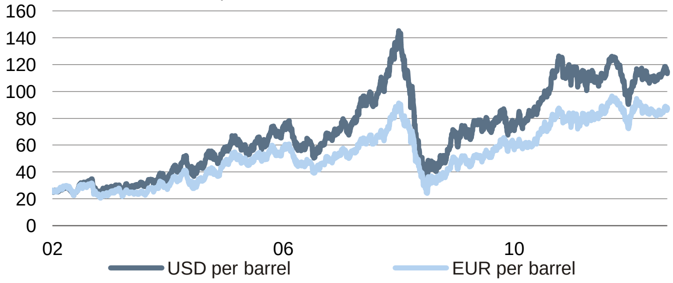
Source: HWWI

— Raw material prices – in particular industrial and energy raw material prices – will probably increase modestly due to a stronger growth in China – the largest importer of raw materials – and a sluggish economic recovery in the industrial countries.

— Food prices increased markedly in Q3 2012 due to droughts (in the US and Eastern Europe for example) and fell markedly again, recently. In January prices are still around 20% below the last year's peak.

Oil price

Brent Blend, USD or EUR per barrel



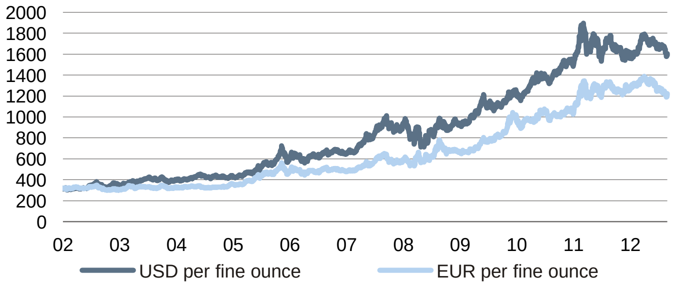
Sources: Global Insight, Reuters, DB Research

— Following a weak winter half year, oil demand should increase in H2 2013 thanks to the recovery of the global economy. Additionally, supply-side factors (e.g. geopolitical risks, Iran) provide some upside risks.

— Overall, oil prices should hover around its actual level. Our commodities analysts expect an oil price of USD 115 per barrel Brent at the end of 2013.

Gold price

USD or EUR per fine ounce



Sources: Global Insight, Reuters, DB Research

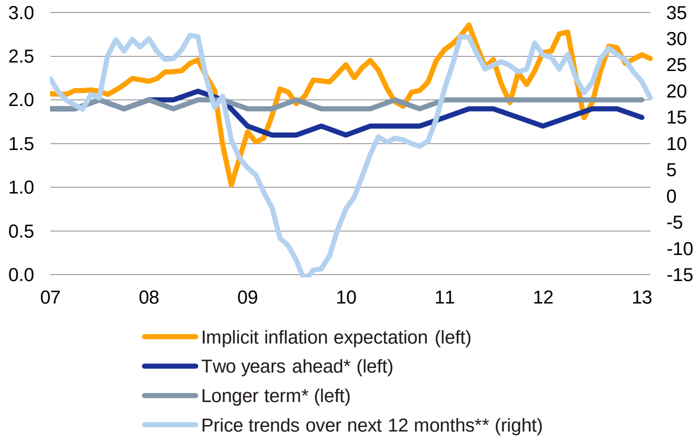
— The gold price should increase in the course of 2013 thanks to negative real interest rates, a weaker USD and gold purchases of central banks diversifying their currency reserves.

— Our commodities analysts expect a gold price of USD 2,000 per fine ounce at the end of the year. Currently, the gold price stands at around USD 1,590 per fine ounce.

