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Focus Germany

Strong domestic demand – but no excesses

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

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

Heiko Peters
+49 69 910-21548
heiko.peters@db.com

Oliver Rakau
+49 69 910-31875
oliver.rakau@db.com

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

Editor
Stefan Schneider

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

www.dbresearch.com

DB Research Management
Ralf Hoffmann

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Strong domestic market despite negative surprises. Since the last Focus Germany, some disappointing economic data have been published that fuelled the speculations around a slowing German economy. We do not believe that this requires revisions of our GDP forecast, though. Just like last year, the weakness of the industrial data is overstated by holiday effects. Nevertheless, there is a risk of an even lower foreign demand than stated by our already cautious estimates. This, however, is balanced by the upward risks for the domestic economy.

Spending on refugees eroding budget surpluses. Due to the migration dynamics over the summer months, we are reducing our budget forecasts for 2015 and 2016. Relative to gross domestic product we now expect surpluses of 0.3% and 0.0%, respectively (previously 0.7% and 0.5%). If integration efforts are successful, however, look for a substantial improvement in the fiscal position in comparison with the burdens to be expected in the wake of the demographic shift.

Private households in Germany: Low interest rates trigger increased borrowing. Despite a sustained low interest rate environment, the savings ratio of German households increased recently. German households continue to show a very cautious investment behaviour. The majority of new investments are still directed towards low-yield deposits and insurance- as well as pension and insurance products. The impact of low interest rates is rather noticeable through significantly increased borrowing activity. H1 2015 saw the highest increase in indebtedness of German households since the Dotcom bubble in the early 2000s it was mostly used to finance property investments. Nonetheless, we do not see the need for worries regarding debt sustainability. In relation to the strongly growing income, household debt is rather low – both in international and historical comparison.

The view from Berlin. Refugee crisis: Tipping point in public sentiment and policy moves. The generally supportive public sentiment has started to turn with more people in Germany emphasising the risks than the opportunities related to the influx of refugees. The CDU/CSU is showing a weaker performance in the latest polls but any speculation about a twilight of Merkel's chancellorship is far-fetched. To contain the political backlash a more restrictive asylum law has entered into force and Merkel is stepping up diplomatic efforts for cooperation with third countries, in particular Turkey. A re-vitalisation of the Turkish accession process might be one concession to achieve Turkey's political support in dealing with the refugee crisis.

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	0.9	1.5	1.6	0.4	0.1	1.0	2.4	2.8	2.5	-2.6	-2.1	-1.9
Germany	1.6	1.7	1.9	0.9	0.3	1.3	7.4	8.3	8.2	0.3	0.3	0.0
France	0.2	1.1	1.4	0.6	0.1	0.8	-0.9	-0.3	-0.7	-3.9	-3.8	-3.5
Italy	-0.4	0.8	1.5	0.2	0.1	0.9	1.9	2.2	2.7	-3.0	-2.7	-2.4
Spain	1.4	3.2	2.8	-0.2	-0.6	0.9	1.0	1.3	1.2	-5.9	-4.6	-3.5
Netherlands	1.0	1.9	1.4	0.3	0.3	1.1	10.6	11.0	11.1	-2.4	-2.0	-1.9
Belgium	1.3	1.3	1.4	0.5	0.6	1.6	0.1	1.5	1.5	-3.1	-2.7	-2.6
Austria	0.5	0.8	1.4	1.5	0.9	1.7	2.0	1.7	2.3	-2.7	-1.8	-1.7
Finland	-0.4	0.2	0.9	1.2	-0.1	1.1	-0.9	1.0	0.8	-3.3	-3.2	-3.1
Greece	0.7	-0.5	-0.8	-1.4	-0.8	1.3	-2.1	-1.0	-1.5	-3.6	-3.3	-2.2
Portugal	0.9	1.7	1.7	-0.2	0.5	1.2	0.6	0.8	0.7	-7.2	-3.1	-2.6
Ireland	5.2	5.2	3.5	0.3	0.1	1.6	3.6	5.0	4.5	-3.9	-2.1	-1.8
UK	2.9	2.6	2.5	1.5	0.1	1.3	-3.2	-4.5	-4.0	-4.5	-3.7	-2.1
Denmark	1.1	1.7	1.9	0.6	0.6	1.5	6.3	6.5	6.0	-1.0	-1.5	-2.0
Norway	2.3	1.3	1.5	2.0	2.1	2.5	9.4	7.5	7.0	9.1	7.5	7.0
Sweden	2.4	3.2	2.7	-0.2	0.2	1.5	6.2	6.5	6.0	-1.9	-1.0	-0.5
Switzerland	1.9	1.0	1.3	0.0	-1.0	-0.3	7.3	7.0	6.5	0.2	0.0	-0.5
Czech Republic	2.0	4.2	3.0	0.4	0.5	1.5	0.6	0.3	0.0	-1.9	-1.8	-1.6
Hungary	3.6	2.7	2.4	-0.2	0.1	2.2	4.0	3.1	3.3	-2.6	-2.7	-2.4
Poland	3.4	3.4	3.5	0.0	-0.7	1.4	-1.4	-1.7	-1.8	-3.2	-2.9	-2.7
United States	2.4	2.4	2.5	1.6	0.2	2.1	-2.6	-3.1	-3.7	-2.8	-2.7	-2.4
Japan	-0.1	0.6	1.1	2.7	0.8	0.8	0.5	3.4	3.3	-5.9	-5.3	-4.5
China	7.3	7.0	6.7	2.0	1.7	2.7	3.1	3.4	3.3	-2.1	-3.7	-3.0
World	3.3	3.1	3.4	3.6	3.5	4.1						

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

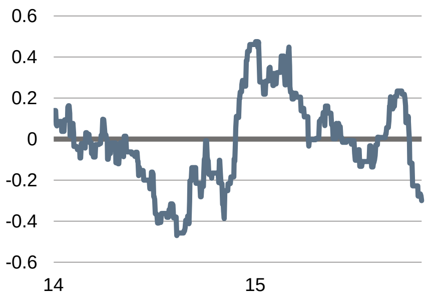
Forecasts: German GDP growth by components, % qoq, annual data % yoy

						2014				2015			
	2012	2013	2014	2015F	2016F	Q1	Q2	Q3	Q4	Q1	Q2	Q3F	Q4F
Real GDP	0.4	0.3	1.6	1.7	1.9	0.7	-0.1	0.2	0.6	0.3	0.4	0.4	0.3
Private consumption	1.0	0.6	0.9	2.0	1.8	0.3	-0.1	0.6	1.0	0.4	0.2	0.7	0.3
Gov't expenditure	1.3	0.8	1.7	1.8	0.4	0.4	0.6	0.6	0.5	0.6	0.3	0.3	0.2
Fixed investment	-0.4	-1.3	3.5	2.6	1.9	2.4	-1.5	-0.7	1.3	1.7	-0.4	0.6	0.5
Investment in M&E	-2.6	-2.3	4.5	4.3	2.0	-0.2	0.9	-1.9	2.6	1.9	0.1	0.3	0.4
Construction	0.5	-1.1	2.9	1.5	2.4	4.4	-3.8	-0.4	0.6	1.8	-1.2	1.0	0.9
Inventories, pp	-1.6	0.6	-0.3	-0.6	-0.1	0.0	0.4	-0.7	0.0	-0.1	-0.4	0.1	0.0
Exports	2.7	1.6	4.0	5.7	4.2	0.4	0.4	1.5	1.4	1.2	2.2	0.5	0.5
Imports	-0.3	3.1	3.7	5.9	3.8	0.6	0.9	0.4	2.3	1.9	0.8	1.2	0.7
Net exports, pp	1.4	-0.5	0.4	0.4	0.3	0.0	-0.2	0.5	-0.3	-0.2	0.8	-0.3	0.0
Consumer prices*	2.0	1.5	0.9	0.3	1.3	1.2	1.1	0.8	0.5	0.0	0.5	0.1	0.7
Unemployment rate, %	6.8	6.9	6.7	6.4	6.6	6.8	6.7	6.7	6.6	6.5	6.4	6.4	6.5
Industrial production	-0.4	0.1	1.5	1.1	1.2								
Budget balance, % GDP	-0.1	-0.1	0.3	0.3	0.0								
Public debt, % GDP	79.7	77.4	74.9	71.6	69.3								
Balance on current account, % GDP	6.8	6.4	7.4	8.3	8.2								
Balance on current account, EUR bn	187	180	216	252	255								

