



# Focus Germany

## Pick-up in the domestic economy in 2016

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**Outlook 2016: Pick-up in the domestic economy.** The German economy was extremely stable over the course of 2015, although the volatile newsflow that ranged from the oil price shock, material euro exchange rate depreciation, “Dieselgate” right through to the refugee crisis could make one think otherwise. Driven by a 15-year high in private consumption growth economic output rose by more than 1 ½% in 2015, as already achieved in 2014.

Economic growth is set to accelerate to nearly 2% in 2016, following a pretty stable trend over the course of the year. The continuing pronounced weakness in global trade, low growth in key emerging markets and the less pronounced euro depreciation mean that external trade is unlikely to continue contributing to growth. Especially in H1 2015 German exports had still been able to disconnect from nearly stagnating world trade growth thanks to strong US demand. This will probably also weigh on investment in machinery and equipment. Private consumption should, by contrast, remain the most important growth driver with growth remaining at roughly the same level and buttressed by solid labour market development.

Public consumption will remain expansionary given the continued influx of refugees and resulting public spending. The latter could combined with boosted public infrastructure spending also stimulate construction investment. Public finances are likely to come under pressure as a result, but thanks to the excellent current situation a balanced budget remains a possibility. If refugees can be successfully integrated into the labour market, the refugee crisis will provide Germany's ageing society with a medium-term opportunity. However, in addition to massive investment in the refugees' human capital this requires a renewal of increasingly encrusted structures that slow the German economy's dynamic. In this context, the challenges arising from the refugee crisis could become a welcome catalyst.

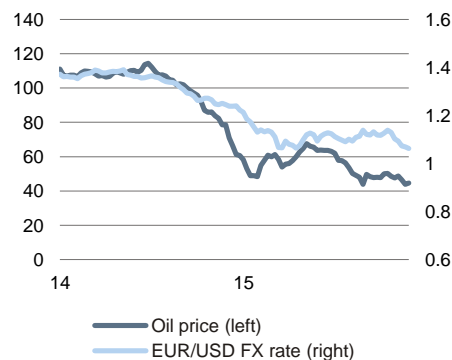
**The view from Berlin. New year, old problems.** In the new year the German government will be confronted with old problems. A major European policy issue with Chancellor Merkel in demand as mediator is the re-negotiation of the British EU membership. Domestically the challenging task of integrating hundreds of thousands refugees into the labour market and the society ranks top on the agenda. The management of the refugee crisis will continue to cause bickering in the government coalition, given differing attitudes between the conservative camp in the CDU/CSU and the SPD and despite Chancellor Merkel's impressive job of closing ranks at the just finalised CDU party convention. More than anything else a series of five state elections starting at March 13 will indicate the political sentiment in 2016.



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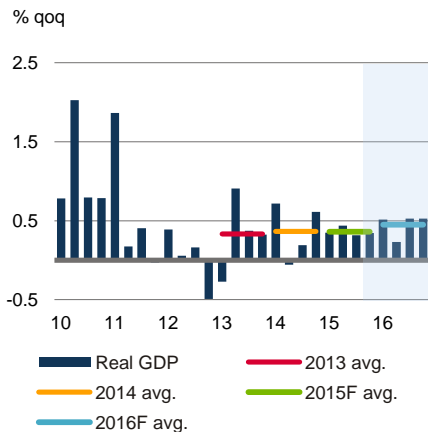
EUR/USD exchange rate and oil price **1**

USD/barrel Brent (left); EUR in USD (right)



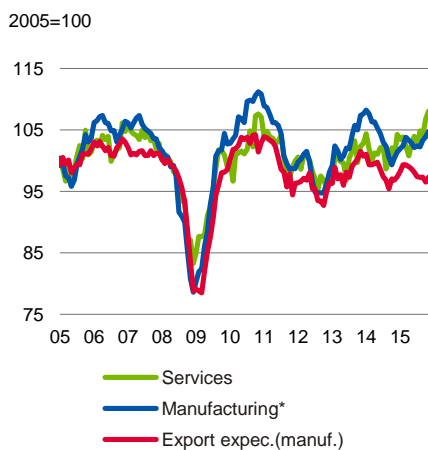
Sources: Deutsche Bank Research, Bloomberg Finance LP

Real GDP growth **2**



Sources: Federal Statistical Office, Deutsche Bank

ifo business expectations **3**



\* Manufacturing, construction, retail & wholesale

Source: ifo

Outlook 2016: Pick-up in the domestic economy

Business cycle 2015: Consumption boom

There were numerous topics that dominated economic debate in 2015. The start of the year was shaped by the positive impact of the huge drop in the oil price on private consumption and the significant weakening of the euro against the US dollar on German exports. This was followed by a new episode in the Greek crisis involving protracted negotiations with the new Greek government about a third bailout package. They reached a climax when it became known that a strategy paper from Germany's finance minister discussed the option of Greece temporarily exiting the eurozone. In autumn attention became focused on the risks to growth in emerging markets and developing countries and Volkswagen AG's "Dieselgate" affair. They stoked major concerns about the outlook for Germany's export -dependent manufacturing sector. In addition, the refugee crisis assumed a new dimension during the second half of the year and presented Germany with extraordinary challenges.