Chartbook: Financial Markets (3)

Inflation expectations Eurozone

% yoy (left), balance of pos. u. neg. responses (right)

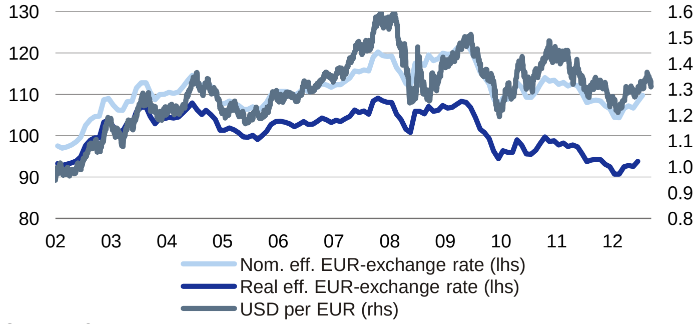


* ECB Survey of Professional Forecasters, ** EC Consumer Survey

Sources: ECB, EU Commission, Bloomberg

Exchange rate development for the EUR

1999Q1=100 (left), USD per EUR (right)



Sources: ECB, Reuters

— Contrary to lingering inflation concerns in the general public the private forecasters of the ECB survey expect no increase of the EMU inflation rate. Recently, the expectation for the inflation rate in 2 years fell slighly to 1.8% and remained stable at 2.0% for the inflation rate in 5 years.

— The implied inflation rate for the next 10 years – calculated as the difference between the yield of 10-year German government bonds and the yield of inflation-protected bonds – hovers between 2 and 2 ½% since the beginning of 2011.

— However, the “implicit inflation expectation” may be biased. On the one hand the current negative real interest rate earned on an inflation protected bond is hard to reconcile with economic considerations. On the other hand nominal bond yields are depressed by massive purchases of several major central banks and still persistent flight to quality.

— Since the end of July 2012 the EUR appreciated against the USD by 10% and now stands at EUR/USD 1.31. This comes as a result of a markedly lower tail risk of an EMU break-up which reduced the capital flight from EMU, improvement of the EMU current account balance, more expansive monetary policy of the Fed relative to the ECB and the uncertainty in the USA about the solution to reduce the fiscal deficits.

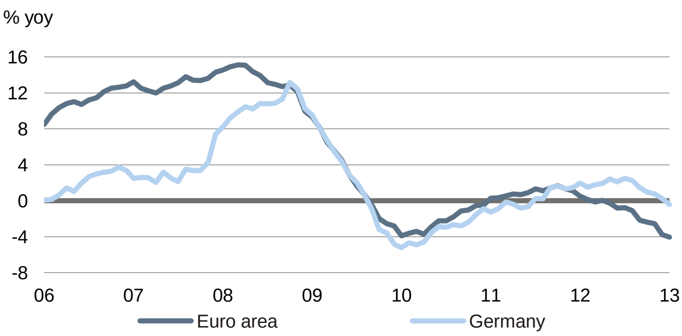
— Contrary to the Fed, the ECB is already shrinking its balance sheet. The repayment of LTRO liquidity will speed up the balance sheet reduction resulting in upward pressure on the EUR

— Our FX strategists expect a EUR/USD exchange rate of 1.35 in 3 months.

— The USD should strengthen in H2 2013 due to the higher growth rate of the US economy of around 3%. According to our FX strategists the USD will probably appreciate to EUR/USD 1.30 in 6 month. Additionally the evolving shale gas revolution might have a mitigating effect on the US current account deficit in the medium term.

Chartbook: Financial Markets (4)

Loans to companies



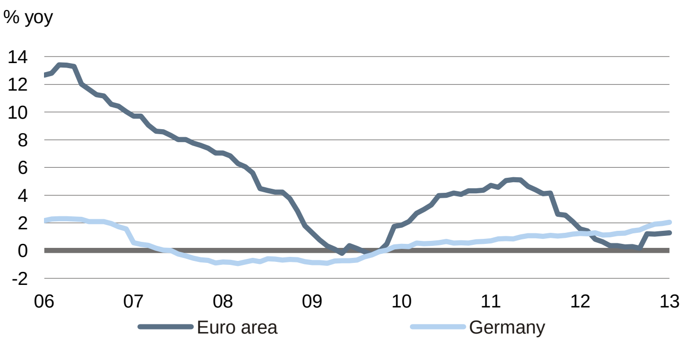
Sources: ECB, DB Research

— The pace of growth in lending to German corporates lost further momentum in the last quarter of 2012 and fell to -0.4% yoy in January (provisional value).

