Germany: Economic Chartbook

Team Economic Research Frankfurt

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Only shallow recovery in 2023

Technical recession avoided – for the time being. The flash report on German Q1 GDP growth showed a stagnation in qoq terms, avoiding the previously feared technical recession by a hair's breadth. However, the hard March data disappointed across the board, so a downward revision of Q1 GDP might be in the cards.

German GDP is likely to stagnate on average in 2023. Unless the weak March data is revised upwards, the start into Q2 will also be burdened. Overall, we expect only a shallow recovery for the rest of the year.

Multiple headwinds at work. The loss of purchasing power due to inflation, at least two more ECB key interest rates on top or the 375bp so far and the expected US recession in H2 2023 are weighing on the economic outlook. Finally, the reopening of China's economy seems to generate less impetus for the global economy.

No oomph from private consumption. The recent modest recovery in consumer sentiment is driven by easing recession fears and rising income expectations. Intention to save remains high and the willingness to buy low.

Persistent core inflation. While headline inflation is likely to subside further, core inflation might prove sticky in 2023/24, remaining above the 5% mark until September.

Construction in severe recession. Housing boom is over. But several arguments point to only a small price correction: drop in real prices in 2022, still very low real interest rates, ongoing supply shortage and rent growth.

Corporate lending is slowing. Momentum is normalizing following record growth last year. Banks continue to tighten credit standards moderately, yet no visible impact of recent banking tensions.

Green transition. Key levers to reach the climate goals are an expansion of renewable energies and electrification of transport, industrial processes, and of the heating sector. A raft of policy measures is currently being implemented to accelerate the ramp-up.

EU fiscal rules revamp. Landing zone for a Berlin-Brussels compromise. As the introduction of common quantitative benchmarks has reduced the gap between Brussels and Berlin in terms of positioning on the new rules, it seems likely that the overall legislative process might be finalized early next year.

Macro Research:

- History tells us: Housing markets do offer inflation protection, Talking Point, May 3
- German economy avoiding a technical recession by a hair's breadth, Germany Blog, Apr 28
- CPI preview: Y-o-Y rate might stagnate in April before easing again in May, Germany Blog, Apr 27
- Public sector wages: EUR 3000 one-off, pay-scale rises only in 2024, Germany Blog, Apr 24
- Bank deposits in Germany: Highly sticky, Germany Blog, Apr 21
- 2023 Outlook on the housing market, Focus Germany, Apr 17
- European banks: Solid fundamentals, Talking Point, Apr 06
- Energy Transition Monitor #1 – what, when and how, Germany Blog, Mar 31
- Global semiconductor sales: Moving downward – but for how much longer?, Germany Blog, Mar 16
- Preview of upcoming green industrial and tax policy proposals, Germany Blog, Mar 16
- ECB Reaction: 3.75% terminal rate, with upside risks, Focus Europe, May 04
- Europe Inflation Chartbook: HICP March-2023 final print, Focus Europe, Apr 20
- Assessing the transmission of ECB policy rates into investment spending, Focus Europe, Apr 20
- Cycle Dashboard: A new headwind, Focus Europe, Apr 20

Equity Research: browse here

- Myth Buster: "Sell in May“, May 09
- Strong Earnings, Made in Germany, May 03

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

	2021	2022	2023F	2024F	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1#	2023 Q2F	2023 Q3F	2023 Q4F
Real GDP	2.6	1.8	0.0	1.0	1.0	-0.1	0.5	-0.5	0.0	0.2	0.3	0.2
Private consumption	0.4	4.3	0.0	1.2	0.7	0.6	0.7	-1.0		0.6	0.7	0.3
Gov't expenditure	3.8	1.2	1.0	1.4	0.6	0.5	-1.2	0.6		0.3	0.3	0.5
Fixed investment	1.2	0.4	-2.7	1.9	2.3	-1.2	1.3	-2.5		-0.4	-0.3	0.5
Investment in M&E	3.5	3.3	-0.2	2.1	1.8	1.1	5.4	-3.6		0.8	0.5	0.6
Construction	0.0	-1.7	-4.5	-0.3	3.5	-3.2	-0.9	-2.9		-1.7	-1.0	0.4
Inventories, pp	0.5	0.5	0.1	-0.3	-0.2	0.6	0.1	0.3		-0.1	-0.1	0.0
Exports	9.7	2.9	2.5	3.3	-0.3	0.7	1.9	-1.0		1.0	1.3	0.7
Imports	9.0	6.0	2.7	3.1	-0.5	2.3	2.1	-1.3		0.9	1.3	1.0
Net exports, pp	0.8	-1.2	0.0	0.2	0.1	-0.7	0.0	0.1		0.1	0.1	-0.1
Consumer prices (CPI)*	3.1	6.9	6.1	2.3								
Unemployment rate, %	5.7	5.3	5.5	5.2								
Industrial production**	4.8	-0.4	-0.5	1.0								
Budget balance, % GDP	-3.7	-2.6	-2.6	-2.6								
Public debt, % GDP	69.3	66.3	66.1	66.0								
Balance on current account, % GDP	7.4	3.8	3.2	3.9								
Balance on current account, EUR bn	265	115.0	130	164								

GDP growth rate corresponds to 1st estimate of the Federal Statistical Office. The data on Q1 subcomponents will be published on 25 May.

*Inflation data for Germany based on national definition. This can lead to discrepancies to other DB publications which report HICP. **Manufacturing (NACE C).

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

Germany: Data release calendar

Date	Time	Data	Reporting period	DB	Last
23 May 2023	9:30	Manufacturing PMI (Flash)	May	46.0	44.5
23 May 2023	9:30	Services PMI (Flash)	May	55.5	56.0
24 May 2023	10:00	ifo business climate (Index, sa)	May	93.0	93.6
25 May 2023	8:00	Real GDP (% qoq) - details	Q1 2023	0.0	-0.5
31 May 2023	9:55	Unemployment rate (%, sa)	May	5.6	5.6
31 May 2023	14:00	Consumer prices preliminary (% yoy, nsa)	May	6.1	7.2
1 Jun 2023	8:00	Retail sales (% mom, sa)*	April	1.2	-2.4
5 Jun 2023	8:00	Trade balance (EUR bn, sa)	April	15.8	16.7
5 Jun 2023	8:00	Merchandise exports (% mom, sa)	April	2.0	-5.2
5 Jun 2023	8:00	Merchandise imports (% mom, sa)	April	2.5	-6.4
6 Jun 2023	8:00	New orders manufacturing (% mom, sa)	April	4.0	-10.7
7 Jun 2023	8:00	Industrial production (% mom, sa)	April	1.5	-3.2

*An earlier data release may be possible due to the Federal Statistical Office.

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

2023 Event calendar: DE/EU/EA

May 14	Regional elections in Bremen
May 16	ECOFIN meeting
May 19/21	G7 Summit in Japan
June 15	ECB Governing Council: Monetary policy meeting
June 15/16	Eurogroup and ECOFIN meeting
June 26/28	ECB Sintra Forum on Central Banking
June 29/30	European Council meeting
July 27	ECB Governing Council: Monetary policy meeting
September 14	ECB Governing Council: Monetary policy meeting
October 8	Regional elections in Bavaria
October 8	Regional elections in Hesse
October 26	ECB Governing Council: Monetary policy meeting
October 26/27	European Council meeting
December 14	ECB Governing Council: Monetary policy meeting
December 14/15	European Council meeting

Source: Deutsche Bank Research

Global economy slows, despite China's recovery, which provides (so far) very little external spill over

- Improved economic environment, due to the fading energy shock in Europe and China's quick reopening. Geopolitical risks are a concern.
- China's economy is recovering, but largely domestically focused, providing less of a boost to the global economy.
- Inflation is still driving monetary policy tightening by central banks, albeit at a slower pace.
- In the US, Fed's tightening likely to induce a mild recession in H2 2023. Terminal rate: 5.1%.
- Eurozone avoided a recession in winter 22/23. Subdued recovery expected in 2023.
- Above-target inflation remains ECB's key concern. Further tightening (terminal rate: 3 ¾ %) and expected US recession to limit pace of Eurozone recovery.