*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

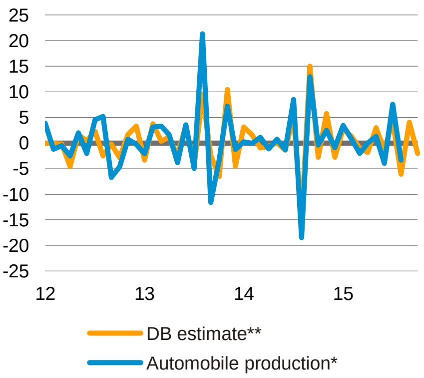
DB Macro Surprise Index 1

Average of the z-values of the last 20 data surprises



Sources: Bloomberg Finance LP, Deutsche Bank Research

Auto production: Official & DB estimates 2

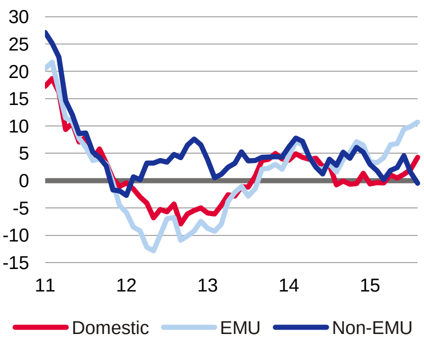


*Official real production index; ** Based on VDA car production numbers and DB seasonal adjustment

Sources: Federal Statistical Office, Deutsche Bank Research, VDA

Core orders from non-EMU weakened 3

Total ex. other trans. equip., % yoy, 3MMA



Source: Federal Statistical Office

Strong domestic market despite negative surprises

— Since the last Focus Germany, some disappointing economic data have been published that fuelled the speculations around a slowing German economy. These were intensified by the so-called "Dieselgate" as well as ongoing discussions about troubled emerging markets.

— We do not believe that this requires revisions of our GDP forecast, though. Just like last year, the weakness of the industrial data is overstated by holiday effects. Nevertheless, there is a risk of an even lower foreign demand than stated by our already cautious estimates. This, however, is balanced by the upward risks for the domestic economy. This is, for instance, visible in the recently re-accelerating job creation.

Negative surprises in October

Since the last Focus Germany in early October there were several negative surprises in the economic data. These pushed our DB Macro Surprise Index (see end of this publication) from moderately positive spheres decisively back into negative territory. The last observation even shows the lowest value since late 2014. Does this threaten our just recently confirmed and even increased GDP forecast for 2015 and 2016?

The stronger than expected falls of industrial production, new orders and exports in August that were reported in early October were probably seen as a confirmation for the worries around the emerging markets and their weakening growth prospects. They also increased the presumed strains on German industry, especially after the outbreak of the Volkswagen emissions scandal ("Dieselgate").

However, holiday effects played an important role for the weakness of the numbers and support our expectations of a bounce-back in September. In August 2015, around 80% of the German Länder (and citizens) were on school holidays. This was significantly more than between 2008 and 2013 (on average 70%) and is not accounted for by the seasonal corrections of the Federal Statistical Office. Already last year the timing of German school holidays led to disappointing industrial data in August and concerns over the economic outlook that were later calmed by improving industrial data for September.

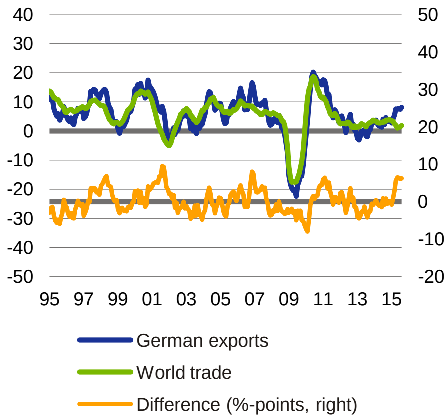
The expectations of a bounce-back are also supported by the already published VDA data on car production in September. These suggest that the strong slump of auto production of -3.4% mom should be largely reversed. VDA data for October suggests a small decline of the official production index, but it remains within "normal" monthly volatility. Similarly, new orders and exports should show a countermovement. Therefore, we do not see a significant slowdown in German industrial activity.

External risks are ...

We do not want to belittle the external risks for the German industry, though. In particular, non-Eurozone economic conditions are worrisome and should lead to a weakening of the recent strength of German export growth. This is, however, largely included in our already cautious export forecast.

German exports outstripping weak global trade 4

% yoy, 3MMA, real



Sources: Federal Statistical Office, Deutsche Bank Research, CPB

The order data confirms this dull outlook. New German industrial orders from non-euro area countries slowed, for instance, from +6% yoy in late 2014 to -0.5% in August this year. This should have been triggered by the worsening of economic conditions in Asia (in particular China) and by the normalisation of strong demand from the United States. In case of the US, the exchange rate induced export strength of the German economy is likely to have peaked. In contrast to this, domestic and EMU orders recently accelerated. Overall, this should lead German export growth to converge towards global trade again, which – in real terms – just stands at roughly +2% yoy. Since early 2015 these two time series had markedly diverged.

The ongoing weakening of emerging market PMIs to levels last seen in 2009 points to the existence of downside risks for our forecasts. The German ifo export expectations have also gotten more clouded in October. Nonetheless, our China chief economist still believes in a rebound of Q4 GDP growth in China followed by an only gradual deceleration of economic growth which should help stabilized Asian growth.

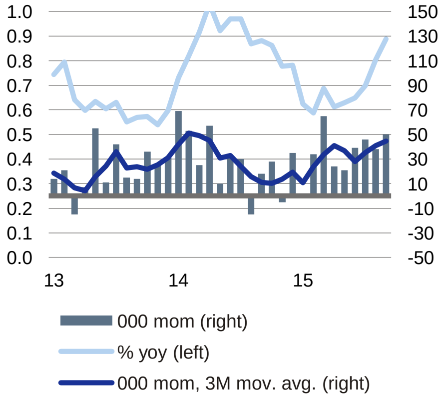
... compensated by pronounced domestic strength

In contrast, prospects for the domestic economy have brightened since our last forecast revision.

Employment growth picked up during the last months, after a period of weakness in H2 2014. In September, 50,000 new jobs were created. This implies an increase of 0.9% yoy much faster than the 0.6% earlier this year. Upward revisions also played their part in this positive picture.

Combined with the strong decrease in oil prices in Q3 2015, the job market gives rise to a very favourable consumption outlook. Retail turnover rose by 0.9% qoq in Q3. This is comparable to late 2014/early 2015 when the sharp decline in oil prices fuelled similar, noticeable real income gains. In addition to this, the 5% qoq rise in passenger car registrations was the largest increase since Q3 2011 and one of the strongest ever recorded.

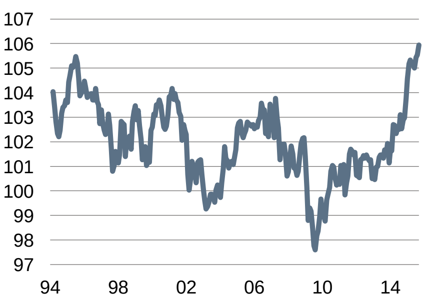
Employment picking up again 5



Source: Federal Statistical Office

Real sales back above 1995 levels 6

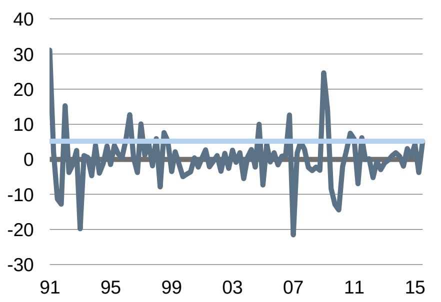
Real retail sales, 3MMA, 2010=100



Source: Federal Statistical Office

New car registrations have seldomly been stronger 7

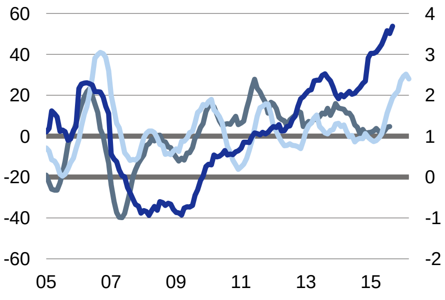
New car registrations, % qoq



Source: Haver

Data on mortgage loans also hints at a robust outlook for the building sector. New mortgage credit grew by around 30% yoy over the last 6 months. Even with the presence of certain one-off effects that might overstate the numbers, this contributed to an increase in total real-estate credit of 3.7% yoy in September. While a large fraction of this credit might be used for the purchase of existing property, construction activity should be stimulated as well. The large inflow of refugees should put additional pressure on housing demand and should further

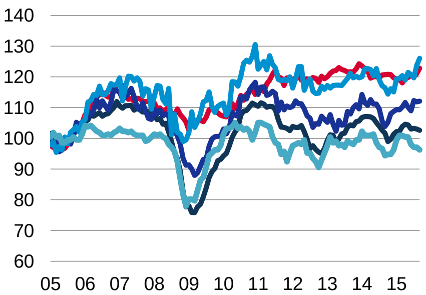
Construction spending about to pick up strongly? 8



Sources: Federal Statistical Office, Deutsche Bundesbank

ifo index by sector 9

Index 2005=100



Source: ifo

intensify the large demand overhang in this context. This supports the construction sector in the medium term.

