



Focus Germany

German growth after oil, EUR and ECB

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German GDP forecast revised up further: 1.4% growth in 2015. Late last year we raised our GDP forecast for Germany from 0.8% to 1.0% on account of the steep downside correction on expectations for oil prices. We now expect German GDP growth to hit 1.4% in 2015. Reasons: Growth slightly exceeded expectations in Q4 2014; the oil price forecast for 2015 has been lowered again; and the euro has fallen more sharply against the US dollar than anticipated. Given this good outlook for the economy Germany's public budgets are likely to show a slight surplus again in 2015. Moreover, the current account surplus is set to jump to 8% of GDP. This suggests there will be further calls for Germany to use its fiscal room for manoeuvre to pursue a public investment programme. Also, international criticism of German economic policy is likely to grow louder.

German industrial output forecast upped to 1.5%. German manufacturing industry is benefiting from the stronger-than-expected depreciation of the euro and the surprisingly sharp drop in the price of oil. We have therefore boosted our forecast for industrial output in 2015 in real terms from ¾% to 1.5%.

10 "golden" rules for ifo, PMI and Co. Historically speaking, the ifo index even after the sharp declines of H2 2014 is still consistent with annual GDP growth rates of over 4% versus real rates of close above 1%. The Purchasing Managers' Index (PMI) overstated as well. This led to consistently too positive growth expectations in 2014. In addition, the ifo index is calculated differently starting in January 2015. Thus, a reassessment of these and other sentiment data is required. We find that the expectations component of the ifo index still has the highest predictive power.

The view from Berlin. Many observers see Germany in a pivotal role for the euro area – both in terms of economics as well as politics. Therefore, investors take strong interest in how the government positions itself and how the political dynamics play out. Our new column "The view from Berlin" hopes to provide insights into the political debate in Germany. As a start we review the reasons for the critical stance of the German public and politicians towards the ECB's QE plan. Germans' distrust in the ECB is at an all-time high. The economic narrative does not see the imminent risk of deflation and furthermore doubts the ECB's ability to boost growth. The controversial debate over QE is perceived as a risk that could strengthen eurosceptic forces. Upcoming regional elections in February might give an indication if those worries are valid.



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Economic forecasts

	Real GDP (% growth)			Consumer Prices* (% growth)			Current Account (% of GDP)			Fiscal Balance (% of GDP)		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Euroland	0.8	1.3	1.6	0.4	-0.3	1.2	2.4	2.2	2.0	-2.6	-2.5	-2.3
Germany	1.5	1.4	1.7	0.9	0.1	1.5	7.2	8.0	7.9	0.4	0.2	0.3
France	0.4	1.1	1.6	0.6	-0.1	1.1	-1.8	-1.8	-1.5	-4.4	-4.2	-3.9
Italy	-0.4	0.5	1.3	0.2	-0.2	1.0	1.8	2.4	2.2	-3.0	-2.7	-2.7
Spain	1.4	2.4	2.3	-0.2	-1.0	1.5	0.4	1.8	1.8	-5.4	-4.3	-3.4
Netherlands	0.7	1.7	1.1	0.3	0.1	1.4	10.9	11.4	11.5	-2.5	-2.0	-1.9
Belgium	1.0	1.3	1.6	0.5	0.2	1.5	1.0	1.5	1.0	-2.8	-2.8	-2.5
Austria	0.3	1.2	1.8	1.5	0.8	1.7	0.7	1.2	1.5	-2.3	-1.6	-1.2
Finland	0.0	0.9	1.4	1.2	0.6	1.3	-1.2	-1.2	-0.9	-2.6	-2.2	-1.6
Greece	1.2	2.5	3.0	-1.4	-1.8	1.0	0.5	1.5	2.0	-1.3	0.5	1.9
Portugal	0.8	1.4	1.6	-0.2	0.1	1.3	0.5	0.8	1.0	-4.7	-3.5	-3.3
Ireland	4.5	3.7	3.5	0.3	-0.1	1.7	4.5	5.5	6.0	-3.6	-2.9	-2.8
UK	2.6	2.5	2.3	1.5	0.9	1.7	-5.0	-4.0	-3.5	-4.9	-3.9	-2.0
Denmark	0.9	1.7	1.8	0.6	1.0	1.5	6.8	6.5	6.0	-1.0	-2.5	-2.0
Norway	2.2	2.4	2.5	2.0	2.0	2.0	10.5	10.0	9.5	10.0	9.5	9.0
Sweden	1.9	2.3	2.8	-0.2	0.5	1.5	5.9	5.3	4.8	-2.0	-1.5	-1.0
Switzerland	1.7	1.8	2.0	0.0	0.4	0.8	11.0	10.8	10.5	0.0	0.4	0.8
Czech Republic	2.4	2.5	2.7	0.4	1.5	1.9	-1.0	-0.8	-0.6	-1.6	-2.1	-2.2
Hungary	3.4	2.4	2.3	-0.1	1.9	3.1	3.8	3.7	3.6	-2.9	-2.7	-2.4
Poland	3.3	3.3	3.5	0.0	0.3	1.5	-2.6	-2.9	-3.1	-3.4	-2.9	-2.7
United States	2.4	3.7	3.1	1.6	0.9	2.7	-2.5	-2.6	-2.9	-2.9	-2.5	-2.9
Japan	0.3	1.3	1.7	2.7	1.3	0.9	0.4	2.2	2.4	-7.1	-6.3	-5.4
China	7.4	7.0	6.7	2.0	2.6	3.0	3.1	3.4	3.3	-2.1	-3.0	-3.0
World	3.3	3.5	3.7	3.7	3.5	3.9						

*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, annual data % yoy

	2012	2013	2014	2015F	2016F
Real GDP	0.4	0.1	1.5	1.4	1.7
Private consumption	0.7	0.8	1.1	1.8	1.2
Gov't expenditure	1.2	0.7	1.1	0.7	0.4
Fixed investment	-0.7	-0.6	3.3	2.3	2.2
Investment in M&E	-3.1	-2.4	3.7	3.0	3.5
Construction	0.6	-0.1	3.4	2.4	2.1
Inventories, pp	-1.4	0.2	-0.3	-0.5	0.0
Exports	2.8	1.6	3.7	4.0	5.0
Imports	0.0	3.1	3.3	4.1	4.5
Net exports, pp	1.3	-0.5	0.4	0.2	0.6
Consumer prices*	2.0	1.5	0.9	0.1	1.5
Unemployment rate, %	6.8	6.9	6.7	6.5	6.6
Industrial production	-0.4	0.1	2.1	1.6	2.0
Budget balance, % GDP	0.1	0.0	0.4	0.2	0.3
Public debt, % GDP	81.0	78.4	73.5	70.5	67.2
Balance on current account, % GDP	7.1	6.7	7.2	8.0	7.9
Balance on current account, EUR bn	196	189	209	241	245

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

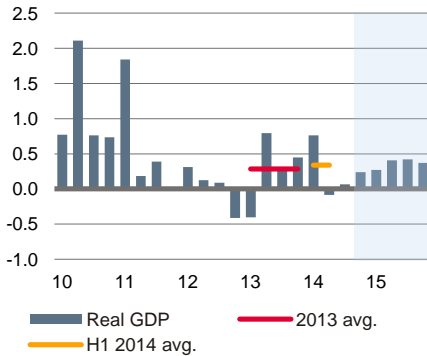


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GDP growth – acceleration after weak mid-2014

1

Real, % qoq



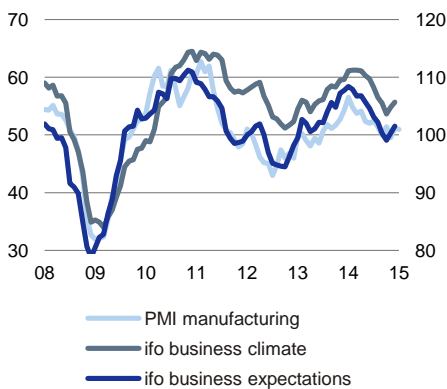
Sources: Federal Statistical Office, Deutsche Bank Research

German GDP forecast revised up further: 1.4% growth in 2015

- Late last year we raised our GDP forecast for Germany from 0.8% to 1.0% on account of the steep downside correction on expectations for oil prices. We now expect German GDP growth to hit 1.4% in 2015.
- Reasons: Growth slightly exceeded expectations in Q4 2014; the oil price forecast for 2015 has been lowered again; and the euro has fallen more sharply against the US dollar than anticipated.
- Given this good outlook for the economy Germany's public budgets are likely to show a slight surplus again in 2015. Moreover, the current account surplus is set to jump to 8% of GDP. This suggests there will be further calls for Germany to use its fiscal room for manoeuvre to pursue a public investment programme. Also, international criticism of German economic policy is likely to grow louder.

German sentiment looks to have turned

2



Sources: Ifo, Markit

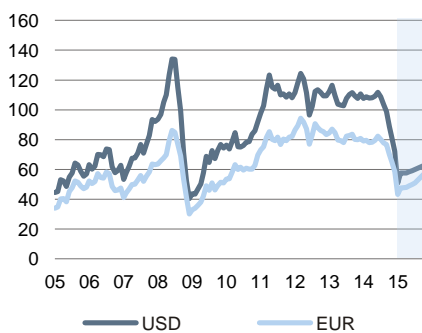
Stronger start to 2015 thanks to slightly higher Q4 growth

In 2014, the German economy performed a bit better than we had forecast with growth coming in at 1.5%. While official data on Q4 GDP growth, along with revisions of previous quarters, will not be released until February, German GDP probably did pick up a bit faster in Q4 than it did in Q3 (0.1% qoq). This provides the German economy with a slight growth overhang to start off the new year. However, it is currently impossible to nail this down with an exact figure as the readings for the preceding quarters are expected to be revised. In addition, the tentative recovery in the Ifo Index, attributable to an improvement in the expectations component in particular, and the marginal improvement in the PMI for the manufacturing sector underpin our forecast of the economy stabilising towards the end of 2014. In Q1 2015, similar to one year earlier, this could possibly benefit the construction sector thanks to a mild winter. The slight improvement of the past few months can be seen in Germany's labour market performance, where the positive trend has remained unbroken to date.

Oil prices: Steep decline, weak recovery

3

Oil price per barrel, Brent



Sources: Global Insight, Deutsche Bundesbank, Deutsche Bank Research

Renewed stimulus from further fall in oil prices

Given the further slide in the price of oil – Brent blend is now trading at just over USD 45 per barrel – our oil team has lowered its 2015 forecast for the average price per barrel from USD 72.50 (early December 2014) to USD 59.40 now. This corresponds to a further decline in the annual average price of oil in EUR terms of around 15%, even though we have slightly revised our exchange rate forecast to the downside at the same time – we now call for a rate of USD 1.10/EUR (previously USD 1.15) at end-2015. According to common rules of thumb, this ought to trigger a growth effect of between 0.1 and 0.2 percentage points (pp) for the current year. Note, though, that these estimates focus on the average reaction to changes in the oil price. The positive income effect when the price of oil falls is presumably not as pronounced as the negative income effect when the price climbs.

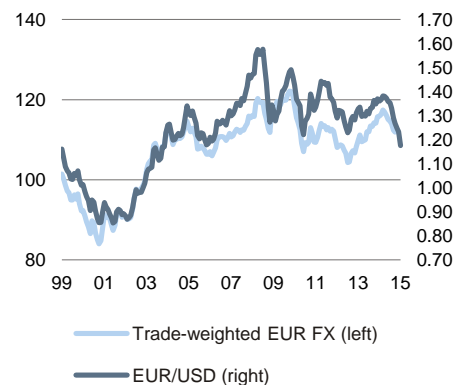


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EUR depreciation less pronounced in trade-weighted terms

4

Q1 1999=100 (left)



Sources: ECB, Deutsche Bundesbank

Weak euro gives German exports a (slight) boost

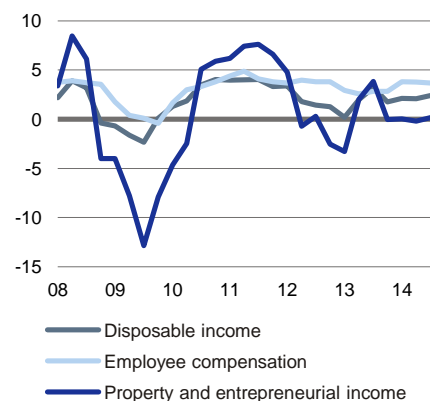
The euro's slide over the past few months has lowered its value vis-à-vis the US dollar by over 15% since January 2014. Based on our forecast of a USD/EUR exchange rate of 1.10 at year-end, the depreciation of the euro is likely to come to roughly 15% again on an annual average. Roughly two-thirds of this decline had already been assumed in our December 9 forecast, though (USD/EUR 1.15 at end-2015).

Since other currencies, and those of the emerging markets in particular, are simultaneously depreciating against the euro, the decline in the euro's real effective exchange rate should be only about half as pronounced. ECB estimates say that a 10% appreciation of a currency in real terms leads to a decline in GDP of 0.2 pp in the same year. Now, exporters might opt to refrain from immediately adjusting their prices on foreign markets to the downside but instead seek to widen their profit margins. Thus, the effects of depreciation could be somewhat smaller than those of appreciation. In addition, German exports are probably a bit less sensitive to exchange rate fluctuations than the eurozone average owing to the degree of industrial specialisation. Furthermore, the fact that German companies have significantly increased the intricacy of their global value chains in recent years is likely to have generally reduced the exchange rate effect. So this means that the estimated additional stimulus for exports is in all likelihood less than 0.1 pp of GDP considering the latest adjustment of our exchange rate forecast.

Income growth at different speeds

5

% yoy, nominal



Source: Federal Statistical Office

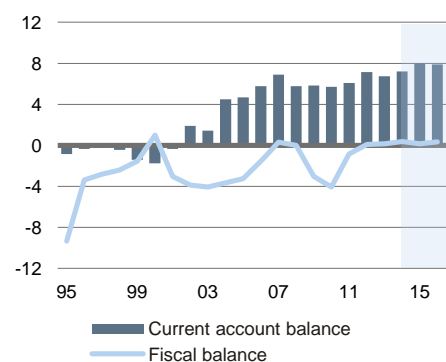
Relatively strong jump in consumption in 2015

The factors discussed above suggest that private consumption in particular is poised to develop even better than we had predicted only a few short weeks ago. Given an increase in collective wages of around 2 ¾% and a roughly ½% increase in employment, wage income will pick up substantially. Moreover, the introduction of the minimum wage should initially trigger an expansionary income effect (higher wage drift), though this will increasingly be offset by negative employment effects. Furthermore, as already in 2014, property and entrepreneurial income, which constitutes no less than one-third or so of households' disposable income, will probably continue to fall. Besides, the deflator of private consumption, which also covers private expenditure components that are not reflected in the cost of living index, is set to climb slightly, by about ¾%. The cost of living index, by contrast, will probably remain nearly unchanged on an annual average. On this basis, the increase in real disposable income works out at close to 2%. Even though interest rates continue to fall we do not expect a decline in the savings ratio, which stabilised in 2014 at 9.2% – a relatively low level by German standards. So after growing 1.1% in 2014, consumption will probably pick up by 1.8% in 2015 and generate 1 pp of GDP growth. Disregarding 2011 (+2.3%), this would be the strongest growth rate since 2000. As indicated above, the effects on exports will be very small, so no major increase in investment activity is to be expected, as this correlates very closely with demand from abroad.

Ongoing current account and fiscal surpluses

6

% GDP



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

Additional stimuli again in 2016

Since we believe the euro will soften further towards parity with the US dollar and the effects of this year's depreciation will become more perceptible in 2016 the rise in exports should – despite an only moderate acceleration of world trade – pick up from 4% in 2015 to 5% in 2016. Combined with catch-up effects this is likely to give investment activity a fillip. On the other hand, we look for private consumption to show slower growth as a consequence of an upturn in the



inflation rate and faltering dynamics in the employment sector. All things considered, GDP growth should pick up further to about 1.8%.

How realistic are the assumptions?

Assumptions on asset and commodity price trends are fraught with major uncertainties. "Overshooting" is not uncommon especially in periods of higher volatility. On the other hand, though, new anchors for fundamental assessments can also emerge. At present, the price of Brent crude is more than USD 10/bbl lower than the DB forecast for Q1. If such a pronounced difference to our assumption were to remain for the rest of the year, German GDP growth would probably hit 1 ½% in 2015.