Economic growth

Real GDP, % yoy

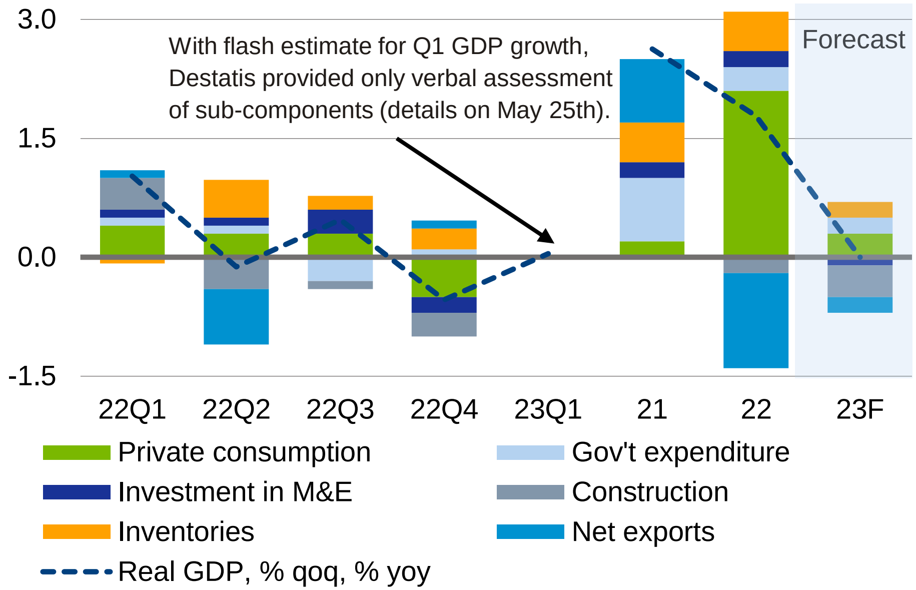
	2021	2022	2023F	2024F
US	5.9	2.1	1.6	-0.4
Japan	2.2	1.0	1.3	0.6
Euroland	5.3	3.5	0.5	1.0
Germany	2.6	1.8	0.0	1.0
France	6.8	2.6	0.5	1.0
Italy	7.0	3.8	0.7	0.9
Spain	5.5	5.5	0.8	0.9
Netherlands	4.9	4.5	0.5	1.2
Greece	8.4	6.1		
Portugal	5.9	6.8		
Ireland	13.8	12.0		
UK	7.6	4.1	0.0	0.8
Asia (ex Japan)	7.4	4.1	5.2	5.7
China	8.4	3.0	6.0	6.3
India	9.0	6.7	6.0	6.0
Eastern Europe	5.9	2.9	1.8	3.2
Latin America (ex Venezuela)	7.0	3.6	0.8	1.8
World	**6.3**	**3.3**	**2.7**	**3.0**

Sources: IMF, Bloomberg Finance LP, Deutsche Bank Research

Economic Outlook: German GDP likely to stagnate in 2023, weak recovery expected in the course of the year

German GDP and its components: Private consumption hit by inflation in Q4 and Q1

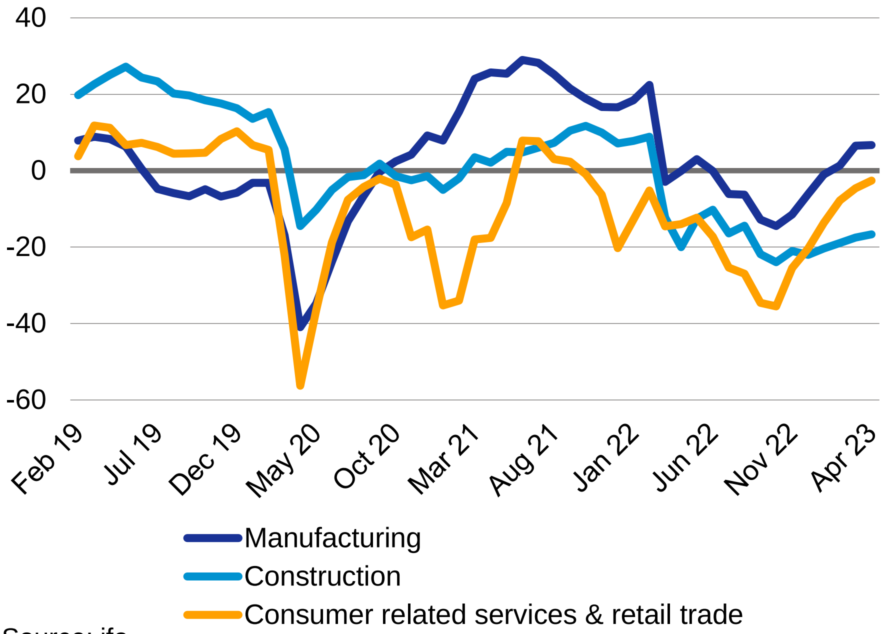
Contributions to real GDP growth, qoq, yoy, pp



Sources: Federal Statistical Office, Deutsche Bank Research

ifo Business Climate – diverging signals continue

Balances

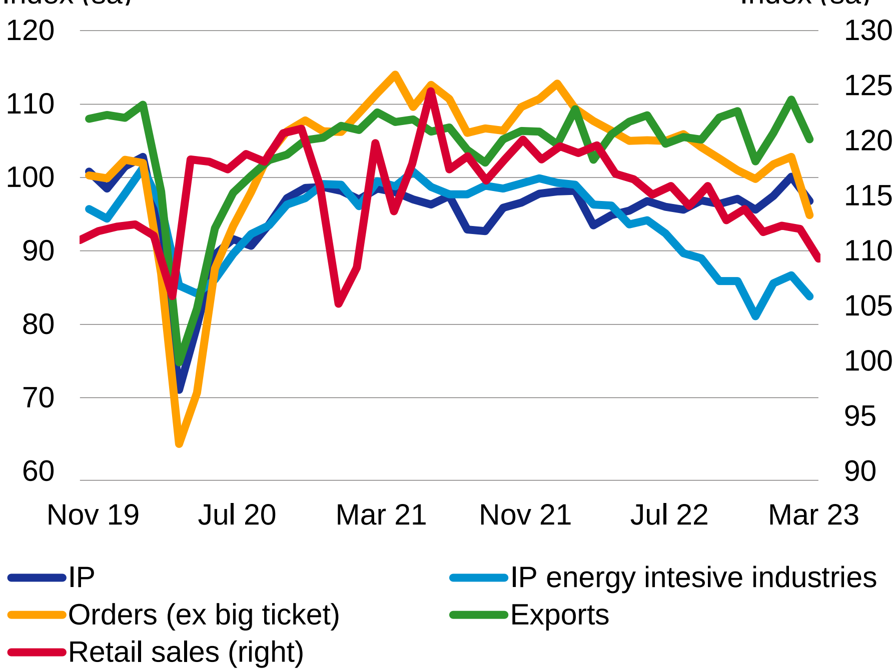


Source: ifo

- The Q1 GDP flash estimate showed only stagnation (rev. Q4: -0.5% qoq). Still, a technical recession was avoided in winter 22/23 by a hair's breadth – if Q1 is not revised downwards after all.
- Some economic parameters continued to improve in H1 2023 (fading energy shock, China's re-opening).
- However, a stronger recovery is likely to be held back by high inflation, the expected US recession (H2) and the increased impact of tighter monetary policy (we expect the ECB terminal deposit rate at 3 ¾%).

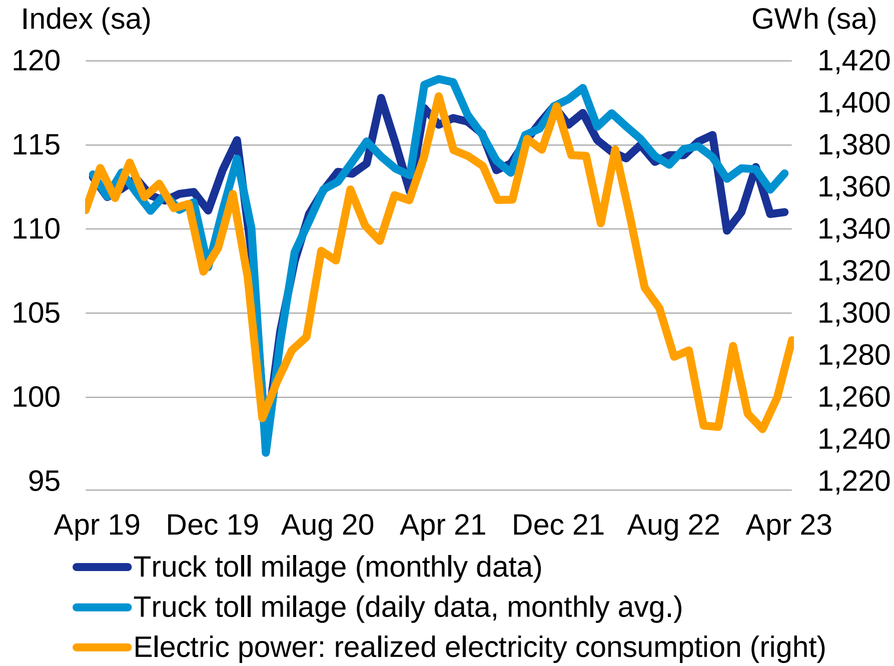
Hard data disappointed in March, weighing on the start of Q2 while high frequency data are up-ticking

Very weak monthly data in March…



Source: Federal Statistical Office

…but high-frequency data suggest modest improvement in Q2

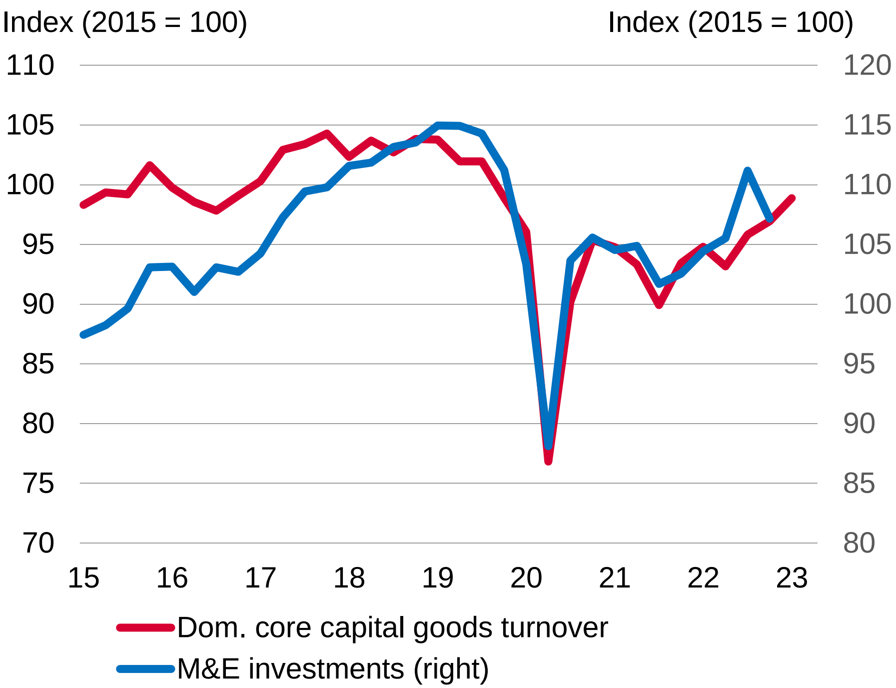


Sources: Federal Statistical Office, Federal Network Agency, Deutsche Bundesbank

- Economic indicators point to a rather subdued start to the summer half-year.
- Although energy prices have eased, the level is significantly higher than pre-2020.
- Supply bottlenecks are likely to ease further, driven by both supply and demand. In the wake of this development, destocking is likely to occur, which could have a negative effect on the next quarterly GDP growth rates.