— While corporate lending in Germany is still more expansive than in the euro area as a whole, the slowdown in the economy clearly takes its toll on lending volumes. In addition, borrowings are partly substituted by corporate bond issuance.

— Contraction of corporate lending in the euro area (-4.1% yoy) shows a further acceleration in January – mainly reflecting the bleak macroeconomic situation and ongoing deleveraging process in countries strongly affected by the crisis.

Mortgage volumes



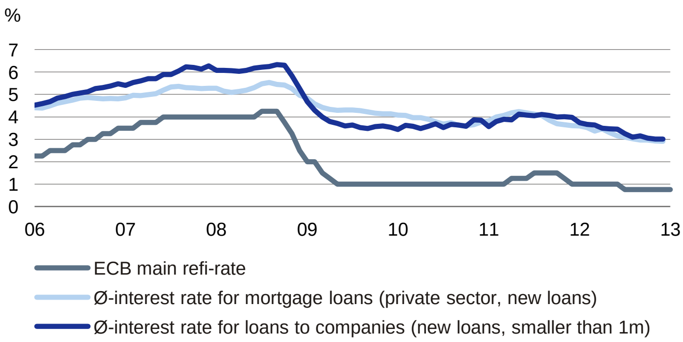
Sources: ECB, DB Research

— The second half of 2012 saw a slight increase in mortgage lending growth in Germany; in January: mortgage growth at 2% reached almost pre-crisis levels.

— Low interest rate levels and a partly buoyant housing market have so far had a limited effect on credit demand in Germany as real estate purchases are in part financed through a reallocation of existing capital.

— Still, German mortgage growth is above the euro area average; the recent spike in the euro area yoy-rate is mainly due to a drop in second half 2011 (basis effect).

Interest rates



Sources: ECB, Bundesbank

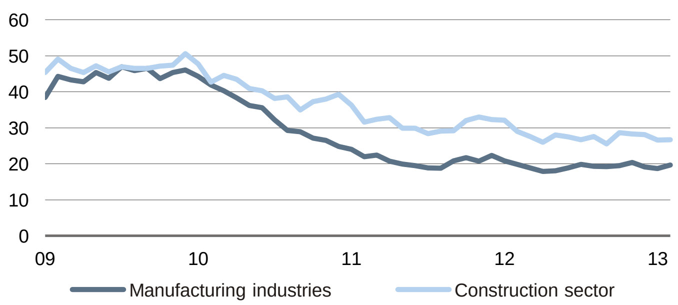
— In December, interest rates for mortgages and loans to corporates fell to record lows since the introduction of the interest rate statistics in 2003.

— Since November 2011, lending rates in Germany have continuously fallen, in line with the lowering of the ECB's refinancing rate.

— The generally low interest rate environment has allowed banks to refinance themselves at relatively low cost, which they partly passed on to clients.

Lending standards

Share of companies that consider lending policies "restrictive" (in %)



Source: ifo

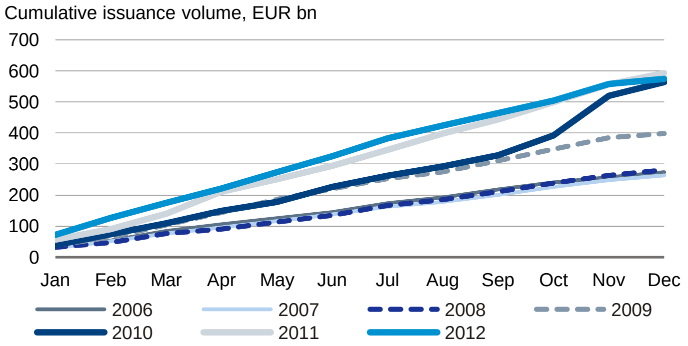
— Corporates on average saw no problem with credit supply.