Increasing international criticism

Germany's current account surplus will probably widen from 7.2% of GDP in 2014 to 8% of GDP in 2015. At the same time, the public budgets should continue to run surpluses in 2015 and 2016. This suggests that criticism of German economic policy is set to continue growing, accompanied by increasingly loud calls for Germany to pursue an expansionary fiscal policy (owing to the now "greater room for manoeuvre") and to tackle its rising current account surpluses. Against the backdrop of ultra-expansionary monetary policy and a further softening of the exchange rate, though, stability considerations would argue against fiscal policy with an expansionary bias in view of an output gap that has more or less narrowed to zero.

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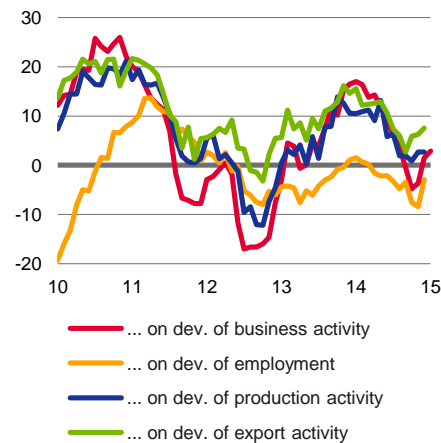


German industrial output forecast upped to 1.5%

German industry: Sentiment indicators at a turning point

1

Company expectations, balance of positive and negative company reports

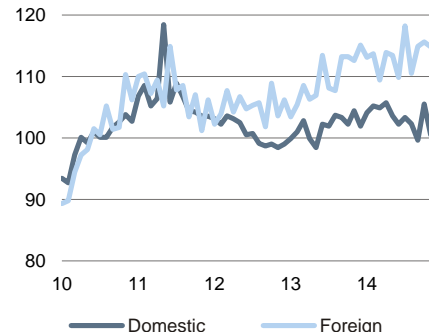


Source: ifo Institute

Orders still highly volatile

2

Manufacturing, real order intake, 2010=100, seasonally adjusted



Source: Federal Statistical Office

Recovery in the course of 2015

3

Manufacturing, real production index, 2010=100, seasonally adjusted



Sources: Federal Statistical Office, Deutsche Bank Research

German manufacturing industry is benefiting from the stronger-than-expected depreciation of the euro and the surprisingly sharp drop in the price of oil. We have therefore boosted our forecast for industrial output in 2015 in real terms from ¾% to 1.5%.

Exchange rate and oil price are a boon to industry in Germany

The euro's slide vis-à-vis the US dollar and other currencies, which is being driven by the ECB's quantitative easing policy, improves the price competitiveness of goods manufactured in Germany. This stimulates output above all in export-intensive sectors that sell a substantial volume of products outside the eurozone and/or have a large share of local value added. Some examples include the automotive, mechanical engineering, electrical engineering and chemical industries – that is to say Germany's industrial core. Certain upstream industries also benefit indirectly, such as metals and plastics. The export-intensive pharmaceuticals industry is another beneficiary of the weak euro. In 2014, three of the four most important sales markets for German pharmaceuticals companies did not belong to the eurozone, these being the US, the UK and Switzerland. The Swiss franc's leap after the Swiss National Bank removed the exchange rate cap against the euro points to particularly good opportunities for German pharma producers. True, German companies will have to start paying more for imports from outside the eurozone. On balance, though, the effects of the weaker euro are positive for domestic production.

The decline in the oil price feeds through positively to German industry via several channels. For one, it brings cost relief to sectors in which oil is used as a raw material in the production process (e.g. chemicals and plastics). For another, it provides a stimulus to Germany's domestic economy as well as to key export markets since these are largely oil-importing countries: thanks to falling mobility and energy costs households now stand to have more money at their disposal for the consumption of other products. Moreover, business customers of German industry will enjoy enlarged scope to boost their own investments. Of course, cheap oil does not have a positive impact on all sectors: companies that produce machinery and equipment for, say, the exploration of new oilfields will book fewer new orders in the coming months. However, the net effect for German industry remains positive.

Industrial orders are likely to pick up in the months ahead. This is supported by business sentiment with expectations having risen three times in a row at last reading and returned to positive territory. All in all, we have lifted our forecast for German industrial output for 2015 in real terms from ¾% to 1.5%. Not only the economics but also a statistical reason lends support to our decision: output probably edged up in Q4 on a seasonally adjusted basis and should thus override the production underhang still expected in autumn. Hence, 2015 should start on a more favourable note. Despite our upside revision there are still risks hanging over the market. For example, heavier EU sanctions on Russia are still an option being contemplated by political leaders. These would have negative repercussions for eastern European EU members and ultimately also for Germany. From a structural standpoint, German companies should not get too complacent with the knowledge that the weaker euro temporarily improves their competitiveness without them doing a thing. Indeed, going forward these businesses must be relentless in their efforts to upgrade their own products to ensure that they can continue to hold their own in the world market.

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10 "golden" rules for ifo, PMI and Co.

In the currently weak, fragile and uneven economic environment in Europe where the German economy is an important stability anchor, the attention and sensitivity to the (German) survey and sentiment data have increased strongly. This is due not least to the currently ever-present monetary implications when advance warning of growth disappointments is given by sentiment data.

Historically speaking, the ifo Index even after the sharp declines of H2 2014 is still consistent with annual GDP growth rates of over 4% versus real rates of close above 1%. The Purchasing Managers' Index (PMI) overstated as well. This led to consistently too positive growth expectations in 2014. In addition, the ifo Index is calculated differently starting in January 2015. Thus, a reassessment of these and other sentiment data is required.

Our 10 main conclusions from this analysis:

- For forecasts of German GDP growth, the ifo Index and the PMI are similarly well suited and deliver much better results than other survey-based sentiment indicators.
- As far as ifo survey results are concerned, the business expectations are a much better forecaster of GDP growth in the respective quarter than the overall business climate or assessment of the business situation.
- The ifo survey results for manufacturing are more relevant than those for wholesale and much more relevant than those for construction and retail trade. Regarding the PMI, the index for the manufacturing sector is of more relevance than the index for services.
- The traditional ifo Index covers only one-third of the overall economy. However, while the relatively new ifo services index has relatively good GDP forecast characteristics, it is unable to beat the ifo Index and the PMI.
- The ifo Index slightly outperforms the PMI as the expectation component forecasts the growth of the current quarter about as well as the PMI and at the same time provides a better indication for the next quarter.
- Due to a statistical break, ifo-based forecasts with an observation period after 2004 should be estimated. This increases the forecasting quality. For the PMI, the observation period ought to start in 2000. The recent growth overestimate still persists, however.
- Since 2005, the exceeding of 98.6 in ifo business expectations and 50.8 in the Composite PMI (manufacturing: 49.3; since 2000, in each case) has signalled positive quarterly growth rates.
- The European Commission's business and consumer survey is significantly broader than the ifo Index and the PMI but delivers worse forecast results and is published at a later date.
- Surveys among financial market participants (ZEW index) are published some days before the surveys of the overall economy (ifo, PMI). In some cases, they are an indication of turning points. For quantitative forecasts, they are less appropriate, however. In addition, they give false signals of economic turning points at times.
- GDP forecasts for the current quarter (bridge models) based on "hard" economic indicators such as industrial production should be given priority. Data are published with a delay, however.



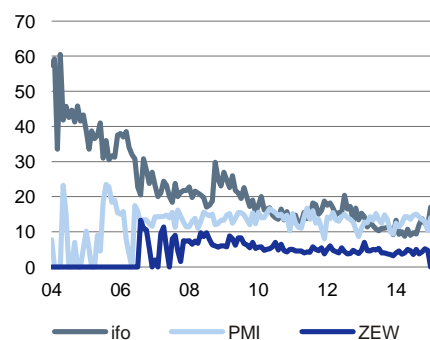
Sentiment data provide important guidance in fragile economic environment

Monthly surveys among companies, households and investors regarding the economic situation receive a lot of attention. During a month, they already provide information on the current economic situation and the economic outlook and considerably earlier than hard figures, such as industrial production or GDP, which are published with a time lag of over a month. Sentiment data thus provide important guidance for (investment) decisions by companies, financial market players and (monetary) policy. In the currently weak, fragile and uneven economic environment in Europe where the German economy is an important stability anchor, the attention paid to (German) survey data has increased even further. This is due not least to the currently ever-present monetary implications on the ECB's monetary policy.

Attention paid to sentiment indicators

1

Relative search intensity in Germany according to Google Trends



Very rough measure of relative importance. E.g. PMI data is influenced by searches for international PMI data.

Sources: Deutsche Bank Research, Google

In Germany, the ifo Business Climate Index (mostly commonly referred to as the ifo Index, for short) still attracts the most attention. It is the sentiment index with the longest history, a broad sectoral basis and a high number of participants. Although by contrast the PMI is attracting increasing attention in the general public, interest is still relatively small all in all. The PMI is popular especially with international investors due to its comparability across countries and regions. In addition, it is published a few days earlier than the ifo Index. Both indices are based on surveys among companies of the real economy. Surveys among financial market players (ZEW, Sentix) are even published some days earlier in the month. In general, however, they are less suitable for (quantitative) economic forecasts. This also applies to surveys among households (e.g. GfK consumer climate), which attract much attention in the media as well.

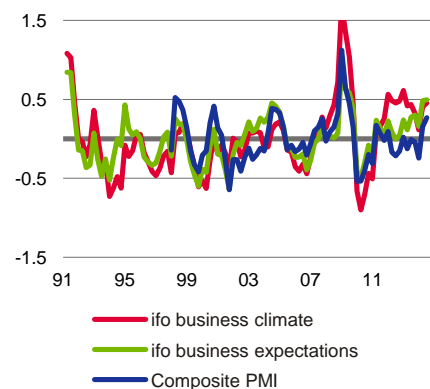
Ifo & PMI: Recently too positive

If GDP growth forecasts are based on the historical correlations with the ifo Index (since 1991) and the PMI (since 1997/1998), these led to a considerable overestimate in the last few quarters, which in the course of a quarter were disappointed in general by monthly economic figures (e.g. industrial production). Even after the sharp declines of the ifo Index in H2 2014, the index would be consistent with annual growth rates of over 4% compared to actual rates of only just over 1%.

Errors of sentiment-based growth forecasts

2

Diff. between real qoq GDP growth and lin. reg. based forecast, %-points, 4Q mov. avg.



Regression based on data from 1991 onwards.

Sources: ifo, Markit, Deutsche Bank Research

True, the fact that sentiment indicators at times overestimate or underestimate growth is not a new phenomenon. Excluding German unification and the record high in sentiment before the deep economic crisis of 2008/2009, the current overestimation of the ifo business climate, which began in 2011, is the most pronounced of the post-reunification era in terms of scale and duration, though. Even based on the ifo business expectations there has been a continuing overestimation since 2011. In particular in the last few quarters it reached an unprecedented scale. To a smaller extent and concentrated on the period after Q2 2014, this is also the case with the PMI.

In the following, we shall analyse this relationship with the help of graphical analyses and simple statistical measures and concentrate on the ifo Index. True, more complicated models, e.g. the combination of different indicators, may provide better forecast results. However, they do not correspond to the information processing of most observers. In particular, we check applied rules of thumb, e.g. that an ifo Index over the historical average or a level of 100 and a PMI of over 50 signal positive growth rates as rules of thumb may lose their validity.

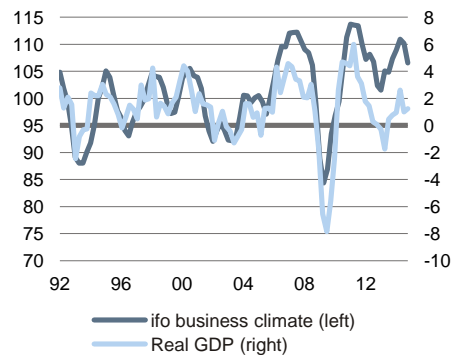


Overestimation by ifo driven by assessment of current business situation ...

The ifo Business Climate Index for total industries is calculated from companies' assessment of the business situation and their business expectations. As shown by the three lower charts, above all the historically very positive assessment of the business situation has painted a too positive picture since 2005. By contrast, business expectations still described GDP growth very well until 2011-2012 and even after they still painted a relatively realistic picture of the German economy compared with the business situation.

ifo business climate & GDP growth **3**

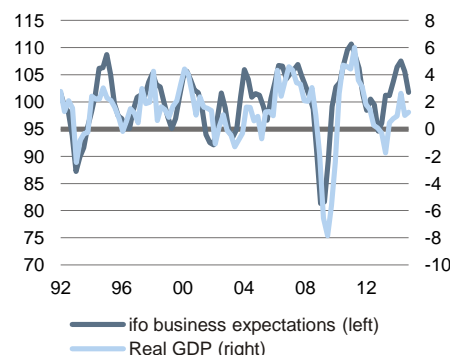
Index, 2005=100, moved ahead 1Q (left); % yoy, nsa (right)



Sources: ifo, Federal Statistical Office

ifo business expectations & GDP growth **4**

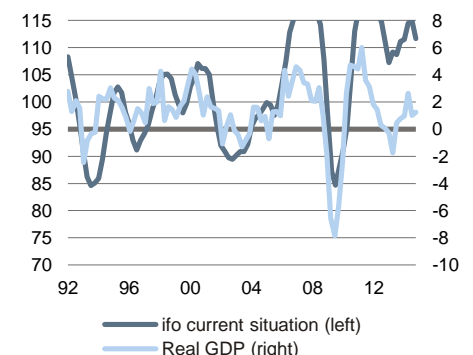
Index, 2005=100, moved ahead 1Q (left); % yoy, nsa (right)



Sources: ifo, Federal Statistical Office

ifo current business situation & GDP growth **5**

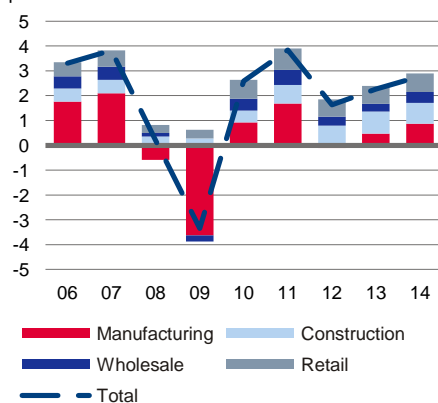
Index, 2005=100, moved ahead 1Q (left); % yoy, nsa (right)



Sources: ifo, Federal Statistical Office

Sector contribution to ifo increase since 2005 **6**

Contribution to change in ifo index since 2005 by sector, weighted by gross value added, index points



Sources: ifo, Federal Statistical Office, Deutsche Bank Research

... above all due to sentiment in construction and retail trade

The survey results are also published at sectoral level. They reveal that the "overestimation" is mainly due to responses from the construction sector and retail trade. Here again, this is attributable to an in general very positive assessment of the business situation.

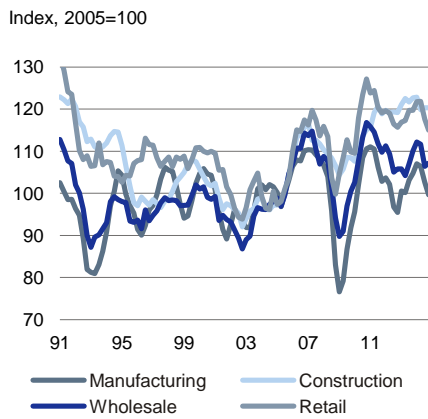
In view of the solid state of the domestic economy with dynamic wage and employment developments as well as a "construction boom" in the last few years, a relatively better sentiment in the construction and retail sectors does not come as a surprise, especially as German industry at the same time suffered from weak global growth. However, this does not explain why the business situation in the construction sector and retail trade has apparently decoupled from the real development for years but a similar development regarding business expectations is not discernible.