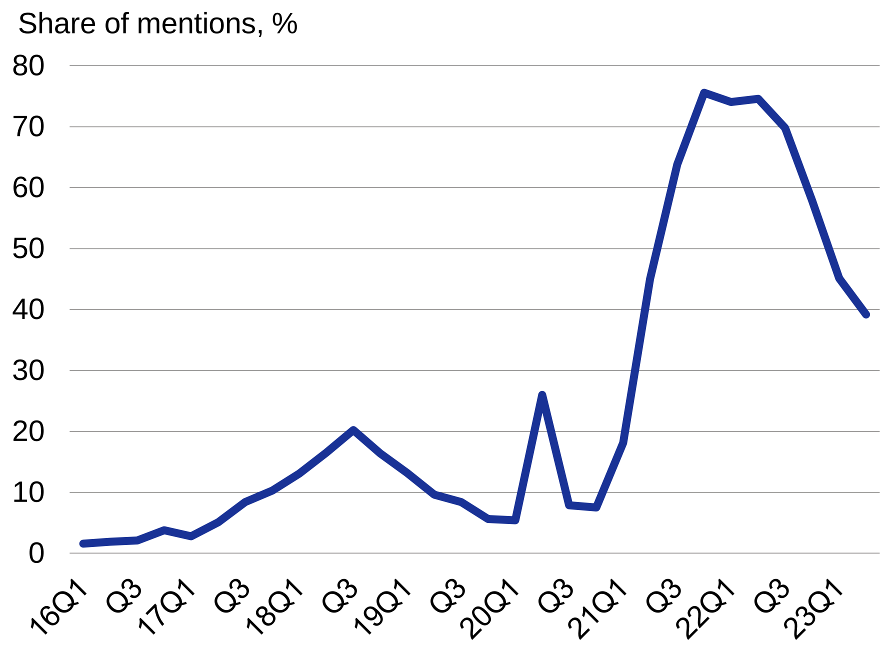
Domestic capital goods turnover points to modest rebound in M&E investment in Q1

Investment in M&E



Sources: Federal Statistical Office

German manufacturing: Shortage of material continues to ease



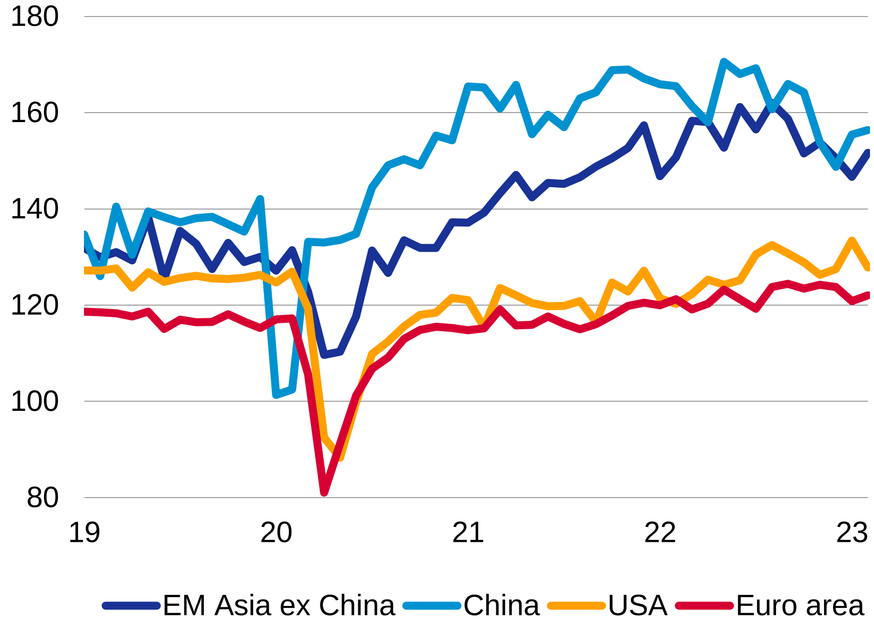
Source: ifo

- Capacity utilization (Q2: 85.5%) has picked up slightly from its winter dip (Q1: 84.3%) and shortage of materials continues to ease (not only in manufacturing industry).
- Spending on machinery and equipment (M&E) may have rebounded in Q1, after a decline of 3.6% qoq in 2022 Q4.

German exports: Geopolitics, the transformation of global value chains and the recession weigh on the outlook

2019-2023: Real world trade

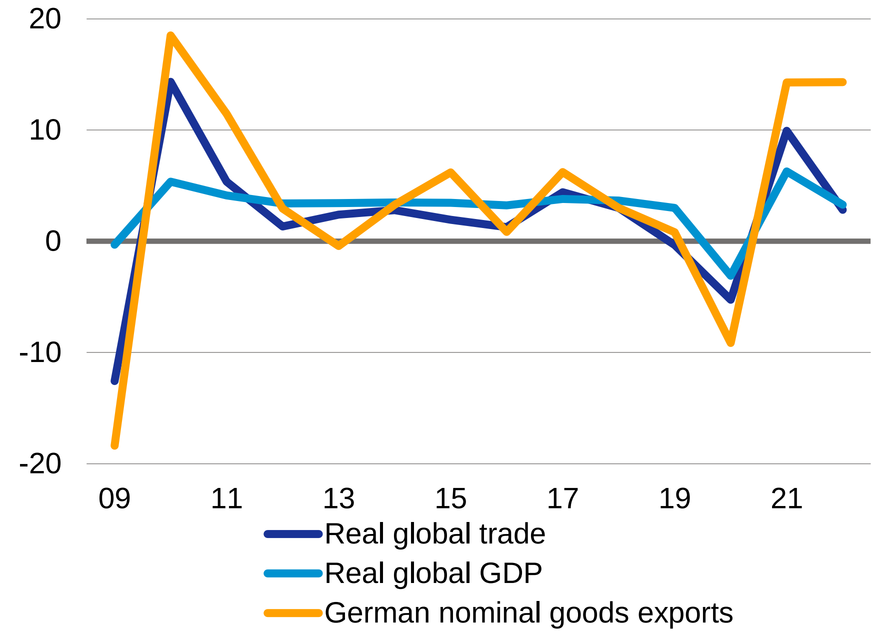
2005=100



Sources: CPB, Deutsche Bank Research

Global trade, world GDP and German exports

% yoy



Sources: CPB, Deutsche Bank Research, Federal Statistical Office

- China's reopening is a modestly positive for global trade. But outlook for manufacturing is weak.
- Re- and nearshoring as well as stagnation in Europe and expected US recession pose headwinds for global GDP growth and global trade.
- Structural outlook is also negative due to CBAM, supply chain acts, more trade barriers in particular in the semiconductor market and high geopolitical tensions.