Sentiment indicators for October confirm the picture of a weak external and a robust domestic outlook. The ifo business climate index in the manufacturing sector showed a small decline and remains just slightly above the historic average. Due to its high export share, this sector is particularly dependent on the international economic environment. Export expectations decreased or remained constant over the course of the last eight months. Therefore, they recorded even below their historical average in October. In contrast, the business climate in the domestically dominated retail and construction sectors remained – even in spite of a heterogeneous development in October – on a very high level.

Dieselgate (so far) without consequences

In face of the discussions around the technical manipulations at Volkswagen, we eagerly awaited the publication of the ifo-survey data for October. The results for the automobile sector were generally mixed but do not yet show an explicit strain for the sector.

Surprisingly, the business climate in the automobile industry even brightened up to a certain extent because of very positive business expectations (!). Production expectations increased and, therefore, reached once again the high level of Q1 2015. Capacity utilization rose markedly to 91.8% in Q4 and is at the same level as in H1 2015 and late 2008, just before the crisis. In contrast, export and employment expectations decreased further in the sector. Also the order books were assessed much more negatively than before.

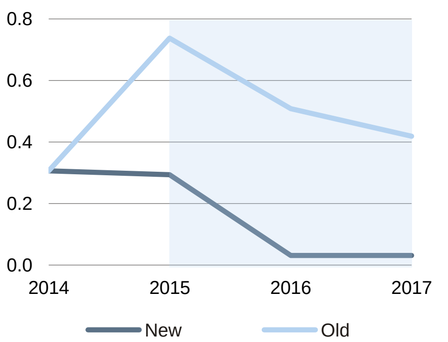
Of course it is possible that car retailers and producers might only feel the consequences with a considerable lag, as the currently filled order books might limit short-term (production-) effects. However, according to Volkswagen, no negative impact on the order books had been recorded so far. All in all, we feel that this validates our expectations of only marginal macroeconomic effects of the scandal on Germany[1].

Oliver Rakau (+49 69 910-31875, oliver.rakau@db.com)

[1] „Dieselgate“, a massive blow for Volkswagen but not the Germany economy. Focus Europe. October 9, 2015.

Forecast: Net lending 1

% of GDP



Sources: Destatis, Deutsche Bank Research

Spending on refugees eroding budget surpluses

— Given the soaring refugee numbers we forecast substantially lower budget surpluses in 2015 and 2016. Relative to GDP we now expect surpluses of 0.3% and 0.0%, respectively (previously 0.7% and 0.5%).

— At the same time, the extra government expenditure on refugees is set to boost GDP growth by roughly one-quarter of a percentage point in 2016, to 1.9%. Lower surpluses and higher growth will result in only minor adjustments to our forecast of public debt as a percentage of GDP. On successful integration of the refugees, however, a considerably improved fiscal position is to be expected in the upcoming decade – relative to the otherwise negative dynamics.

— Given the dynamics of migration, all the forecasts are fraught with uncertainty. As the refugee crisis continues, higher support payments could arise for other hard-hit countries.

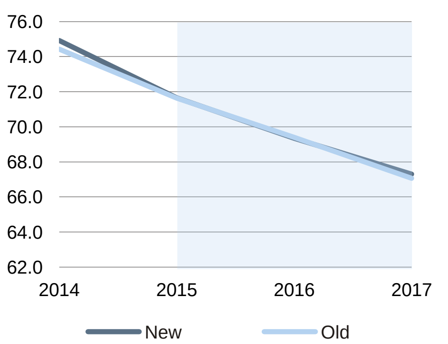
High forecast uncertainty due to the migration dynamics

Because of the statutory benefits for refugees, the growing number of civil war refugees and asylum seekers will boost government expenditures. To rein in one of the drivers of immigration the German government recently adopted an amended asylum policy that included declaring the Western Balkan countries to be safe countries of origin. However, in the German government's opinion, humanitarian considerations rule out numerical limitations on the right to asylum. This means that asylum-related expenditures are likely to continue rising. Moreover, there are signs of aid being extended to countries neighbouring Syria in which the majority of those fleeing the civil war have found refuge to date. Ultimately, measures taken to contain the conflict in Syria will probably also require additional expenditures, although these are likely to be shouldered by a larger group of countries.

Consumption-driven growth stimuli

Forecast: Public debt 2

% of GDP



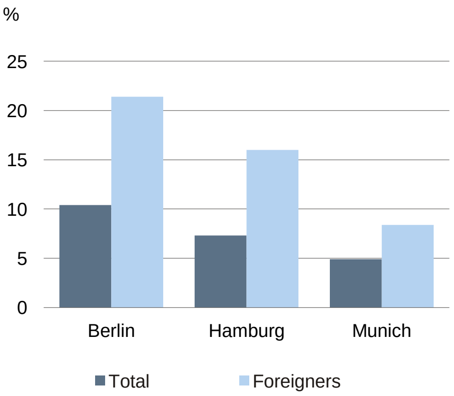
Sources: Destatis, Deutsche Bank Research

Given the huge increase in refugee numbers and only slim prospects of the influx abating significantly in 2016, our assumption for 2016 is an average of one million refugees. According to statements in political circles, the annual cash and non-cash benefits total about EUR 12,000 per refugee. While these expenditures break down into private and public-sector consumption, total consumption is set to rise by at least EUR 12 bn in 2016. By contrast, investment in the construction sector is likely to remain subdued for the time being despite extra demand for refugee housing. Capacity restrictions and regulatory measures have already limited additional supply, which has amplified the pronounced demand overhang in the housing market. In the medium term, though, the public funds earmarked for social housing to cope with the refugee crisis along with already adopted less stringent rules on approval procedures for building projects are likely to stimulate construction activity. Nonetheless, we have increased our GDP forecast for the coming year by around one-quarter of a percentage point, to 1.9%, only on account of the higher consumption.

Gradual integration into the labour market will raise social security expenditures

The short-term fiscal effects of the refugee inflow are mainly a function of the spending required for teaching refugees the necessary language and vocational skills as well as of the time needed for their integration into the labour market. In this context, the costs will probably far exceed the positive effects at first owing to the slow progress of integrating the refugees into the labour market. In the medium to long term, a successful integration policy offers potential to generate a threefold dividend: 1. lower social spending, 2. higher social security contributions and higher tax receipts, and 3. upon successful integration, improved growth dynamics in comparison with the otherwise demographically induced burden on potential growth.

Unemployment rate in large German cities 3



As of September 2015

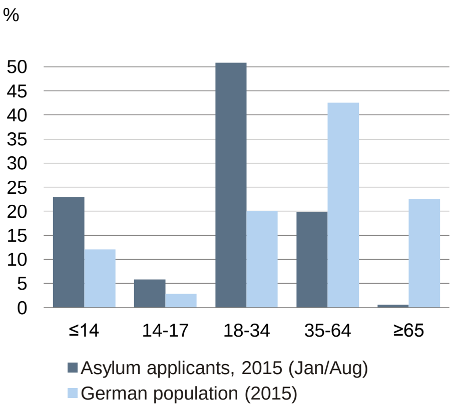
Sources: Federal Employment Agency, Deutsche Bank Research

Not only bureaucratic bottlenecks in asylum procedures and the granting of work permits but also the skills mismatch inherent in rapid integration into the labour market will probably impede progress temporarily. Thus, despite a large number of job vacancies – also for the low-skilled – the number of job seekers is set to increase. The Ministry of Social Affairs estimates there will be several hundred thousand extra recipients of social benefits in 2016, which should be reflected in higher social security deficits. The EUR 12,000 in expenditure projected for each refugee per year is more likely to represent the low end of the scale given only slow progress on average in integrating the refugees into the labour market. Apart from the initially incurred costs of accommodation, food and medical care, further costs will arise for job searches, education and training, and language courses. Moreover, the coverage ratio at the Federal Employment Agency for all job seekers will decline rapidly since besides the 2.8 m jobless there will then be – at least initially – particularly support-intensive refugees looking for jobs. Therefore, the short-term marginal fiscal costs should far outstrip the returns. The rate at which integration proceeds and the way costs and revenues are allocated over the next few years could depend in particular on the inevitable debate about a potential readjustment of social security benefits and minimum wages for refugees.