The discrepancy between the situation and expectations can largely be explained by how the index is calculated. It is based on the average assessment of the business situation and the business expectations in 2005. At that time, the German economy was weak, unemployment high and growth was mainly driven by export business. Thus, the business situation in construction and retail trade was very difficult, which is also reflected in the data on which the index is based. The balance of positive and negative answers as to the business situation e.g. in construction in 2005 was -52 and thus on average at one of record lows of the post-unification period. At -20, the balance with regard to business expectations was perceptibly less negative. In the years since 2011 the balances were roughly at the same higher level. The interpretation that companies in the construction sector currently assess their business situation much more positively than their business outlook is therefore wrong and due to



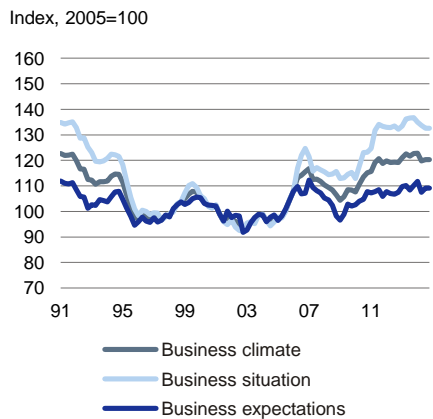
a base effect (charts 10 & 11). To a lesser extent, this is also true for the retail sector. For correlation analyses with GDP, however, the indexation on a certain period is irrelevant as it is compensated by the estimation function in absolute terms. Thus, the question remains why higher ifo levels currently are not accompanied by above-average growth rates.

ifo business climate by sector 7



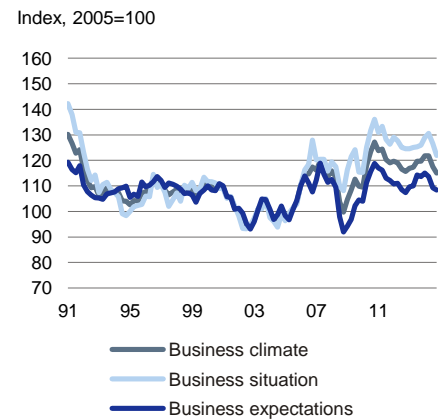
Source: ifo

Construction ifo 8



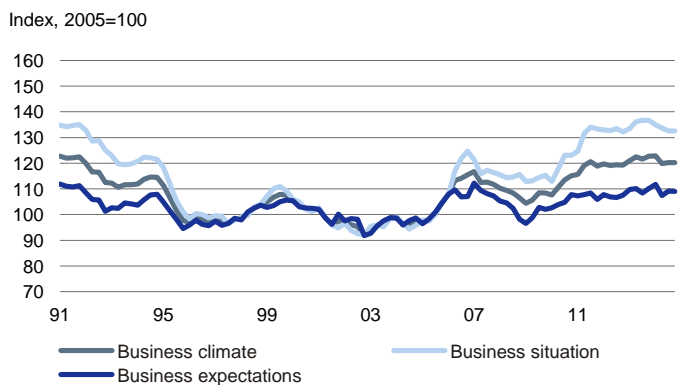
Source: ifo

Retail ifo 9



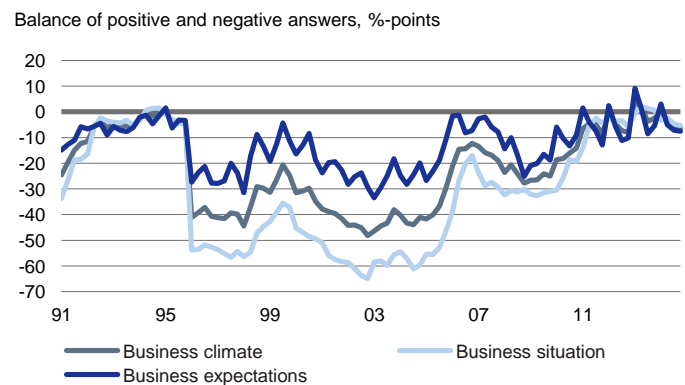
Source: ifo

Construction ifo 10



Source: ifo

Construction ifo 11



Source: ifo

New seasonal adjustment method for the ifo Index

Since January 2015 the ifo uses a new method to adjust its survey data for seasonal effects (X13 ARIMA instead of ASA-II). This brings the data more in line with international standards and the official German statistic.

The most important difference is, that data is not adjusted for unusual weather effects anymore. The effects on the survey data and the forecast accuracy are limited, though.

Only for the construction ifo data changes significantly, especially the expectations component. Despite some improvements the forecast accuracy of the construction ifo remains limited overall.

"ifo forecast" really good only for industrial activity

If the ifo data for the individual sectors are compared to indicators¹ of the real economy, it becomes apparent that only with regard to manufacturing is there a high degree of synchronisation. For instance, the correlation between the ifo Business Climate Index for this sector and the gross value added of industry is a good 70%. In wholesale as well, the synchronisation is still acceptable. At 50%, however, the correlation with sales growth is much lower. The picture looks similar in the construction sector (60%). Here, a further obstacle comes up: weather effects affect construction activity considerably but are only partly reflected in surveys. This is probably because construction companies are aware that the effects are temporary and thus do not reflect the underlying business climate. If the value-added figures are smoothed over several quarters,

¹ For manufacturing and construction, gross value added figures are available on a quarterly basis. As far as wholesale and retail trade are concerned, for an observation during the year real sales have to be examined. The annual value added figures of trade show a similar development, though.

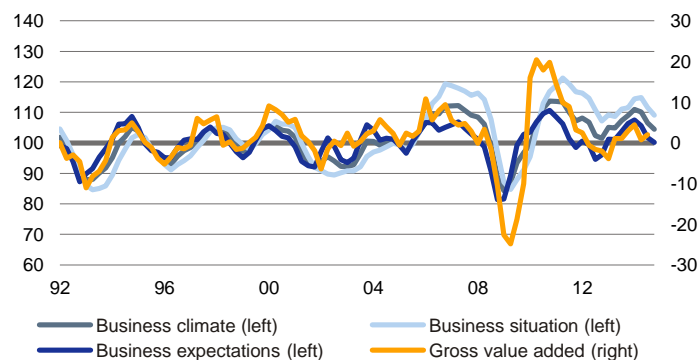


it becomes obvious that the ifo data deliver at least a good description of the trend. The weakest correlation by far is shown in retail trade. However, this is mainly a phenomenon of the pre-crisis years. Since 2009 the correlation has been higher. As in the construction sector, quarterly growth in retail trade fluctuates strongly, though, which is due to seasonal (e.g. start of the winter fashion season) and working day effects (e.g. school holidays), which cannot be captured by adjustment procedures.

Manufacturing: ifo index & gross value added

12

Manufacturing; Index, 2005=100 (left); % yoy, real (right)

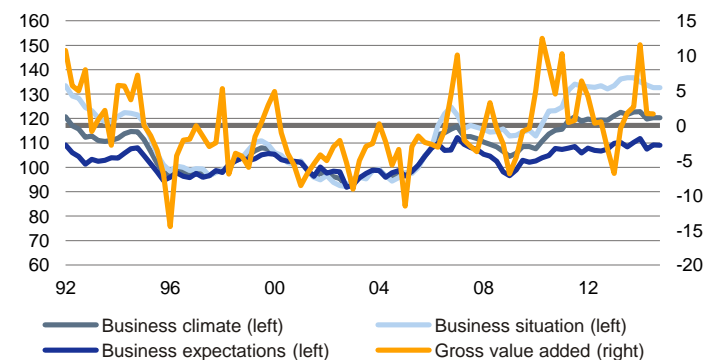


Sources: Federal Statistical Office, ifo

Construction: ifo index & gross value added

13

Construction; Index, 2005=100 (left); % yoy, real (right)

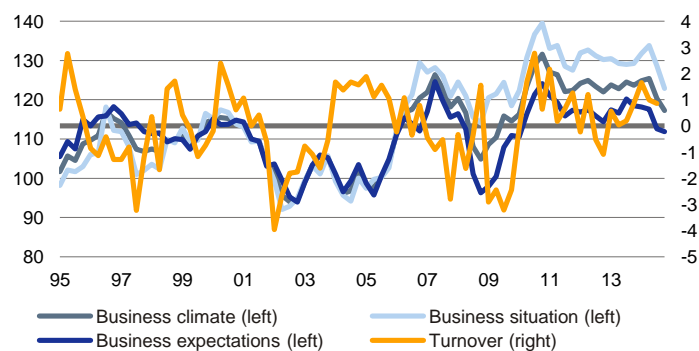


Sources: Federal Statistical Office, ifo

Retail sector: ifo index & turnover

14

Retail sector; Index, 2005=100 (left); % yoy, real (right)

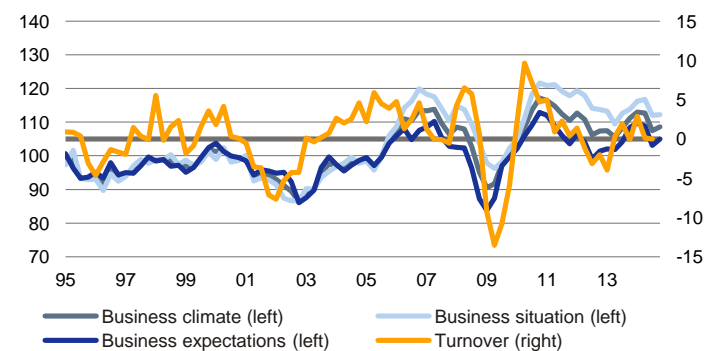


Sources: Federal Statistical Office, ifo

Wholesale sector: ifo index & turnover

15

Wholesale sector; Index, 2005=100 (left); % yoy, real (right)



Sources: Federal Statistical Office, ifo

The high (monthly) volatility of construction and retail trade cannot be cited as the sole explanation for the low explanatory power, however. A further reason could be that the surveyed companies of the sector include the overall economic situation in their answers. This is suggested by the relatively good correlation between the retail trade ifo and the indices of other sectors. The perception that the sharp increase in employment since 2005 and the all in all higher wage agreements stimulate private consumption should also play a role which could have been reflected in expectations for example. In this case, retail companies would ignore the really very low fluctuation range and minimal trend growth of sales. Since 1995, the range of retail trade growth was roughly between -4% and +3% (quarterly basis). In manufacturing, net value added ranged between -25% and +20%. All in all, the ifo retail climate index fluctuates more than five times as strongly as the growth of retail sales (in terms of standard deviations). The high stability of retail sales in the business cycle is due to the dominance of goods of everyday use, which are (have to be) bought irrespective of the



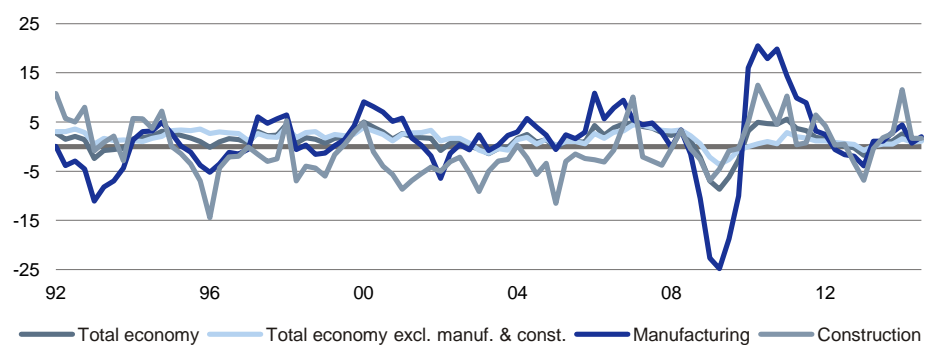
economic situation. The widespread stagnation of retail sales since the 1990s is due in part to the increasing dominance of services. This means, higher incomes lead to lower demand impetus in traditional retail trade. Furthermore, goods of everyday use are showing signs of saturation.

A further reason could be the survey design. For example, companies may regard their business situation as good, satisfactory or bad. If the share of companies falls who describe their situation as worse, the ifo Index rises. Thus, it is a yardstick for the breadth of an upturn. However, this does not necessarily bear a strong relation to the strength of the upswing. This is a characteristic of all sentiment data which are based on diffusion indices.

Growth in value added by sector

16

Real value added, % yoy



Source: Federal Statistical Office

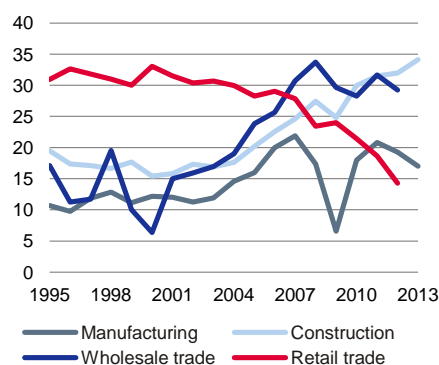
Last but not least, especially the assessment of the business situation could strongly depend on the development of earnings and margins instead of turnover. At least for retail trade, this can be denied, however. This sector's margins have been declining since the mid-2000s.

The relatively weak correlation between sentiment and the "hard" economic indicators in construction and retail trade does not mean that the ifo index for manufacturing should in general be the only yardstick. These sectors' sentiment does provide information for the respective sector which may also be considered in the overall economic analysis. However, their continuing "overstating" means that the ifo index for manufacturing is currently more appropriate for the forecast of the overall economic development.

Retail margins do not tally with retail ifo

17

Net operating surplus, % gross value added

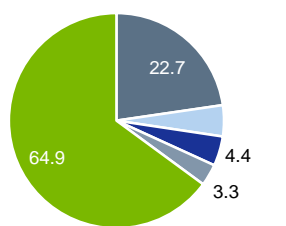


Sources: Eurostat, Deutsche Bank Research

Sector importance

18

Gross value added, share in total, %



Source: Federal Statistical Office

GDP fluctuations driven by manufacturing

The ifo index for manufacturing does not only capture well the economic momentum of the sector but also of the overall economy, as it contributes strongly to the fluctuations of GDP (chart 19). In addition, this is due to the quite high share in GDP. For example, in 2011 this sector accounted for close to 23% of total gross value added. In contrast, construction (just below 5%), wholesale (just above 4%) and retail trade (just above 3%) make a much smaller contribution. In addition, value added of industry fluctuates five times as much as that of the overall economy (chart 16). This is due to the fact that German industry depends both directly and indirectly on the global economy. Directly as a result of exports and indirectly as a result of the capital spending of companies who mainly rely on capital goods produced in Germany. The other sectors depend much more strongly on the domestic economy, which is more stable in comparison. For instance, exports fluctuate three times as much and capital

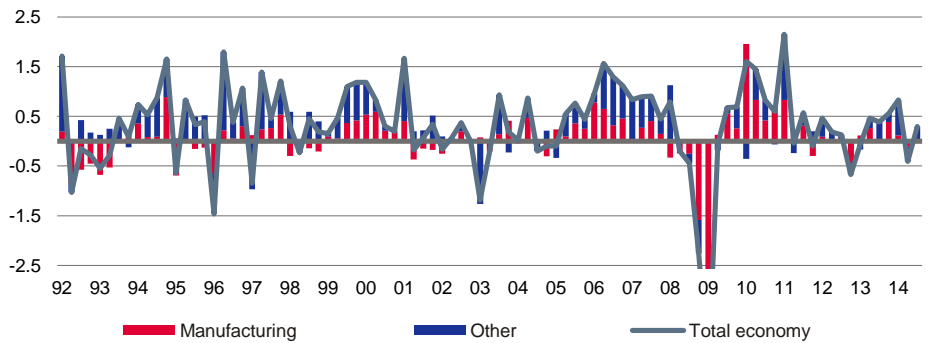


spending no less than four times as much as total GDP (comparison of standard deviations of growth rates).

Drivers of GDP volatility

19

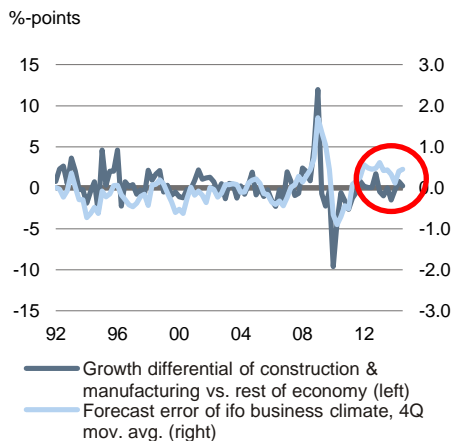
Contribution to real value added growth by sector, qoq, %-points



Sources: Federal Statistical Office, Deutsche Bank Research

ifo forecast error and GDP growth in sectors not included in ifo

20



Sources: Federal Statistical Office, ifo, Deutsche Bank Research

Insufficient sectoral coverage not currently a reason for forecast errors

Overall, the ifo Index, however, covers only a little more than one-third of the overall economy, as a large proportion of the service sector is not monitored. If the performance of the sectors not covered relative to that of the sectors covered is markedly different from the past, this may also have contributed to the forecast errors mentioned at the beginning. This is suggested by the strong correlation (60%) between the ifo-based GDP forecast errors of the growth differential between the construction and manufacturing sectors compared to the rest of the economy.² However, this was hardly a factor in the striking forecast errors of recent times (chart 20).