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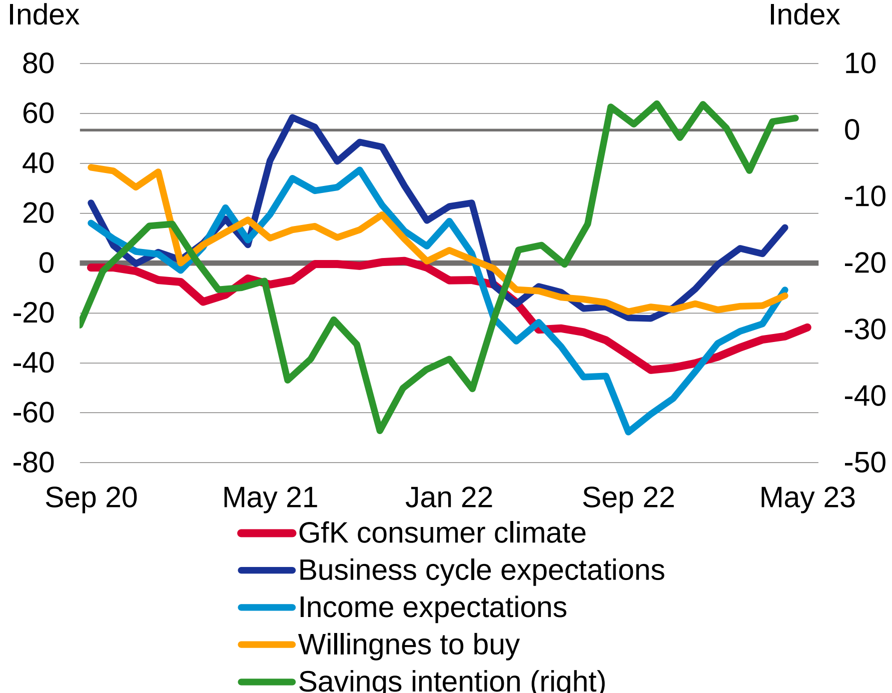
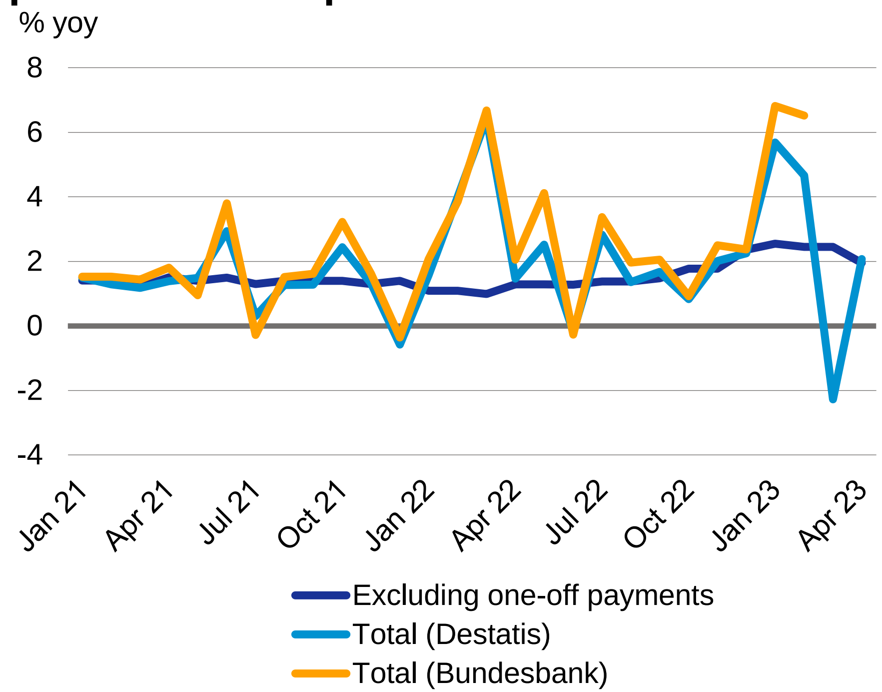
Private household consumption still depressed by loss of purchasing power despite inflation related one-off payments

GfK consumer climate improves, but buying restraint persits



Source: GfK

High one-off payments should support private consumption in 2023



Sources: Federal Statistical Office, Deutsche Bundesbank

- Recovery in consumer sentiment mainly driven by easing recession fears and rising income expectations. In 2023 and 2024, various industries will pay hefty tax- and levy-free inflation premiums (gross = net).
- Intention to save remains high and the willingness to buy rather restrained.
- Despite signs that inflationary pressures are slowly easing, the loss of real purchasing power is likely to continue to weigh on consumer spending (mood).

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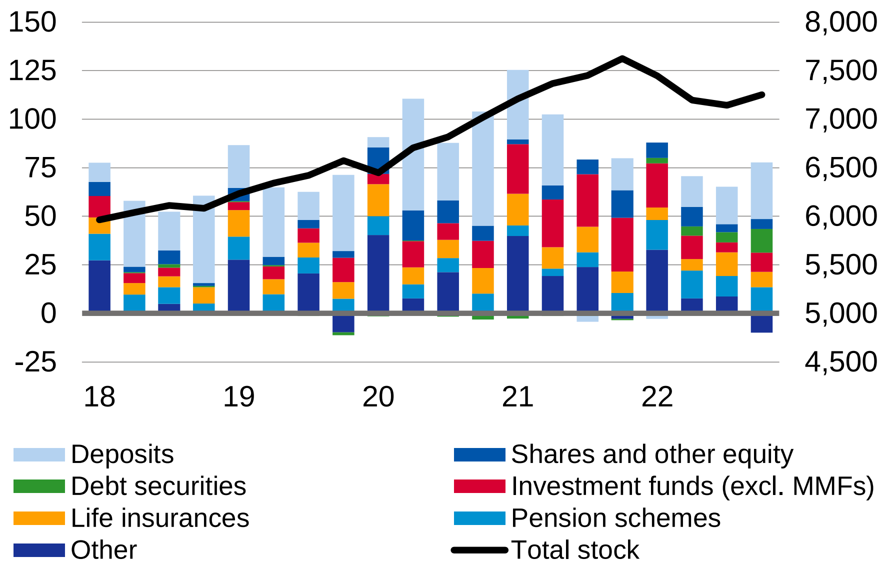
Private households save and borrow less because of rampant inflation

Strong investments in capital markets – deposits make a comeback

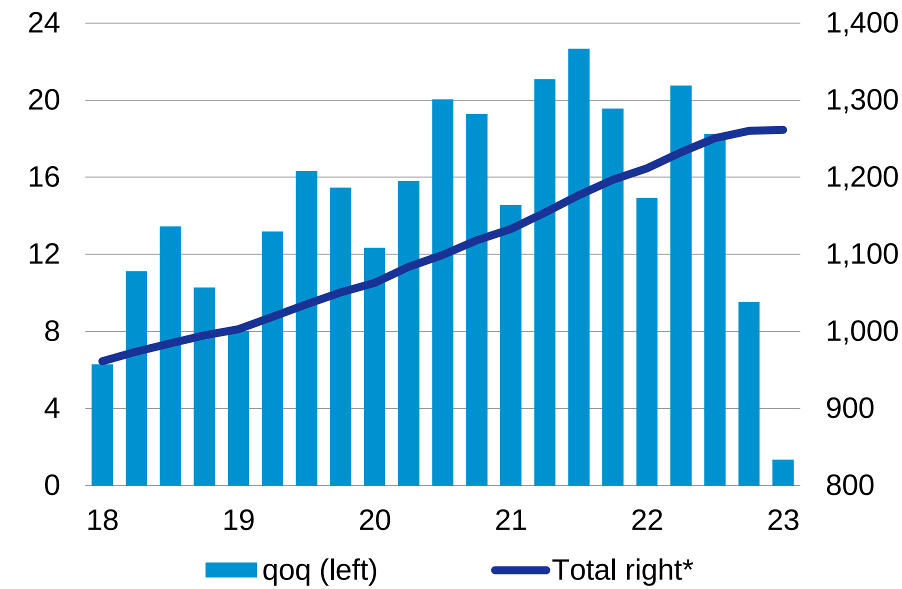
Financial assets of households, EUR bn; net flows (left), stock (right)



Sources: ECB, Deutsche Bank Research

Mortgages at a turning point

EUR bn



*includes significant reclassification in Q3 18.

Preliminary data for Q1 2023.

Sources: Deutsche Bundesbank, Deutsche Bank Research

- Low but positive deposit growth likely due to liquidity preference in uncertain times and rising nominal rates.
- Robust investments in other financial assets, but real losses in financial wealth.
- Mortgage boom ended, but no shrinking of loan book expected.

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2023 wage round with sub-inflation increase accompanied by strong one-off payments

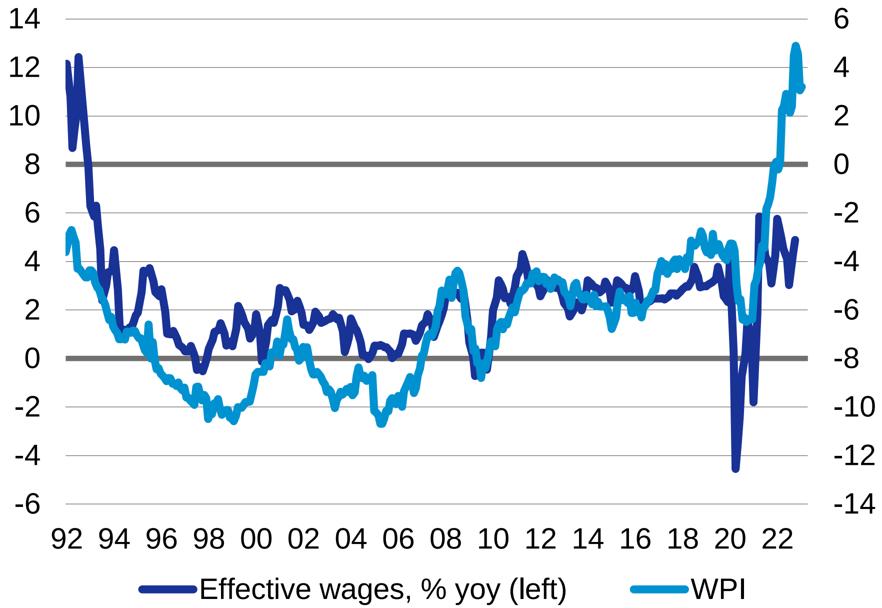
Wage negotiations in selected* sectors

Sector	Expiry date	Employees
Deutsche Bahn AG	underway	119,200
Retail trade (Hesse)	underway	592,700
Retail trade (North Rhine-Westphalia etc.)	underway	1,583,900
Wholesale and foreign trade (North Rhine-Westphalia etc.)	underway	1,175,300
Retail trade (Saxony-Anhalt, Thuringia, Saxony)	May 31, 2023	212,200
Retail trade (Berlin, Brandenburg)	Jun 30, 2023	234,400
Civil service (federal states, excl. Hesse)	Sep 30, 2023	938,800
Wood and plastics processing (various regions)	Nov 30, 2023	178,900

*Negotiations for more than 100,000 employees

Sources: WSI-Tarifarchiv, Deutsche Bank Research

German effective wages & wage pressure index (WPI)



Sources: Deutsche Bundesbank, Deutsche Bank Research

- So far, the government's offer to exempt one-off payments of up to EUR 3,000 from taxes and social security contributions has helped to reach relatively moderate permanent wage increases for the 2023/24 period.
- On an annual average, collectively agreed wages could rise by a good 4.5% in 2023 and 5% in 2024. Including the expected inflation compensation premiums, effective earnings are likely to rise by between 5 ½ to 6%.
- Still, this might just avoid another real income loss in 2023 (inflation expected at 6%) but will in sum not compensate for last year's inflation surge of 6.9%.