— Slight increase in the share of corporates that consider lending policies "restrictive". For manufacturing industries +1 ppt and construction sector +0.1 ppt compared to previous month.

— In historical comparison, rather accommodating lending standards for the construction sector as well as for the manufacturing industries.

Chartbook: Financial Markets (5)

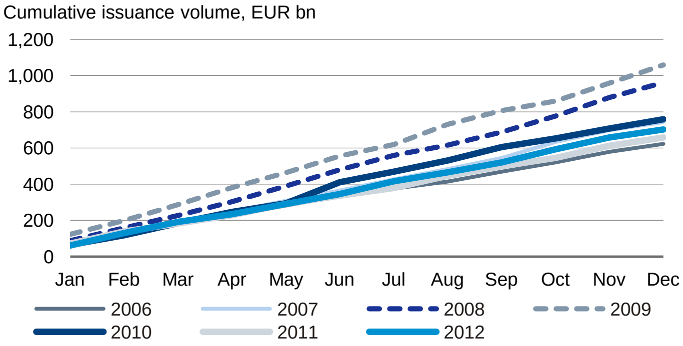
Issuance of public debt securities



Sources: Bundesbank, DB Research

- Until December 2012, cumulated issuance of debt securities by the public sector in Germany at EUR 575 bn slightly below pre-year levels (-3% compared to previous year).
- Weak issuance activity in December, as financing demand had largely been met by this time.
- In 2012, overall shift in issuance volume: Germany's Länder in total have issued more, whereas the federal government has issued less than in the previous year.
- Overall debt servicing costs relative to GDP decreased as a result of favourable interest rates for the German sovereign.

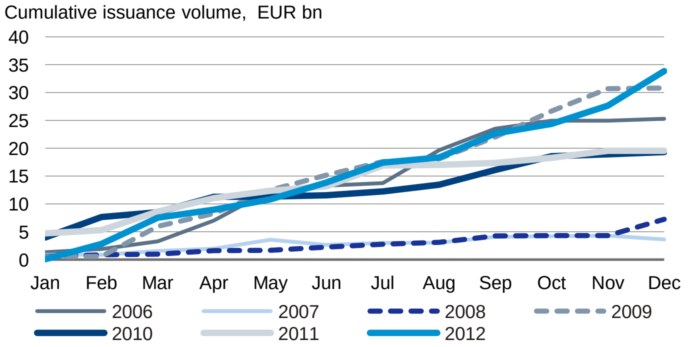
Bank debt issuance



Sources: Bundesbank, DB Research

- Issuance volume of debt securities by banks in Germany has reached EUR 703 bn by the end of December; 6.7% above pre-year value.
- Rather stable refinancing conditions of German banks compared to other euro area countries; low dependence on ECB credit.
- Over several years, issuance volume of German covered bonds (Pfandbriefe) and traditional bank bonds declined in relative terms; overall volume growth, however, was driven almost entirely by issuance of public sector promotional banks.

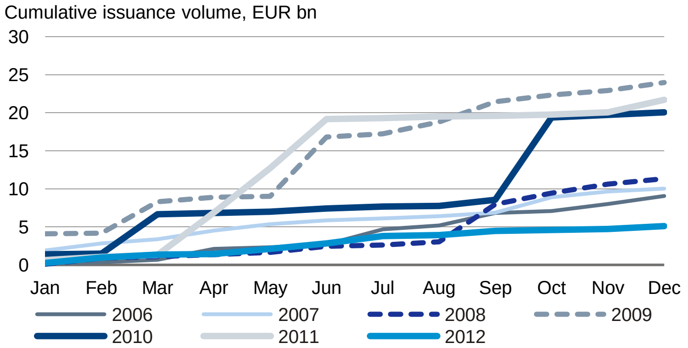
Non-bank corporate debt issuance



Sources: Bundesbank, DB Research

- By the end of December, debt issuance by non-bank corporates reached EUR 33.8 bn, a record value since the start of the statistics in 2006. Issuance has further accelerated in December (EUR 6.2 bn).
- Continuously positive environment for corporate bond issuance: low interest rate levels, low risk premia and a search for yield by investors.
- Currently, the market for corporate bonds grows faster than that for corporate lending.