Despite the turbulent newsflow Germany's gross domestic product (GDP) grew in the first three quarters of 2015 by 0.3-0.4% compared with the preceding quarter and likely continued this pace in the last quarter, which is equivalent to projected annualised growth of around 1½% and slightly above potential. This means that the last two to three years represented an exceptionally long period of stable growth and enabled Germany to maintain its role as an anchor of stability in Europe.

The German economy's robust growth in 2015 was largely due to domestic activity, as was the case in 2014. This was accompanied by a real increase in private consumption of about 2%, by far the largest rise since 2000. This development was driven by sustained robust growth in employment and a solid real increase in wages, which were reinforced by the introduction of the minimum wage at the start of the year and the drop in the oil price. By contrast, construction investment fell short of expectations despite the very favourable environment, because weak public and commercial investment partly offset the solid growth in residential construction.

The German export business experienced a mixed year. For the year as a whole there was a healthy increase of nearly 6% in real terms. However, this was primarily because of the vigorous start to 2015. The economic recovery in Europe and the partly exchange-rate-driven demand momentum from the US were the most important drivers of the initial export strength. In the course of Q3 2015, however, the setbacks mounted. The impact of the euro depreciation receded, which dampened German exports to the US from a high level. The demand from Asian emerging markets also fell. This left its mark on German investment in machinery and equipment, which slowed considerably in H2.

All in all, the German economy likely expand by a good 1 ½% in 2015 – as in the previous year.

Outlook 2016: Domestic boom vs. export weakness

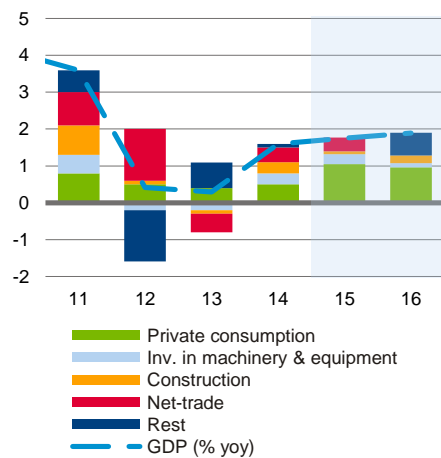
The German economy could grow in 2016 at a slightly faster rate of nearly 2% compared with 2015. Driven by the service sectors the business sentiment improved at the end of 2015. The ifo service sector index reached an all-time high in Q4 2015. The biggest contribution to growth in 2016 may thus come from private consumption once again. Real purchasing power may well be



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### Contribution to real GDP growth 4

Contribution to real GDP growth, yoy, pp



Sources: Federal Statistical Office, Deutsche Bank

dampened somewhat by slightly rising oil prices – following hefty purchasing power gains in the previous year – but the labour market should continue to develop robustly. In addition, government spending on providing services for the numerous refugees is set to buttress consumption. Furthermore, destocking by companies should come to an end. Our forecast of an only moderate decline in exports is subject to downside risks in the event of global trade once again failing to reach the already moderate level of growth projected. German manufacturing is particularly exposed to this risk. This is reflected in the sector's continually low export expectations of late.

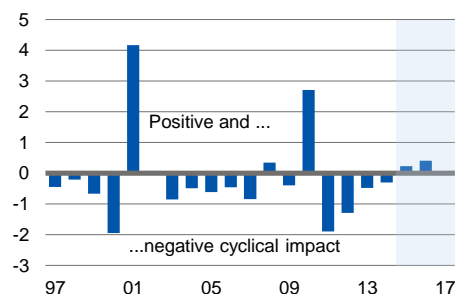
### Policymakers facing major challenges

The German economy is based on solid foundations. Up until recently there has been no change in this assessment. The positive policy moves on which this success is based are now, however, from many years ago. Reforms have been rolled back in some cases. Above all, the flexibility of the labour market has been reduced. Not least the ever more imminent demographic strains, however, necessitate a reform agenda 2020 that could also help to stimulate the feeble investment activity.

