Focus Germany

Solid growth, budget surpluses but new challenges

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Germany: No further acceleration of GDP in H2. GDP growth accelerated slightly to +0.4% qoq in Q2 with disappointing details. The domestic economy was a drag due to the decline of investments and an inventory reduction. Consumption slowed. Net exports were the major growth engine. German exports benefitted from the weaker EUR and strong demand especially from the US. While the outlook for the domestic side of the German economy remains solid, the external environment looks less favourable. This will also continue to put a lid on investment spending. The recent renewed slump of oil prices should give private consumption a boost going forward. On balance, we think that the H2-outlook has clouded slightly. Thus, we cut our Q3 GDP growth forecast slightly to 0.4% qoq. Despite this downward revision, we modestly increase our 2015 GDP forecast to 1.7% due to the marginal upward revision of H1 numbers, and changes in the growth composition. Fundamentally our outlook remains unchanged. Domestic demand, esp. private consumption, is the primary growth driver and the external environment remains challenging.

Germany's comfortable fiscal situation might trigger further expenditure programmes. In the first half of 2015 the fiscal situation improved further. According to our calculations, the annual budget surplus comes to EUR 22.2 bn. Due to this large surplus in the first half of 2015 and as the German government will probably continue to generate budget surpluses in the years ahead, the pressure on Germany to raise government expenditure will increase even more. If the government wants to cave in to such claims – ahead of the 2017 elections, investments in education would be a good supplement to the existing mix of measures consisting of higher social security benefits and infrastructure investments.

The view from Berlin: Spending or investing political capital? Once again, German MPs were called back from summer recess to vote on a bailout package for Greece. Chancellor Merkel and FM Schäuble again spent considerable political capital to keep Greece in the euro area. The number of conservative naysayers in the parliamentary vote indicate two points: (i) Mounting hurdles for future decisions on Greece in Chancellor Merkel's own party and (ii) politico-strategic considerations for the second part of the legislative term. CDU/CSU MPs are well aware of the fact that the strength of the party is linked to Merkel's popularity and that undermining her aura of invulnerability will undermine the prospects of the CDU/CSU governing beyond 2017. The SPD, in contrast, has started an internal debate over how to position for the future. The focus on the two big parties is missing a swing in the political landscape elsewhere. The Liberals might enjoy a political comeback while the eurosceptic AfD is suffering from internal quarrels. Public sentiment will be tested earlier, though, as 2016 one of the biggest and wealthiest German states, Baden-Wuerttemberg, will hold regional elections on March 13.

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	1.4	1.6	0.4	0.3	1.4	2.1	3.0	2.3	-2.4	-2.1	-1.8
Germany	1.6	1.7	1.7	0.9	0.5	2.0	7.4	8.3	8.2	0.3	0.7	0.5
France	0.2	1.2	1.6	0.6	0.3	1.1	-0.9	-0.5	-1.0	-4.0	-3.8	-3.6
Italy	-0.4	0.7	1.5	0.2	0.2	1.2	1.9	2.5	2.9	-3.0	-2.8	-2.2
Spain	1.4	3.0	2.5	-0.2	-0.3	1.5	0.8	1.3	1.1	-5.8	-4.6	-3.6
Netherlands	1.0	1.9	1.4	0.3	0.2	1.3	10.8	11.1	11.1	-2.3	-2.0	-1.9
Belgium	1.1	1.3	1.6	0.5	0.6	1.6	1.6	2.0	1.5	-3.2	-2.7	-2.5
Austria	0.4	0.5	1.4	1.5	1.0	1.8	0.8	1.1	1.5	-2.4	-2.0	-1.9
Finland	-0.4	0.2	0.9	1.2	0.1	1.4	-1.9	-1.0	-0.8	-3.2	-3.1	-2.8
Greece	0.7	-3.0	-1.4	-1.4	-1.4	1.0	0.9	1.5	1.2	-3.5	-3.4	-2.7
Portugal	0.9	1.6	1.7	-0.2	0.7	1.4	0.7	0.9	1.0	-4.5	-3.1	-2.6
Ireland	5.2	3.7	3.5	0.3	0.3	1.8	3.6	5.0	4.5	-4.1	-2.4	-2.0
UK	3.0	2.5	2.3	1.5	0.5	1.6	-3.2	-4.5	-3.0	-4.3	-3.8	-2.5
Denmark	1.1	1.8	2.0	0.6	0.6	1.4	6.3	6.0	6.0	-1.0	-1.5	-2.0
Norway	2.3	1.5	1.9	2.0	2.0	2.2	9.4	7.5	7.0	9.1	7.5	7.5
Sweden	2.4	2.4	2.6	-0.2	0.3	1.5	6.8	6.5	6.0	-1.9	-1.0	-0.5
Switzerland	1.9	0.8	1.2	0.0	-1.0	-0.3	7.0	7.0	6.5	0.2	0.0	-0.5
Czech Republic	2.0	4.2	3.0	0.4	0.6	2.1	0.6	0.3	0.0	-1.9	-1.8	-1.6
Hungary	3.6	2.7	2.4	-0.2	0.4	2.7	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	2.6	2.9	1.6	0.4	2.6	-2.6	-3.0	-3.5	-2.8	-2.7	-2.4
Japan	-0.1	0.6	1.2	2.7	0.8	0.8	0.5	3.4	3.0	-5.9	-5.3	-4.5
China	7.4	7.0	6.7	2.0	1.6	2.7	3.1	3.4	3.3	-2.1	-3.7	-3.0
World	3.4	3.2	3.7	3.6	3.3	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, % 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	1.7	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	1.1	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	2.1	2.4	-1.5	-0.7	1.3	1.7	-0.4	0.6	0.6
Investment in M&E	-2.6	-2.3	4.5	4.4	2.5	-0.2	0.9	-1.9	2.6	1.9	0.1	0.3	0.6
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	4.4	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	3.6	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	0.5	0.0	-0.2	0.5	-0.3	-0.2	0.8	-0.3	0.0
Consumer prices*	2.0	1.5	0.9	0.5	2.0	1.2	1.1	0.8	0.5	0.0	0.5	0.5	1.4
Unemployment rate, %	6.8	6.9	6.7	6.4	6.5	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	0.7	0.5								
Public debt, % GDP	79.1	76.8	74.4	71.6	69.4								
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

Germany: No further acceleration of GDP in H2

— Q2 GDP growth – slight acceleration: German GDP growth accelerated slightly to +0.4% qoq in Q2, which had been in line with our expectations and was slightly weaker than market consensus (Reuters: +0.5%). The previous quarter was revised up a little and the year-on-year rate stood at +1.6% (Q1: +1.2%).

— Disappointing details: After two strong quarters the domestic economy disappointed in Q2 due to the decline of gross capital investments and an inventory reduction. Total consumption growth expanded for the sixth quarter in a row, but slowed from an average of +0.7% qoq in the previous three quarters to +0.2% qoq. Overall the domestic economy subtracted 0.3 pp from Q2 GDP growth.

— Net exports strength in Q2: Net exports were the major growth engine and overcompensated for the weakness of the domestic economy. German exports benefited from the weaker EUR and strong demand especially from the US. Net exports added 0.7 pp to GDP growth.

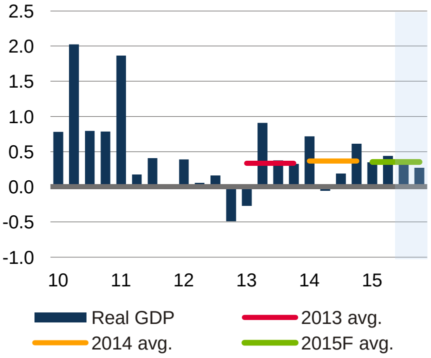
— H2 – less external traction, but lower oil prices: While the outlook for the domestic side of the German economy remains solid, the external environment looks less favourable. The recent renewed slump of oil prices should give private consumption a boost going forward, adding to the income gains due to the solid labour market. However, given the weak development of world trade, not least because of the difficult situation of several large emerging markets, less stimulus from US demand and the recent volatile appreciation of the EUR, we expect net exports to become a moderate drag on GDP growth in H2. This will also continue to put a lid on domestic investment spending – foremost in equipment.