Need for new hires in the public sector

Further increases in expenditure are being incurred in the education sector for the hiring of new kindergarten and school teachers. Roughly one refugee in four is a minor (see chart), which of course considerably boosts the chances of their integration. In mid-October, Bavaria announced plans in a supplementary budget to create 1,700 new teaching positions with a focus on integrating refugee children. The teachers association has called for the creation of more than 20,000 new teaching jobs across Germany and, furthermore, for the hiring of special needs teachers, interpreters and therapists. There could be a similar need for kindergarten teachers. These potential new hires will initially weigh on the budgets of the municipalities and the Länder (federal states). The same applies to the public administration authorities, which are working at full capacity in many areas. Back in August the federation of civil servants demanded several thousand new hires for the police, municipalities, public health centres, social services and the justice system. Assuming average costs of roughly EUR 75,000 per year and per teaching position and EUR 50,000 for the other public services, public spending will increase by EUR 75 m for every 1,000 teaching jobs, and by EUR 50 m for every 1,000 other jobs in the public sector. Furthermore, excess expenditures will initially be set against only limited job performance, as training periods could last a relatively long time in this tense situation.

Refugees' age distribution skewed to the younger cohort 4



Sources: Eurostat, Deutsche Bank Research

Allocation of costs between Federation, Länder and municipalities

These additional expenditures will widen budget deficits in many municipalities and Länder, while the Federation posts high surpluses. This suggests that the calls on the federal government to shoulder the extra costs will resurface on the political agenda. Up to now, the Federation has been transferring a sum of EUR 670 per month and refugee. However, this payment probably only partly covers the actual costs at the Länder and municipal levels.

New forecasts for fiscal balance and public debt

The government should be able to cover/absorb much of the excess expenditure discussed here thanks to falling interest expense and further robust growth of tax receipts and social security contributions. However, this will result in the budget surpluses expected to date being eroded. Therefore, we are lowering our budget forecast for 2015 to 0.3% of GDP and for 2016 to 0.0% (previously 0.7% and 0.5%, respectively). This forecast is also based on the assumption that the German government firmly adheres to its target of a balanced budget.

With regard to our forecast for the public debt ratio, the lower budget surpluses and the higher GDP forecasts virtually cancel each other out. Therefore, we continue to look for a debt ratio of 71.6% in 2015 and 69.3% in 2016. Towards the end of the decade the debt load will probably continue to decline and then only slightly exceed the 60% Maastricht limit. However, this forecast is subject to downside risks due to the realignment of asylum policy. Beyond 2020, though, the current immigration could result in a substantial improvement in the fiscal position if integration efforts are successful. Given the burdens to be expected in the wake of the demographic shift, such a development would be highly welcome.

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

Private households in Germany: Low interest rates trigger increased borrowing

— Despite a sustained low interest rate environment, the savings ratio of German households increased recently, as the savings motive (retirement savings) and the income development compensate for the low interest rates.

— German households continue to show a very cautious investment behaviour. The majority of new investments are still directed towards low-yield deposits and insurance- as well as pension and insurance products. Risk-carrying investments only receive moderate inflows, even though for now the net outflow from this asset class seems to have stopped. Investors also appear to continue to replace their exposure in the bond market with more reliance on investment fund certificates.

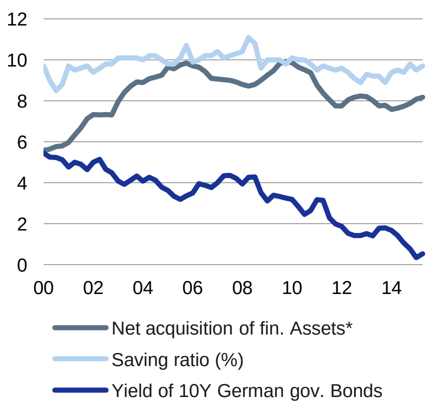
— The impact of low interest rates is rather noticeable through significantly increased borrowing activity. H1 2015 saw the highest increase in indebtedness of German households since the Dotcom bubble in the early 2000s and it was mostly used to finance property investments. Nonetheless, we do not see the need for worries regarding debt sustainability. In relation to the strongly growing income, household debt is rather low – both in international and historical comparison. Even under extreme assumptions it would take until the mid-2020s in order to reach a debt level comparable to the early 2000s.

Introduction

In April this year we published our last update concerning the investment behaviour of private German households. Back then, we looked upon the data from Q4 2014 that showed a higher propensity to save notwithstanding lower interest rates. Even the willingness to invest into higher-yielding assets increased only marginally, despite consequently lower returns. However, the low interest rate environment led to a significant increase in household indebtedness.

These developments have continued and even intensified in H1 2015. In general, the investment behaviour remained very cautious. Given the recurring discussions around a property bubble in Germany, we compare the current situation with the one in other countries that suffered from bursting bubbles in the preceding years. There we manage to show that the debt level of German households is far short of the one in other countries.

Savings ratios defy low interest rates 1



*4Q sum in % of disposable income

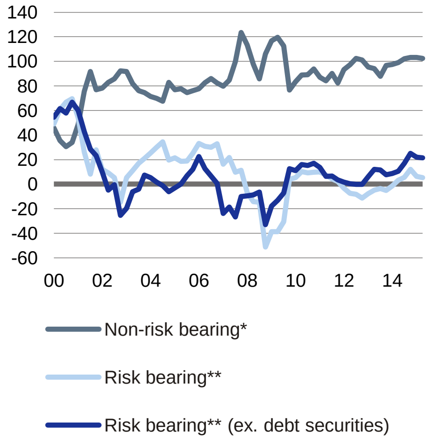
Sources: Federal Statistical Office, Deutsche Bundesbank, Deutsche Bank Research

Savings: Interest rates only one factor among many

Following a decent dip of the savings ratio of private households in the course of the financial crisis after 2008, a slow upward movement can be observed since early this year. The last observation records a rate of 9.7%, compared to the long-term low of 8.9% in Q4 2013. This is also visible through an accelerated formation of financial assets (financial savings). In Q1 and Q2 2015 around EUR 100 bn were saved. This is by far the largest amount saved in half a year – the average over the last four years was only at around EUR 80 bn. Even considering the financial savings in relation to the disposable income and less new debt, one can observe an increasing trend for financial asset formation. Since Q1 2014 (7.6%), this rate rose up until 8.2% (2005-08: 9.3%). In H1 2015, also the interest rates fell to an historical low. Consequently, 10y German

A little more risk 2

Share in acquisition of fin. assets, 4Q avg., %

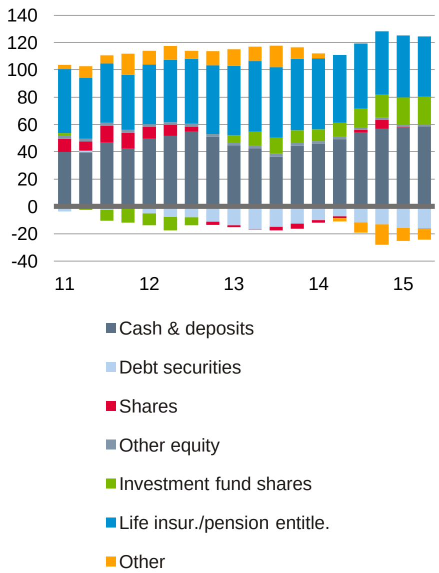


*Cash, deposits and life insurance / pension entitlements
**Debt securities, shares/equity & invest. funds

Sources: Deutsche Bundesbank, Deutsche Bank Research

Only investment funds as risky asset 3

Share in acquisition of fin. assets, 4Q avg., %



Source: Deutsche Bundesbank

government bonds showed yields of less than 0.1% in April. During this period, even 7y German government bonds dipped temporarily into negative territory.