Politicians' rightly expressed desire for a rapid integration of the extremely large number of refugees makes this need much more pressing. More flexibility rather than less in the labour market, in public administration and in companies will be necessary in order to meet this challenge. To date, however, politicians have focused on slowing the influx of refugees and on the short-term accommodation of the refugees already in Germany. All the parties involved will need to pull out all the stops to utilise the demographic opportunity presented by the high number of immigrants currently arriving in Germany. If these efforts are not made, there will be an increase in allocation conflicts and constantly higher government expenditure.

### Fiscal impulse 5

Change in structural budget balance, % GDP



Sources: Deutsche Bank Research, European Commission

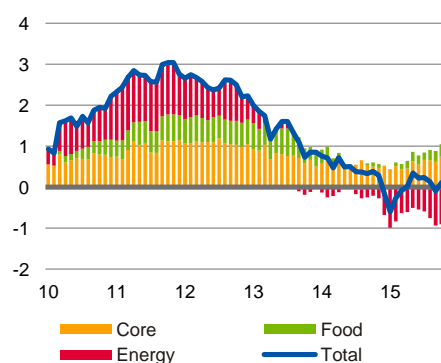
## Economic policy assumptions

### Fiscal and monetary policy eased further

Our growth forecast is based on the assumption that there will be positive effects on German GDP growth from both monetary policy and above all fiscal policy in the current year. The structural budget balance of the entire public sector, i.e. the budget balance excluding the cyclically driven effects, is likely to show a small deficit after managing a moderate surplus of nearly ½% of GDP on average during the two preceding years. The federal government's pensions package will unleash its full budget impact in 2016, a hefty pension increase in the middle of the year will be a burden on the pension scheme and coping with the influx of refugees will cost a lot of money. The fiscal retardation effects of the preceding years are thus currently being transformed into a fiscal stimulus that was more pronounced only in the crisis years such as 2009 and 2001.

### Euro-area inflation 6

Contribution to headline inflation, pp



Sources: Eurostat, Deutsche Bank Research

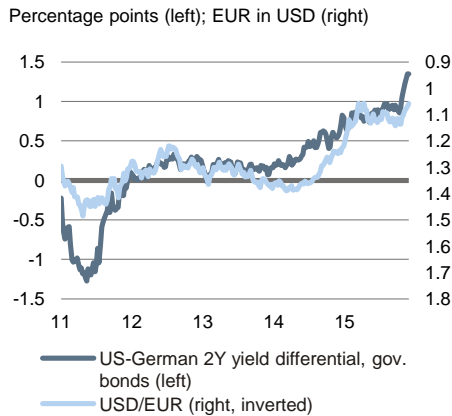
### Monetary policy: "As quickly as possible"

The monetary policy of the European Central Bank (ECB) will be even more expansionary in the forecast period than in the previous years. Eurozone growth was quite robust in the course of 2015 and inflation seems to have passed its trough, following considerable disinflation in the preceding years. Contributory factors were a slight pick-up in core inflation to about 1% in Q4 2015 and faster rising food prices. Only the energy price developments continued to squeeze



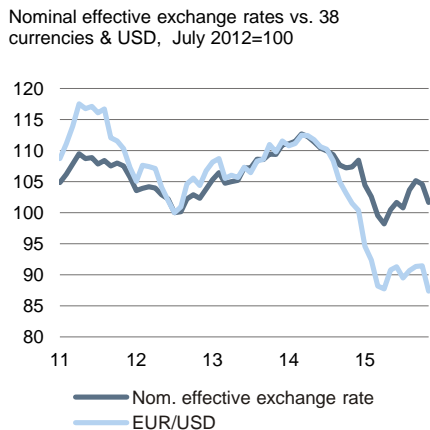
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### Yield differential & EUR/USD FX rate 7



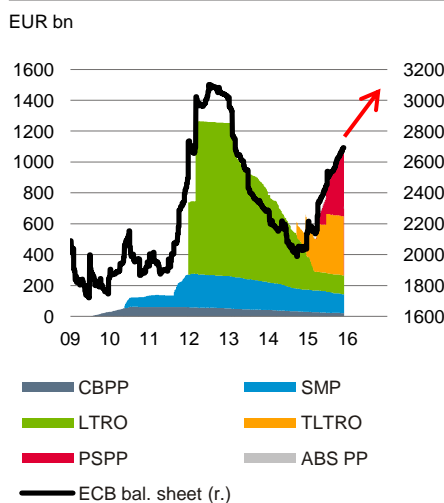
Sources: Bloomberg Finance LP, Deutsche Bank Research

### EUR exchange rates 8



Source: ECB

### Unconventional ECB measures 9



Sources: ECB, Deutsche Bank Research

overall inflation. In addition, lending rates fell across the board. Moreover, there was a pick-up in lending to corporates and above all to households. All these occurrences are likely to have been registered by the ECB as positive effects of its policy.