Equity issuance



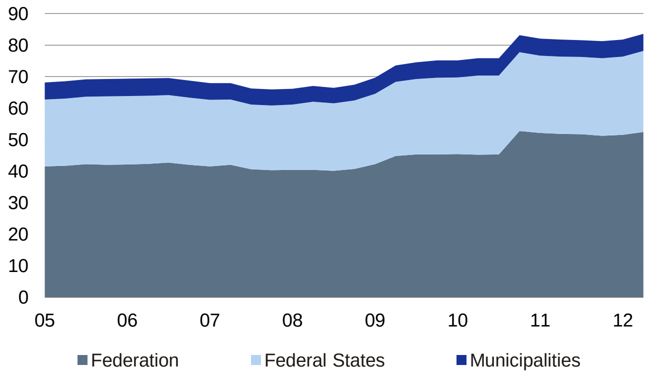
Sources: Bundesbank, DB Research

- Equity issuance in Germany until December with EUR 5.1 bn rather weak compared to the 2011 pre-year value of EUR 21 bn.
- The quite buoyant development of German equity markets in 2012 has not been able to stimulate IPOs. Still, a slight pick-up of issuance by the mid of the year.
- The statistics provides a somewhat negatively distorted picture, since going public of Talanx and Telefonica Germany is not reflected in the data (no fresh issuance of shares).

Chartbook: Economic policy

General government debt

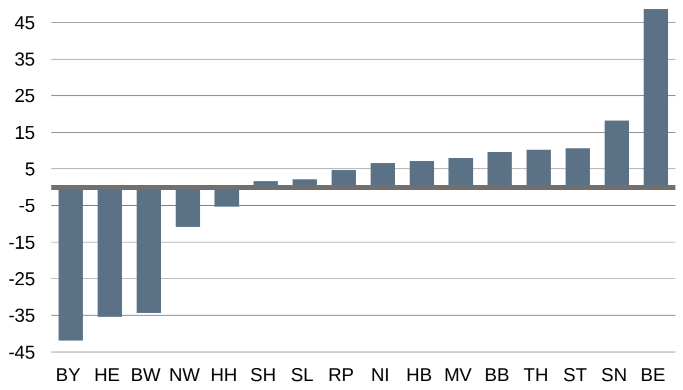
% of GDP, Maastricht-Figures, end of quarter



Sources: Deutsche Bundesbank, DB Research

Fiscal equalisation system between Federal States

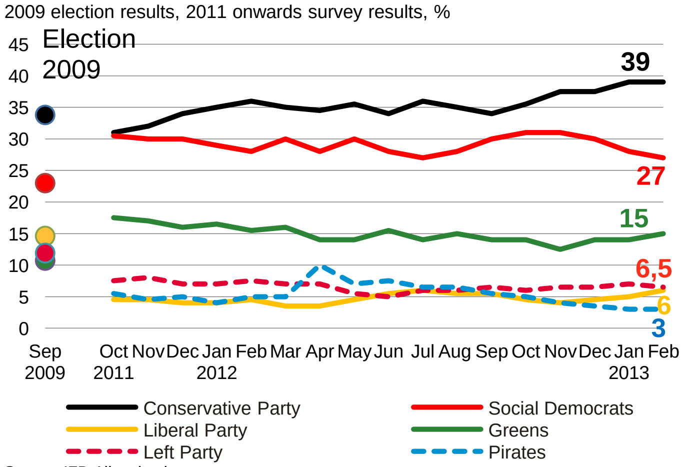
1995-2012, received (+) and disboursed, payments EUR bn, cumulated, 2011 und 2012 preliminary figures



Sources: DB Reasearch, BMF

Deutscher Bundestag, if there were elections tomorrow

2009 election results, 2011 onwards survey results, %



Source: IFD Allensbach

— By the end of 2010, Germany´s overall debt-to-GDP-ratio had jumped to nearly 83% of GDP. Almost 13% of the increase can be explained by the assistance measures for financial institutions and the Euro area.