— Cutting Q3 forecast: On balance, we think that the outlook for the German economy in H2 has clouded slightly. Thus, we cut our Q3 GDP growth forecast to 0.4% qoq (prev. +0.5%), bringing it in line with the sentiment indicators. Despite the minimal downward revision of Q3 growth, we modestly increase our 2015 GDP forecast to 1.7% (prev. 1.6%) due to the marginal upward revision of H1 numbers and changes in the growth composition.

— Fundamental outlook unchanged: Domestic demand is the primary growth driver in 2015 and 2016. Private consumption should continue to benefit from the robust labour market and low commodity prices that add to real incomes. Construction growth should continue to be moderate and volatile. In contrast, the external picture is one of moderate growth and many risks that will limit corporates' capacity utilisation and thus their willingness to invest.

Fluctuations around trend 1

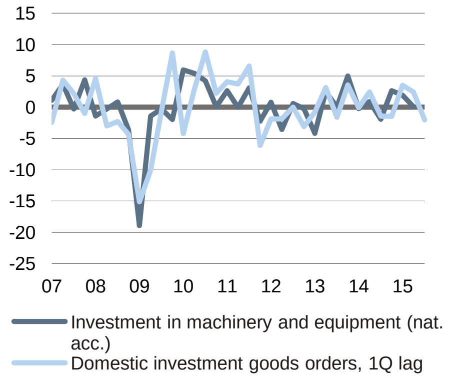
Real GDP, % qoq



Sources: Federal Statistical Office, Deutsche Bank Research

Muted prospects for Q3 investment growth 2

Real, % qoq



Source: Federal Statistical Office

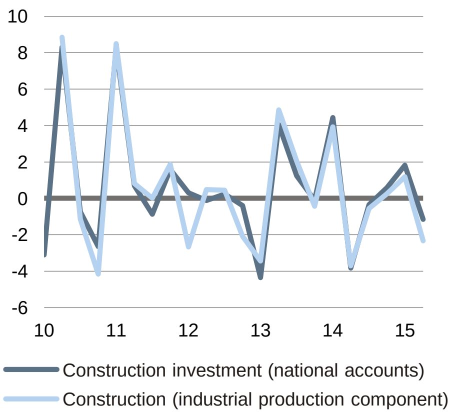
Q2 GDP growth: Slight acceleration, but disappointing details

German GDP growth accelerated slightly to +0.4% qoq. This was up from the disappointing reading in Q1 (+0.3%) and in line with our expectations, but slightly weaker than market consensus (Reuters: +0.5%). The previous quarter was slightly revised higher and the year-on-year rate stood at +1.6% (Q1: +1.2%).

However, the growth composition disappointed in Q2, somewhat tainting the outlook for H2. Investment was a drag in Q2 – esp. construction – and net exports were the major growth contributor, which is unlikely to be sustained given the international headwinds. However, consumption growth continued and should actually strengthen in H2.

Weak construction in Q2 | 3

Real, % qoq



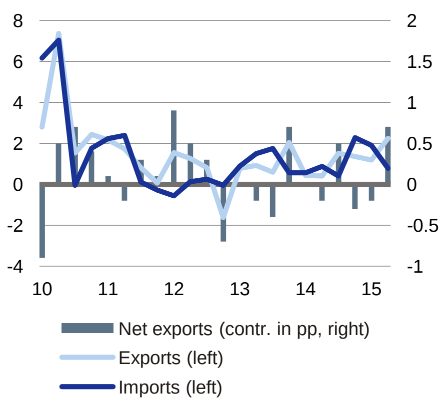
Source: Federal Statistical Office

Employment growth slowed substantially | 4

Sources: Federal Statistical Office, Federal Employment Agency

Net exports strength in Q2 | 5

Real, sa, % qoq



Source: Federal Statistical Office

Weak investments weighed on domestic growth in Q2

After two strong quarters the domestic economy disappointed in Q2 due to the decline of gross capital investments and an inventory reduction. Total consumption expanded for the sixth quarter in a row, but slowed somewhat in Q2. The negative growth contribution of the domestic economy was -0.3 pp (Q4: +0.9 pp; Q1: +0.5 pp).

A decline in construction investment (-1.2% qoq) pushed gross fixed capital investment into the red (-0.4% qoq) in Q2. We had expected a negative print due to the counter movement following the previous two strong quarters which were positively affected by the mild winter weather. However, the decline was somewhat stronger than forecast. Dwelling investments slowed to 0.5% qoq (Q1: +2.5% qoq) and in particular investments in other buildings and structures were weak (-3.6% qoq; Q1: +0.9% qoq). Still, despite the relatively high volatility of the quarterly rates the fundamental factors for dwelling investments (e.g. low interest rates, elevated net migration, healthy labour market) remain positive and therefore the weakness in Q2 should be only temporary. Weakness of public sector construction should be temporary given the already announced additional public infrastructure investments, but should remain weak for company investments that account for roughly 70% of total investments in other buildings and structure.

Investments in machinery and equipment were virtually flat in Q2 (+0.1%). The environment remains challenging due to capacity utilisation falling moderately for two quarters and standing only marginally above its long-term average, international headwinds (see below) as well as high volatility on equity and FX markets as can be seen in weak domestic investment goods orders that do not point to a quick turnaround.

Private consumption slowed in Q2 (+0.2 qoq), but this came after strong increases in the previous three quarters (avg. +0.7% qoq) and is partly due to an increase in the savings ratio that climbed from 9.5% in Q1 to 9.7% in Q2 (30% of the rise in disposable incomes went into savings). The still good situation in the labour market with employment at a new record of 42.8 million persons (+0.1% qoq) and the solid increase of compensation of employees (+0.8% qoq) support consumption. However, employment growth slowed substantially from 0.8% yoy end-2014 to only 0.4% yoy in June, which is partly due to the negative effects of the minimum wage introduction on employment in the low-wage sector.

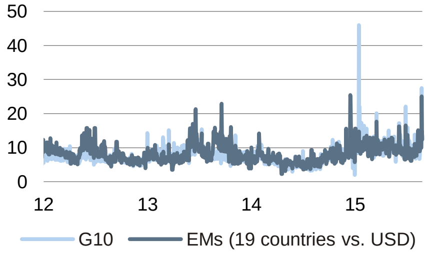
Net exports strength in Q2

Net exports were the growth engine in Q2 and overcompensated for the weakness of the domestic economy. Real export growth accelerated to a solid 2.2% qoq – the highest rate since Q1 2011 – and import growth slowed down to 0.8% qoq. German exports benefited from the weaker EUR and strong demand, especially from the US. Net exports added 0.7 pp to GDP growth after having been a drag in previous quarters (Q4: -0.3 pp; Q1: -0.2 pp), when solid domestic demand resulted in strong imports.

Volatile news flow adds to (perceived) uncertainty

Global financial markets have been highly volatile in the last few weeks. Especially equity and foreign exchange market volatility has spiked. The Dax shredded nearly 20% of its value in only two weeks and the EUR gained strongly rising back to levels last seen very early in the year. Furthermore, Currency volatility increased since mid-2014 **6**

24 hour realized volatility



Realized volatility is calculated by annualizing the standard deviation of periodic logarithmic returns over the historic time

Sources: Bloomberg Finance LP, Deutsche Bank Research

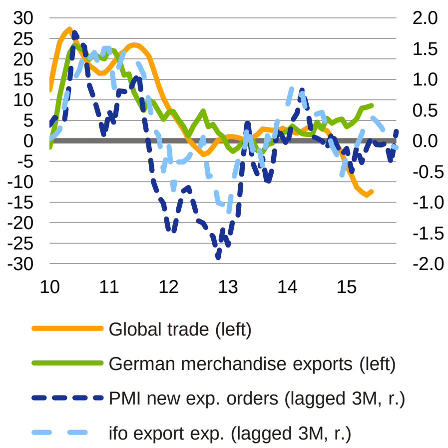
Weakness in commodity markets **7**

Bloomberg Commodity Index (BCOM)

Source: Bloomberg Finance LP

Muted outlook for exports **8**

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



Sources: Deutsche Bundesbank, ifo, Markit, CPB, Deutsche Bank Research

commodity prices – often seen as a harbinger for global demand growth – have fallen to levels last seen in 1999 according to some measures.