Nevertheless at the end of 2015 “whatever it takes” – the famous words uttered by ECB president Mario Draghi in 2012, with which he promised to do everything to keep monetary union intact – turned into “as quickly as possible”. For instance in a speech he made in Frankfurt in November 2014 Draghi promised to do everything required to bring inflation towards 2% as quickly as possible. Worries about the medium-term inflation outlook were the reason given by the majority of the ECB Governing Council for the decisions in December 2015 to make another cut in the deposit rate to -20 bp and to prolong the quantitative easing programme (QE) by six months until at least March 2017.

## Low interest rate environment persists

We therefore expect the ECB to keep its key rate at the current level well into 2018. The interest rate level is thus likely to remain very low especially at the short end. At the end of 2015, for example, German Bunds with maturities of up to 7 years were generating negative yields temporarily. Even 10Y German Bunds were yielding a mere ½% or so. Rising yields in the US are likely to pull European yields up slightly via the international rate correlation, but the increase should remain in narrow bounds. We see 10Y German Bunds yielding about 1% at the end of 2016.

## Euro under even more pressure

One of the transmission channels for the ECB’s monetary policy is the exchange rate. Although the exchange rate is not a monetary policy target for the ECB, in contrast to central banks of some emerging markets and developing countries, a depreciation in the common currency is likely to be welcome as this would support exports and inflation should be driven by “imported inflation”. The marked depreciation of the EUR versus the USD of at times more than 20% in 2015 was reflected in increased goods price inflation especially for consumer durables that are imported in many cases from non-EMU countries.

We expect the EUR to reach parity with the USD in the course of 2016. Given our forecast that the Fed will slowly hike rates and the ECB will keep its foot firmly on the “monetary policy throttle” the divergence between these central banks could bring with it a further depreciation. Recently, the difference between German and US rates for 2Y government paper and the EUR/USD exchange rate followed quite a similar pattern. At the end of 2016 the EUR/USD exchange rate could be around 0.9. In Q2 2014 the rate was still just below 1.40 and then fell rapidly to an interim low of around 1.05 in March 2015. The euro is likely to continue depreciating against other currencies, too. The decline should, however, be less pronounced than against the USD. This was also the case in 2015.

## The ECB's dilemmas

The ECB’s monetary policy is, however, not without risk or side-effects. At the end of 2015 the ECB announced extensive new steps although the measures implemented at the start of 2015 such as the commencement of the bond purchasing programme had presumably not yet unleashed their full impact. The

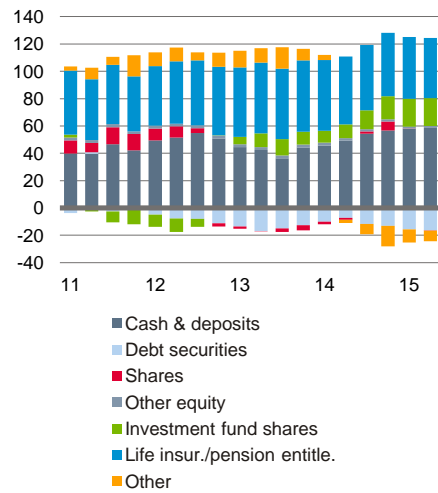


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### Investment behaviour of German households

10

Share in acquisition of fin. assets, Q4 avg., %

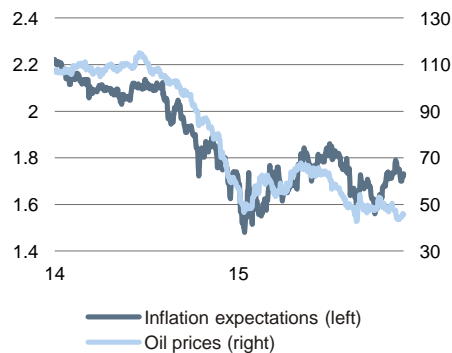


Source: Deutsche Bundesbank

### Oil prices & inflation expectations

11

Market implied 5Y inflation expectations, % (left);  
USD/barrel Brent (right)

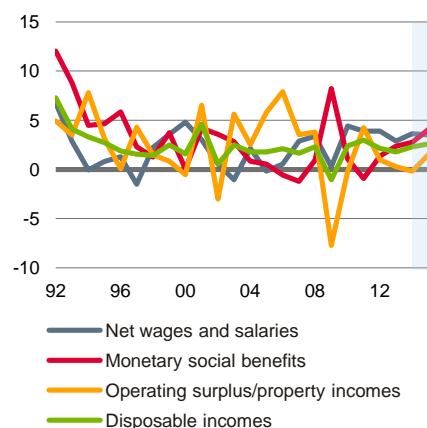


Sources: Bloomberg Finance LP

### Disposable incomes

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Nominal, % yoy



Sources: Federal Statistical Office, Deutsche Bank

maximum impact of monetary policy is usually felt with a time lag of several quarters. In addition, the ECB's monetary policy like that of the Fed probably generates declining marginal utility. This means that every additional unit of monetary policy easing has a smaller positive impact on the real economy and inflation. Moreover, the risks to financial market stability potentially increase, above all in the eurozone countries, whose cyclical situation would require a less accommodative monetary policy. In the long term, furthermore, excessive monetary policy action could lead to an erosion of confidence.