— Thanks to steadily growing GDP and redemption/sales of (financial) assets the debt-to-GDP-ratio fell back to just above 81% by the end of Q1 2012. Given the redemption/sales of assets and (at least temporarily) new assets in context of the Erste Abwicklungsanstalt (former WestLB bad bank) first estimates show that the debt-to-GDP-ratio raised to round about 82% by the end of 2012. Therefore increased debt-to-GDP ratio is primarily because of growing Länder debt (especially in North-Rhine Westphalia).

— Financial solidarity in Germany manifests itself in the close financial integration of the Federation and its constituent federal states (Länder), with tax revenues being distributed between them in a complex, multi-level system. The core of the cross-links is the actual fiscal equalisation system (*Länderfinanzausgleich*) which takes account of the differences in revenue-generating capacity. This results in a genuine redistribution of revenues between the Länder.

— Since 2012, only three Länder (BY, HE and BW) have paid into the system, whereas all the other Länder have been recipients. This imbalance and the fact that the strongly redistributive character of the system fails to reward virtually any proprietary efforts to restructure budgets have prompted BY and HE to relaunch a complaint with the Federal Constitutional Court – the outcome is completely up in the air, however. Nevertheless, by 2020 the entire equalisation system including the Solidarity Pact for east Germany will have to be revisited. Even though the argumentation on content is valid, the timing is partly due to the upcoming election dates (autumn 2013) in the donor Länder.

— Under Angela Merkel the CDU has consolidated its position in most polling institutes' surveys at around 40%. The FDP is now fluctuating around the 5% hurdle. Combined, these parties are polling neck-and-neck with the SPD/Greens on average. Most Germans want Angela Merkel returned to office as chancellor, but are less enthusiastic about a sequel to the current CDU/CSU/FDP government. At present, surveys say a CDU/SPD grand coalition (33%) is regarded as Germany's best option – even ahead of SPD/Greens (27%).

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

Date	Event	Remarks
4/5 Mar	ECOFIN and Eurogroup in Brussels	Second review of Greece adjustment programme; second review of Spanish financial sector programme; EDP implications of the Commission winter forecast.
7 Mar	Meeting of the ECB Council, press conference	Review of the monetary policy stance. We do not expect any changes to the main refinancing rate.
14/15 Mar	European Council in Brussels	EU leaders agree on common economic policy principles and reform goals for 2013.
4 Apr	Meeting of the ECB Council, press conference	Review of the monetary policy stance.
11/12 Apr	ECOFIN and Eurogroup in Ireland	Seventh review of Portuguese adjustment programme; ninth review of Irish adjustment programme; stability and growth pact implementation for euro area countries.
18/19 Apr	G20 finance ministers and central bank governors in Washington	Debate on the situation of international financial system.
19/20 Apr	Spring meetings of IMF and World Bank in Washington	
Early May	European Commission	GDP spring 2013 forecast.
2 May	Meeting of the ECB Council in Bratislava	Review of the monetary policy stance.
6 – 8 May	Spring meeting of the Working Group on Tax Revenue Forecasting	We expect a slight reduction of the revenue forecast for 2013 (so far +3%) and 2014/15.
10/11 May	Meeting of G7 Finance Ministers in Buckinghamshire/London	Debate on the ongoing crisis and international economic challenges.
13/14 May	ECOFIN and Eurogroup in Brussels	Economic situation as well as financial and macroeconomic stability developments in the euro area, the Commission's spring forecasts, macro-imbalances procedures - in depth reviews of euro area countries,
22/23 May	European Council - EU leaders' summit.	Informal Summit. Agenda still open.