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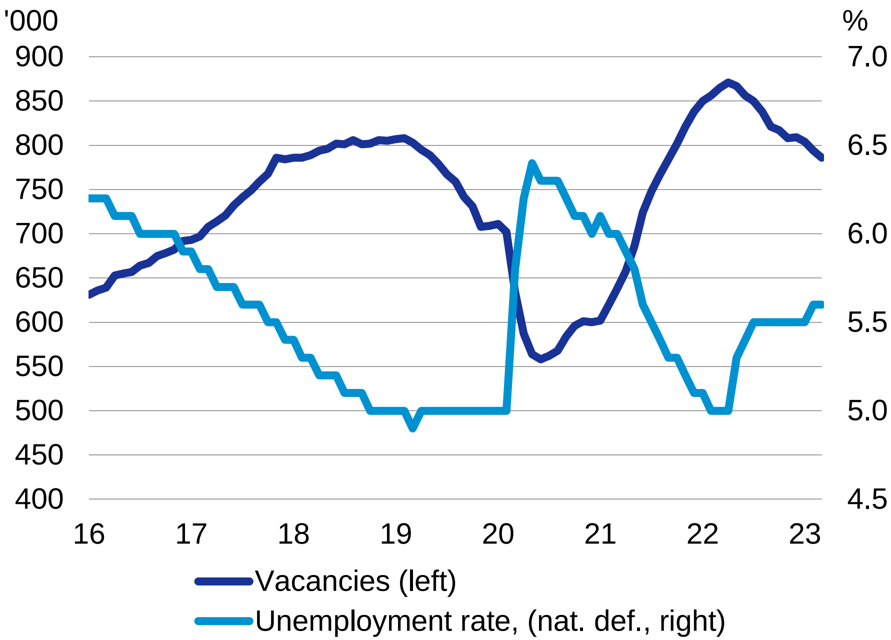
German labor market loses momentum, job matching seems to become more difficult, qualified labor still in high demand

Labor market remains robust, but winter dent leaves its mark on unemployment



Source: Federal Labour Agency

Top 5 occupations by skilled labor gap

Annual avg. Jan. - Dec. 2022

	Occupational group	Skilled labor gap	Job openings	Gap in %
Professionals	Shop assistant	19,022	64,557	29.5
	Geriatric care	18,013	21,061	85.5
	Building electrics	17,846	21,549	82.8
	Nursing care	16,974	21,662	78.4
	Heating installer	13,702	16,787	81.6
Specialists	Child care	22,467	30,491	73.7
	Physiotherapy	13,053	14,832	88.0
	Accounting	8,014	16,482	48.6
	Ergotherapy	5,719	6,751	84.7
	Sales (no it)	4,161	11,388	36.5
Experts	Social work	23,117	29,065	79.5
	Computer science	16,491	18,186	90.7
	Electrical engeneering	12,473	13,940	89.5
	Construction planning	11,259	12,271	91.5
	Supervision & mangement in sales	7,443	10,309	72.2

Sources: KOFA, Federal Employment Agency, IAB

- Unemployment suffered a winter dip, the typical spring recovery is hardly visible so far. Due to a base effect and the weak start to the year, the average unemployment rate will likely rise to 5.5% in 2023 (2022: 5.3%).
- Employment growth remains robust. In y-o-y terms, it has recently mainly been driven by immigrant workers. Employment (Mar: 45.9 million, seasonally adjusted) and employment subject to social security contributions (Feb: 34.8 million) at record levels.

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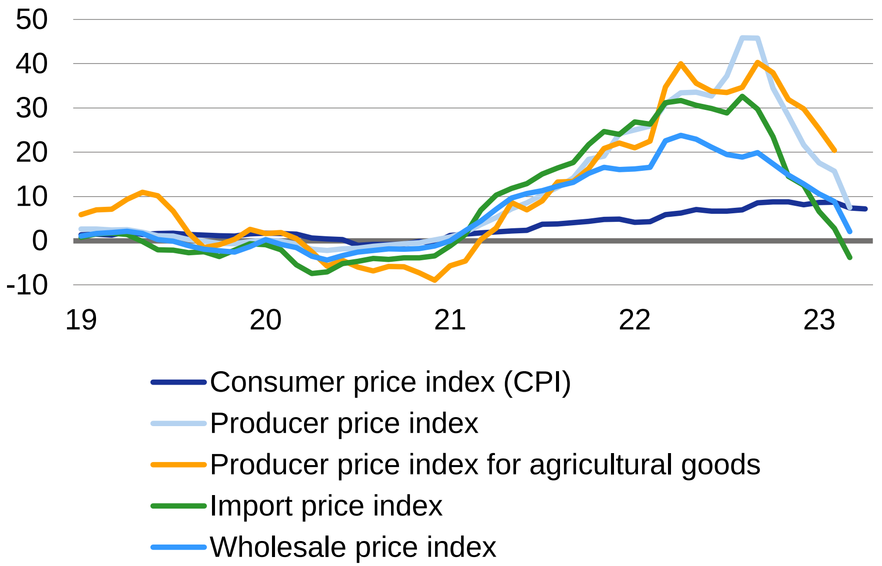
Expect headline inflation to subside soon but core inflation might prove sticky in 2023/24

Price developments at the upstream level

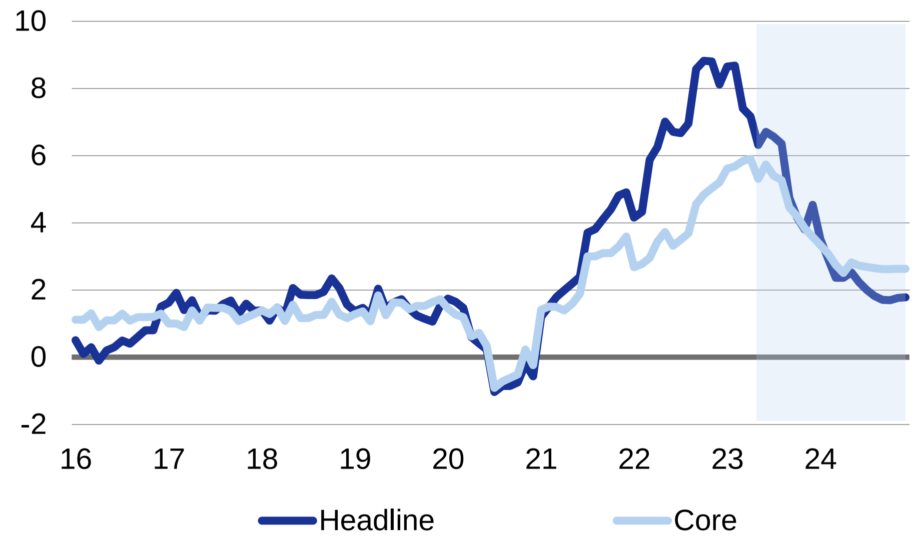
% yoy



Sources: WEFA, Federal Statistical Office, Deutsche Bank Research

Headline inflation looks set to fall considerably in 2023

% yoy



Sources: WEFA, Federal Statistical Office, Deutsche Bank Research

- Germany‘s headline CPI inflation rate averaged a high 6.9% in 2022 (based on new 2020 CPI weights).
- Because of the vanishing energy price shock/base effects, the government‘s “energy price brakes” and the lagged effects from easing pipeline inflation, we project annual CPI inflation rate to average 6.1% in 2023.
- However, core inflation might prove sticky in 2023/24, not undercutting the 5% mark before September.