These developments are likely due to a combination of events that have cast doubt over global growth prospects and, thus, over the German export outlook:

— Volatility and hence German exporters sentiment were affected by uncertainty about the policy outlook of the PBoC and the Fed. The Chinese central bank's decision to make the daily fixing of the RMB vs USD more transparent resulted in a 3% depreciation of the RMB and prompted the PBoC to intervene in order to stop the slide. Still, market expectations now foresee a further depreciation over the next few quarters. Deutsche Bank has lowered its RMB/USD forecast for end-2015 to 6.5 (from 6.3) and end-2016 to 6.9 (from 6.5).[1] Moreover, the FX-movements and the recent cut in the PBoC's key rates and RRR have increased the market's nervousness regarding the H2 growth outlook.

— The release of the latest Fed minutes has been perceived as dovish, making a first rate hike in September less likely. Here again the take away has probably been that the growth outlook is weaker than expected. Recent comments from New York Fed president William Dudley were also more cautious regarding a September hike.[2]

Equity markets have recouped some of their losses already and our German macro surprise index is slightly in positive territory, highlighting that recent macro data flows came in broadly as expected. Still, all this highlights the very heightened uncertainty about the global outlook, which in turn points to risks for the German economy as it remains very vulnerable to external shocks despite its recently more balanced growth mix.

H2 outlook: Less external traction, but renewed oil price decline

On balance, the German growth outlook has slightly clouded lately due to the external sector.

Compared to world trade, German exports were surprisingly strong thanks to the weaker EUR and especially high demand from the US (+24% yoy in H1; 9.6% of total nominal exports), which replaced France as Germany's largest destination country since Q1 this year. The weaker EUR boosted price competitiveness of German exports in the US and nominal export growth was by almost 2/3 driven by the valuation effect caused mainly by the weaker EUR. Exports to the US measured in EUR were up +24% yoy in H1 and exports measured in tonnes 6.5%. This implies that German exporters increased their margins rather than adjust US prices so far. US demand was especially strong for automobiles, other transport equipment, pharmaceutical products and machines, explaining about 70% of the export surge. The slowdown of US light vehicle sales (Jan.: +9.5% yoy; July: +3.5% yoy; 3M mov. avg.) and the volatile appreciation of the EUR vs USD since its low in mid-March point to more moderate German export growth to the US going forward.

Adding the weak development of world trade (+1.1% yoy in real terms and -12.4% yoy in nominal terms; 3M mov. avg.), not least because of the difficult situation of several large emerging markets and the recent volatile appreciation of the EUR especially vs EM FX, we expect the strength of net exports to be only temporary. German exports to China already slowed down significantly and demand from oil producing countries will remain weak given the negative effect

[1] See Data Flash. The RMB depreciation series 2: CNY forecast revision. 14 August 2015. Deutsche Bank Research.

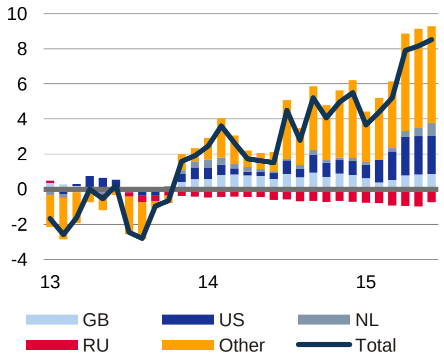
[2] See Fed's Dudley: Case for September Rate Increase Now 'Less Compelling'. The Wall Street Journal. 26 August 2015.

of the low oil price on these economies. However, demand from EMU countries should be resilient thanks to the ongoing moderate EMU recovery.

The overall weak outlook is corroborated by the leading indicators (PMI new export orders and ifo export expectations) pointing to a significant weakening in the coming months. This likely caused German manufacturers to cut back their expectations to the lowest level since end-2014 recently (ifo expectations for manufacturing Aug: 97.6 vs July: 98.9) which pushed down the total ifo expectations component (Aug: 102.2 vs July: 102.3).

Stronger demand from US, GB, NL supporting German exports 9

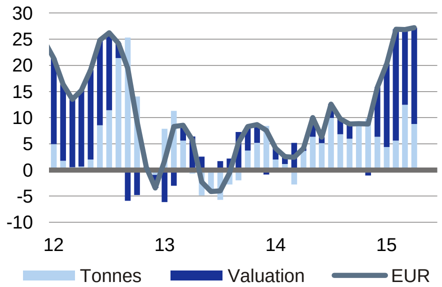
% yoy (3M mov. avg.)



Sources: Federal Statistical Office, Deutsche Bank Research

Strong growth of exports going to the US 10

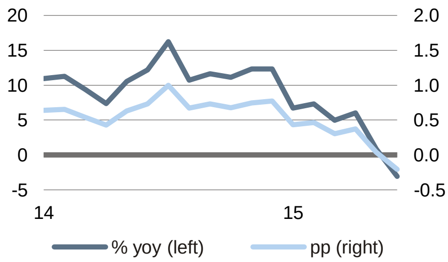
German exports to the US, % yoy



Sources: Federal Statistical Office, Deutsche Bank Research

Exports to China sharply down 11

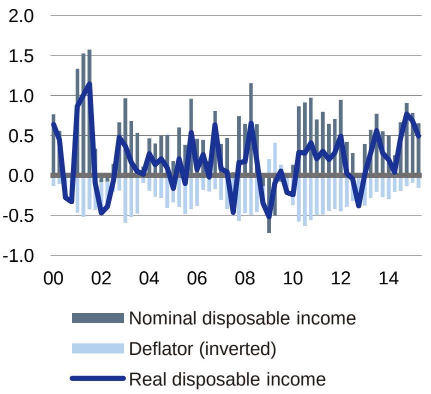
% yoy (left), Contribution to total export growth, pp (right)



Sources: Federal Statistical Office, Deutsche Bank Research

Real purchasing power benefits from falling inflation rates 12

% qoq, 3Q mov. avg., sa



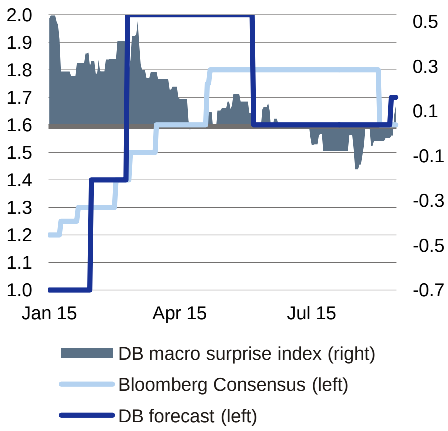
Sources: Federal Statistical Office, Deutsche Bank Research

On the flip side, the recent declines in the oil price will provide ongoing support for German consumers' real purchasing power. Falling oil prices have weighed heavily on consumer inflation since mid-2014. We had assumed that this positive effect for consumers would slowly disappear over the course of H2 2015 and then reverse. However, so far data points to an oil price drop of over 15% qoq in Q3 – about on par with the average quarterly decline from Q2 2014 to Q1 2015, when real private consumption was surging by on average 0.7% qoq, and a complete turnaround compared to the Q2 increase of around 17%. Thus, the stimulating effect from low commodity prices on consumption spending seems to have another leg. Beyond Q3 forecasts are currently made very hard, but judging by what future markets, the moderate global demand and apparently increasing global supply imply, a steep ascent of oil prices to levels from H1 2014 look unlikely.

DB forecast: GDP +1.7% in 2015 and 2016

DB German GDP forecast 2015 vs. Bloomberg Consensus 13

% yoy (left); Average of previous 20 z-scores (right)



Sources: Bloomberg Finance LP, Deutsche Bank Research

While the outlook for the German economy remains solid from the domestic side, the external environment looks less favourable. Thus, we cut our Q3 GDP growth forecast slightly to 0.4% qoq (prev. +0.5%), which is in line with the sentiment indicators (composite PMI and ifo expectations).

Despite our slightly downward revision of Q3 growth, we modestly increase our 2015 GDP forecast to 1.7% (prev. 1.6%) due to the slight upward revision of H1 numbers (only visible in the second digit behind the decimal point) and changes in the growth composition. Our fundamental outlook remains unchanged with domestic demand as the primary growth driver in 2015 and 2016. Our outlook for 2016 GDP growth stays at 1.7%.

This keeps our 2015 outlook slightly above the Bloomberg Consensus expectations that fell from 1.8% to 1.6% (17th August). The current slightly positive German macro surprise index points to balanced risks for current GDP forecasts. For 2016 we remain below Bloomberg Consensus expectations of 1.9%.