The relatively new ifo Business Climate Index for the service sector could be of assistance. Data is only available from 2005, though. According to the ifo Institute it covers "major, particularly business-related segments of the tertiary sector (excluding trade and the public sector)". In fact this index tallies roughly as well with GDP as the traditional ifo Index. This applies particularly to the expectation component. Since the providers of business-related services are highly reliant on clients from German industry, this is not very surprising. However, simply combining the two ifo indices does not enhance the quality of GDP forecasts.

² The lack of quarterly gross value added figures for the retail and wholesale sectors means that they cannot be factored into the growth differential. Given their relatively small share of the economy as a whole the analysis should barely be affected.



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Explanatory power of different sentiment indicators for real GDP growth

Share (%) of the variation of real GDP growth (% qoq) that is explained by the respective sentiment indicator (coefficient of determination), based on simple linear regressions, the higher (greener) the better

ifo business climate

		Industry and trade (manuf., construction, wholesale and retail trade)			Manufacturing			Construction		
		Business climate	Business expectations	Assessment of current business situation	Business climate	Business expectations	Assessment of current business situation	Business climate	Business expectations	Assessment of current business situation
Since 1991	Concurrent	20.1	38.5	7.3	21.8	34.2	8.4	1.6	8.7	0.3
	1Q Lead*	6.2	25.2	0.3	6.3	23.9	0.2	0.4	4.7	0.0
Since 1995	Concurrent	23.6	42.0	9.3	27.2	37.3	11.0	2.3	10.4	0.5
	1Q Lead*	8.4	29.6	0.7	8.7	28.1	0.4	1.0	6.6	0.1
Since 1998	Concurrent	28.8	49.6	11.7	33.2	44.6	13.6	3.4	15.5	0.9
	1Q Lead*	10.4	33.3	1.2	10.6	31.8	0.7	1.7	9.5	0.3
Since 2000	Concurrent	31.7	53.3	13.4	37.1	48.4	15.7	3.8	16.4	1.1
	1Q Lead*	12.6	37.6	1.8	13.4	37.1	1.2	1.6	8.6	0.3
Since 2005	Concurrent	36.5	61.2	13.9	40.2	63.7	14.9	2.3	19.2	0.1
	1Q Lead*	10.8	42.0	0.2	12.4	49.6	0.2	0.0	6.1	1.0

ifo business climate

		Wholesale trade			Retail trade			Services		
		Business climate	Business expectations	Assessment of current business situation	Business climate	Business expectations	Assessment of current business situation	Business climate	Business expectations	Assessment of current business situation
Since 1991	Concurrent	11.9	26.7	4.4	6.7	19.0	1.5			
	1Q Lead*	4.0	13.3	0.6	3.9	11.4	0.9			
Since 1995	Concurrent	14.4	29.2	6.0	9.9	22.2	3.2			
	1Q Lead*	5.3	15.9	1.0	6.4	14.2	2.2			
Since 1998	Concurrent	18.4	36.3	7.8	11.2	25.7	3.8			
	1Q Lead*	7.1	18.6	1.8	7.6	16.3	3.0			
Since 2000	Concurrent	20.8	39.1	9.3	11.8	26.7	4.1			
	1Q Lead*	8.6	20.5	2.5	8.7	18.0	3.6			
Since 2005	Concurrent	30.7	48.4	13.5	13.3	29.3	2.9	30.1	56.9	8.0
	1Q Lead*	7.6	21.1	0.6	6.5	15.3	1.3	9.0	39.2	0.0

Purchasing Manager Index (PMI) Business and consumer survey from the European Commission

		Composite	Manufacturing	Services	Total	Industry	Services	Consumers	Retail trade	Construction
Since 1991	Concurrent				21.5	18.1	0.0	12.2	9.8	1.2
	1Q Lead*				5.8	3.2	0.0	1.1	5.0	0.1
Since 1995	Concurrent				26.0	21.7	14.0	13.1	15.2	1.5
	1Q Lead*				9.3	4.7	8.6	1.4	9.3	0.5
Since 1998	Concurrent	48.4	49.6	33.9	30.3	27.0	17.0	18.8	17.0	2.2
	1Q Lead*	22.3	19.4	15.5	10.6	5.9	10.1	3.2	10.0	1.1
Since 2000	Concurrent	51.4	53.1	36.7	32.9	31.2	24.5	20.1	18.7	2.5
	1Q Lead*	24.5	22.5	16.8	11.3	8.2	12.6	2.6	11.9	0.9
Since 2005	Concurrent	62.8	64.4	47.2	36.8	34.7	49.0	18.8	20.7	1.1
	1Q Lead*	28.8	26.4	19.5	9.1	6.9	16.4	1.3	10.4	0.2

ZEW Economic Sentiment Gfk consumer survey

		Situation	Expectations	Consumer climate	Economic expectations	Income expectations	Willingness to buy
Since 1991	Concurrent			3.9	15.0	5.2	4.5
	1Q Lead*			3.1	6.2	1.6	4.8
Since 1995	Concurrent	7.3	7.9	3.9	15.6	5.9	5.5
	1Q Lead*	0.9	16.4	3.1	6.6	2.0	6.2
Since 1998	Concurrent	9.9	8.3	4.9	22.9	8.7	6.7
	1Q Lead*	1.9	16.5	3.2	12.1	5.2	8.5
Since 2000	Concurrent	10.7	7.8	6.3	26.8	9.0	6.3
	1Q Lead*	2.1	17.5	2.4	13.0	4.8	7.9
Since 2005	Concurrent	9.3	13.2	11.5	25.0	5.1	5.1
	1Q Lead*	0.1	32.6	5.9	12.6	3.1	7.3

* Sentiment data moved ahead by 1 quarter. This assesses the indicator's ability to forecast GDP growth for the next quarter. Some sentiment data is not available for the entire calculation period. Sources: ifo, Markit, EU Commission, ZEW, Sentix, Deutsche Bank Research

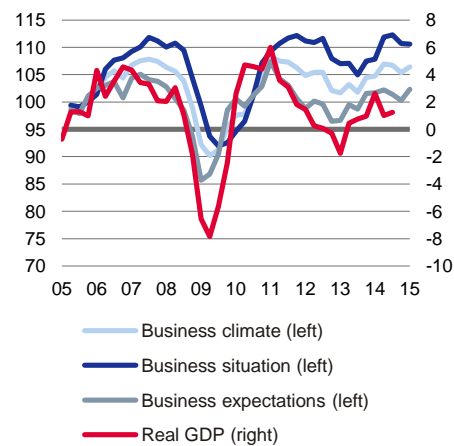


Ifo & PMI produce the best forecasts

ifo services index & GDP growth

22

2005=100 (left); % yoy (right)



Sources: Federal Statistical Office, Ifo

Despite the above-mentioned problems the Ifo Index along with the PMI deliver the most reliable forecasts over the longer term. Moreover, the forecasting accuracy of the Ifo Index can be improved, for example, by altering the length of the observation period. Alternative sentiment/survey data bring their own problems, which limits its forecasting quality.

To assess the forecast quality we perform simple linear regressions for real GDP growth rates (% qoq) against a variety of survey indicators. We carry out the regressions using different observation periods in order to detect structural breaks. Furthermore, we analyse how well sentiment data reflects growth not only in the current quarter but also in the following quarter. We assess the quality of the forecast using the respective coefficient of determination, which – in a linear regression – signifies the percentage of GDP fluctuations that can be explained by the respective sentiment indicator. For these comparisons it does not matter whether the initially reported GDP growth figures or the revised growth rates are used. The table below lists all the coefficients of determination for the sentiment data we have observed. The higher/the greener the coefficient of determination, the "better" the forecast quality.

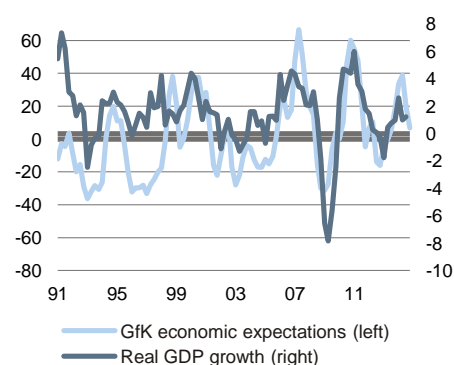
Overall, we find that the Ifo Index and the PMI deliver the best results. These indices/sub-indices explain more than 60% of the fluctuations in GDP growth. We also find that regressions that only include survey readings after 2005 deliver better results than calculations with a longer observation period. With the Ifo Index the projections based on business expectations are generally better than those based on business climate or the business situation. And it is the business expectations of manufacturing firms that best reflect GDP growth. It is a similar story with the Purchasing Managers' Index. The data from manufacturing sector has a slightly higher explanatory value than the Composite PMI and much higher than the Services PMI.

In the other surveys the forecasting quality is mostly much lower. The closely watched GfK Index does not even claim to do this, although the economic expectations of the households surveyed (one element of the GfK survey) do even tally with the macroeconomic performance to a certain degree (chart 23).

GfK economic expectations & GDP growth

23

Index (left); % yoy (right)



Sources: Federal Statistical Office, GfK

The forecasting quality of the ZEW situation and expectation components is low overall, even if we only look at the period since 2005. The best results are achieved by the economic expectations for GDP growth in the following quarter. The explanatory power is much lower than that of the Ifo business expectations, though. If we only look at the period preceding the financial crisis, however, the forecasting quality is much better. The high volatility on the financial markets and the monetary policy-driven surplus of liquidity have evidently clouded the judgement of survey respondents. The ZEW Index is based on surveys conducted among financial market participants. Since the ZEW Index is published earlier in the month than the surveys conducted among firms in the real economy (Ifo, PMI) and since it reacts sensitively to changes in the growth outlook it can be an "early warning indicator". At the same time, however, it must be interpreted with caution given its volatility. The Sentix, which has been compiled since early 2009, is also based on surveys of financial market participants. If we only look at the chart, then a reasonable fit with GDP growth can be observed. The observation period is too short for quantitative forecasts, though.

The European Commission's business and consumer survey displays quite a good forecasting quality. This comes as little surprise, however, as the sentiment indices are largely calculated on the basis of the Ifo survey. However, since it is published later in the month than the Ifo Index and the quality of the



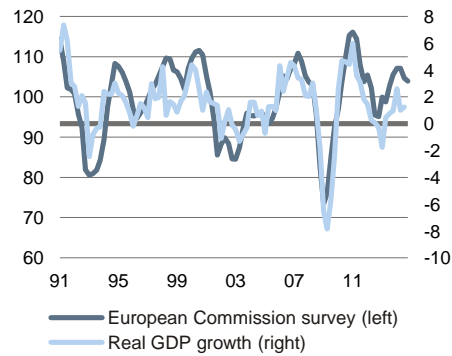
Focus Germany

quantitative forecasts is poorer than that of ifo, this survey rightly receives little attention in Germany.

European Commission survey & GDP growth

24

Index (left); % yoy (right)

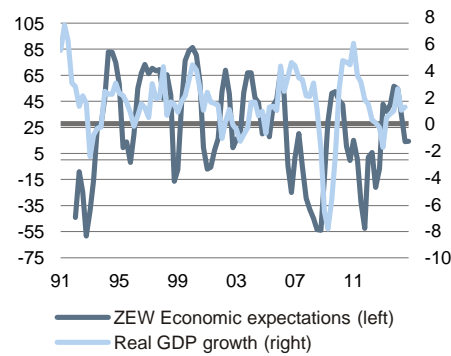


Sources: European Commission, Federal Statistical Office

ZEW economic expectations & GDP growth

25

Index (left); % yoy (right)

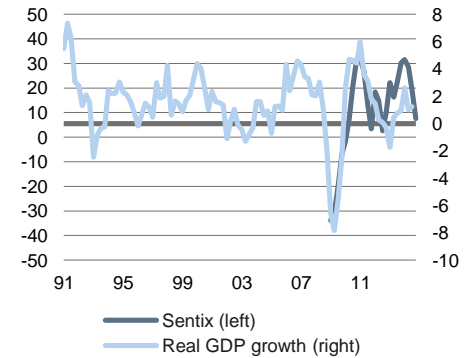


Sources: Federal Statistical Office, ZEW

Sentix & GDP growth

26

Index (left); % yoy (right)



Sources: Federal Statistical Office, Sentix

Growth overestimated even with shorter observation periods

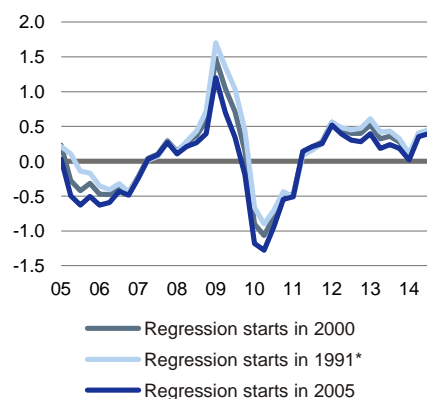
The table shows that with most sentiment indicators the forecasting quality improves if the forecast is based on the period since 2005. The ifo/PMI overestimations of growth in recent quarters that prompted this analysis do persist, however. The improvements thereby achieved in the highly volatile phase between 2008 and 2011 dominate or even thwart the progress in other "more normal" phases.

In the case of the ifo Business Climate Index we consider that the benefits of a shortened observation period dominate since the improved forecasting accuracy of recent years does not appear to affect the quality in other periods.

Forecast error: ifo business climate

27

Diff. btw. real GDP growth (qoq) and forecast based on lin. regr., %-points; 4Q mov. avg.



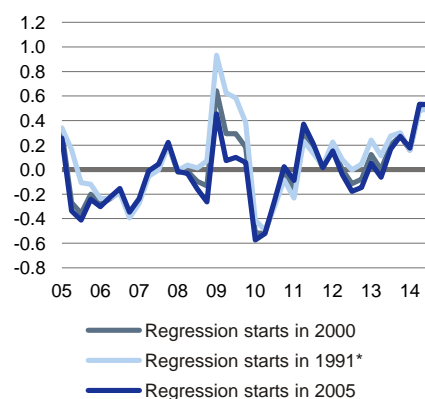
*or earliest data available

Sources: Federal Statistical Office, ifo, Deutsche Bank Research

Forecast error: ifo bus. expectations

28

Diff. btw. real GDP growth (qoq) and forecast based on lin. regr., %-points; 4Q mov. avg.



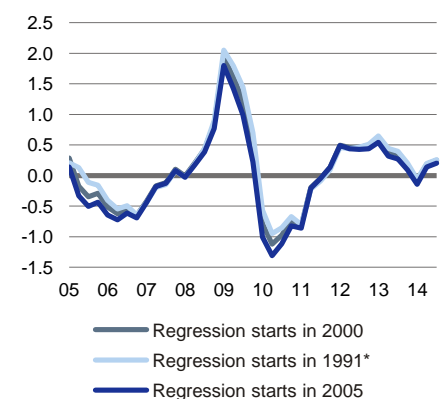
*or earliest data available

Sources: Federal Statistical Office, ifo, Deutsche Bank Research

Forecast error: ifo business situation

29

Diff. btw. real GDP growth (qoq) and forecast based on lin. regr., %-points; 4Q mov. avg.



*or earliest data available

Sources: Federal Statistical Office, ifo, Deutsche Bank Research

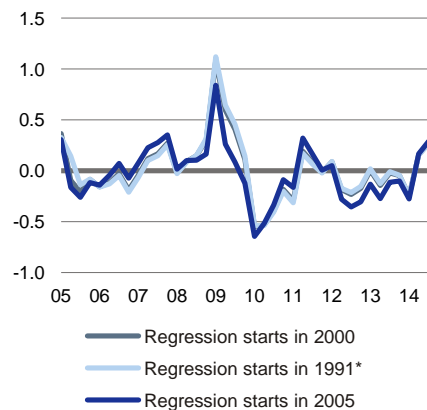


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Reducing the observation period to 2005 also leads to an improvement in the forecasting quality of the PMI (see table), but this is due to the improved results in the 2009/10 period. For the rest of the period the forecasting quality actually declined. Since 2012, growth would have been underestimated considerably, while the overestimation of growth in recent quarters is barely corrected by shortening the observation period. We therefore prefer an observation period that commences in 2000.

Forecast error: Composite PMI 30

Diff. btw. real GDP growth (qoq) and forecast based on lin. regr., %-points; 4Q mov. avg.