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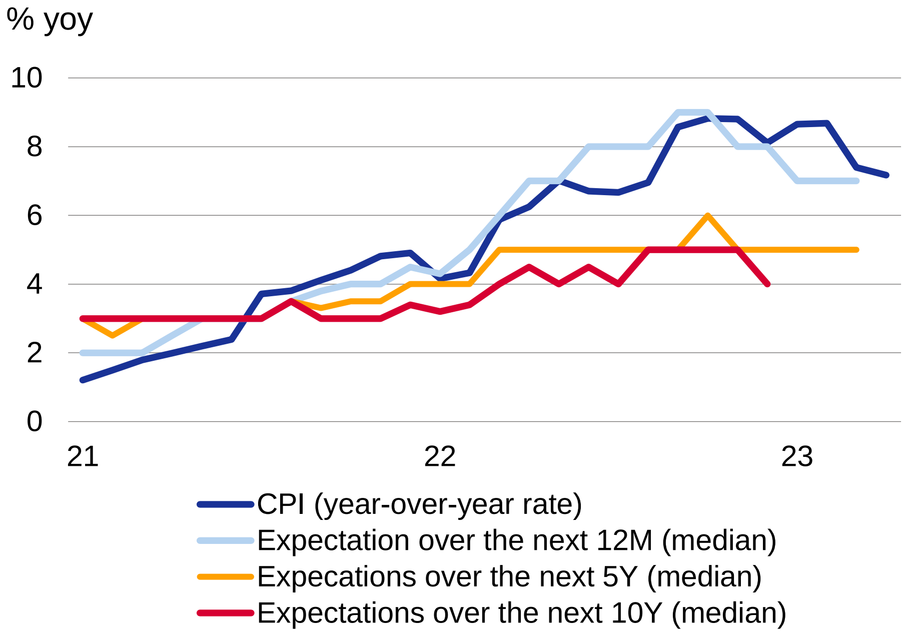
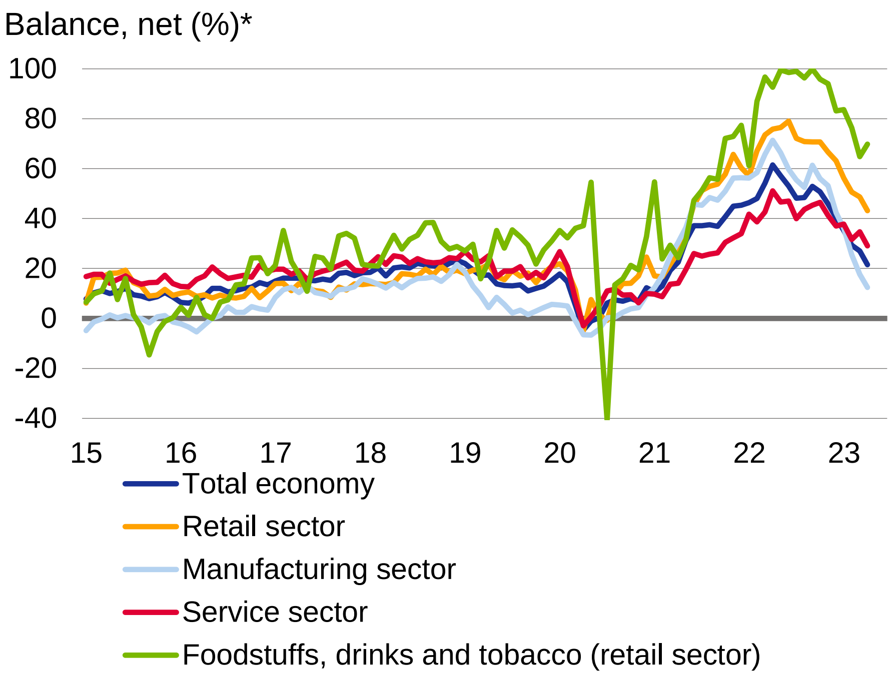
Medium-term inflation expectations still elevated, selling price expectations have continued to ease from extreme levels

Inflation expectations by private households vs. actual inflation



Sources: WEFA, Haver Analytics, Federal Statistical Office, Deutsche Bundesbank

Selling price expectations (ifo survey)



* Balance of opinion (seasonally adjusted) regarding the expected selling prices over the next three months. Positive (negative) values signal upward (downward) price pressures.

Sources: ifo, WEFA, Deutsche Bank Research

- Private households‘ inflation expectations have eased lately, though remain at elevated levels.
- Firms‘ selling price expectations signal continued, though less pronounced upward price pressures.

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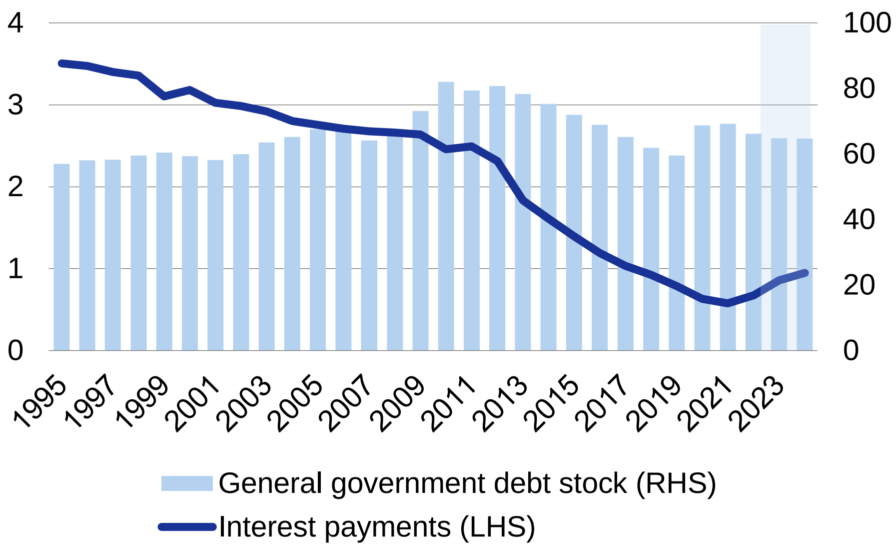
Budget impact from energy price shock might be less severe than previously expected

Debt-to-GDP ratio is set to remain broadly unchanged

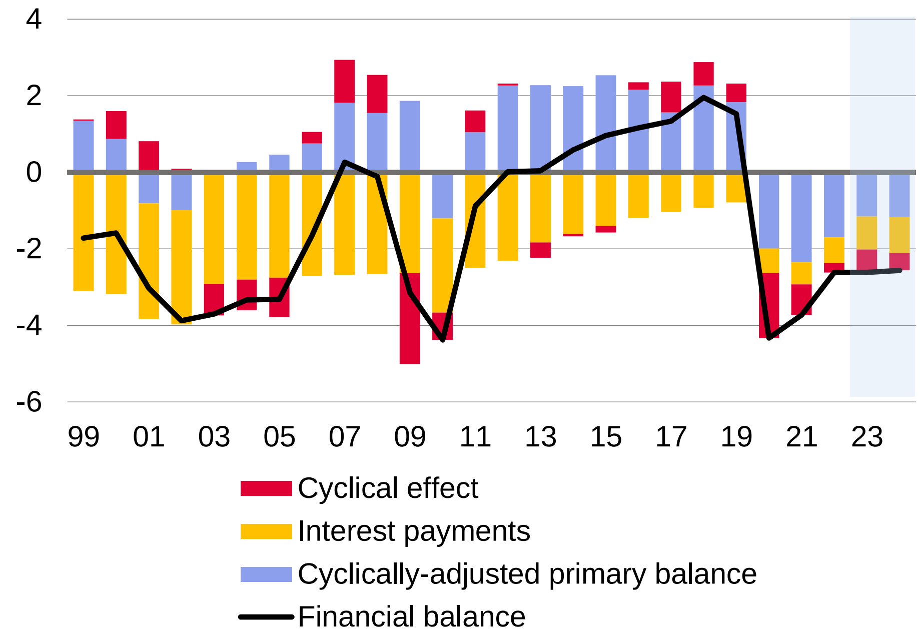
% of GDP (general government level)



Sources: WEFA, Federal Statistical Office, Eurostat, Deutsche Bank Research

General government budget outlook in the baseline scenario

% GDP (gen. government / national accounts)



Sources: Federal Statistical Office, AMECO, OECD, Federal Ministry of Finance, Deutsche Bank Research

- The general government deficit narrowed to “just“ 2.6% of GDP in 2022 (from 3.7% of GDP in 2021) as pandemic-related spending has tapered off.
- Given the plunge in wholesale electricity/gas prices – which is set to reduce the government‘s cost for the energy price subsidies – we expect the fiscal deficit to stay broadly unchanged in 2023.