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Germany's comfortable fiscal situation might trigger further expenditure programmes

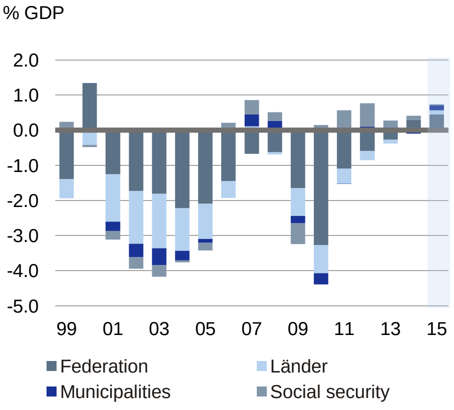
— Germany's total public-sector budget closed the year 2014 with a EUR 8.9 bn surplus (0.3% of GDP). In the first half of 2015 the fiscal situation improved further. According to our calculations, the annual budget surplus comes to EUR 22.2 bn (0.7% of GDP). Owing to the surplus and robust economic growth, the public-sector debt level is likely to fall to 71.6%. By the end of the decade it could even fall close to 60%.

— The Federation (central government), the Länder and the municipalities will probably register a big budget surplus in 2015. The social security system is likely to record only a small surplus, after large surpluses in previous years. This is due mainly to the expansion in benefits provided by pension insurance and the continuing deficit in the health insurance scheme. By contrast, the statutory long-term care scheme and the Federal Employment Agency are likely to close the year with a surplus.

— Due to the good economic situation, Germany has approved the reduction of the so-called cold progression of the tax burden, infrastructure investments worth billions of euros and an extension of social benefits this year. The high number of political asylum-seekers also has increased government spending. As a result of the buoyant tax receipts, this is possible for the time being without jeopardising the target of a balanced budget. Thus, the Federal Government is going some way towards meeting the demands of supporting domestic demand and thus reducing current account surpluses.

— As there was a large surplus in the first half of 2015 and as the German government will probably continue to generate budget surpluses in the years ahead, the pressure on Germany to raise government expenditure will increase even more. If the government wants to cave in to such claims – ahead of the 2017 elections, investments in education, in particular in the primary sector where Germany's spending is very low by international standards, would be a good supplement to the existing mix of measures consisting of higher social security benefits and infrastructure investments.

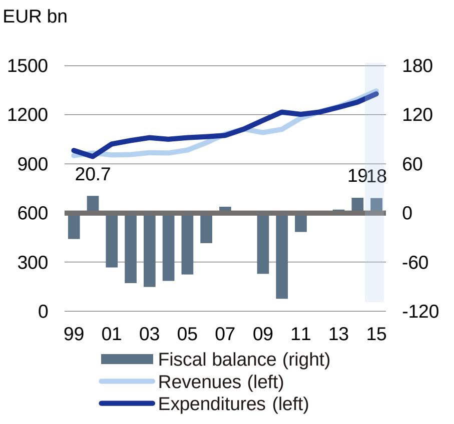
General government: Fiscal balance 1



Sources: Bundesbank, Deutsche Bank Research

Large budget surplus in 2014

Gov't revenues and expenditures 2



Sources: Bundesbank, Deutsche Bank Research

After almost balanced fiscal budgets in 2012 and 2013, Germany recorded a budget surplus of EUR 8.9 bn or 0.3% of GDP last year. Thus, the fiscal balance has improved strongly in the last five years. Furthermore, the 2014 surplus is the second highest result only surpassed by the EUR 18 bn of the year 2000, which was generated, however, by one-off revenues of roughly EUR 50 bn through auctions of UMTS licences. The basis for the 2014 surplus was sharply falling interest expenditure and soaring tax receipts, which, at 3.5% year-on-year, rose more quickly than expenditure excluding interest expenditure (+2.8%).

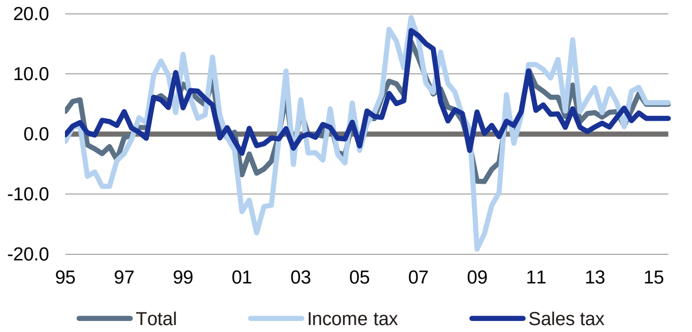
The year 2014 was also extraordinary because the Federation recorded a surplus of EUR 8.6 bn, the first surplus since 2000. The Länder again recorded an overall deficit, though at minus EUR 0.6 bn they were close to equilibrium. After surpluses in 2012 and 2013, the municipalities disclosed an overall deficit of EUR 2.4 bn. As has been the case since 2010, social security generated a surplus. Within the social security system, only statutory health insurance posted a deficit.

2015 government revenues rising, interest burden falling sharply

According to our forecasts, government revenues in 2015 will rise by 3.9% compared with the previous year (2014: 3.8%). The major driver for this positive development is robust economic growth of 1.7%. Especially the continuing improvement in the labour market situation with rising employment, a low rate of unemployment and significant wage increases are a solid basis for higher tax revenues and social security contributions. For instance, total tax revenues until June had already jumped roughly 4% compared with the same period of the previous year. If this development continues, 2015 tax revenues will be around EUR 35 bn higher than the pre-year amount. These revenues enable the reduction of the so-called cold progression of the tax burden recently agreed by the government and thus the partial reduction of the tax bulge. The resultant revenue shortfalls are in the low single-digit EUR bn range and do not jeopardise the target of a balanced budget.

Tax revenues 3

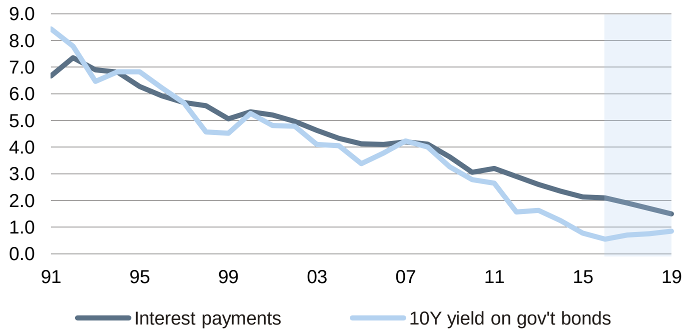
% yoy



Sources: Bundesbank, Deutsche Bank Research

Interest burden vs Bund yield 4

% of government debt and annual yield, %

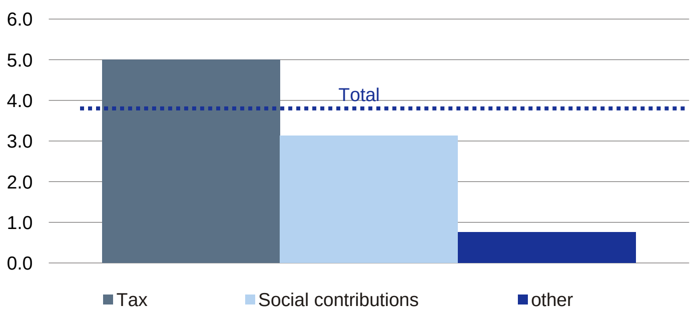


Sources: Bundesbank, Deutsche Bank Research

In addition to the tax revenues, 2015 will benefit from a positive one-off effect of EUR 5.1 bn thanks to the auction of new mobile phone spectrum licences. On the spending side, low capital market rates are likely to reduce interest expenditure further. Owing to the average maturity of German government debt of 6 years and the high level of interest rates in the pre-crisis years, the interest burden of the German state will probably fall further in the next years. Capital market rates are likely to stay low especially until September 2016, the planned end of the ECB's bond-buying programme. But later as well, we expect only a gradual normalisation of interest rates, so that the level of capital market rates will probably be below the average interest rate on government debt for years.