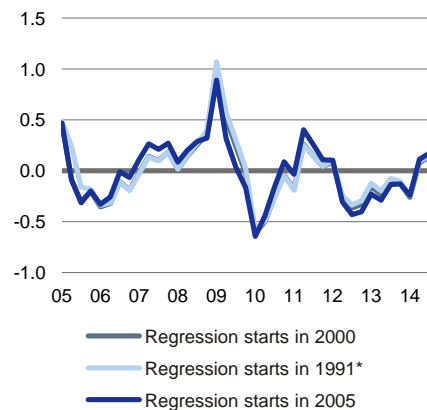


*or earliest data available

Sources: Federal Statistical Office, Markit, Deutsche Bank Research

Forecast error: Manufacturing PMI 31

Diff. btw. real GDP growth (qoq) and forecast based on lin. regr., %-points; 4Q mov. avg.

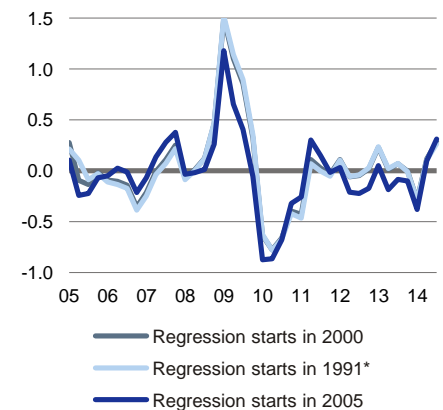


*or earliest available

Sources: Federal Statistical Office, Markit, Deutsche Bank Research

Forecast error: Services PMI 32

Diff. btw. real GDP growth (qoq) and forecast based on lin. regr., %-points; 4Q mov. avg.



*or earliest available

Sources: Federal Statistical Office, Markit, Deutsche Bank Research

Which sentiment levels signal growth

With the PMI we therefore continue to forecast a growth threshold of 50.8 for the composite index, 49.3 for the industrial index and 50.6 for the services index. With the ifo Index the shortened base period results in growth thresholds of 101.1 for the ifo Business Climate Index, 98.6 for the ifo Business Expectations and 100.5 for the Business Situation.

Forecast error of "hard" and "soft" indicators 33

Diff. btw. real GDP growth (qoq) and forecast based on lin. regr., %-points; 4Q mov. avg.



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

Hard figures beat soft figures

The quality of sentiment-based forecasts is however considerably surpassed if reference can instead be made to "hard" monthly indicators. Given our argumentation about the ifo Index for the manufacturing sector it should not come as a surprise that the monthly industrial production figures are regarded as the most important. If industrial production is combined for example with retail sales and the change in the unemployment rate, up to 90% of the fluctuation in GDP growth rates can be explained.

Industrial production has the disadvantage that the figure for the last month of a quarter is published only a little earlier than the GDP growth figure for this quarter. However, the availability of the first monthly figure of a quarter is enough to enable better forecasts to be made than would be possible using sentiment data alone.³

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³ See also: Henzel, S. and Rast, S. (2013). Prognoseeigenschaften von Indikatoren zur Vorhersage des Bruttoinlandsprodukts in Deutschland. Ifo-Schnelldienst 17/2013.



Focus Germany

Main features of Germany's most prominent sentiment surveys

34

	Components and/or subindices	Number of respondents	Publication date	Respondents' sphere of activity	Sector coverage	Additional comments
ifo Business Climate	Ifo Business Climate comprises business expectations and the business situation	Around 7,000	Towards the end of the month (earliest date in 2015: May 23)	Real economy	Manufacturing, construction, wholesaling and retail	Indices are highly disaggregated because of the large number of respondents; survey also contains less common data on production and export outlook or also assessment of inventories and capacity utilisation
ifo Business Climate in the Service Sector		Around 2,500			Firms from important, especially business-related segments of the tertiary sector (excluding the distributive trade, banking, leasing, insurance and excluding the public sector)	
Purchasing Managers' Index (PMI)	Composite index comprises indices for manufacturing and services	Around 1,000 service providers and more than 500 industrial companies	Provisional reporting towards the end of the month; usually a few days before ifo; full report at the start of the following month	Real economy	Manufacturing sector, construction	Further purchasing managers' indices also available for the retail and construction sectors but little heeded, partly because of their late publication at the start of the following month
European Commission Business and Consumer Confidence	Indices for main sectors	Over 10,000	At country and sector levels at the start of the following month	Real economy and households	Manufacturing (40%), services (30%), consumers (20%); construction (5%) and retail (5%)	Combination of ifo Business Climate survey (80%) and data from the GfK consumer climate index
GfK Consumer Climate	Composite index and subindices for economic expectations, income expectations, propensity to spend (and save)	Around 2,000	Towards the end of the month	Households	-	Composite index does not attempt to project the dynamics of consumption during the year but aims to forecast average growth in consumption for the full year
ZEW Financial Market Survey	ZEW current economic situation, ZEW economic expectations	Around 350 (roughly 30 from industrial firms)	Middle of the month (mostly on the third Tuesday of the month)	Financial market participants and some from the real economy	-	
Sentix		Full survey: more than 4,000		Financial market participants (private clients and institutionals)	-	

Sources: Deutsche Bank Research, ifo, Markit, European Commission, GfK, ZEW, Sentix



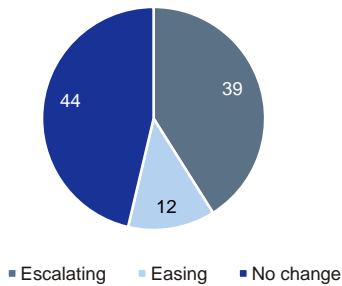
The view from Berlin

QE's political bow waves in Germany

Public perception of euro crises

1

%



Sources: Forschungsgruppe Wahlen, ZDF, January 2015

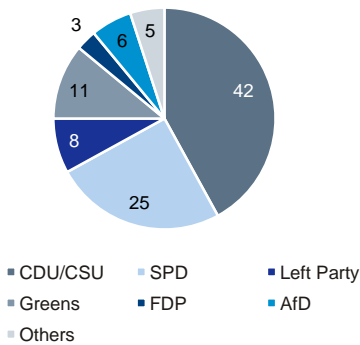
With the ECB's even bigger than expected government bond purchasing plan the German public and some political factions see their long-held concerns over the stability of monetary union and risk mutualisation through the backdoor vindicated. Distrust in the ECB is at an all-time high. While the ECB managed to improve its reputation among Germans after the euro's launch, the financial crisis severely damaged trust in the ECB's policy course. Given the current environment it is unlikely to recover soon.

The unease over public QE extends to the German government even though it did not publicly oppose the measures, citing the independence of the ECB. While SPD coalition members showed some support for the ECB's move, clear dissent has been voiced in Chancellor Merkel's conservative CDU/CSU. Several factors suggest why Ms Merkel herself seems more reluctant to (implicitly) back President Draghi's push now than in 2012. (i) Back then, the argument was that the ECB had to buy time for member states to engage in a structural reform process. Berlin believes that some euro-area partners have not sufficiently seized the opportunity and that QE will further reduce incentives to reform. In her latest speeches Ms Merkel has been surprisingly frank in warning against the illusion that QE can substitute for reforms to improve competitiveness. (ii) In economic terms the ECB has not convinced senior officials of the imminent deflation risk and that QE will boost demand despite the underlying country-specific problems. Thus, political capital is seen to be squandered on a controversial move that is unlikely to deliver on its targets. (iii) Finally, the political landscape has changed with the rise of the eurosceptic AfD party which has captured seats in the European Parliament and east German regional parliaments. The CDU/CSU worry that the debate over QE and potential risk sharing to the disadvantage of German taxpayers – further fuelled by the unclear path of Greek politics – plays into the hands of the AfD. The upcoming election in the state of Hamburg (February 15) might give an indication if those worries are valid.

Polls on election prospects

2

Party popularity, %

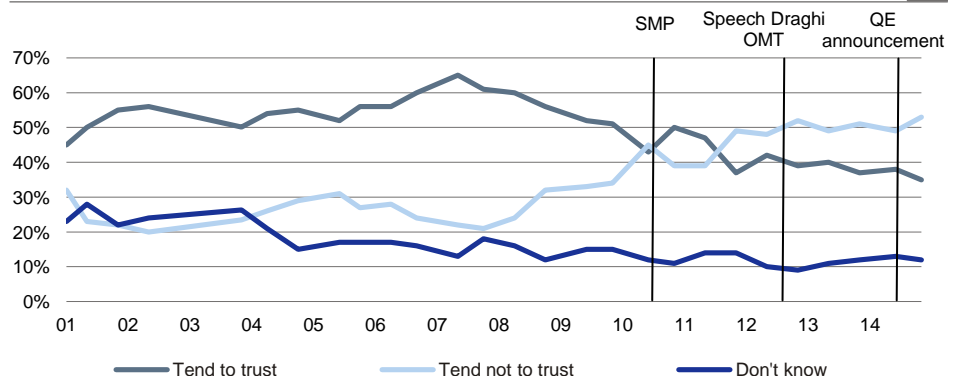


Sources: Forschungsgruppe Wahlen, ZDF, January 2015

Given the economic narrative and the political environment the ECB's QE plan will remain unpopular in Germany and the (political) dispute will continue. Despite the positive first opinion of the European Court of Justice on Outright Monetary Transactions and the not yet final rulings by the ECJ and the German Constitutional Court, further legal challenges to the ECB's unconventional monetary policy have already been announced.

Germans' trust in the ECB

3



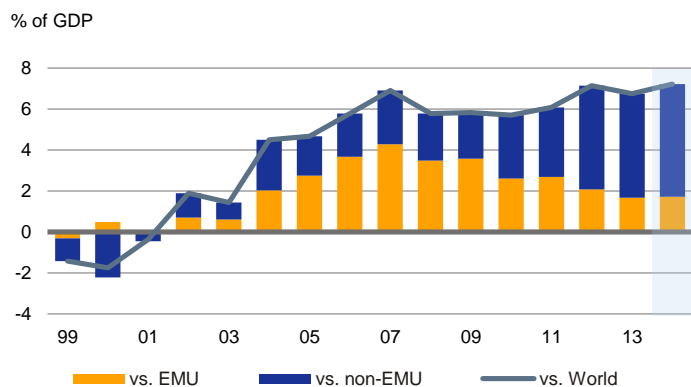
Source: Eurobarometer December 2014

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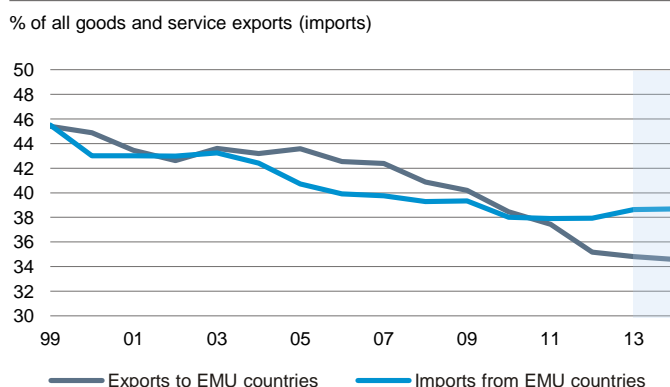
Chart of the month

German current account surplus hit new all-time-high in 2014



Sources: Deutsche Bundesbank, Deutsche Bank Research

Importance of eurozone states for German exports has diminished much faster than for imports



Sources: Deutsche Bundesbank, Deutsche Bank Research

German current account surplus at an all-time-high in 2014

In 2014 Germany's current account surplus appears to have climbed to an all-time-high of around EUR 210 bn or 7.2% of GDP. A year earlier the surplus stood at about EUR 190 bn or 6.7% of GDP. This increase was largely due to an improvement in the trade balance for goods and services.

The more dynamic economic performance in the developed markets outside the eurozone resulted in much higher demand for German products once again last year. The growth in exports of goods and services to countries outside the eurozone of 4.4% yoy outstripped the export growth to eurozone states (+3.3% yoy). Germany's current account surplus with non-EMU countries widened to around EUR 160 bn or 5.5% of GDP. The surplus has risen by some 140% since 2007 due to the sharp increase in exports.

After narrowing significantly in the preceding years the current account surplus with other EMU states probably rose slightly for the first time to about EUR 50 bn or 1.7% of GDP. This was due to the fragile, weak and consumption-driven cyclical recovery in the euro area that commenced in the middle of 2013. The surplus in 2014 was, however, still some 55% below its pre-crisis level, which reflects the significant adjustments in the eurozone since the onset of the crisis. The pronounced narrowing of the surplus was the result of a combination of weak export performance and solid import growth. German exports to other euro-area countries remained stubbornly below their pre-crisis level. They were equivalent to just 35% of total exports (2007: 42%). Total imports have risen by nearly 20% since 2007 due to robust domestic German demand, though, with the result that the import share from euro-area countries fell slightly to around 39% and thus provided considerable support for the economies of other EMU countries.

These regional shifts underline the strong competitiveness and broad regional diversification of German companies. The marked decline in demand in the euro area was more than made up for by switching to alternative export destinations.

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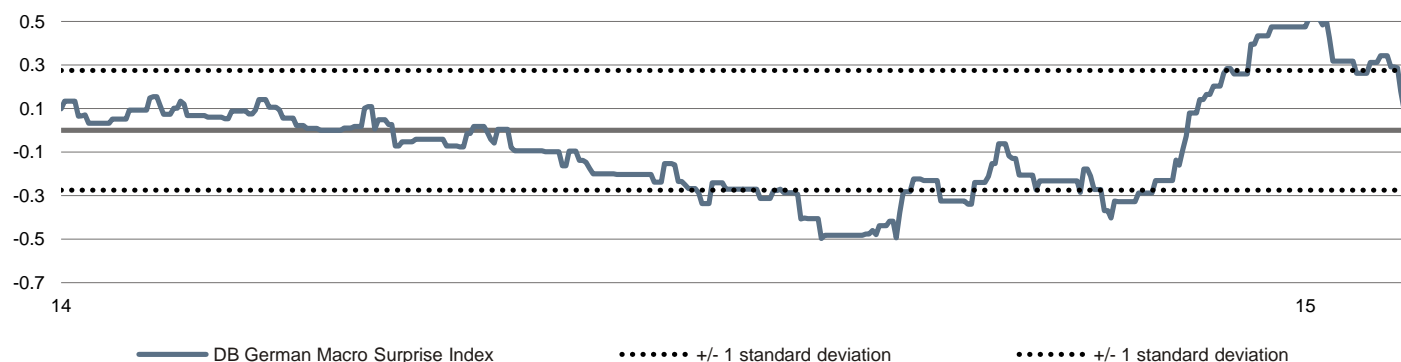
Focus Germany

DB German Macro Surprise Index

The DB German Macro Surprise Index compares published economic data with market forecasts and thus provides clues as to the direction of future forecast revisions.⁴

DB German Macro Surprise Index

Average of last 20 z-scores of data surprises



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

Sources: Bloomberg Finance LP, Deutsche Bank Research

Last 20 published economic data for Germany

Bloomberg Tickers	Indicator	Reporting month	Publication date	Current value	Bloomberg consensus	Surprise	Standardised surprise	Quantile rank
GRZECURR Index	ZEW Survey Current Situation	12 2014	16.12.14	10.0	5.0	5.0	0.6	0.7
GRIFPBUS Index	IFO Business Climate	12 2014	18.12.14	105.5	105.5	0.0	-0.1	0.4
GRIMP95Y Index	Import Price Index (% yoy)	11 2014	22.12.14	-2.1	-1.9	-0.2	0.2	0.6
MPMIDEMA Index	Markit Manufacturing PMI	12 2014	02.01.15	51.2	51.2	0.0	0.0	0.5
MPMIDESA Index	Markit Services PMI	12 2014	06.01.15	52.1	51.4	0.7	0.8	0.8
GRFRIAMM Index	Retail Sales (% mom)	11 2014	07.01.15	0.9	0.2	0.7	0.8	0.8
GRUECHNG Index	Unemployment Change (000's mom)	12 2014	07.01.15	-25.0	-5.0	20.0	0.5	0.7
GRIORTMM Index	Factory Orders (% mom)	11 2014	08.01.15	-2.4	-0.8	-1.6	-0.8	0.2
GRIPIMOM Index	Industrial production (% mom)	11 2014	09.01.15	-0.1	0.3	-0.4	-0.3	0.4
GRCAEU Index	Current Account Balance (EUR bn)	11 2014	09.01.15	18.6	23.0	-4.4	-1.7	0.0
GRCP20YY Index	CPI (% yoy)	12 2014	16.01.15	0.2	0.2	0.0	0.3	0.4
GRZECURR Index	ZEW Survey Current Situation	1 2015	20.01.15	22.4	13.0	9.4	1.2	0.9
GRZEWI Index	ZEW Survey Expectations	1 2015	20.01.15	48.4	40.0	8.4	1.0	0.8
MPMIDESA Index	Markit Services PMI	1 2015	23.01.15	52.7	52.7	0.0	0.0	0.5
MPMIDEMA Index	Markit Manufacturing PMI	1 2015	23.01.15	51.0	51.0	0.0	0.0	0.5
GRIFPBUS Index	IFO Business Climate	1 2015	26.01.15	106.7	106.5	0.2	0.0	0.5
GRIMP95Y Index	Import Price Index (% yoy)	12 2014	28.01.15	-3.7	-3.4	-0.3	0.1	0.5
GRCP20YY Index	CPI (% yoy)	1 2015	29.01.15	-0.3	-0.1	-0.2	-0.8	0.1
GRUECHNG Index	Unemployment Change (000's mom)	1 2015	29.01.15	-9.0	-10.0	-1.0	-0.2	0.4
GRFRIAMM Index	Retail Sales (% mom)	12 2014	30.01.15	0.2	0.3	-0.1	0.2	0.6