Given the low interest rate environment – not only – German investors might be forced into riskier investments. This constitutes a not inconsiderable risk about which the Bundesbank no less issues regular warnings in its Financial Stability Report. The scepticism of the Bundesbank president about a further loosening of monetary policy is probably also based on that. The investment habits of German households have, however, hardly changed up until now. The vast majority of savings continue to flow into low-risk assets such as pension insurance plans and savings deposits. In any case the sharp increase in household borrowing for property financing could be one warning sign. However, to date this is not high enough to send household debt skyrocketing relative to household incomes that are also rising fast.

Another dilemma is caused by the expectations created by the ECB itself. The ECB Council's focus on headline inflation and inflation expectations means that ECB policy is liable to disappoint and trigger overreactions. Contrary to expectations, headline inflation in the eurozone barely budged from zero until the end of 2015 as repeated declines in the oil price had a dampening effect. By contrast, core inflation, which does not include volatile energy and food prices, showed moderate upward tendencies. The ECB nevertheless took action at the end of 2015 and cited worries about de-anchoring inflation expectations as the reason for doing so. For instance, households and companies might factor in lower future inflation onto their wage bargaining and price setting in case of persistently weak current inflation. Given the response function performed by the ECB to date this also means that if prices develop differently from the ECB forecasts financial market participants factor in new measures by the central bank.

Furthermore, the ECB is dependent on other actors. In the long term stronger economic growth in the eurozone can only be enabled by structural reforms. Despite the progress that has been made recently especially also in Italy the need for additional policy action remains huge given the high level of unemployment. Other developments are likely to dominate the political agenda in 2016. These include debates about a UK exit from the EU, the threat of terrorist attacks and the large influx of refugees. Above all the latter could be drawn upon as an explanation for renewed non-compliance with the agreed budget consolidation.

Ultimately the ECB remains the institution most able to take action in Europe and it is likely to continue feeling obliged to maintain the extremely accommodative monetary policy and thus pay less attention to considerations about the medium-term impact on financial stability for example.

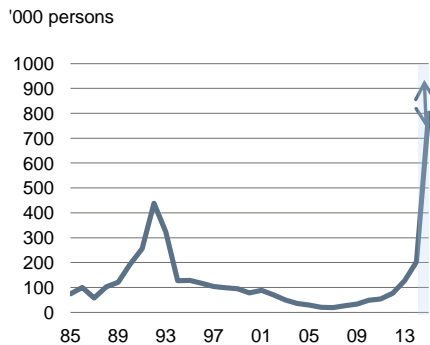
## Our forecast for Germany in detail

### Private consumption: Remaining the most important growth driver

Having grown by about 2% in 2015, private consumption registered its highest increase for 15 years. Consumption thus contributed about 60% to total GDP growth. For Germany this can certainly be called a boom, although the growth

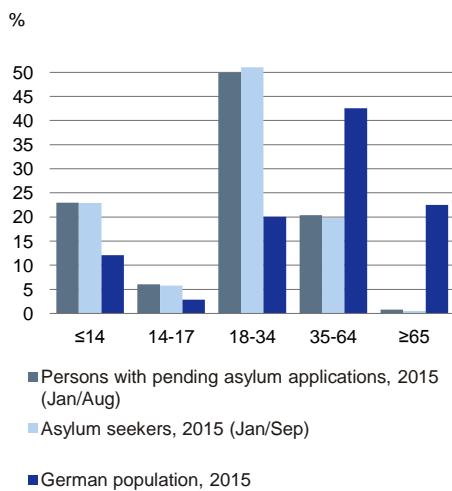


Number of asylum seekers in Germany 13



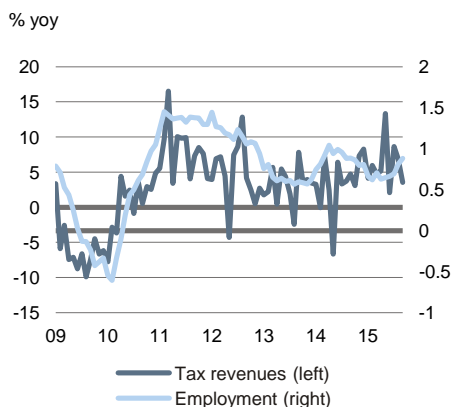
Sources: Eurostat, Deutsche Bank Research