Our analysis in March (Focus Germany, March 2, 2015) only showed a minor (not even significant) influence of interest rates on the savings ratio. In its current monthly report, the German Bundesbank also shows that (real) returns only marginally affect savings- and investment decisions. “Instead, income- and wealth-related as well as demographic factors and the institutional setting might be all the more important determinants.” (German Bundesbank, Monthly Report, October 2015). Therefore, retirement considerations could even lead to higher savings following lower interest rates in order to hold the inter-temporal budget constraint constant. In a Bundesbank survey, 77% of households reported to not have changed their savings behaviour despite the lower interest rates. However, the survey was conducted in 2010 and 2011 when interest rates still were significantly higher.

Recently, the very positive employment outlook, the extremely low oil price, the introduction of the minimum salary and the pension increase in Germany led to firm increases in (real) income that were partly used for more intensive savings activities.

Still “safety first”

Concerning the investment behaviour of households there were only moderate adjustments during the previous two quarters (see chart 2). Safety still seems to be the priority for investors. In the face of a high (seasonal) volatility, we analyze the cumulated or average flows over the last four quarters.

Just above 100% of newly acquired financial assets were non-risk bearing assets over the course of the last four quarters. Here, we include cash & deposits as well as insurance investments and pension entitlements. The overall level remained roughly constant over the last few quarters bringing the upward movement of previous years to an end. Except for the years of the financial crisis, when money was actively redeployed from risk bearing to non-risk bearing assets, this still represents the highest share on record. This is a clear sign of households’ strong risk-aversion.

The modest increase in risk-appetite until Q4 2014 noticeably softened over the previous two quarters. In late 2014 around 12% of new investments flowed into risk-bearing assets. This was the highest value since 2007. In H1 2015 this share dropped to just 5% again, still remaining in positive territory, though. In contrast, in 2012 and 2013 we could still observe considerable outflows from these asset classes. Risk-bearing assets include investment certificates, debt securities (bonds), shares and other equity.

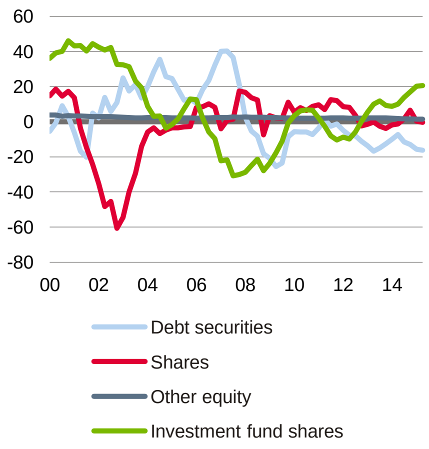
The inflows into riskless and risk-bearing assets exceed the total new investments of households. This is due to decreasing “other accounts receivable” that exert a dampening effect on financial asset accumulation. A detailed explanation of the drivers behind this is not possible because of the lack of more detailed data by the Bundesbank. However, other accounts receivable of households include accumulated interest- bearing surplus shares with insurance corporations. In the face of the continued low interest rate environment, these have probably come increasingly under pressure.

Divergence in risk-bearing assets ...

Within the group of risk-bearing investments, some significant changes are visible that on-balance point towards a somewhat increasing risk-appetite.

Divergence among risk-bearing assets 4

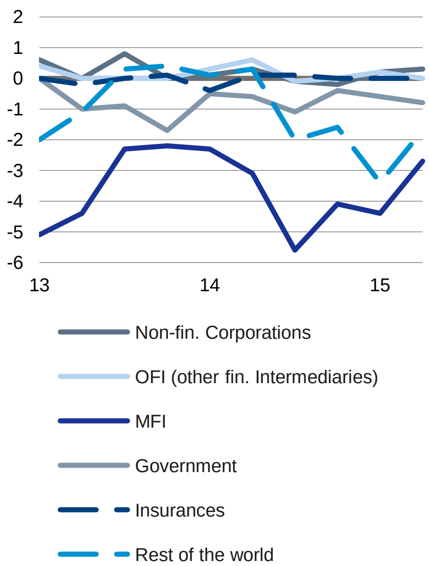
Share in acquisition of fin. assets, 4Q avg., %



Sources: Deutsche Bank Research, Deutsche Bundesbank

Lower inflows into bank bonds 5

Acq. of fin. assets, EUR bn



Source: Deutsche Bundesbank

— On the one hand, net outflows from the debt securities strengthened markedly over the recent months. During the last four quarters, EUR 28 bn, or around 16% of total new investments, were pulled from this asset class. This asset class was especially affected by the financial crisis and recorded continued, large outflows since 2008 that were subject to strong volatility. There were likely several interconnected drivers:

— The most important of which was the decreasing supply of bonds issued by banks (and other MFIs, monetary financial institutions). Investments in the bond market are only broken down since early 2013. However, since then, households constantly withdrew investment or refrained from reinvesting expired bonds. This amounted to around EUR 17 bn over the last four quarters. This was probably triggered by an adjusted refinancing structure of banks. Thanks to very favourable refinancing conditions from the ECB and extensive inflows from cash deposits, banks require less liquidity from the bond market; or alternatively, investors in the market were less willing to buy these bonds under the prevailing conditions. Other risk-bearing assets did not benefit from this development, though, especially in 2012 and 2013.

— A less important part is played by the net outflows from German government bonds and bills. These accumulated to around EUR 3 bn. Here, the extraordinarily low interest rate level might play a role, making the realization of new or the rolling over of old investments less attractive.

— EUR 9 bn worth of investments in bonds of foreign origin was also deducted. A more detailed breakdown is, again, not available. However, similar arguments might be at play as in the case for German government and bank debt securities.

On the other hand, the net inflows into investment certificates increased by a similar magnitude. Households invested more than EUR 35 bn over the previous four quarters. In this way, the inflows into this asset class exceeded the outflows from the bond market in five of the last six quarters. This can be interpreted as a moderate increase in risk appetite.

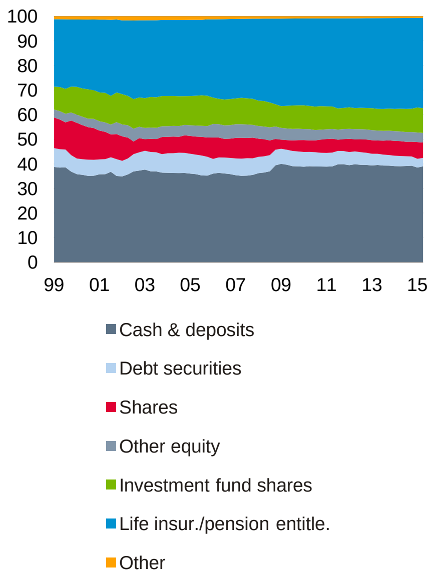
… showing up in balance sheets

Given the only moderate changes in households' investment patterns, their balance sheet allocation among the different asset classes has seen little change, too. Cash & deposits stood for 39% of total assets in Q2 2015. Thus, their share has continued to gradually trend lower. In Q3 2011 the share had still stood at 39.8%. However, given consistently high inflows in cash & deposits the downtrend in the share is mostly a result of valuation gains in other asset classes. The share of investment in insurances and pension entitlements has remained largely constant in the last 10 quarters at just below 37%. Previously there had been a gradual uptrend. Together these two non-risk bearing asset classes have made up over 75% of total assets since mid-2011.

Thus, the share of the remaining (risk-bearing) assets has remained roughly constant at about 25%. However, within that group the divergence in new investment we described above is increasingly leaving its mark in balance sheet shares. While debt securities still stood for 7% at the end of 2007, the share has shrunken to only 3.5% at its latest reading. In contrast, the share of equities and investment certificates has risen strongly from its low points. Equities only benefitted from valuation gains, while investment certificates benefitted equally from valuation gains and investment inflows.