Sources: Bloomberg Finance LP, Deutsche Bank Research

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

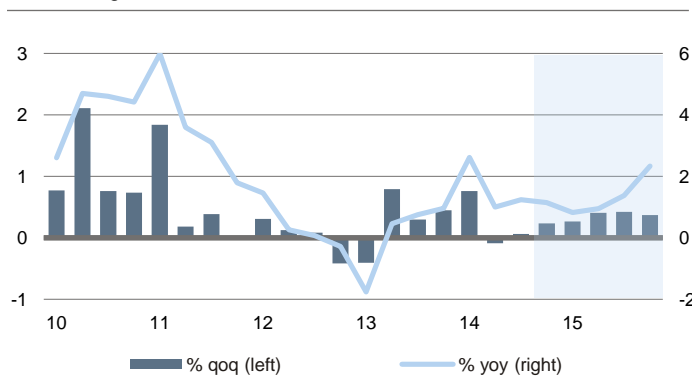


Focus Germany

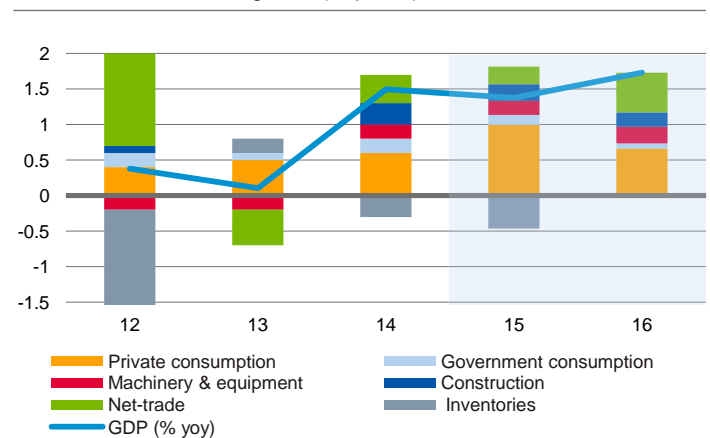
Chartbook – Total economy

- After stagnation during summer, growth of the German economy likely accelerated somewhat in Q4 2014. GDP grew by 1.5% on an annual average in 2014. This is a marked acceleration relative to the weak economic growth seen in 2012 (+0.4%) and 2013 (+0.1%). Main growth driver was private consumption thanks to the robust labour market. The number of employed persons increased to the historical peak of 42.7 million and disposable income grew by a solid 2.2%. Investments expanded only moderately due to elevated geopolitical risks and disappointing world trade. Net exports also contributed somewhat to GDP growth.
- Sentiment indicators improved recently which pointing to stronger GDP growth in Q1 2015. Favourable for the German economy are the slump of oil prices and the strong depreciation of the EUR. The ongoing elevated geopolitical risks – esp. the Ukraine-Russia crisis – continue to be a drag. The ifo index increased for the third month in a row in January, which traditionally indicates a turning point of the business cycle. The composite PMI also increased slightly driven solely by the services component.
- We revised our GDP growth forecasts higher for 2015 and 2016 thanks to the higher level starting for 2015 due to the somewhat stronger than expected Q4 growth, the further slump of oil prices and the faster weakening of the EUR. We now expect the German economy to expand by 1.4% in 2015 and 1.7% in 2016.

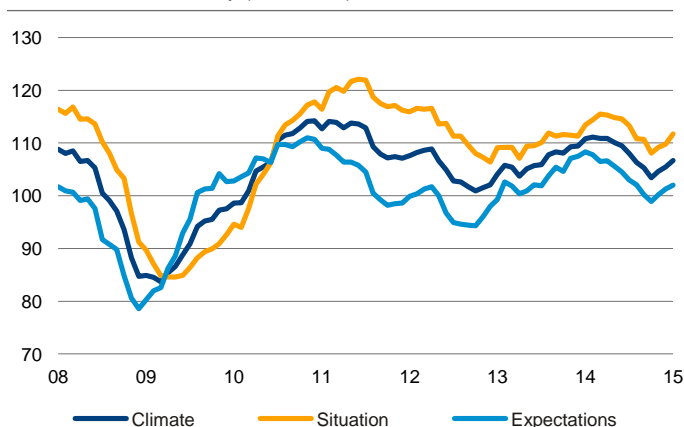
Real GDP growth



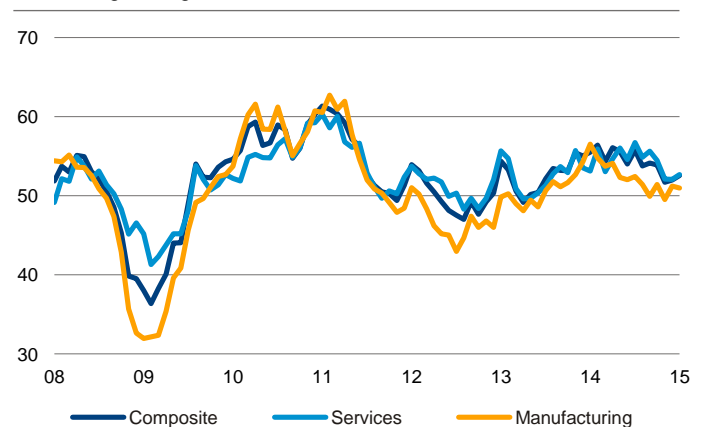
Contribution to real GDP growth (%-points)



ifo index - total economy (2005=100)



Purchasing manager index



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



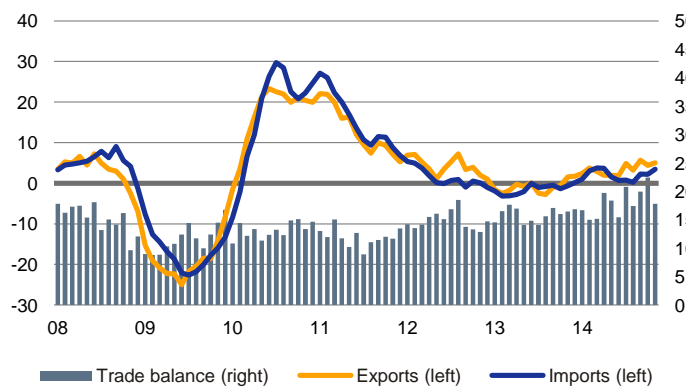
Focus Germany

Chartbook – Foreign trade

- German trade numbers disappointed in November. Exports were down by 3.4% mom and were only 1.6% above previous year's level. Despite the weakness of oil prices, imports increased 1.8% mom (1.9% yoy). Therefore, the trade balance fell to EUR 17.8 bn.
- The 3 months average showed a 5.0% yoy export increase. Demand from the US and Asia remained high and exports to these destinations are up around 10% yoy (3M mov. avg.) and 8%, respectively. Exports to EMU dampened (+2.2%).
- Growth of automobile exports was relatively strong with 6.5% yoy (3M mov. avg.). Due to one-offs (holiday effect, re-tooling of production lines for new models) the monthly volatility was elevated in recent months. Export growth of the electrical engineering industry was up by 5% yoy, followed by mechanical engineering (+1.5%), chemicals (+1.4%) and the metal industry (+0.5%).
- Leading export indicators were mixed in January, but overall on a low level pointing to a continued weak development. The unresolved Ukraine-Russia crisis and the clouded growth outlook for major German trading partners – esp. China, France, Italy – will probably continue to be a drag. Thanks to the moderate recovery of the world economy in the further course of this year – driven by solid US growth – and the weaker EUR, we expect a gradual recovery of exports. Imports will probably grow relatively strongly thanks to robust domestic demand.

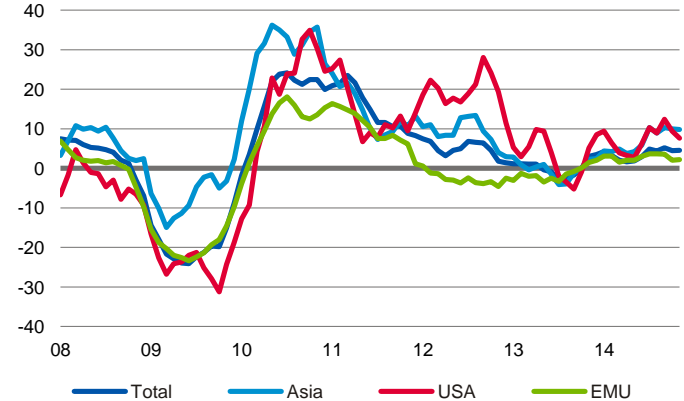
Merchandise trade

% yoy, 3M mov. avg. (left); EUR, bn (right)



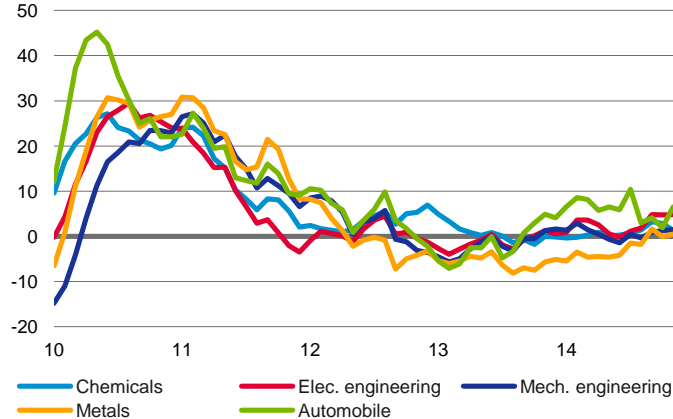
German exports by region

% yoy, 3M mov. avg.



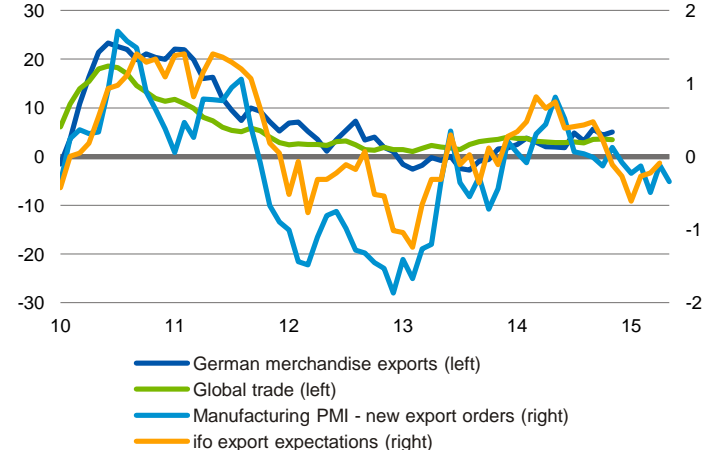
Exports by sector

% yoy, 3M mov. avg.



Exports and early indicators

% yoy, 3M mov. avg. (left); Standardized values (right, 4M lead)



Sources: Federal Statistical Office, Markit, ifo, Deutsche Bank Research, CPB

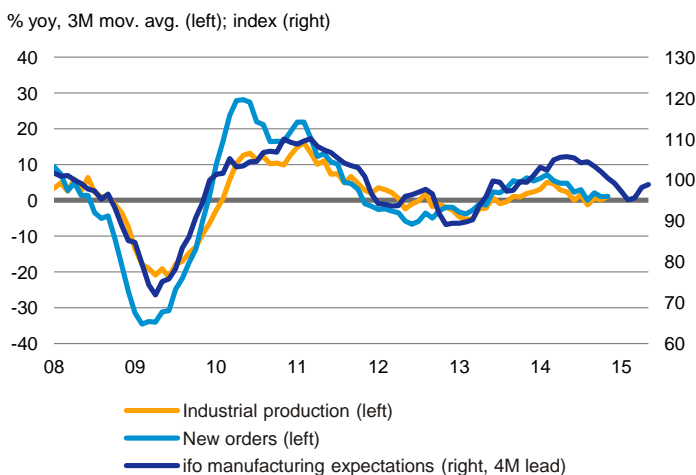


Focus Germany

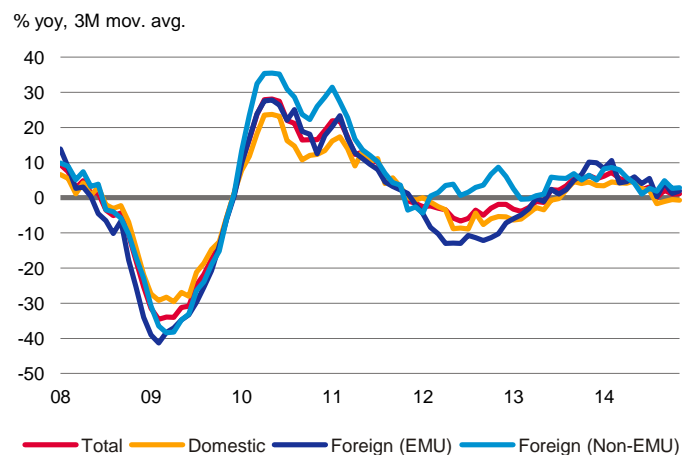
Chartbook – Industry

- Industrial production disappointed in November by contracting 0.1% mom. However, the weakness was in part the result of an upward revision of the previous month and the mild winter weather, which weighed on energy production (-2.4% mom). Compared to the previous year production was up 1.1% (3M mov. avg.).
- The ifo index for the manufacturing industry rose in January after three consecutive declines. The PMI manufacturing also increased after moving more or less sideways in the previous three months. Both indicators suggest on current levels that industrial growth should remain weak in Q1.
- In the course of 2015 industrial production in Germany is likely to record an uptrend. Due to the weaker EUR and falling oil prices we have revised our forecast for German industrial production in 2015 to 1.5% up from ¾% (2014: close to 2%). Somewhat stronger than expected production results in Q4 2014 have played a part in this revision. We expect both the automotive industry and mechanical engineering to increase their output by roughly 2% in 2015. While mechanical engineering should thus improve its performance over 2014 (+1%), the auto industry should see its growth cool (2014: +4.5%). Production in the electrical engineering industry is expected to grow by 1.5% – following a 2% increase in 2014. Production in the metals industry is expected to increase by 1% in 2015 after a relatively strong plus last year (+3%). Chemicals production is likely to add 1.5% in 2015; however, this would not even neutralise the setbacks in 2014 (-3%). Production in the food industry could increase by 0.5% in 2015.