2015 forecast: Government revenues 5

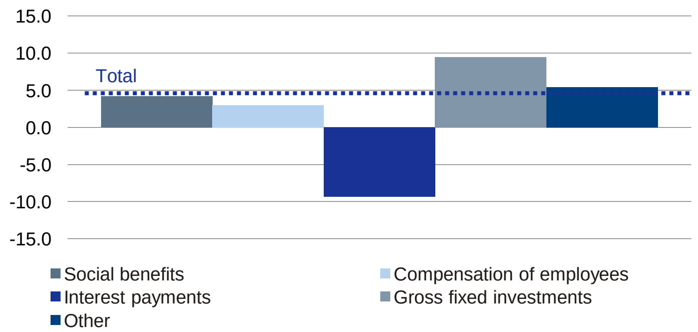
% yoy



Sources: Bundesbank, Deutsche Bank Research

2015 forecast: Government expenditures 6

% yoy



Sources: Bundesbank, Deutsche Bank Research

2015 government expenditure rising in line with government revenues

According to our forecast, government expenditure will rise in 2015 (2.9% compared with the previous year), with compensation in the public sector registering an increase of 3%. In March, employers and the unions agreed on higher collective wages for public-sector employees of the Länder. The settlement implies a wage increase by 2.1% in 2015 and by 2.3% in 2016 plus rising pension benefits. The municipalities will have to pay markedly higher wages to educators. Despite the arbitration findings and the proposal to raise wages by 4.5%, the trade unions rejected the offer. Recently, nursing staff went on strike as well and called for additional personnel. The continuing good financial situation is encouraging people to ask for more, driving wage demands and increasing the willingness to strike. According to the Cologne Institute for Economic Research (IW Köln), the number of strike days will rise to 600,000 in 2015 and thus reach its highest level for the last 20 years.

The Grand Coalition's propensity to spend was reflected above all in higher social security payments in the last few years (2013: +3.3%; 2014: +3.8%). In 2015, the rise in expenditure should accelerate to 4.8% compared with the previous year and thus accelerate more strongly than social security contributions on the income side (+3.6%). The pension changes and the reform of the statutory long-term care scheme decided last year boost expenditure. The pension increase which took effect on July 1 will raise pensions by over 2%. Expenditure on health insurance as well is likely to continue its upward trend of the last few years. In the last few weeks the Bundestag raised other social benefits. For instance, child benefit will rise by EUR 4 per child retroactively from January 1, 2015. At the same time, the child allowance and the child supplement for low-income earners will rise. Taken together, all these new measures are likely to burden the Federal budget by a single-digit EUR bn amount. Social benefits are also increasing due to the higher-than-expected number of asylum-seekers and civil war refugees. At the start of the year, the German government expected 300,000 asylum-seekers, a number that has been raised to 800,000.

Last but not least because of the discussion on Germany's investment weakness and the need for infrastructure improvements, we expect the strongest increase in percentage terms in public-sector investment (+8%). Of the measures approved by the Federal Government, the most significant are the relief for the municipalities and the Länder, to the tune of more than EUR 10 bn, plus another EUR 3.5 bn for the benefit of financially weak municipalities. These will be supplemented by additional billions of euros being spent on the promotion of energy, climate protection, the transport network, urban planning and research & development. These additional investments will be spread over the next few years.

2015 investment package of the Federation | 7

EUR bn

Measures	2016	2017	2018	Total
Public transport infrastructure and digital infrastructure	1.3	1.5	1.5	4.3
National action plan on energy efficiency	0.3	0.4	0.5	1.2
National climate protection initiative	0.2	0.2	0.2	0.5
Flood protection	0.1	0.1	0.1	0.3
Other	0.0	0.0	0.0	0.0
Financing of additional investments in the ministries (in the amount equivalent to cancelled childcare supplement)	1.0	1.0	1.0	2.9
Total	3.1	3.4	3.5	9.9
Plus additional investments in financially weak municipalities: urban development, infrastructure, education infrastructure, climate protection				3.5

Sources: Federal Ministry of Finance, Deutsche Bank Research

Fiscal impact of the rising number of asylum-seekers

The large number of people seeking asylum in Germany – over 200,000 up to July alone – has prompted the Federal Government to revise up its estimate to as many as 800,000 applicants for 2015 as a whole. The total registered in 2014 was roughly 200,000. This also entailed an upward correction to the costs of reception and accommodation. Bavaria, for instance, has not only already earmarked EUR 500 m in its budget for 2015 but also factored in an extra EUR 900 m for the 2016 supplementary budget. Other Länder have also made allowances in their supplementary budgets for the creation of additional permanent jobs and corrected the costs of reception and accommodation to the upside.

It is not possible to perform a comprehensive fiscal analysis of the issue based on the data available at present. However, the biggest cost factor can be seen in the lump sum per asylum-seeker transferred annually from the Länder governments to their municipalities. According to the Deutscher Landkreistag (German County Association), this works out at an annual average of EUR 6,700 per asylum-seeker; there are sizeable differences between the individual Länder though. Costs for accommodation and health care come on top. The Association says that the amounts provided to the municipalities by Thuringia, for example, cover more than 90% of the expenditures necessary. Going by the Thuringia figures, the total annual costs per asylum-seeker can be put at around EUR 9,000. These figures do not include other expenditures such as for internal security or language courses, which are mostly covered by the Federation. Revenues accruing to the plus side from higher employment (after waiting periods of several months) and medium-term benefits from improved economic relations with the home countries of the asylum-seekers are left out of the picture as well.

On the basis of the EUR 9,000 per asylum-seeker and 300,000 applicants planned at the beginning of the year, the Federation and the Länder budgeted a total of EUR 2.7 bn. With the estimate now rising to as many as 800,000 asylum-seekers, the related expenditures climb to some EUR 7.2 bn, which are to be covered in the supplementary budgets and paid from tax revenues that exceed the budget targets. These extra expenditures will probably be incurred mainly in the second half, since initial asylum claims skyrocketed in the summer months in particular. Consequently, these will probably also result in a much lower budget surplus in the second half than in the first. This applies at the federal level in particular, since the Federal Government seems prepared to shoulder a major share of the extra costs.

Huge general government surplus in 2015

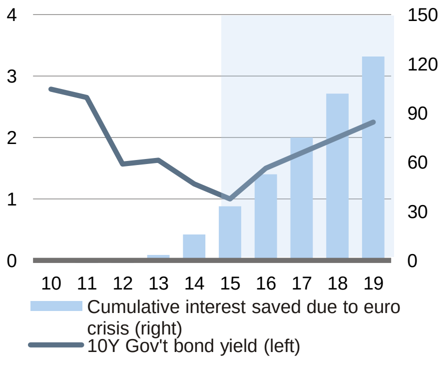
Owing to the marked increase in expenditure, social security could record only a small surplus, the lowest reading since 2009. Only the Federal Employment Agency and the statutory long-term care scheme are likely to post a surplus. Owing to the good economic and labour-market situation, the monthly deficits of the Federal Employment Agency in 2015 are currently markedly lower than in 2014 (for seasonal reasons expenditure in the first half is higher), and for the full year the Agency should post a clearly positive result. As in the previous years, the statutory long-term care scheme will probably post a surplus again. Due to the increase in the contribution rate by 0.3 percentage points as of January 1, 2015, revenues will rise against the previous year. The decision to boost long-term care expenditure within the framework of the care reform, especially for the provident fund set up last year, will only be implemented with a time lag. Like the statutory long-term care scheme, the pension insurance scheme consistently recorded surpluses from 2006 to 2014. In view of the recent increase in pension insurance benefits and the marked deficit in the first months of the current year, this trend will probably be broken in 2015. At the beginning of 2015, health insurance also posted a deficit. Here, the contribution rate, which was cut from 15.5% to 14.6% early this year, is reducing revenues. Despite a EUR 1 bn increase in federal funding for health insurance, we expect a deficit as a whole in 2015.

By contrast, thanks to the good growth situation, the Federation and Länder should even post higher financing surpluses compared with the previous year, so that according to our calculations, the total fiscal balance, at EUR 22.2 bn should be a new record. Relative to GDP the surplus should increase to 0.7% (previous year 0.3%). The debt ratio should improve to 71.6% (74.5%) and the interest burden should fall to 2.1% (2.3%).

We thus expect an interest burden of EUR 46 bn in 2015 – that is a further decline by roughly EUR 5 bn from EUR 50.9 bn in 2014. Thanks to the low interest environment, based on the first year of the euro crisis in 2010 when the average interest rate was 2.8%, Germany's interest expenditure would then be a cumulative EUR 32.9 bn lower. According to our forecast for Bund yields (1.5% for the end of 2016 and a further annual rise in interest rates by 25 bp) the interest burden continues to decline. On the basis of this simple estimate, cumulative interest savings will rise well above EUR 100 bn by the end of the decade and would thus exceed the current liability risk for Greece. Of course, this isolated analysis disregards many risks, for financial and political risks of contagion within the eurozone could ultimately weigh on the German taxpayer much more strongly than a credit default by Greece.