Decling share of debt securities 6

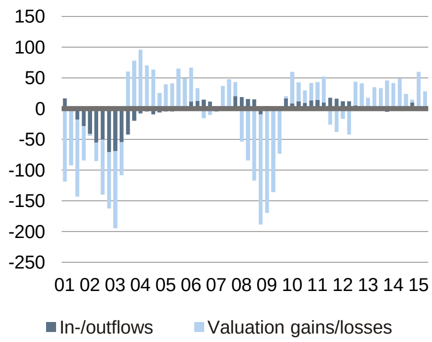
Share in financial assets, %



Source: Deutsche Bundesbank

Valuations gains dominate for shares 7

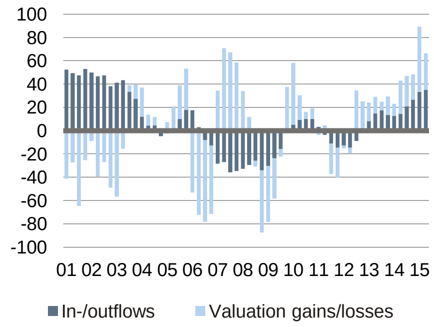
EUR bn, 4Q sum



Sources: Deutsche Bundesbank, Deutsche Bank Research

Investment fund flows: High valuation gains and inflows 8

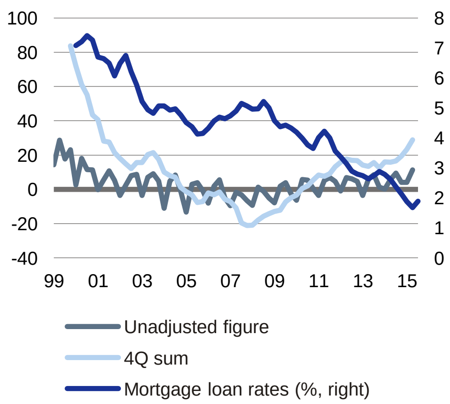
EUR bn, 4Q sum



Sources: Deutsche Bundesbank, Deutsche Bank Research

Debt take up rising strongly 9

EUR bn



Sources: Deutsche Bundesbank, Deutsche Bank Research

Rising new borrowing ...

The most material new development in the data on households' financial situation has been the marked pick up in new borrowing over the last few quarters. In Q2 2015 alone EUR 11.3 bn were borrowed. This is the highest value since Q3 2000. Cumulated over the last four quarters, which were all above average, new borrowing stood at EUR 28.8 bn. Based on monthly bank lending figures from the Bundesbank this high pace continued in Q3 2015.

The build up of debt is driven by long-term debt, which has (most likely) been used primarily for investment in (residential) real estate. The extremely low interest rate level plays an important role. Mortgage interest rates (fixed for 5-10 years) had fallen to below 2% in H1 2015. Given the ECB's medium-term inflation target of around 2% the real yield was negative.

Given household debt levels that are low in historic and international comparison, the low interest rates, robust income prospects and Germany's relatively low house price levels the incentives for German households to continue to invest in real estate are obvious. We have written about this several times.[2]

... so far benign

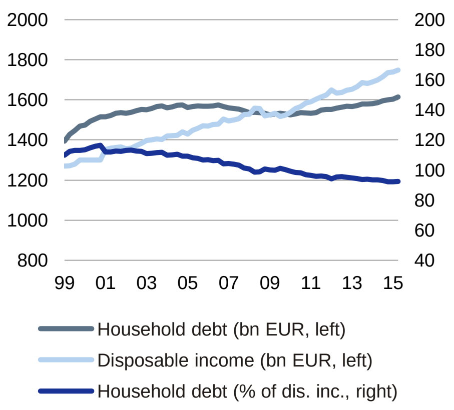
Given this environment concerns over a potential debt financed housing bubble often surface. Real estate bubbles are a risk to economic stability primarily through second-round effects via the banking / financial channel. Should there be widespread mortgage defaults banks and their function as financial intermediary could be at risk.

One measure for debt sustainability is debt relative to GDP or to disposable incomes. This measure currently gives little cause for concern, though: Disposable incomes have risen strongly in recent years and continued to do so lately. Thus, the increased level of new borrowing has so far only brought about a stabilisation of the relative debt level. In Q2 2015 household debt was 92% of disposable incomes and 54% of GDP. In the early 2000s it had still stood at 115% and at over 70% respectively. Especially since the mid-2000s there has been a marked downtrend.

German household debt is also low in an international comparison. In 13 of 28 EU states household debt has been lower in 2014. However, of these only Italy

[2] Focus Germany. Migration, urbanization, inflation. October, 2 2015.

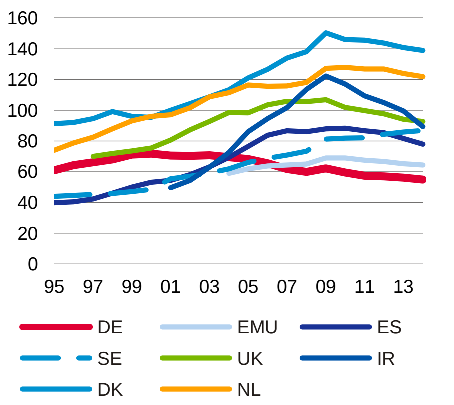
Stabilizing debt ratio 10



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

German household debt: Low in international and historic comparison 11

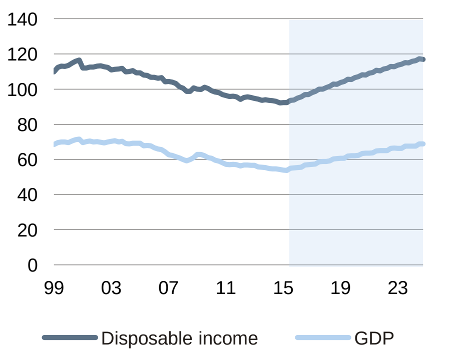
Liabilities, % GDP



Source: Eurostat

Even under extreme assumptions debt levels remain low 12

Household debt in % of ...



Assumption: Liabilities rise by EUR 22.6 bn per quarter and GDP/incomes grow by 2% p.a.

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

and Austria are EMU states, which provide a more fair comparison base. Comparing Germany with states that went through a real estate crisis or have high levels of household debt Germany stands out with its low and (until lately) falling household debt levels. The peak of German household debt was in 2000 at 71.6% of GDP. In Spain it was much higher at 88% in 2010. The Netherlands (2010: 127.9%), Denmark (2009: 150.3%), Ireland (2009: 122.3%) and the UK (2009: 106.8%) all had experienced much higher peak debt levels.

Given the low interest rate environment new borrowing could pick up further and sustainably outpace income gains. To bring German household debt back to its levels from early-2000s or even higher towards levels seen in other states borrowing would have to accelerate much more markedly than can currently be envisioned.

An illustrative sample calculation: We assume that new borrowing doubles to EUR 22.6 bn per quarter from its high current pace. This would also bring it in line with the pace seen in the early-2000s during the DotCom bubble. If disposable incomes were to grow by only 2% p.a. (average of the last 10 years: 1.8%), it would still take until 2024 to bring German household debt back to its previous peak.

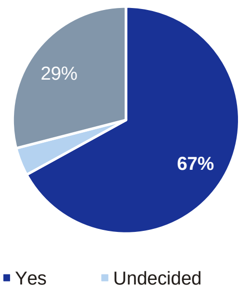
That would still leave German household debt far below that in other European states. From a macroeconomic point of view this development looks benign so far.

Oliver Rakau (+49 69 910-31875, oliver.rakau@db.com)
Mark Roller

The view from Berlin

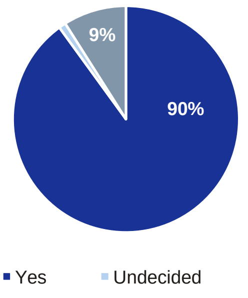
Refugee crisis: Tipping point in public sentiment and policy moves

Can influx of refugees help to alleviate foreseeable shortage of skilled workers? 1



Source: Handelsblatt

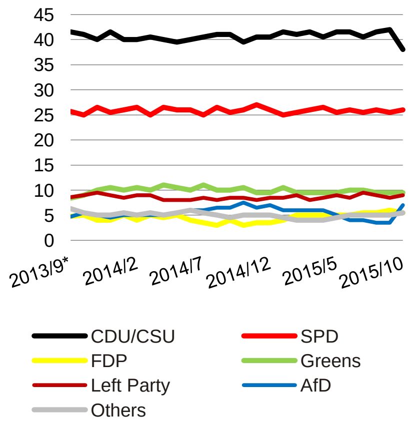
Should refugees have facilitated access to the labour market? 2



Source: Handelsblatt

German parties' popularity 3

Results of the Allensbach survey, %



* Result of the Federal election

Source: IfD Allensbach

The influx of refugees into Germany continues to dominate politics and public alike. The generally supportive public sentiment has started to turn, though. While in August 40% of the people were concerned about the economic and societal consequences of the refugee wave, the latest figure jumped to 54% (Allensbach). In all party camps (except Greens) a clear majority now backs the introduction of an upper limit on refugees in the country. Only 18% believe that the opportunities related to the refugee influx are higher than the risks and only 14% believe that the refugees are sufficiently educated to be beneficial to the economy. This contrasts with results from a survey conducted among business leaders (Handelsblatt). They expect that the refugees will help to alleviate the shortage of skilled workers in Germany – but at the same time also demand that the refugees' access to the labour market be facilitated. This refers to the German minimum wage of EUR 8.50, which is seen as a substantial hurdle for less qualified job seekers in particular.