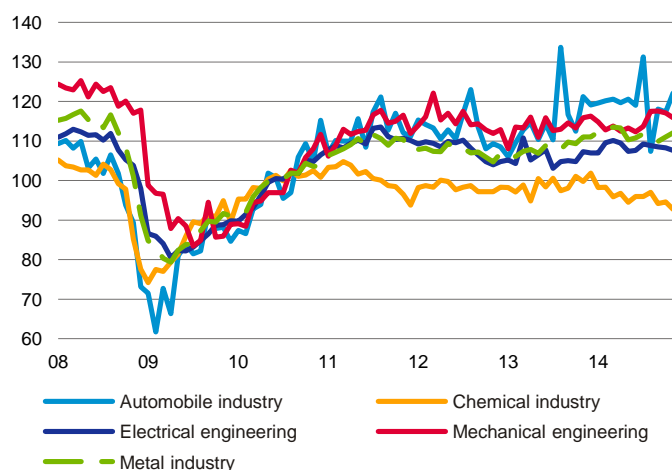
Industrial production, new orders & ifo expectations



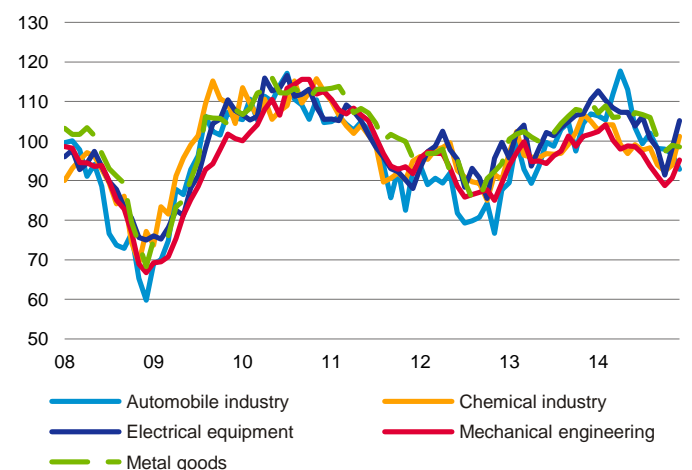
New manufacturing orders by region



Production of largest industrial sectors (2010=100, sa)



ifo business expectations of the largest industrial sectors (2005=100)



Sources: Federal Statistical Office, ifo

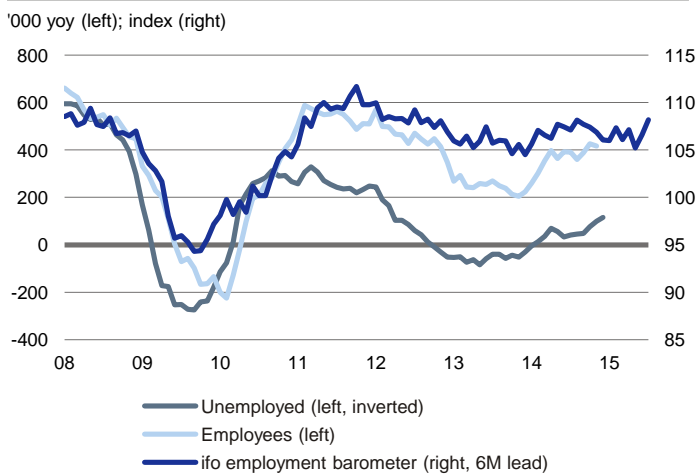


Focus Germany

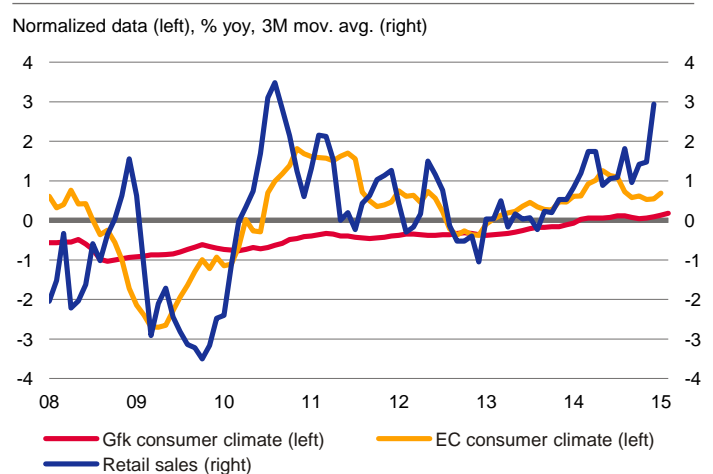
Chartbook – Domestic economy

- The German labour market showed ongoing strength in January. Unemployment was down (-9k mom). Employment growth continued to be mainly driven by the integration of immigrants into the German labour market which highlights mismatch problems of the domestic labour force. The outperformance of employment relative to unemployment continues due to somewhat above 300,000 additional persons having entered the German labour market mainly thanks to high net migration. Early indicators suggest a positive development over the next few months. During the rest of the year the likely negative impact from the minimum wage on employment will become more and more visible. The unemployment rate should fall to 6.5% in 2015 (2014: 6.7%).
- Real retail sales rose modestly in December (+0.2% mom). However, it was the third consecutive increase bringing Q4 sales up by a strong 1.6% qoq. Continuous employment build-up, solid wage increases and the falling oil price all contributed to this. The 4% jump compared to December 2013 was due to 2014 having one more working day. All told, retail sales rose by 1.4% in 2014 and thus stronger than private consumption, which only happened four times since 1995. Consumer confidence indicators have turned around late-2014 and suggest a continued moderate uptrend in sales.
- Investment in machinery & equipment and construction spending are expected to moderately contribute to growth in 2015. Domestic investment goods orders and capacity utilization currently point to a continued weakness in Q1. During the rest of the year, we expect investment in M&E to pick-up and to grow by 3.0% on annual average in 2015.
- The construction sector benefits from high net immigration and rising disposable income propelling housing demand. Construction spending could grow by about 2 ½% in real terms in 2015. Monthly indicators for construction activity were relatively weak recently despite robust business sentiment.

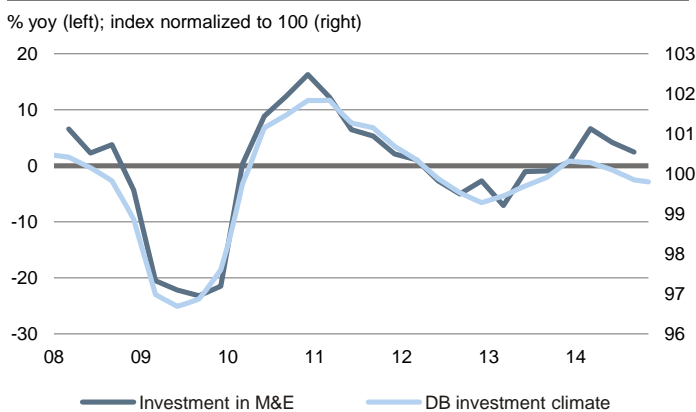
Unemployment barometer, employment and unemployment



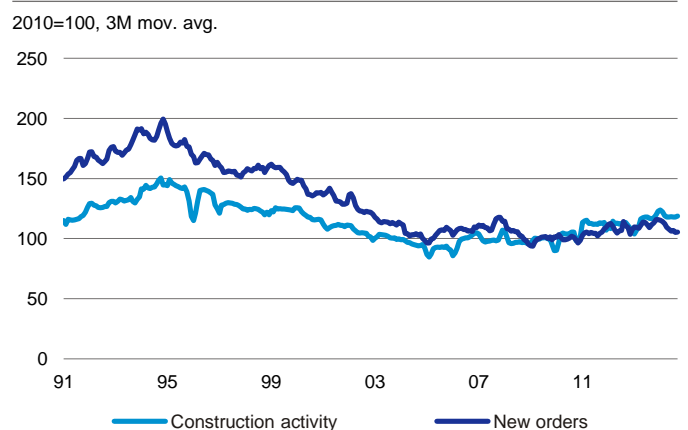
Retail sales and consumer confidence



Investment in machinery & equipment and DB investment climate



Construction activity and new orders



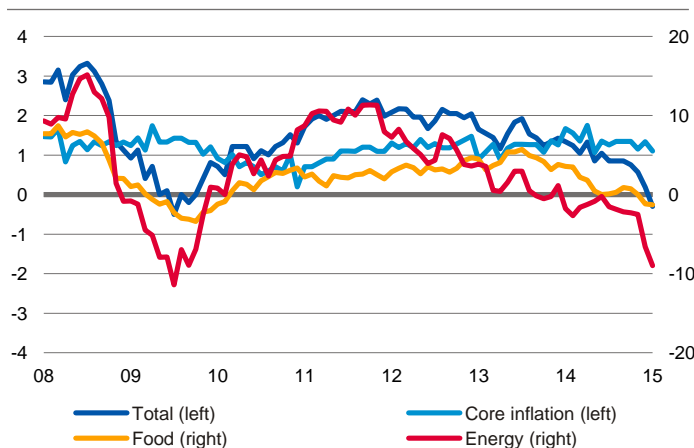
Sources: Federal Statistical Office, Deutsche Bank Research, Gfk, EU Commission, ifo



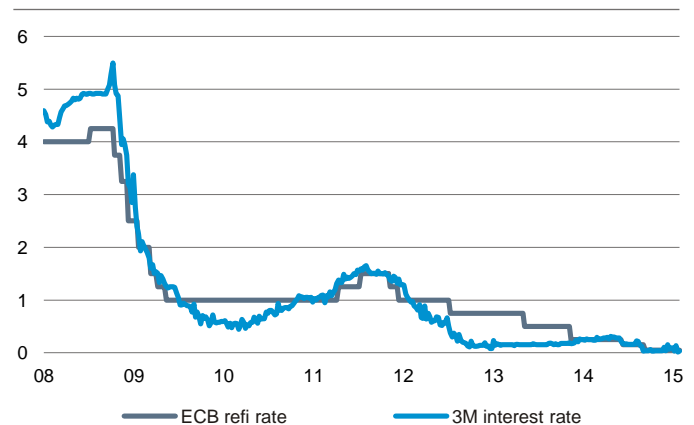
Chartbook – Financial markets

- The oil price continued to tumble in early 2015, which has brought German inflation into negative territory. In January the German inflation rate was at -0.3% (+0.2% prev.) as energy prices declined 9% yoy in January after falling only a good 2% in 2014. Food prices added to the soft inflation picture (-1.3% in January). In contrast, core inflation remained largely stable and the decline to 1.1% in January (1.3% prev.) was most likely due to a temporary drop in prices for package holidays. As we expect the oil price to remain weak throughout the year we see headline inflation at only 0.1% in 2015. For core inflation, however, there are some moderate upside risks due to the introduction of the minimum wage.
- Fearing a negative feedback loop between declining current inflation, a disanchoring of inflation expectations and still weak banking system restricting the supply of credit, the ECB decided on its meeting in January to extend its asset purchases significantly and lowered the interest rate for the TLTROs. Starting in March, the ECB will buy bonds issued by euro area central governments, agencies and European institutions additional to the already started purchases of covered bonds and ABS. The total purchase volume will be EUR 60 bn per month at least until September 2016. Objectives are credit easing and weakening the EUR by expanding the balance sheet by EUR 1.1-1.2 trillion.
- Given the extremely expansionary monetary policy stance of the ECB interest rate of 10Ygovt declined further. The yield for 10Y German gov bonds was down 130 bp yoy and is currently below 0.4%. The yield spread between 10Y US treasuries and German Bunds was 1.5 pp as of late.

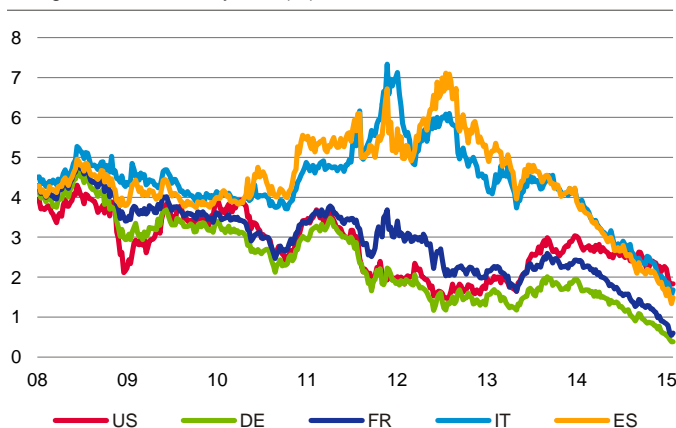
Consumer prices (% yoy)



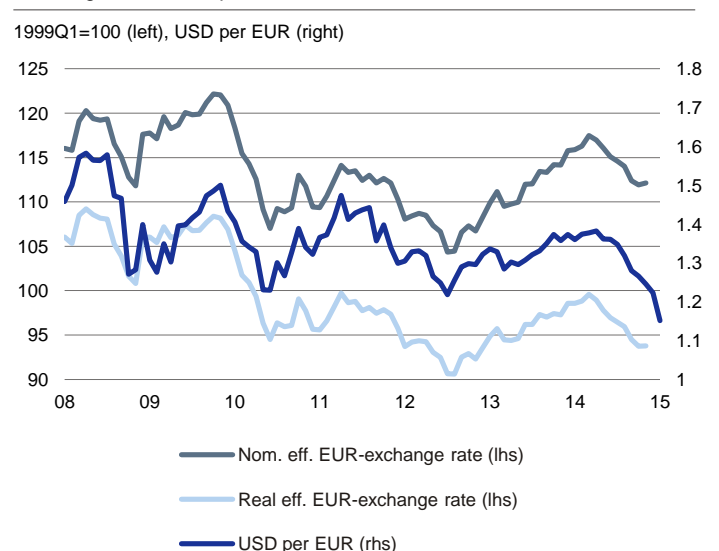
EMU: Refi rate & 3M interest rate (%)



10Y government bond yields (%)



Exchange rate development for the EUR



Sources: Federal Statistical Office, ECB, EU Commission, Global Insight, Reuters, Deutsche Bank Research

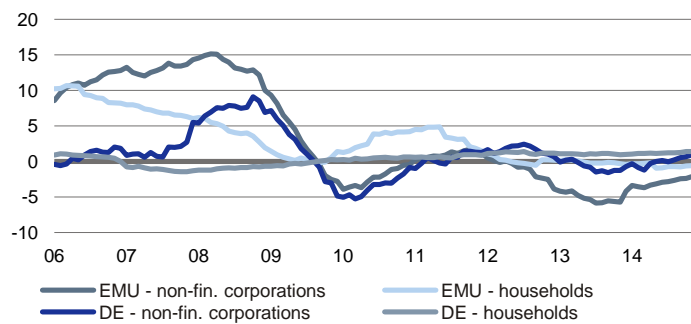


Focus Germany

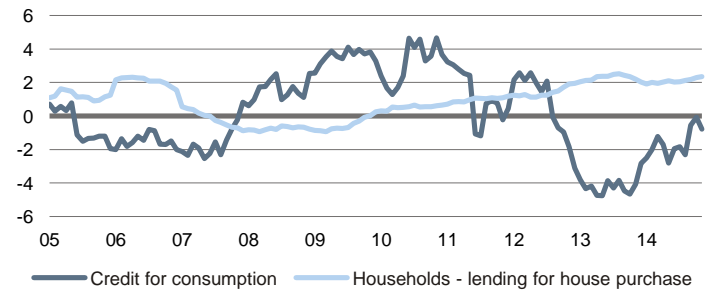
Chartbook – Lending

- Credit to corporates in the Euro Area has been shrinking since March 2012. However, during 2014 reductions have become less pronounced step by step. With -2.2% yoy, November records the smallest reduction since the start of the year (for comparison: January -3.4%, mid-2013: -5.9%). While still shrinking, the trend suggests bottoming-out coming closer.
- Household deleveraging in the euro area continues in November as well. Similarly, shrinking is becoming less pronounced though (Nov: -0.6% yoy compared to -0.9% mid-2014).
- Credit conditions for German corporates continue to be very favourable. Interest rates for corporate credit are at 2.8% (November). Only 17.4% of companies from industry and trade (November 18.3%) and some 21.5% of construction companies (November: 21.2%) report restrictive access to credit in December. Access to credit is substantially easier than 5 years ago when the shares of corporates reporting restrictive access were more than twice as high. Nevertheless, corporate borrowing has remained restrained throughout the year. Only most recently Q3 records slight growth. This trend has been continuing towards the end of the year (+0.9% yoy in November). Despite easy access to credit and the low rate environment, German corporates have shown reluctant demand for credit and investment. Alternative financing options of enterprises such as issuing corporate bonds have continued to dampen corporate loan demand.
- Lending to households in Germany continues to rise modestly (November: +1.4% yoy). Growth in mortgage credit (+2.4% yoy) continues to drive total increases and has been picking up slightly driven by the further drop in interest rates (new record low for mortgage rates in Nov. at 2.2%). All in all, mortgage credit growth in Germany has remained largely in line with developments in 2013 growing around 2%. Given the very low interest rates increases might still appear rather moderate. This partly reflects portfolio shifts by households and local supply shortages as well as rather cautious attitudes with regards to lending. Rising real incomes reduce the need to finance consumption via credit for many households translating into moderate credit demand despite the ultra-low interest rates.
- Consumer credit again decreased in November (-0.7% yoy).