Interest savings vs Bund yield 8

left: annual yield, %
right: EUR bn



Sources: Bundesbank, Deutsche Bank Research

Further improvement of public-sector finances by 2020

In its medium-term planning the Federal Government assumes nominal GDP growth of over 3% in general. This is in line with our expectation for the coming years. The continuing very low level of interest rates and the EUR-USD exchange rate below purchasing power parity are likely to be reflected in robust economic growth and a solid labour market that continues to benefit from migration flows. However, we expect lower growth dynamics towards the end of the decade than the Federal Government. Both from an economic point of view and due to the increasing skill shortage, nominal growth will probably only come to 2.5%. However, even our slightly weaker growth profile is reflected in robust public-sector finances. Thus, we expect continued general-government budget surpluses by 2020. Both the structural deficit, due to the introduction of the debt brake, and the cyclical component, due to the good growth situation, are likely to make a positive contribution to the surpluses. According to our calculations, government debt will be 61.4% by the end of the decade and only just above the 60% Maastricht limit, which Germany has not complied with since 2003. According to our expectations, the interest burden will reach its lowest level at well below 2%. With capital market rates expected to be higher by the end of the decade, it will then climb to more than 2% again.

Does Germany have enough scope to boost its government expenditure further?

At regular intervals, and from very different quarters, for example the IMF, Germany is called upon to raise government expenditure. On the one hand, this is meant to reduce the high current account surpluses and thus the global imbalances, and on the other, it is supposed to stimulate the low-growth euro countries. However, the effect of additional government expenditure on Germany's neighbouring countries is relatively limited, and the critics of the high current account surpluses must always be reminded that the German population forecast is unfavourable. Thus, the surpluses are largely an ageing population's savings which will be consumed in the next few years.

However, this year the Federal Government is making a minor concession to its critics with its investment initiative. If the Federal Government were to achieve surpluses by 2019 – as we assume – pressure on Germany to boost investment will increase even more. It would imply that additional government expenditure would be possible without jeopardising the balancing of the budget – that is the statutory debt brake target.

Macroeconomic effect of additional government expenditure

Higher government expenditure automatically triggers a debate on the resultant growth stimuli since state spending programmes may boost private-sector spending and investment via the multiplier effect. A multiplier higher than 1 leads to more economic growth than the level of additional government expenditure. In empirical studies, the highest estimates are around up to 2, that is an additional government expenditure in the amount of EUR 1 leads to an additional growth stimulus which is twice as high. However, there are also analyses which find no multiplier effect or even a negative one. A negative multiplier implies a growth slowdown as a result of additional government expenditure. For this reason, government revenues are likely to fall as well and thus the additional expenditure is set to become a double burden on public-sector finances. In the event of high multipliers, government revenues typically also rise, and government expenditure is able to finance itself in part. The range of multipliers is an indication of the potential self-financing scope of public-sector institutions. Due to this large range of multipliers and the self-financing scope, government spending programmes are always controversial. The euro crisis has underscored that economists' knowledge is actually rather limited. Austerity policy was in part based on the assumption of quite small multipliers, so that lower government expenditure neither weakens growth heavily nor strongly reduces public-sector deficits via lower government revenues. In the meantime, many economists, most notably IMF chief economist Oliver Blanchard, regard this assessment as wrong.[3]

Besides the basic difficulty in determining multipliers, the current special situation in Germany makes the assessment even more difficult. The effect of multipliers is typically analysed for economic downswings; however, in the

[3] Blanchard, O. and D. Leigh (2013). Growth forecast errors and fiscal multipliers. IMF Working Paper.

current German cyclical peak, other causalities could prevail than in a recession. In view of the low interest-rate environment, potential crowding-out effects from the financing of additional government expenditure can be ruled out, for the ECB's large bond purchases will continue to bring about very favourable refinancing conditions in Germany, irrespective of the extent of investments. As a result of the immigration wave from Southern and Eastern Europe, the multiplier could be quite high because additional spending programmes continue to improve the high wages and the very good job opportunities in the German labour market and attract additional migrants to Germany.

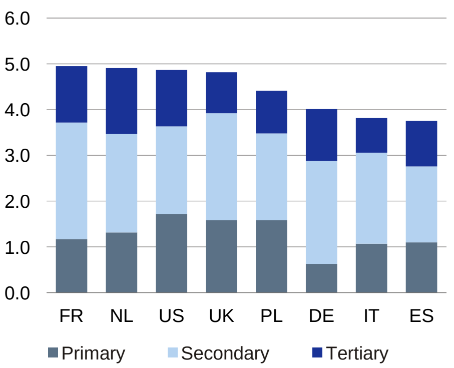
New government spending: Priority should be given to higher investment on education

Before 2015, the Federal Government primarily raised social security benefits. Owing to the high marginal consumption ratio of low-income households, social security benefits at least temporarily generate a large economic stimulus. By contrast, the investment packages agreed in March should have a long-term positive effect on German growth. For instance, the upgrading of infrastructure increases companies' efficiency via lower transport costs. Furthermore, an improved infrastructure runs down the demand overhang in the housing market as it enables longer distances to be travelled between the place of residence and the workplace. In addition, the strengthening of the digital infrastructure could boost private-sector investment if faster data connections speed up the development of new products and business start-ups. Both the consumptive and investment measures concluded strengthen Germany's domestic economy and thus reduce the relative importance of the export industry. The effect of these measures should probably not be overestimated, though.

By contrast, there are also good arguments for exercising caution in increasing government expenditure. A rapid consolidation of public-sector budgets could boost the capacity for absorbing financial and macroeconomic shocks, thus attracting stability-oriented investors and enhancing Germany's growth trajectory in the long term. But as pressure on Germany in our assessment remains high, however, further spending packages could find their way onto the political agenda again. Especially in the years ahead leading up to the next Federal election in September 2017, domestic political pressure will probably increase as well. Among economists, there is broad consensus that spending on education has a lasting potent growth effect. This holds true especially for higher spending on pre-school and primary school activities, that is education segments where Germany's spending is very low by international standards anyway (Germany: 0.6% of GDP, OECD countries: 0.6% to 2.5%). Our recommendation is to reduce the existing investment backlog in further investment programmes.

Public expenditures 9

% GDP



Sources: OECD, Deutsche Bank Research

For a variety of reasons investments in education would be a good supplement to the existing mix of measures consisting of higher social security benefits and infrastructure investments. They would bolster domestic demand in the short term and thus help to reduce current account surpluses in relation to GDP, while they would improve Germany's competitiveness in the long term. On the one hand, this would result from more productive und healthier adults. On the other, the future size of the labour force could turn out to be higher if as a result of better childcare the number of births rises or at least does not continue to fall. As a consequence the very negative demographic development could also be mitigated a little.

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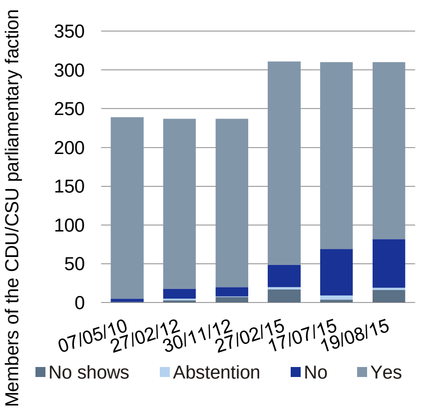
The view from Berlin

Spending or investing political capital?