Age structure of refugees 14



Sources: Eurostat, Deutsche Bank Research

Tax revenues & employment 15



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

rate might look meek when compared to the credit-fueled consumption increases in the anglo-saxon and many peripheral countries. In the year 2000 its contribution was only some 40%, as GDP growth overall was a much higher 3%. In 2016 the increase in consumption is likely to be the most important growth driver once again and might rise by almost 2%. The basic drivers of this development are likely to remain intact. Employment growth should remain robust, even though it may well tail off from +¾% to almost +½%. Wage growth, which was boosted towards 3% by the introduction of the minimum wage in 2015, is likely to moderate to around 2 ½%. On the one hand, the weak global trade in many manufacturing sectors is eroding employees' negotiating clout; on the other, domestic demand should remain robust and many employers continue to complain about the shortage of skilled workers. Corporate earnings and investment income are likely to exert moderately dampening effects on the disposable incomes of consumers. Weak global demand, low pricing power and one-off items are likely to weigh on the fundamentally robust development. Monetary social security benefits will probably surge again despite the record low in unemployment. They rose in 2015 in part because of the federal government's pensions package which comprised higher pensions for mothers whose children were born before 1992 and earlier retirement at 63. In 2016 an extremely large pensions increase and the sharply rising expenditure on accommodation and catering for refugees are likely to be drivers and result in a further increase of around 4%. Overall, disposable incomes should rise in 2016 by nearly 3%, a similar increase to that in 2015, with the savings ratio remaining roughly unchanged at 9 ½%.

### Refugee influx sends immigration over 1 million mark

The numerous international hotspots are causing a huge increase in the flow of refugees to Europe, and especially to Germany. The refugee influx, combined with the continuing growth in net immigration from eastern Europe, is likely to propel net immigration to Germany to a record high of well over 1 million in 2015. Germany could thus overtake the US, which has traditionally been the OECD country receiving the largest number of immigrants. For the time being Germany is likely to remain a magnet for refugees and be confronted by the difficult and very costly task of integrating refugees and absorbing the supply shock to the labour market. In 2016 the high net immigration is likely to generate a positive consumption effect of around ½ percentage point (pp), which ought to boost macroeconomic growth by about ¼ pp.

Over the long term, refugees represent an opportunity for an ageing Germany in which labour is becoming scarce and economic growth is threatening to erode. Without immigration economic growth would slow over the next 10 years from around 1 ½% at present to just ½% p.a. The stability of the social security systems, especially the pay-as-you-go pension scheme, would be put to the test. In a hypothetical win-win scenario successful integration would provide Germany with the opportunity<sup>1</sup> to consolidate its position as a European economic powerhouse. Germany could become much more attractive as a country receptive to immigrants – and even more importantly: the changes required for this could generate new momentum for the coming decades in a society where maintaining the status quo is increasingly becoming the leitmotif. Continuingly high net immigration is markedly dampening the demographically driven decline in the trend growth rate. Even in 10 to 15 years trend growth could still be 1% instead of approaching stagnation. The social security systems would also benefit from this.

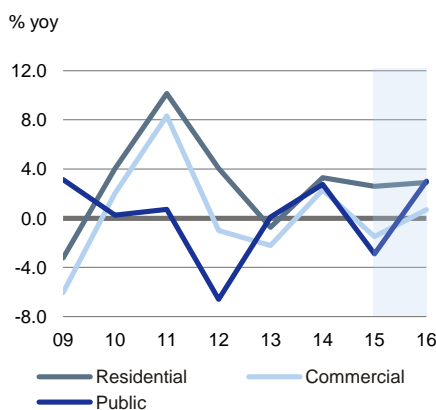
<sup>1</sup> For details see: Influx of refugees: An opportunity for Germany, Standpunkt Deutschland, Deutsche Bank Research, November 13, 2015.



## Public finances: Surpluses despite refugee crisis

In H1 2015 Germany posted a particularly high budget surplus of EUR 21 bn. Some 60% of this total was the result of one-off items, such as reimbursement revenues following rulings by the Federal Finance Court on corporation tax and commercial trade tax and proceeds from the auctioning of mobile communications licences. We therefore expect a surplus for the full year of nearly EUR 10 bn (nearly 0.3% relative to GDP) despite the sharp rise in expenditure on refugees in H2. This surplus and the robust economic growth reduce the debt level to about 72% of GDP, compared with some 75% in the preceding year. In 2016 the government debt ratio is likely to drop below 70% mainly because of a rise in nominal GDP (the denominator of the government debt ratio), although the budget surplus should shrink to close to zero. The only minimal surplus in the public purse is a consequence of higher expenditure especially on infrastructure, child benefit and pensions as well as reduced revenues due to the hiking of tax-free allowances for income tax. The biggest risks to the fiscal outlook in 2016 are the social security and personnel expenditure arising from the refugee crisis. To cushion the impact of potential future additional spending the federal government has set aside reserves of EUR 5 bn in the 2015 supplementary budget. All in all, the public purse should be able to handle this supplementary spending comfortably in 2016 thanks to the conservative budget planning and also the robust economy. Also, even if the additional spending is much higher the debt brake is likely to be complied with. The structural budget balance is currently showing a healthy surplus, which means that there is quite a big cushion relative to the debt brake target (capping of the structural deficit at 0.35% of GDP) even with sustained additional spending due to the refugee influx.