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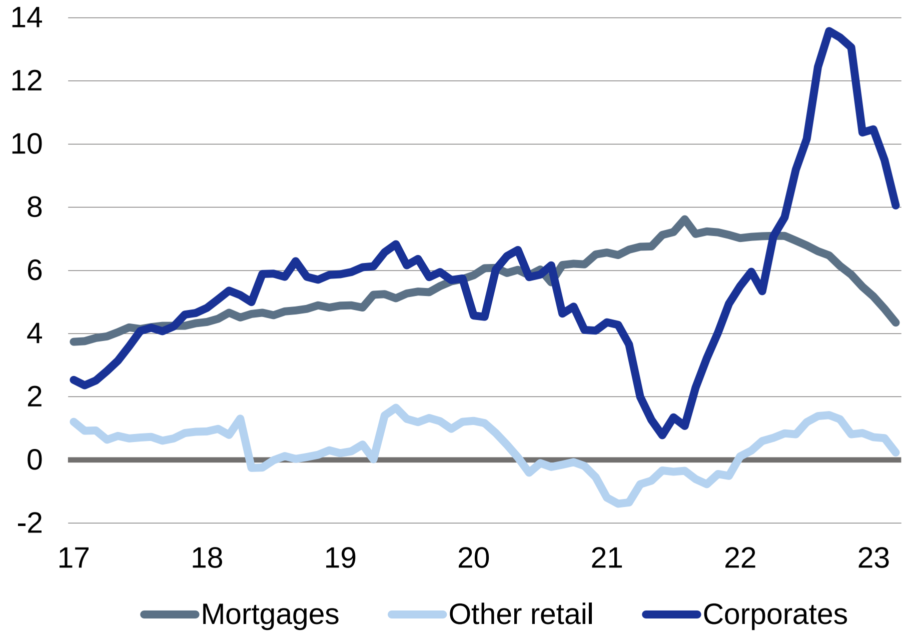
Significant slowdown in corporate lending after a long boom

Lending to the private sector

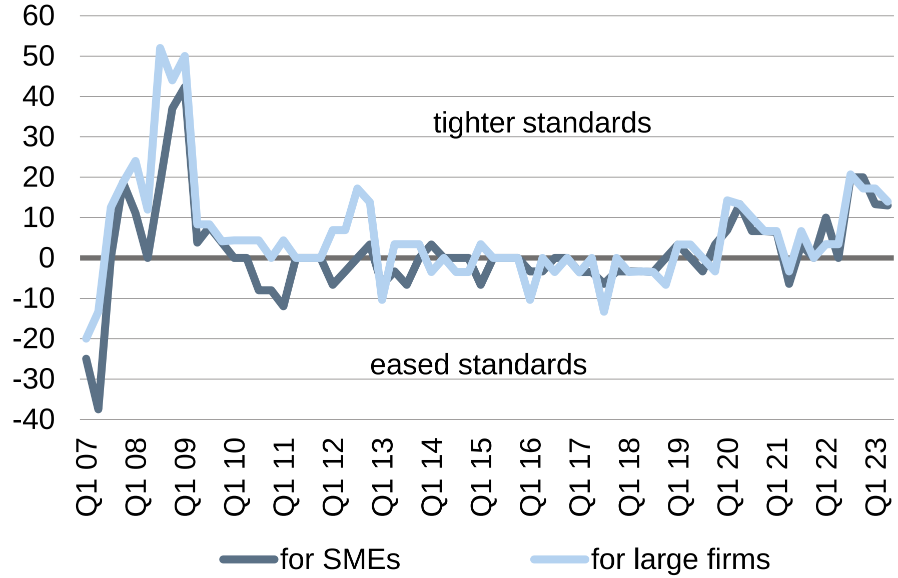
% yoy



Sources: ECB, Deutsche Bank Research

Bank lending survey: Credit standards for companies*

Net percentage of banks reporting..., qoq



* Q2 23 expected value

Source: Deutsche Bundesbank

- Corporate lending momentum normalizing following record growth last year.
- Banks continue to tighten credit standards moderately, yet no visible impact of recent banking tensions.
- Lending & deposit rates have risen broadly in line with ECB rate hikes, except for sight deposits, triggering substitution effect (→ inflows into time deposits).

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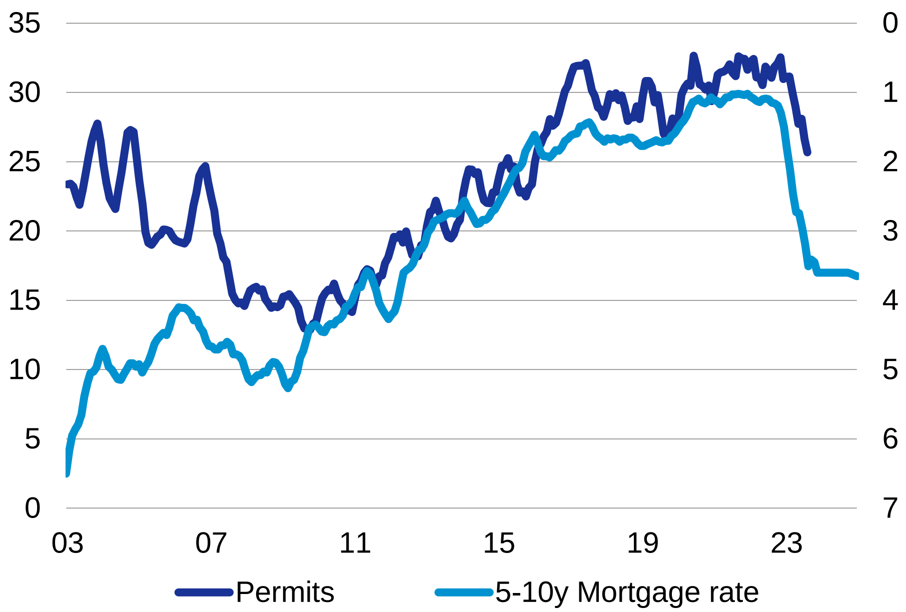
2023: Construction recession continues. Housing boom is over

Permits: Residential

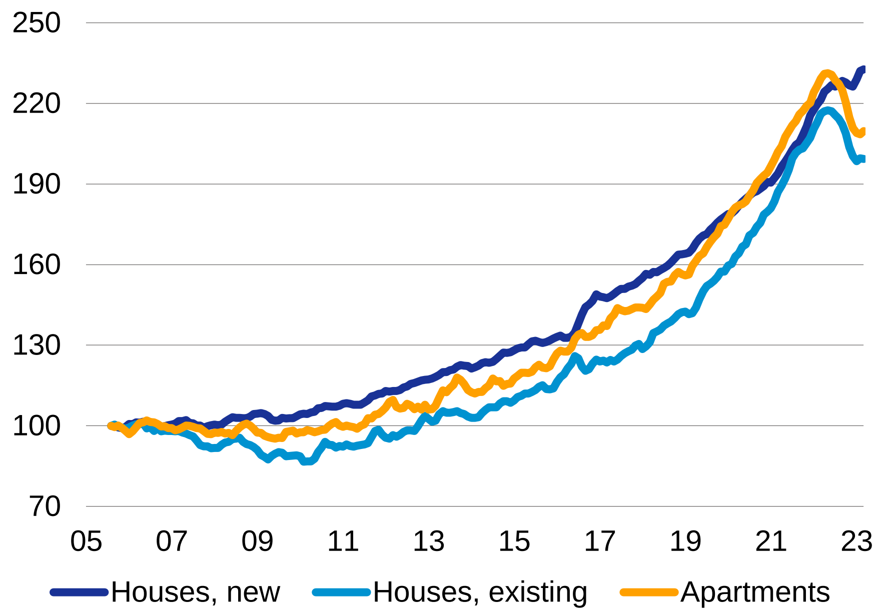
left y-axis: No. in '000 per month, 6MMA
right y-axis: in %, inverted



Sources: Deutsche Bank Research, Federal Statistical Office

Hypoport: Hedonic house and apartment prices

2005=100



Sources: Hypoport, Deutsche Bank Research

- Nominal interest rate shock weighs on permits and house prices.
- If investors expected rental yields above mortgage rates, house prices would have to drop by 20%. But several arguments point to only a small price correction: steep drop in real prices in 2022, negative real interest rates, inflation protection through real estate, huge fundamental supply shortage and rent growth.
- Hedonic house price indices fall less than non-hedonic ones. Quality matters.

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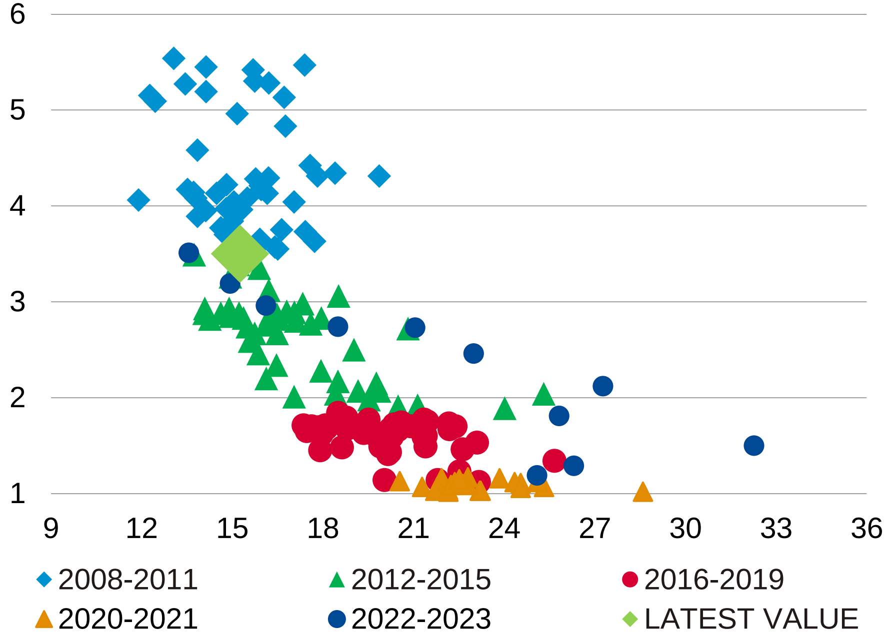
Two important headwinds: Interest rate shock in the housing market and supply shortages in construction