Vote on the Greek bailout packages: Naysayers are increasing 1

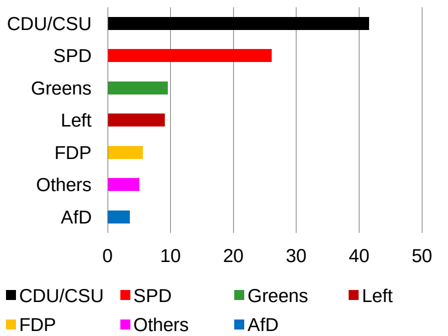


Source: Deutscher Bundestag

Once again, German MPs were called back from summer recess to vote on a bailout package for Greece, the third one this time. Nerves were on edge that a significant number of conservative MPs could vote against it. FM Schäuble strongly defended the deal despite widespread doubts over its viability and the fiscal risks attached for Germany. Together with Chancellor Merkel he again spent considerable political capital to keep Greece in the euro area. In the end, 63 conservative MPs voted against the package, including members from the budget and Europe committees. Thus, the number of naysayers doubled compared to the ballot back in February, comprising more than 20% of the CDU/CSU parliamentary faction; in addition there were three abstentions and 16 no shows in the party group. While this was not the big rebellion feared, it does hint at mounting hurdles for future decisions on Greece in Chancellor Merkel's own party – and there are numerous points on the agenda. Possible debt restructuring even short of a haircut needs parliamentary approval as does the disbursement of the tranches from the bailout package that depends on Greece fulfilling its commitments. Also, the essential point for most conservative MPs – IMF participation in the new rescue plan – is open until autumn. And Tsipras's call for snap elections is adding further uncertainty.

The strength of the parties 2

How would you vote if there were elections today? (%)

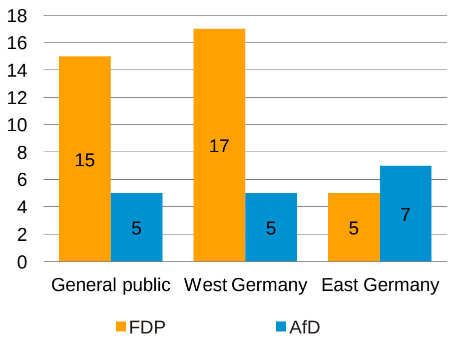


Source: Allensbach

The lower-than-expected number of naysayers is probably also a reflection of politico-strategic considerations. This autumn marks the half-term of the grand coalition and the parties' positioning for the federal elections in 2017 will increasingly influence policy making. CDU/CSU lawmakers are well aware of the fact that the strength of the party is linked to Chancellor Merkel's popularity and that undermining her aura of invulnerability will undermine the prospects of the CDU/CSU governing beyond 2017. Chancellor Merkel continues to enjoy much greater popularity than her Social Democratic vice-chancellor, Sigmar Gabriel, and her party has a strong lead over coalition partner SPD. If the favourable surveys continue until election day, Merkel's CDU/CSU could even win a parliamentary majority (nothing she is keen to achieve, though). The fact that the SPD has lost ground despite pushing through centre-left policies such as the minimum wage has sparked an internal debate about whether the party will be able to contest the conservatives at all and if Gabriel should lead the SPD in the election campaign. Even the idea of a member survey on the SPD's candidate for chancellor had been introduced into the debate.

The potential of FDP and AfD 3

Do you consider it important that FDP and AfD are represented in the Bundestag? "Yes" in %



Source: Allensbach

The focus on the two big parties is missing a swing in the political landscape elsewhere. Two smaller parties, the Liberals (FDP) and the eurosceptic AfD, are facing opposing trends. The Liberals − widely written off after their collapse in the 2013 elections − might face a political comeback. A number of polls see them crossing the 5% threshold to re-enter the Bundestag and in one survey people attribute them even higher potential (see chart). At the same time, the AfD's internal quarrels have prevented the party, which was rising on the back of euro crisis management, from leveraging the uneasiness over the third Greek bailout package or the growing concern over the number of refugees in Germany. It has fallen back substantially and the prospects to enter the Bundestag are doomed as things stand today. Of course, predictions on election outcomes two years down the road might be misleading. Public sentiment will be tested earlier, though, as next year one of the biggest and wealthiest German states, Baden-Wuerttemberg (together with Rhineland-Palatinate and Saxony-Anhalt), will hold regional elections on March 13.

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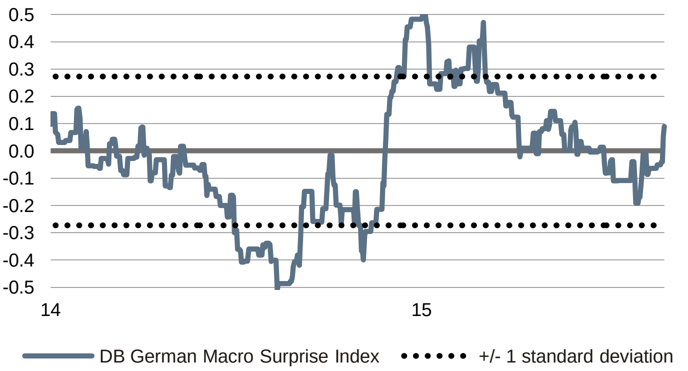
DB German Macro Surprise Index

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

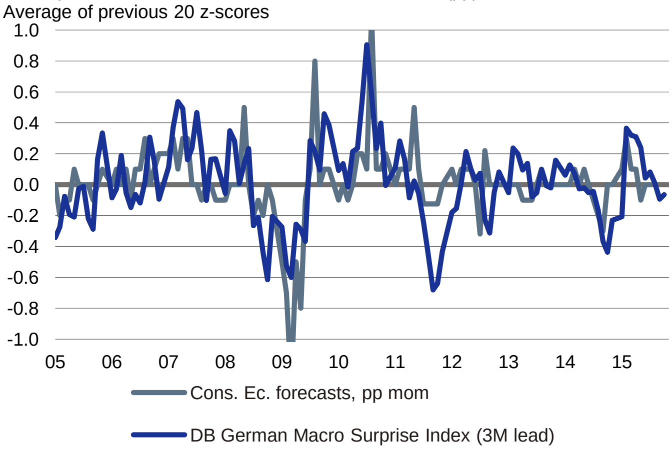


Values above (below) 0 indicate the data came in better (worse) than expected

Sources: Bloomberg Finance LP, Deutsche Bank Research

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	7 2015	14.07.15	63.9	60.0	3.9	0.4	0.7
GRCP20YY Index	CPI (% yoy)	6 2015	14.07.15	0.3	0.3	0.0	0.3	0.3
GRIMP95Y Index	Import Price Index (% yoy)	6 2015	27.07.15	-1.4	-1.4	0.0	0.4	0.7
GRIFPBUS Index	IFO Business Climate	7 2015	27.07.15	108.0	107.2	0.8	0.5	0.7
GRUECHNG Index	Unemployment Change (000's mom)	7 2015	30.07.15	9.0	-5.0	-14.0	-0.7	0.2
GRFRIAMM Index	Retail Sales (% mom)	6 2015	31.07.15	-2.3	0.3	-2.6	-1.7	0.1
MPMIDEMA Index	Markit Manufacturing PMI	7 2015	03.08.15	51.8	51.5	0.3	0.3	0.7
MPMIDESA Index	Markit Services PMI	7 2015	05.08.15	53.8	53.7	0.1	0.2	0.6
GRIORTMM Index	Factory Orders (% mom)	6 2015	06.08.15	2.0	0.3	1.7	0.7	0.7
GRCAEU Index	Current Account Balance (EUR bn)	6 2015	07.08.15	24.4	16.0	8.4	2.2	1.0
GRIPIMOM Index	Industrial production (% mom)	6 2015	07.08.15	-1.4	0.3	-1.7	-1.4	0.1
GRZEWI Index	ZEW Survey Expectations	8 2015	11.08.15	25.0	31.9	-6.9	-0.8	0.2
GRZECURR Index	ZEW Survey Current Situation	8 2015	11.08.15	65.7	64.2	1.5	0.1	0.5
GRCP20YY Index	CPI (% yoy)	7 2015	13.08.15	0.2	0.2	0.0	0.3	0.3
MPMIDESA Index	Markit Services PMI	8 2015	21.08.15	53.6	53.6	0.0	0.0	0.5
MPMIDEMA Index	Markit Manufacturing PMI	8 2015	21.08.15	53.2	53.2	0.0	0.0	0.5
GRGDPPGQ Index	GDP (% qoq)	6 2015	25.08.15	0.4	0.4	0.0	-0.1	0.4
GRIFPBUS Index	IFO Business Climate	8 2015	25.08.15	108.3	107.6	0.7	0.4	0.7
GRIMP95Y Index	Import Price Index (% yoy)	7 2015	27.08.15	-1.7	-1.4	-0.3	0.1	0.5
GRCP20YY Index	CPI (% yoy)	8 2015	28.08.15	0.2	0.1	0.1	0.8	0.8

Sources: Bloomberg Finance LP, Deutsche Bank Research

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

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

Date	Event	Remarks
3 Sep	ECB Governing Council meeting, press conference	Draghi might reiterate that an extension of QE is more likely than a reduction ahead of schedule.
4 Sep	G20 Finance Ministers and Central Bank Governors meeting, Ankara	Among others (poss.) international taxation issues, financial market regulation, cross-border cooperation of regulators.
11-12 Sep	Eurogroup and informal ECOFIN meeting, Luxembourg	Greece, financial and macroeconomic stability developments in the euro area, Banking Union, others.
5-6 Oct	Eurogroup and ECOFIN meeting, Brussels	Discussions on growth and jobs: the quality of public finance, possibly: Implementation two-pack: draft budgetary plans, Cyprus – adjustment programme, stability developments in the euro area.
9-11 Oct	IMF/World Bank annual meetings, Lima (Peru)	Debates on the state of the global economy and on financial markets, (poss) exchange rates.
22 Oct	ECB Governing Council meeting, press conference, Malta	No change in monetary policy stance expected.
9-10 Nov	Eurogroup and ECOFIN meeting, Brussels	Debates on economic situation – Commission's 2015 autumn forecast, Greece – state of play, insolvency frameworks (EA CSR 3) others.