Construction investment 16

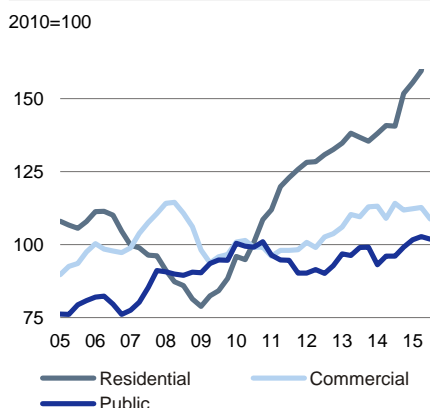


Sources: Federal Statistical Office, Deutsche Bank

## Construction: House-price and residential construction cycle continues

Following strong growth of nearly 3% in 2014, construction investment underwent a marked slowdown in growth in 2015 likely to about 1%. The reason for this was in particular the declining investment activity in the commercial and public construction segments. The still high vacancy rates in the office market and the continuing increase in the importance of online retailing held back investment in the commercial segment. Also, capacity restrictions might cause commercial and public construction projects to be put on hold in favour of residential projects. However, in the residential segment, too, construction investment grew less sharply in 2015 (by about 2 ½%), after increasing by more than 3% in 2014. The main reason for this, besides the capacity restrictions that also exist here, is government intervention in the market, with the introduction of the rent cap being the primary instrument. Demand for residential construction continues to be supported by the favourable financing conditions, robustly rising disposable incomes and the increasing size of the workforce. Thus, even without taking into account the housing requirements of refugees the demand overhang continues to grow, and mainly in conurbations. It could continue to rise in the coming years due both to internal migration and also regular migration from other European countries.

Backlog: Construction 17



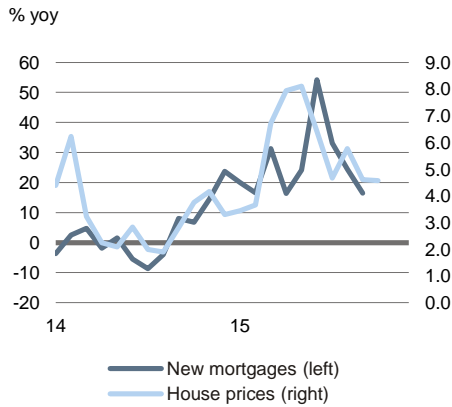
Sources: Federal Statistical Office, Deutsche Bank

This market environment forms the basis for a continuation of the house-price and construction cycle that has been in place since 2009. On account of the large order backlog and a potentially minor increase in capacities we expect an increase in house building of nearly 3% yoy in 2016. If the capacity problems were to be addressed, the large order backlog would indicate upside risks to this forecast. For the commercial construction segment we expect a marginal increase in investment thanks to improved leading indicators. Public



House prices and new mortgages

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Sources: Hypoport, Deutsche Bundesbank, Deutsche Bank Research

construction should see the pace of investment pick up noticeably to 3%. Given the decline in investment in 2015, catch-up projects and the federal funding earmarked for infrastructure investment could stimulate growth in the public construction segment. All in all, overall construction investment is likely to grow by around 2 ¼% in 2016.

### Property prices: House price boom continues

The macroeconomic environment and the foreseeable new monetary policy stimuli from the ECB should maintain the price momentum. The loose monetary policy has not only been reflected in the continued decline in mortgage rates, for the first time in the current cycle a huge expansion in new lending business can also be seen. The vigorous expansion was especially pronounced during the summer months of 2015 and probably contributed to the dynamic price rise over the same period. Over the full year German house prices rose by around 4-5%, i.e. roughly the same amount as in preceding years. In cities, too, the trend continued uninterrupted with prices rising by about 8%. We expect a similar price momentum in 2016. Based on the historical price/income ratio, the undervaluation of German house prices that has existed since 1998 would then come to an end in 2016. On account of the huge demand overhang the cycle should continue beyond 2016, which threatens to increase macroprudential risk over the medium term.