Volume of new mortgages

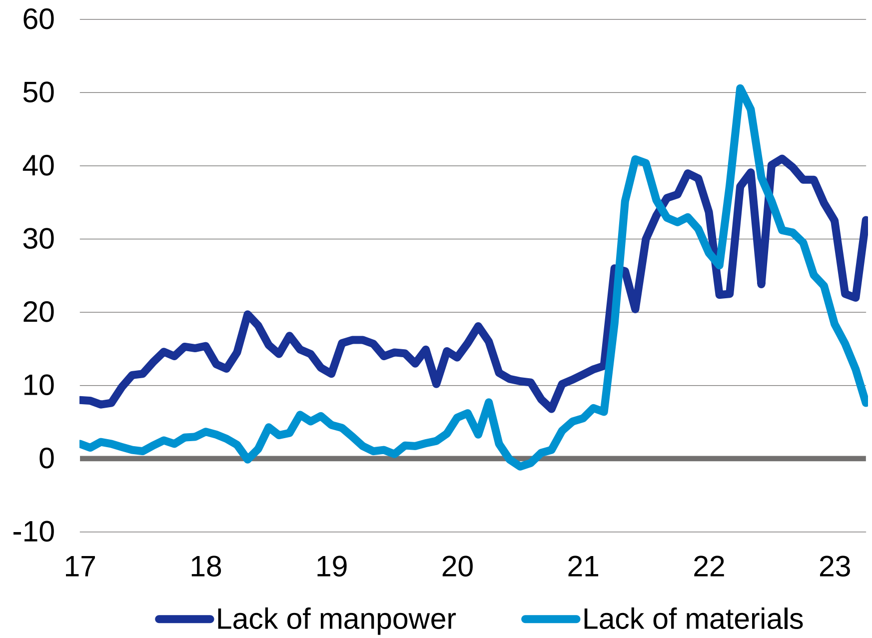
y-axis: Mortgage rate in %
x-axis: New volume in EUR bn per month



Sources: Bundesbank, Deutsche Bank Research

ifo: Construction survey

Share of afirmations in %, seasonally adjusted



Sources: ifo, Deutsche Bank Research

- Inflation-induced interest rate shock propelled mortgage rates up from ~1% in 2021 to 3.6% in February 2023.
- A lack of qualified workers remains an obstacle, but shortages of material have declined substantially, recently.
- Both higher interest rates and building costs should have led to a severe drop of new dwellings in 2022 and 2023. We expect 279.6k and 246k (2021: 293k, 2020: 306k). 2022 data release in May/June 2023.

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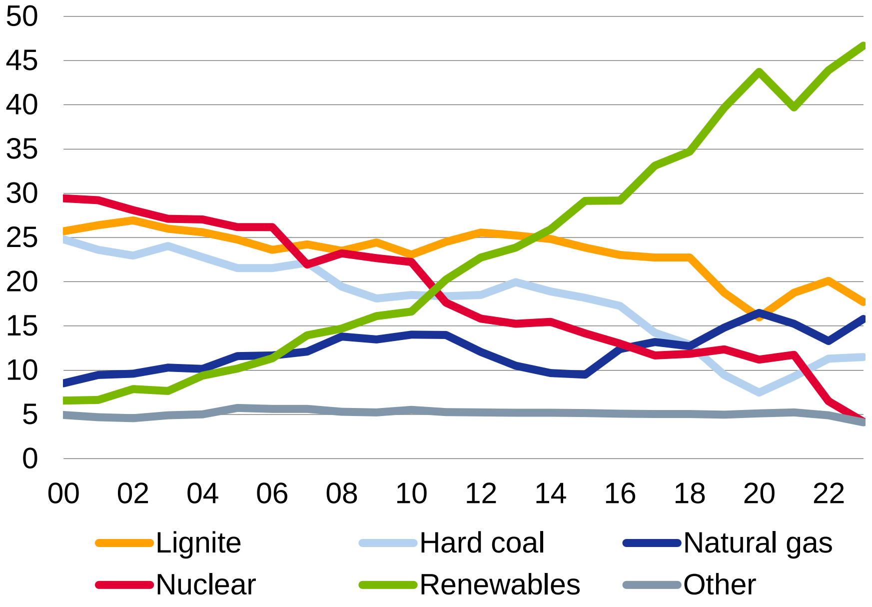
Energy Transition Monitor #1 – what, when and how

Germany: Renewables accounting for close to half of electricity generation in 2023 Q1

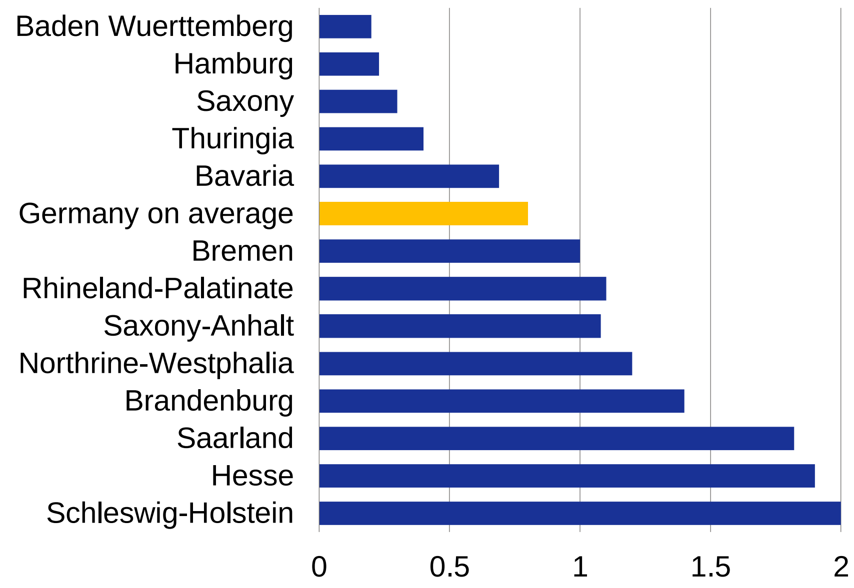
Share of different energy sources in gross electricity production, %



Source: AG Energiebilanzen

Lack of dedicated areas for windpower as major bottleneck

% of total area



Sources: BDEW/ EY Fortschrittsmonitor

- Germany aims for climate neutrality by 2045. Key levers to reach the goal are a massive expansion of renewable energies and a stronger electrification of transport, industrial processes and of the heating sector.
- Unless there is an acceleration in addressing bottlenecks, reaching the targets seems very challenging from today's perspective. Given a widening gap, investments (private/public) will rise over the next few years (e.g. renewable energy generation, power grids, district heating, energy efficiency and hydrogen infrastructure).

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Germany's energy transition at a glance: Scope of the challenge and drivers for acceleration

	Target for 2030	Status quo	Expansion last three years	Expansion needed to reach 2030 target	Has this speed ever been reached before?	Main bottlenecks	Regulatory action that might accelerate ramp-up
Onshore wind	115 GW	58 GW	1.7 GW p.a.	7 GW p.a.	No. Historic peak: 4.9 GW in 2017	Lengthy permit procedures, lack of dedicated areas	1.4% of land area to be dedicated to wind energy by 2026; faster permit procedures for the next 18 months
Photovoltaics	215 GW	67 GW	5.9 GW p.a.	> 18 GW p.a.	No. Historic peak: 8.2 GW in 2012	Skilled labour, supply of components, dependency on imports from China	Solarpaket I & II: Removing legislative barriers for ground-mounted and roof-mounted solar PV installations
Offshore wind	30 GW	8 GW	0.2 GW p.a.	2.7 GW p.a.	No, but close. Historic peak: 2.3 GW in 2015	Grid infrastucture, planning procedures	"Offshore Wind Energy Act" (early 2023) aims to accelerate planning and approval procedures
Electric heat pumps (stock)	6 m	1.5 m	166,000 units p.a.	570,000 units p.a.	No. Historic peak: 236,000 in 2022	Funding, especially financial constraints of private households, technical issues in older houses, skilled labour	"Building Energy Act", as of 2024, new heating systems must be operated by at least 65% with renewable energy
Electric cars	15 m	1 m	292,000 units p.a.	2 m units p.a.	No	Consumer demand (price, range, charging infrastructure)	Subsidies for electric cars have been reduced
Charging infrastructure	1 m	0,08 m	17,000 units p.a.	132,000 units p.a.	No	Lengthy approval procedures, uncertain business case, funding, capability of local distribution network	"Roadmap charging infrastructure II" (2022) aims to address bottlenecks
Electrolysers	10 GW	< 0.2 GW	< 0.05 GW p.a.	> 1.2 GW p.a.	No	Funding and questions regarding business case, complex large-scale projects	Different public support schemes as part of the "National Hydrogen Strategy", EU Innovation Hydrogen Bank

Source: Deutsche Bank Research

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EU fiscal rules legislative proposal: Towards a Berlin-Brussels compromise

History of past excessive deficit procedures (EDP) and periods of "no corrective action"

Sources: European Commission, Deutsche Bank Research

- The EU Commission has presented three legislative proposals for the fiscal rules revamp. This reduces the likelihood of an extended EU fiscal governance limbo and brings more clarity regarding the eventual impact of the new rules on the EU's 2024 fiscal stance.
- Landing zone for a Berlin-Brussels compromise. As the introduction of common quantitative benchmarks has reduced the gap between Brussels and Berlin in terms of positioning on the new rules, it seems likely that the overall legislative process might be finalized early next year.

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Appendix 1
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