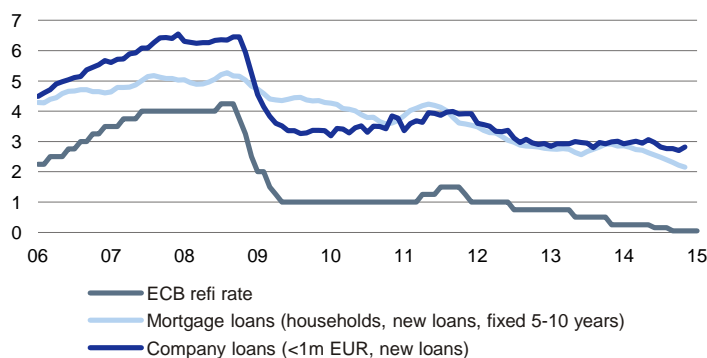
Lending to the private sector (% yoy)



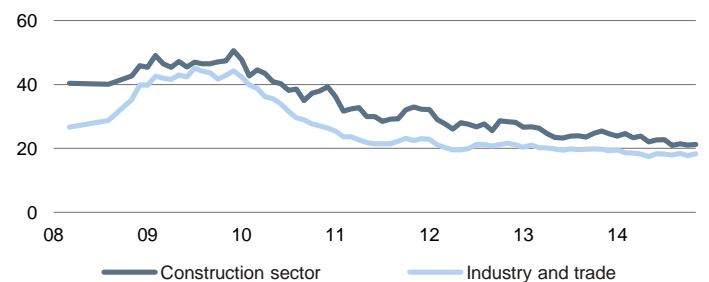
Loans to households (% yoy)



Interest rates (%)



Companies' view on access to credit



Credit constraints: Percentage of companies reporting restrictive access to credit. Higher values indicate more restrictive access to credit from companies' perspective

Sources: ECB, ifo, Deutsche Bank Research

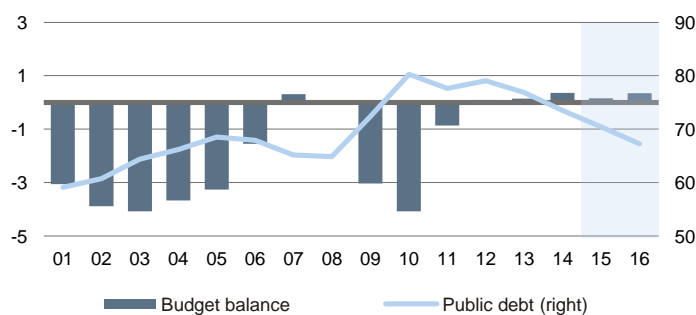


Chartbook – Public finances

- As in 2013, the general government budget closed with a small surplus in 2014. The budget situation is unlikely to change appreciably in 2015 and should see a slight surplus again at year-end. This will be driven mainly by the still good revenue prospects in view of the again more upbeat economic outlook. The robust growth of revenues will probably suffice in the current year to compensate for a number of measures representing fiscal burdens, such as the introduction not only of the nationwide minimum wage but also retirement at 63 and higher pensions for mothers whose children were born before 1992. The financial buffer provided by the social security system will continue to shrink, though, owing to the broader spectrum of benefits offered. One of the causes of the steadily higher revenue volume is that for several years there has basically been no change in the income tax scale. This heightens the fiscal drag of what is known in Germany as "cold progression". Changes in this area are currently a controversial issue. As the report on the minimum subsistence level has been now tabled it is necessary to adjust the personal tax allowance anyway.
- One year earlier than anticipated, the German government has already been able to close 2014 with a balanced budget. The budget is forecast to be in equilibrium again in 2015. The chances of this happening are good as long as there are no major unforeseen extra burdens on the budget – as would be the case, for instance, in the event of a potential renewed haircut on Greek debt. The municipalities and social security closed 2014 in the black again, too – however, the surplus was much smaller than in 2013. Only the aggregate Länder budgets showed a deficit. Within the Länder group – as among the municipalities – the situation remains very mixed, however. A host of Länder are deep in the red, while others report surpluses and can reduce their debt. In 2014, not only the general budget but also the Federation budget was structurally balanced for the first time in a long time. This means that since 2012 these have already complied continuously with the regulations for the debt brake that will apply in full force from 2016.
- Public debt (under the Maastricht definition) equalled only 74.8% of GDP at the end of Q3 2014 (down from 76.9% in Q4 2013). Over the next few years sovereign debt is likely to steadily decrease further on a continuation of the economic dynamics. The fact that the bad banks continue to run down their portfolios will alone cut debt by an additional roughly 0.5% of GDP p.a. This suggests that the debt ratio could slip back under 70% of GDP for the first time since 2008 as early as in the coming year.

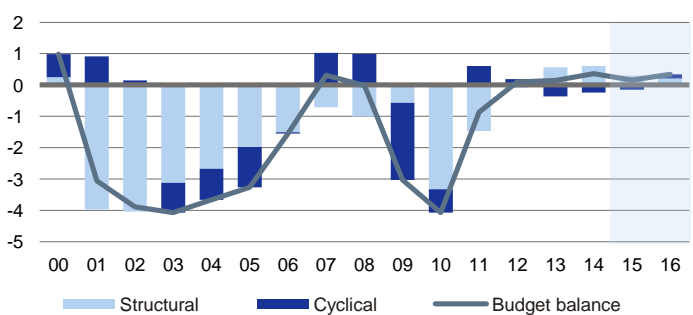
Public debt and budget balance

General government, as % of GDP



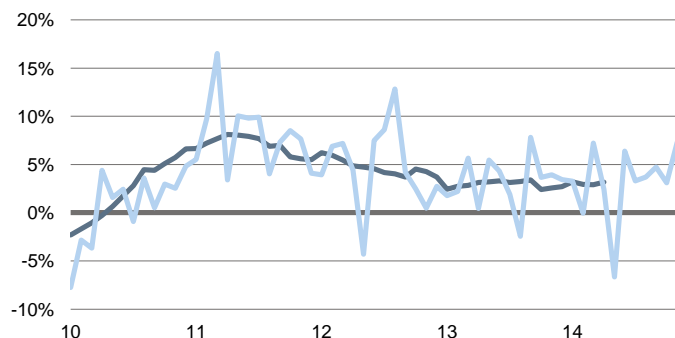
Budget balance

General government, % of GDP



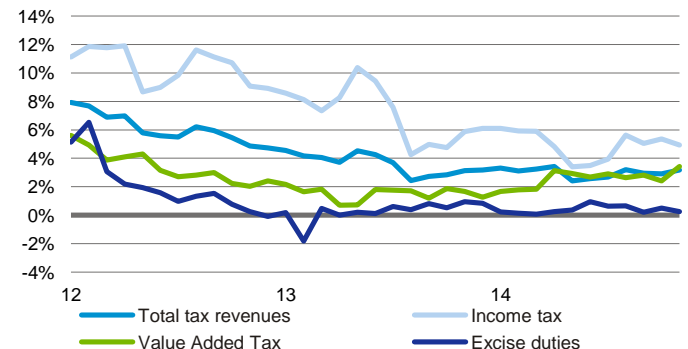
Tax revenues

Monthly data, yoy and yoy 12 months moving average



Development of important taxes

Change yoy, 12 months moving average



Sources: Deutsche Bank Research, European Commission, Bundesbank



Focus Germany

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

Date	Event	Remarks
9/10 Feb	G20 Meeting of Finance Ministers and Central Bank Governors in Istanbul	Agenda: global economic outlook; framework for strong, sustainable and balanced growth; investment and infrastructure; international financial architecture; financial regulation; international tax issues.
12/13 Feb	Informal meeting of the Heads of State or Government	Debate on EMU, on EU's fight against terrorism and on developments in Ukraine.
16/17 Feb	Eurogroup and ECOFIN, Brussels	Agenda: economic situation in the euro area, Greece, European Semester – the Annual Growth Survey (AGS) and Alert Mechanism Report (AMR), discussion on growth and jobs – implementation of euro area recommendations, Banking Union – euro area aspects, others.
28 Feb	European Commission	Publication of Winter macro forecast update.
5 Mar	ECB Governing Council meeting, press conference in Cyprus	As announced on Jan 22, the ECB will begin purchasing euro-denominated bonds issued by euro area governments, agencies and European institutions from March onwards.
9/10 Mar	Eurogroup and ECOFIN, Brussels	Fiscal surveillance: EDP implications of the Commission winter forecast, enhanced monitoring under the Macroeconomic Imbalances Procedure (MIP), Cyprus – 6th review, others.

Source: Deutsche Bank Research

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Focus Germany

Germany: Data calendar

Date	Time	Data	Reporting period	DB forecast	Last value
5 Feb 2015	8:00	New orders manufacturing (Index, sa), pch mom	December	1.6	-2.4
6 Feb 2015	8:00	Industrial production (Index, sa), pch mom	December	0.2	-0.1
9 Feb 2015	8:00	Trade balance (EUR bn, sa)	December	17.3	17.8
9 Feb 2015	8:00	Merchandise exports (EUR bn, sa), pch mom (yoy)	December	-1.4 (1.4)	-3.4 (1.6)
9 Feb 2015	8:00	Merchandise imports (EUR bn, sa), pch mom (yoy)	December	-1.1 (1.0)	1.8 (1.9)
13 Feb 2015	8:00	Real GDP (Index, sa), % qoq	Q4 2014	0.2	0.1
20 Feb 2015	9:30	Manufacturing PMI (Flash)	February	51.5	51.0
20 Feb 2015	9:30	Services PMI (Flash)	February	53.0	52.7
23 Feb 2015	10:30	ifo business climate (Index, sa)	February	107.2	106.7
26 Feb 2015	10:00	Unemployment rate (% , sa)	February	6.5	6.5
27 Feb 2015	8:00	Import prices (Index, sa) pch mom (yoy)	January	-1.4 (-5.0)	-1.7 (-3.7)
27 Feb 2015	14:00	Consumer prices preliminary (Index, sa), pch mom (yoy)	February	0.5 (-0.3)	-1.0 (-0.3)
3 Mar 2015	8:00	Retail sales (Index, sa), pch mom	January	-0.5	0.2

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

Financial forecasts

	US	JP	EMU	GB	CH	SE	DK	NO	PL	HU	CZ
Key interest rate, %											
Current	0.125	0.10	0.05	0.50	-1.25	0.00	0.05	1.25	2.00	2.10	0.05
Mar 15	0.250	0.10	0.05	0.50	-0.75	0.00	0.05	1.25	2.00	2.10	0.05
Jun 15	0.500	0.10	0.05	0.50	-0.75	0.00	0.05	1.25	2.00	2.10	0.05
Dec 15	1.000	0.10	0.05	0.50	-0.75	0.00	0.05	1.25	2.00	2.10	0.05
3M interest rates, %											
Current	0.35	0.20	0.05	0.56							
Mar 15	0.35	0.15	0.10	0.58							
Jun 15	0.75	0.15	0.00	0.59							
Dec 15	1.35	0.15	-0.10	0.60							
10Y government bonds yields, %											
Current	1.71	0.30	0.32	1.42	0.00	0.00	0.00	0.00			
Mar 15	1.85	0.40	0.30	1.50	0.00	0.00	0.00	0.00			
Jun 15	2.50	0.45	0.30	1.70	0.00	0.00	0.00	0.00			
Dec 15	2.65	0.60	0.50	2.25	0.00	0.00	0.00	0.00			

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	1.13	117.74	0.75	0.66	1.02	9.36	7.44	8.82	4.23	312.00	27.84
Mar 15	1.22	121.00	0.76	1.61	1.23	8.95	7.46	8.20	4.16	307.50	27.50
Jun 15	1.20	121.00	0.75	1.60	1.24	8.90	7.46	7.95	4.13	310.00	27.50
Dec 15	1.10	125.00	0.70	1.58	1.25	8.75	7.46	7.85	4.08	315.00	27.50

Sources: Bloomberg, Deutsche Bank

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Focus Germany

German data monitor

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Aug 2014	Sep 2014	Oct 2014	Nov 2014	Dec 2014	Jan 2015
Business surveys and output											
Aggregate											
Ifo business climate	110.9	110.2	106.5	104.5		106.3	105.3	103.4	104.6	105.5	106.7
Ifo business expectations	107.5	105.6	101.8	100.1		102.1	100.2	98.9	100.2	101.3	102.0
PMI composite	55.4	55.2	54.5	52.5		53.7	54.1	53.9	51.7	52.0	52.6
Industry											
Ifo manufacturing	107.0	106.4	102.6	99.7		102.5	101.4	98.5	99.4	101.1	102.2
PMI manufacturing	55.0	52.8	51.3	50.7		51.4	49.9	51.4	49.5	51.2	51.0
Headline IP (% pop)	1.1	-1.0	-0.3			-2.6	1.0	0.6	-0.1		
Orders (% pop)	0.0	-0.2	0.2			-4.2	1.1	2.9	-2.4		
Capacity Utilisation	83.5	84.3	84.0	83.7	84.1						
Construction											
Output (% pop)	5.7	-4.7	-0.1			-1.3	1.5	-0.1	0.6		
Orders (% pop)	2.1	-5.1	-2.3			-4.7	-0.7	0.8	0.5		
Ifo construction	122.8	119.8	120.3	120.3		120.5	120.8	120.8	120.7	119.4	119.1
Services											
PMI services	54.0	55.1	55.7	52.9		54.9	55.7	54.4	52.1	52.1	52.7
Consumer demand											
EC consumer survey	0.3	4.3	1.0	-1.2		0.3	-1.1	-0.7	-1.6	-1.4	0.0
Retail sales (% pop)	2.0	-0.5	-0.2	1.6		0.7	-1.9	2.1	0.9	0.2	
New car reg. (% yoy)	2.8	-0.3	4.1	2.7		-0.4	5.2	3.7	-1.8	6.7	
Foreign sector											
Foreign orders (% pop)	-1.4	0.3	1.9			-6.5	4.0	0.6	-0.7		
Exports (% pop)	0.6	0.7	2.4			-4.5	4.4	0.8	-3.4		
Imports (% pop)	1.8	-2.1	0.9			-1.3	2.1	-2.3	1.8		
Net trade (sa EUR bn)	46.9	53.6	58.2			17.4	19.9	22.4	17.8		
Labour market											
Unemployment rate (%)	6.8	6.7	6.7	6.6		6.7	6.7	6.6	6.6	6.6	6.5
Change in unemployment (k)	-42.0	-20.3	2.3	-36.3		1.0	8.0	-23.0	-16.0	-25.0	-8.0
Employment (% yoy)	0.7	0.9	0.9	1.0		0.9	0.9	1.0	1.0	1.0	
Ifo employment barometer	107.7	106.8	106.5	106.3		107.3	106.1	107.1	105.2	106.6	108.2
Prices, wages and costs											
Prices											
Harmonised CPI (% yoy)	1.0	0.9	0.8	0.4		0.8	0.8	0.7	0.5	0.1	-0.5
Core HICP (% yoy)	1.1	1.1	1.2	1.1		1.2	1.2	1.1	0.9	1.2	
Harmonised PPI (% yoy)	-1.0	-0.8	-0.8	-1.2		-0.8	-1.0	-1.0	-0.9	-1.7	
Commodities, ex. Energy (% yoy)	-11.1	-4.9	-1.8	0.9		-1.3	-1.1	0.9	1.7	0.1	
Oil price (USD)	108.2	109.7	102.0			101.6	97.4	87.3	78.8		
Inflation expectations											
EC household survey	22.0	16.9	13.4	8.6		14.8	10.0	11.1	8.5	6.2	0.5
EC industrial survey	5.6	2.3	4.2	2.1		4.1	5.2	4.7	3.2	-1.5	-1.2
Unit labour cost (% yoy)											
Unit labour cost	0.8	2.1	2.0								
Compensation	2.8	2.6	2.5								
Hourly labour costs	0.8	2.5	2.3								
Money (% yoy)											
M3	3.5	4.2	4.8			5.0	4.8	4.0	5.2		
M3 trend (3m cma)						4.7	4.6	4.7			
Credit - private	-3.6	-3.5	1.4			1.0	1.4	1.2	1.5		
Credit - public	-1.5	9.7	5.9			5.1	5.9	5.1	3.6		

% pop = % change this period over previous period.

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



Focus Germany

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