Source: DB Research

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Germany: Data calendar

Date	Time	Data	Reporting period	DB forecast	Last value
1 Mar 2013	8:00	Retail sales (Index, sa), pch mom	Jan	0.5	-1.6
7 Mar 2013	12:00	New orders manufacturing (Index, sa), pch mom	Jan	1.0	0.8
8 Mar 2013	12:00	Industrial production (Index, sa), pch mom	Jan	0.4	0.3
11 Mar 2013	8:00	Trade balance (EUR bn, sa)	Jan	15.7	17.0
11 Mar 2013	8:00	Merchandise exports (EUR bn, sa), pch mom (yoy)	Jan	0.0 (1.5)	0.3 (3.4)
11 Mar 2013	8:00	Merchandise imports (EUR bn, sa), pch mom (yoy)	Jan	1.8 (0.8)	-1.5 -(0.7)
21 Mar 2013	9:30	Manufacturing PMI (Flash)	Mar	51.0	50.1
21 Mar 2013	9:30	Services PMI (Flash)	Mar	54.0	54.1
22 Mar 2013	10:30	ifo business climate (Index, sa)	Mar	108.5	107.4
28 Mar 2013	8:00	Import prices (Index, sa) pch mom (yoy)	Feb	0.8 -(1.1)	0.1 -(0.8)
28 Mar 2013	10:00	Unemployment rate (%, sa)	Mar	6.9	6.9
2 Apr 2013	14:00	Consumer prices preliminary (Index, sa), pch mom (yoy)	Mar	0.5 (1.5)	0.6 (1.5)
15 May 2013	8:00	Real GDP (Index, sa), % qoq	Q1 2013	0.1	-0.6

Sources: DB 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	0-0.25	0-0.1	0.75	0.50	0.00	1.00	0.30	1.50	3.75	5.25	0.05
3M	0-0.25	0-0.1	0.75	0.50	0.00	1.00	0.30	1.50	3.50	5.25	0.05
6M	0-0.25	0-0.1	0.75	0.50	0.00	1.00	0.40	1.50	3.50	4.75	0.05
12M	0-0.25	0-0.1	0.75	0.50	0.00	1.00	0.50	1.75	3.25	4.50	0.05
3M interest rates, %											
Current	0.31	0.27	0.21	0.51							
3M	0.35	0.30	0.20	0.55							
6M	0.35	0.30	0.20	0.60							
12M	0.35	0.30	0.30	0.70							
10J government bonds yields											
	Yields, %				Spreads vs. EMU, pp						
Current	1.87	0.69	1.43	1.98	-0.74	0.44	0.15	0.96			
3M	2.50	0.80	1.70	2.20	-1.00	0.00	-0.35	0.80			
6M	2.50	0.80	1.90	2.50	-0.90	0.20	-0.25	0.90			
12M	2.50	0.90	2.25	3.10	-0.60	0.55	0.05	1.25			
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	1.31	91.93	0.86	1.51	1.22	8.47	7.46	7.46	4.15	294.93	25.56
3M	1.35	96.00	0.87	1.49	1.25	8.20	7.46	7.30	4.06	280.00	25.20
6M	1.30	98.00	0.86	1.45	1.25	8.10	7.46	7.20	3.96	280.00	25.20
12M	1.20	100.00	0.85	1.41	1.25	8.00	7.46	7.10	3.80	280.00	25.20