Source: Deutsche Bank Research

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Germany: Data calendar

Date	Time	Data	Reporting period	DB forecast	Last value
4 Sep 2015	8:00	New orders manufacturing (Index, sa), pch mom	July	-0.5	2.0
7 Sep 2015	8:00	Industrial production (Index, sa), pch mom	July	1.5	-1.4
8 Sep 2015	8:00	Trade balance (EUR bn, sa)	July	23.2	22.1
8 Sep 2015	8:00	Merchandise exports (EUR bn, sa), pch mom (yoy)	July	1.6 (5.4)	-1.1 (7.7)
8 Sep 2015	8:00	Merchandise imports (EUR bn, sa), pch mom (yoy)	July	1.3 (5.1)	-0.8 (2.4)
23 Sep 2015	9:30	Manufacturing PMI (Flash)	September	52.0	53.2
23 Sep 2015	9:30	Services PMI (Flash)	September	53.4	53.6
24 Sep 2015	10:30	ifo business climate (Index, sa)	September	108.0	108.3
29 Sep 2015	8:00	Import prices (Index, sa) pch mom (yoy)	August	-1.1 (-2.7)	-0.7 (-1.7)
29 Sep 2015	14:00	Consumer prices preliminary (Index, sa), pch mom (yoy)	September	-0.1 (0.1)	0.0 (0.2)
13 Nov 2015	8:00	Real GDP (Index, sa), % qoq	Q3 2015	0.4	0.4

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

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Financial Forecasts

	US	JP	EMU	GB	CH	SE	DK	NO	PL	HU	CZ
Key interest rate, %											
Current	0.125	0.10	0.05	0.50	-0.75	-0.35	0.05	1.00	1.50	1.35	0.05
Sep 15	0.375	0.10	0.05	0.50	-0.75	-0.35	0.05	1.00	1.50	1.35	0.05
Mar 16	0.875	0.10	0.05	0.50	-0.75	-0.35	0.05	1.00	1.50	1.35	0.05
Jun 16	1.125	0.10	0.05	0.75	-0.75	-0.35	0.05	1.00	1.50	1.35	0.05
3M interest rates, %											
Current	0.26	0.15	-0.03	0.59							
Sep 15	0.51	0.15	0.00	0.58							
Mar 16	1.18	0.15	-0.10	0.59							
Jun 16	1.63	0.15	-0.10	0.60							
10J government bonds yields, %											
Current	2.19	0.34	0.73	1.82							
Sep 15	2.25	0.50	0.70	2.05							
Mar 16	2.50	0.60	1.00	2.35							
Jun 16	2.75	0.65	1.10	2.55							
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	1.12	121.12	0.73	0.65	1.08	9.51	7.46	9.34	4.22	314.80	27.04
Sep 15	1.06	125.00	0.70	1.51	1.08	9.06	7.46	8.87	4.17	310.00	27.20
Mar 16	0.98	127.00	0.69	1.42	1.10	8.86	7.46	8.95	4.14	315.00	27.20
Jun 16	0.95	127.50	0.69	1.38	1.11	8.83	7.46	8.90	4.09	315.00	27.20

Sources: Bloomberg, Deutsche Bank

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German data monitor

	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Mar 2015	Apr 2015	May 2015	Jun 2015	Jul 2015	Aug 2015
Business surveys and output											
Aggregate											
Ifo business climate	106.6	104.7	107.2	108.2		107.9	108.7	108.5	107.5	108.0	108.3
Ifo business expectations	101.9	100.4	102.7	102.9		103.9	103.5	103.0	102.1	102.3	102.2
Industry											
Ifo manufacturing	102.7	100.0	102.8	104.0		103.8	104.6	104.3	103.0	103.2	103.0
Headline IP (% pop)	0.0	0.8	0.5	0.1		-0.4	0.6	0.2	-1.4		
Orders (% pop)	1.3	1.4	-1.5	3.1		1.1	2.2	-0.3	2.0		
Capacity utilisation	83.8	84.1	84.5	84.3	84.2						
Construction											
Output (% pop)	0.4	1.3	1.1	-0.7		2.3	-0.9	0.6	-2.5		
Orders (% pop)	-2.6	-0.1	8.3	-5.1		-2.3	-4.7	4.9	-4.3		
Ifo construction	120.3	120.4	118.7	119.9		117.9	119.5	119.8	120.4	120.0	120.9
Consumer demand											
EC consumer survey	1.0	-1.2	1.0	3.0		3.2	3.3	3.0	2.8	1.4	0.7
Retail sales (% pop)	-0.3	1.2	1.7	-0.2		-0.8	0.9	0.2	-1.8		
New car reg. (% yoy)	4.1	2.7	6.4	4.2		9.0	6.3	-6.7	12.9	7.4	
Foreign sector											
Foreign orders (% pop)	3.4	0.9	-3.3	5.9		-1.4	5.7	0.3	4.8		
Exports (% pop)	2.6	1.4	0.6	3.6		0.9	1.8	1.6	-1.1		
Imports (% pop)	0.7	0.6	1.2	1.5		1.7	-0.3	0.7	-0.8		
Net trade (sa EUR bn)	57.6	60.3	59.2	66.2		19.5	21.5	22.6	22.1		
Labour market											
Unemployment rate (%)	6.7	6.6	6.5	6.4		6.5	6.4	6.4	6.4	6.4	
Change in unemployment (k)	-4.3	-38.0	-45.3	-25.7		-14.0	-8.0	-4.0	1.0	9.0	
Employment (% yoy)	0.9	0.8	0.6	0.4		0.5	0.4	0.4	0.4		
Ifo employment barometer	106.5	106.4	107.7	108.0		108.1	108.0	108.2	107.8	107.2	108.3
Prices, wages and costs											
Prices											
Harmonised CPI (% yoy)	0.8	0.4	-0.2	0.3		0.1	0.3	0.7	0.1	0.1	0.1
Core HICP (% yoy)	1.2	1.1	1.0	1.1		1.0	1.1	1.4	0.9	0.9	
Harmonised PPI (% yoy)	-0.8	-1.2	-2.0	-1.4		-1.7	-1.5	-1.3	-1.4	-1.3	
Commodities, ex. Energy (% yoy)	-1.8	0.9	2.3	-0.5		3.4	0.5	-0.3	-1.6	-2.4	
Oil price (USD)	102.0	76.4	55.1	63.7		56.8	61.6	65.7	63.7	56.9	
Inflation expectations											
EC household survey	13.4	8.6	0.5	6.1		1.7	2.1	8.3	7.8	7.0	1.0
EC industrial survey	4.2	2.1	-0.4	1.5		0.1	0.4	0.9	3.2	2.0	-0.1
Unit labour cost (% yoy)											
Unit labour cost	2.1	1.7	1.8	1.7							
Compensation	2.6	2.6	2.5	3.1							
Hourly labour costs	2.5	1.8	2.4	2.7							
Money (% yoy)											
M3	4.7	4.8	7.2	7.6		7.2	7.2	7.2	7.6	8.0	
M3 trend (3m cma)						6.9	7.2	7.3	7.6		
Credit - private	1.4	1.7	2.6	2.1		2.6	1.8	2.2	2.1		
Credit - public	5.9	12.6	32.3	12.2		32.3	27.1	24.9	12.2		

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

Deutsche Bank
Research

Focus Germany

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