The increasingly cautious public opinion on refugee policy is reflected in dwindling approval ratings for Chancellor Merkel, where she has lost her top ranking. Also, her CDU/CSU party is showing a weaker performance in the latest polls (see chart) and the right-wing AfD is back on the stage. Some see this development as early indications of the twilight of Merkel's government. This seems far-fetched, though. Merkel's average popularity is still higher this term than in her two previous terms. And at the federal level the SPD is hardly benefiting from the CDU/CSU dip in the polls. The SPD leaders took up concerns about the extent of the refugee influx earlier and with clearer wording. A major reason is that the (logistical) impact of the sheer number of refugees is more directly felt at the regional level. Here, the SPD is in power in 14 of the 16 German states, and is responsible for the interior ministry in nine. The mayors of most of the bigger cities in Germany come from the SPD. With this immediate exposure the positions of the SPD and the Bavarian CSU are sometimes more alike than those of the sister parties CDU and CSU.

But Merkel has already begun to respond to the concerns in the public and her party, and thus to contain the political backlash. A more restrictive asylum law has entered into force, broadening the number of safe countries, modifying social benefits for refugees and enforcing repatriation. However, the German government remains deeply convinced that the roots of the refugee crisis lie in the political situation of the countries of origin, and thus any and all diplomatic effort is desirable to stabilise the region and in so doing contain the refugee influx into Europe. Germany's focus is still on a Europe-wide solution but bilateral diplomatic efforts have been stepped up as well, as recently with Merkel's visit to Turkey. Apart from fiscal support from the EU, Merkel pointed to a revitalisation of the EU accession process with the opening of two more chapters (economics and justice). This might signal a turnaround as the CDU/CSU reiterated in its 2014 election programme that it supports a closer strategic partnership with Turkey but rejects its bid for EU membership; CSU and CDU leaders have referred to this following Merkel's visit but public opinion (60%) is still against it (Politbarometer). Of course, any material progress in the accession process will take considerable time and major countries such as France will hold a referendum before any further enlargement of the EU. However, this is just one indication of what impact the current refugee crisis might have on longstanding political positions.

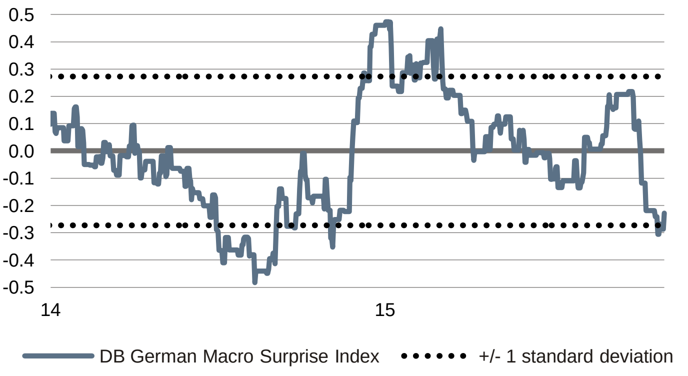
Barbara Böttcher (+49 69 910-31787, barbara.boettcher@db.com)

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.[3]

DB German Macro Surprise Index

Average of last 20 z-scores of data surprises

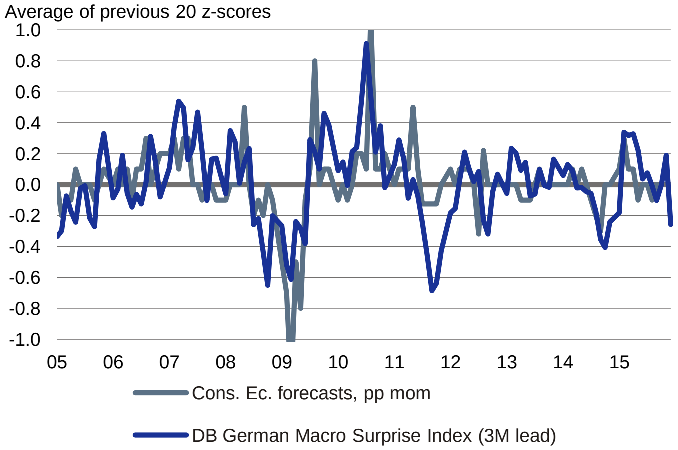


Values above (below) 0 indicate the data came in better (worse) than expected

Sources: Bloomberg Finance LP, Deutsche Bank Research

DB German Macro Surprise Index and revisions of Consensus GDP forecasts

Monthly revisions of Consensus Economic Forecasts (pp); Average of previous 20 z-scores



Sources: Consensus Economics Inc., 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	9 2015	15.09.15	67.5	64.0	3.5	0.4	0.7
GRIFPBUS Index	IFO Business Climate	9 2015	24.09.15	108.5	107.9	0.6	0.3	0.6
GRIMP95Y Index	Import Price Index (% yoy)	8 2015	29.09.15	-3.1	-3.0	-0.1	0.3	0.6
GRUECHNG Index	Unemployment Change (000's mom)	9 2015	30.09.15	1.0	-5.0	-6.0	-0.4	0.3
GRFRIAMM Index	Retail Sales (% mom)	8 2015	30.09.15	-0.7	0.2	-0.9	-0.4	0.3
MPMIDEMA Index	Markit Manufacturing PMI	9 2015	01.10.15	52.3	52.5	-0.2	-0.2	0.3
MPMIDESA Index	Markit Services PMI	9 2015	05.10.15	54.1	54.3	-0.2	-0.2	0.4
GRIORTMM Index	Factory Orders (% mom)	8 2015	06.10.15	-1.8	0.5	-2.3	-1.1	0.1
GRIPIMOM Index	Industrial production (% mom)	8 2015	07.10.15	-1.2	0.2	-1.4	-1.1	0.1
GRCAEU Index	Current Account Balance (EUR bn)	8 2015	08.10.15	12.3	16.7	-4.4	-1.7	0.0
GRZEWI Index	ZEW Survey Expectations	10 2015	13.10.15	1.9	6.5	-4.6	-0.5	0.3
GRZECURR Index	ZEW Survey Current Situation	10 2015	13.10.15	55.2	64.0	-8.8	-1.3	0.1
GRCP20YY Index	CPI (% yoy)	9 2015	13.10.15	0.0	0.0	0.0	0.3	0.3
MPMIDESA Index	Markit Services PMI	10 2015	23.10.15	55.2	55.2	0.0	0.0	0.5
GRIFPBUS Index	IFO Business Climate	10 2015	26.10.15	108.2	107.8	0.4	0.2	0.6
GRIMP95Y Index	Import Price Index (% yoy)	9 2015	28.10.15	-4.0	-3.5	-0.5	0.0	0.4
GRUECHNG Index	Unemployment Change (000's mom)	10 2015	29.10.15	-5.0	-4.0	1.0	-0.2	0.4
GRCP20YY Index	CPI (% yoy)	10 2015	29.10.15	0.3	0.2	0.1	0.8	0.8
GRFRIAMM Index	Retail Sales (% mom)	9 2015	30.10.15	0.0	0.4	-0.4	0.0	0.5
MPMIDEMA Index	Markit Manufacturing PMI	10 2015	02.11.15	52.1	51.6	0.5	0.5	0.8

Sources: Bloomberg Finance LP, Deutsche Bank Research

Heiko Peters (+49 69 910-21548, heiko.peters@db.com)

[3] See for details Focus Germany. August, 4 2014.

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

Date	Event	Remarks
9-10 Nov	Eurogroup and ECOFIN meeting, Brussels	Debates on the economic situation – Com's 2015 autumn forecast, on Greece – state of play, on insolvency frameworks, on Banking Union, and (poss.) on financial consequences of the refugee crisis.
10-11 Nov	EU-Africa Migration Summit (with leaders from the EU, the African Union, other African states and with UN and IOM representatives), Valletta	Debates on a common approach in the Mediterranean region, addressing the protection of people in need, the issue of smuggling and trafficking of people, and the root causes of irregular migration by working to help create peace, stability and economic development.
13 Nov	ECOFIN, Brussels	Debate on the EU budget. Among others, the Finance Ministers will probably discuss the adequacy of the financial resources earmarked for the refugee crisis.
15-16 Nov	G20 Leaders Summit, Antalya	Major topics: (i) strengthening the global recovery via investment in infrastructure among others, (ii) enhancing resilience by monitoring the new regulatory framework and by further developing the G20 tax agenda, (iii) buttressing sustainability by focusing on the issues of development, energy and climate change finance.
3 Dec	ECB Governing Council meeting, press conference	We now think that the ECB will decide to increase its policy accommodation with mutually reinforcing moves: extending the duration of QE by six months and a 10bp depo cut.
7-8 Dec	Eurogroup and ECOFIN meeting, Brussels	Debates on financial and macro-economic stability in the euro area, on the international role of the euro, on pensions – implications for fiscal sustainability in the EA.
17-18 Dec	European Council, Brussels	(Poss.) debate on the refugee crisis, the UK's specific concerns related to the planned EU referendum in the UK.