Sources: Bloomberg, Deutsche Bank

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German Data Monitor

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Sep 2012	Oct 2012	Nov 2012	Dec 2012	Jan 2013	Feb 2013
Business surveys and output											
Aggregate											
Ifo business climate	109.2	107.2	102.3	101.4		101.4	100.1	101.5	102.5	104.3	107.4
Ifo business expectations	101.9	100.1	94.3	95.6		93.3	93.4	95.4	98.1	100.6	104.6
PMI composite	52.9	49.3	47.9	49.1		49.2	47.7	49.2	50.3	54.4	52.7
Industry											
Ifo manufacturing	104.4	102.5	96.4	95.1		95.6	94.3	94.6	96.3	99.0	102.3
PMI manufacturing	49.9	45.5	45.0	46.3		47.4	46.0	46.8	46.0	49.8	50.1
Headline IP (% pop)	-0.4	0.0	0.9	-3.0		-1.2	-2.0	-0.2	0.3		
Orders (% pop)	-1.1	0.4	-1.9	1.0		-2.2	3.9	-1.8	0.8		
Capacity Utilisation	85.1	84.9	83.7	82.1	82.9						
Construction											
Output (% pop)	-3.7	3.3	1.0	-2.9		2.5	-1.6	1.3	-8.9		
Orders (% pop)	9.2	-5.6	-1.5	2.1		-7.9	22.5	-20.6	0.8		
Ifo construction	123.1	120.0	118.1	117.6		116.7	115.7	118.3	118.8	122.7	127.1
Services											
PMI services	52.9	51.3	49.4	50.0		49.7	48.4	49.7	52.0	55.7	54.1
Consumer demand											
EC consumer survey	-0.3	-1.1	-7.9	-10.0		-10.3	-9.3	-10.2	-10.4	-7.6	-6.4
Retail sales (% pop)	-0.6	0.2	-0.9	-0.8		0.1	-0.8	0.8	-1.6		
New car reg. (% yoy)	1.3	0.2	-7.0	-6.2		-10.9	0.5	-3.5	-16.4	0.0	
Foreign sector											
Foreign orders (% pop)	-0.9	1.1	-1.3	2.4		-2.4	6.4	-4.2	2.4		
Exports (% pop)	1.9	1.7	1.3	-2.0		-2.0	0.0	-2.2	0.3		
Imports (% pop)	1.1	-0.2	0.2	-0.8		-0.8	2.8	-3.8	-1.5		
Net trade (sa EUR bn)	43.1	48.0	51.0	47.3		16.7	14.7	15.6	17.0		
Labour market											
Unemployment rate (%)	6.8	6.8	6.8	6.9		6.8	6.9	6.9	6.9	6.9	6.9
Change in unemployment (k)	-33.7	18.0	21.0	29.0		10.0	17.0	4.0	-1.0	-14.0	-3.0
Employment (% yoy)	1.4	1.2	1.1	0.8		1.0	0.9	0.8	0.7	0.6	
Ifo employment barometer	108.5	107.8	106.5	106.3		106.3	105.6	106.4	106.9	106.6	106.9
Prices, wages and costs											
Prices											
Harmonised CPI (% yoy)	2.4	2.1	2.1	2.0		2.1	2.1	1.9	2.0	1.9	1.8
Core HICP (% yoy)	1.3	1.4	1.2	1.3		1.2	1.2	1.2	1.5	1.1	
Harmonised PPI (% yoy)	3.3	2.0	1.4	1.5		1.7	1.5	1.4	1.5	1.7	
Commodities, ex. Energy (% yoy)	-9.6	-7.8	-4.5	0.7		-6.2	-0.3	1.5	1.1	-3.7	
Oil price (USD)	118.4	108.2	109.7	110.1		113.1	111.8	109.2	109.4	113.1	
Inflation expectations											
EC household survey	28.3	25.0	27.0	31.2		29.3	31.2	31.2	31.2	27.6	26.5
EC industrial survey	10.0	6.4	0.8	2.9		1.1	2.1	2.1	4.6	5.4	3.2
Unit labour cost (% yoy)											
Unit labour cost	2.1	2.9	3.3	3.0							
Compensation	2.3	2.4	2.5	2.7							
Hourly labour costs	1.8	3.2	3.5	4.0							
Money (% yoy)											
M3	6.9	7.0	6.8	6.0		6.8	9.2	8.2	6.0	6.1	
M3 trend (3m cma)						7.9	8.1	7.8	6.8	0.0	
Credit - private	2.1	0.7	0.6	-0.4		0.6	-0.2	-0.6	-0.4		
Credit - public	13.5	22.0	10.4	13.5		10.4	12.1	4.3	13.5		

% 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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