Source: Deutsche Bank Research

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

Germany: Data calendar

Date	Time	Data	Reporting period	DB forecast	Last value
6 Nov 2015	8:00	Industrial production (Index, sa), pch mom	September	1.0	-1.2
9 Nov 2015	8:00	Trade balance (EUR bn, sa)	September	19.0	19.7
9 Nov 2015	8:00	Merchandise exports (EUR bn, sa), pch mom (yoy)	September	2.9 (3.7)	-5.2 (4.4)
9 Nov 2015	8:00	Merchandise imports (EUR bn, sa), pch mom (yoy)	September	4.4 (4.2)	-3.2 (3.5)
13 Nov 2015	8:00	Real GDP (Index, sa), % qoq	Q3 2015	0.4	0.4
23 Nov 2015	9:30	Manufacturing PMI (Flash)	November	52.0	52.1
23 Nov 2015	9:30	Services PMI (Flash)	November	54.0	54.5
24 Nov 2015	10:30	ifo business climate (Index, sa)	November	108.0	108.2
27 Nov 2015	8:00	Import prices (Index, sa) pch mom (yoy)	October	-0.2 (-4.0)	-0.7 (-4.0)
30 Nov 2015	14:00	Consumer prices preliminary (Index, sa), pch mom (yoy)	November	0.2 (0.5)	0.0 (0.3)
1 Dec 2015	10:00	Unemployment rate (%, sa)	November	6.4	6.4
2 Dec 2015	8:00	Retail sales (Index, sa), pch mom	October	0.5	0.0

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

Heiko Peters (+49 69 910-21548, heiko.peters@db.com)
Oliver Rakau (+49 69 910-31875, oliver.rakau@db.com)

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	-0.75	-0.35	0.05	0.75	1.50	1.35	0.05
Dec 15	0.130	0.10	-0.05	0.50	-0.75	-0.35	0.05	0.75	1.50	1.35	0.05
Jun 16	0.630	0.10	-0.05	0.75	-0.75	-0.35	0.05	0.50	1.50	1.35	0.05
Sep 16	0.630	0.10	-0.05	0.75	-0.75	-0.35	0.05	0.50	1.50	1.35	0.05
3M interest rates, %											
Current	0.33	0.17	-0.07	0.58							
Dec 15	0.75	0.15	-0.10	0.58							
Jun 16	1.63	0.15	-0.10	0.59							
Sep 16	1.93	0.15	-0.10	0.60							
10Y government bonds yields, %											
Current	2.22	0.32	0.57	1.97							
Dec 15	1.75	0.45	0.60	2.00							
Jun 16	2.25	0.55	0.90	2.40							
Sep 16	2.25	0.60	1.00	2.60							
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	1.10	120.45	0.71	0.65	1.09	9.36	7.46	9.34	4.25	313.48	27.10
Dec 15	1.05	125.00	0.69	1.52	1.12	8.90	7.46	9.37	4.18	315.00	27.20
Jun 16	0.95	127.50	0.69	1.38	1.11	8.83	7.46	8.90	4.09	317.50	27.20
Sep 16	0.93	128.75	0.71	1.31	1.11	8.79	7.46	8.85	4.05	318.75	27.20

Sources: Bloomberg, Deutsche Bank

Heiko Peters (+49 69 910-21548, heiko.peters@db.com)
Oliver Rakau (+49 69 910-31875, oliver.rakau@db.com)

German data monitor

	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	May 2015	Jun 2015	Jul 2015	Aug 2015	Sep 2015	Oct 2015
Business surveys and output											
Aggregate											
Ifo business climate	104.7	107.2	108.2	108.3		108.5	107.6	108.0	108.4	108.5	108.2
Ifo business expectations	100.4	102.7	102.8	102.6		103.0	102.1	102.4	102.2	103.3	103.8
Industry											
Ifo manufacturing	100.0	102.8	104.0	102.9		104.3	103.0	103.2	103.0	102.6	
Headline IP (% pop)	0.8	0.5	0.2			0.2	-0.9	1.2	-1.2		
Orders (% pop)	1.3	-1.5	3.0			-0.4	1.9	-2.2	-1.8		
Capacity utilisation	84.1	84.5	84.3	84.2	84.4						
Construction											
Output (% pop)	1.3	1.1	-0.7			0.6	-2.3	0.3	-0.8		
Orders (% pop)	-0.7	7.7	-4.7			4.4	-3.8	-1.0	0.4		
Ifo construction	120.4	118.8	119.9	121.3		119.8	120.4	120.0	121.0	122.8	
Consumer demand											
EC consumer survey	-1.2	1.0	3.0	-0.3		3.0	2.8	1.4	0.7	-2.9	-4.6
Retail sales (% pop)	1.2	1.5	-0.3	0.9		0.3	-0.9	1.8	-0.7	0.0	
New car reg. (% yoy)	2.7	6.4	4.2	6.1		-6.7	12.9	7.4	6.2	4.8	1.1
Foreign sector											
Foreign orders (% pop)	0.8	-3.2	5.7			0.1	4.5	-6.1	-1.2		
Exports (% pop)	1.3	0.6	3.4			1.6	-1.0	2.2	-5.2		
Imports (% pop)	0.6	1.2	1.4			0.6	-0.8	2.3	-3.2		
Net trade (sa EUR bn)	60.2	59.1	65.9			22.5	22.1	22.4	19.7		
Labour market											
Unemployment rate (%)	6.6	6.5	6.4	6.4		6.4	6.4	6.4	6.4	6.4	6.4
Change in unemployment (k)	-38.3	-44.3	-25.7	3.3		-4.0	-1.0	9.0	-6.0	1.0	
Employment (% yoy)	0.8	0.6	0.6	0.8		0.6	0.6	0.7	0.8	0.9	
Ifo employment barometer	106.4	107.6	108.0	108.1		108.2	107.8	107.2	108.4	108.6	109.1
Prices, wages and costs											
Prices											
Harmonised CPI (% yoy)	0.4	-0.2	0.3	0.0		0.7	0.1	0.1	0.1	-0.2	0.2
Core HICP (% yoy)	1.1	1.0	1.1	1.0		1.4	0.9	0.9	1.1	1.1	
Harmonised PPI (% yoy)	-1.2	-2.0	-1.4	-1.7		-1.3	-1.4	-1.3	-1.7	-2.1	
Commodities, ex. Energy (% yoy)	0.9	2.3	-0.5	-7.0		-0.3	-1.6	-2.4	-9.0	-9.6	-10.7
Oil price (USD)	76.4	55.1	63.7	51.3		65.7	63.7	56.9	48.4	48.5	
Inflation expectations											
EC household survey	8.6	0.5	6.1	4.9		8.3	7.8	7.0	1.0	6.6	1.3
EC industrial survey	2.1	-0.4	1.5	0.8		0.9	3.2	2.0	-0.1	0.5	1.8
Unit labour cost (% yoy)											
Unit labour cost	1.7	1.8	1.7								
Compensation	2.6	2.5	3.1								
Hourly labour costs	1.8	2.4	2.7								
Money (% yoy)											
M3	4.8	7.2	7.6	8.1		7.2	7.6	7.9	7.3	8.1	
M3 trend (3m cma)						7.3	7.6	7.6	7.8		
Credit - private	1.7	2.6	2.1	2.5		2.2	2.1	3.0	2.9	2.5	
Credit - public	12.6	32.3	12.2	11.1		24.9	12.2	8.9	15.5	11.1	

% pop = % change this period over previous period.
Sources: Deutsche Bundesbank, European Commission, Eurostat, Federal Employment Agency, German Federal Statistical Office, HWWI, ifo, Markit

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Research

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Ordering address for the print version:
Deutsche Bank Research
Marketing
60262 Frankfurt am Main
Fax: +49 69 910-31877
E-mail: marketing.dbr@db.com

Available faster by E-mail:
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