German exports & world trade

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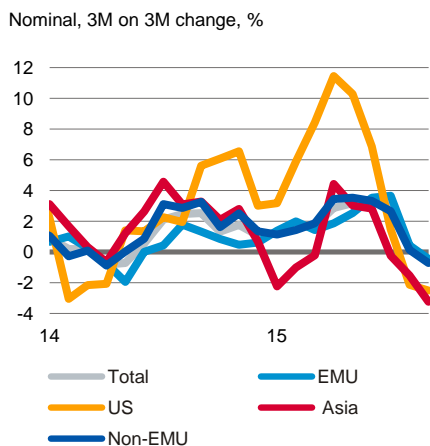
Sources: Federal Statistical Office, Deutsche Bank CPB

### Exports: Weak global trade dampens outlook

German exporters managed to decouple from the rough international environment especially in H1 2015 and thus boost their global market share, which came to nearly 8% in 2014 (3rd place). While global trade probably failed to fulfil the already moderate expectations with real growth of probably only slightly over 2% in 2015<sup>2</sup>, the rise in German exports of likely about 5 ½% was more than double that amount. This was largely due to a marked decoupling in the first half of the year.

German exports by destination

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Sources: Deutsche Bundesbank, Deutsche Bank Research

The exceptionally dynamic US auto sector and the considerable depreciation of the EUR against the USD resulted in France, which has traditionally been the most important buyer of German products, losing this status to the US at the beginning of 2015. At their peak, exports to the US were 37% above their pre-year level in the middle of 2015, and in the meantime more than 10% of German exports go to the US. Since then exports have subsided again, however, across all regions, so the boom in German exports is probably coming to an end and the decoupling from global trade in H2 2015 is slowly disappearing. This dampened development is also likely to continue in 2016 as the global economy is set to expand somewhat faster, but still at an extremely moderate pace. However, continuing support will probably come from the sustained depreciation of the EUR. For the year 2016 we expect export growth of 4% yoy.

The solid development of the domestic economy should continue to ensure that import growth exceeds export growth. The contribution of net exports to GDP growth is therefore likely to be merely neutral in 2016, following a positive reading in 2015 (probably + ½ percentage point).

The German current account surplus probably reached its all-time high of around 8% of GDP in 2015 and should then fall to slightly below 8% in 2016, which should marginally reduce the volume of the international criticism about the size of the surplus.

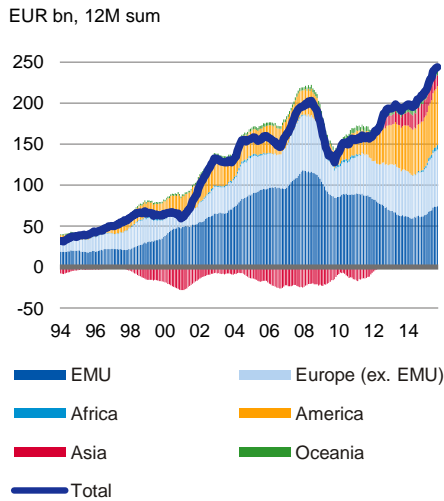
<sup>2</sup> For details see: Sluggish global trade – cyclical or structural?, Global Economic Perspectives, Deutsche Bank Research, November 25, 2014.





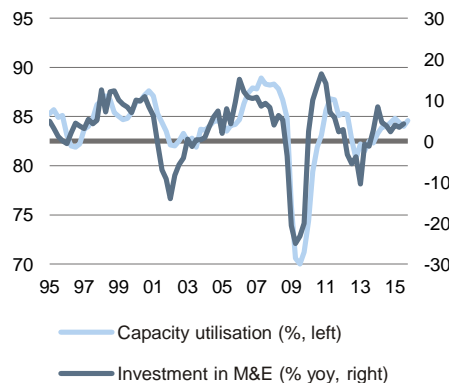
Focus Germany

German trade balance by region 21



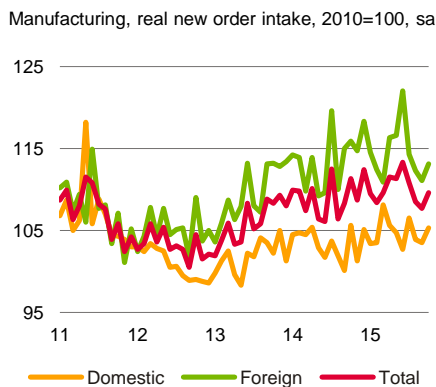
Sources: Deutsche Bundesbank, Deutsche Bank Research

Investment in machinery & equipment and capacity utilisation 22



Sources: Federal Statistical Office, European Commission

Manufacturing: New orders 23



Source: Federal Statistical Office

Investment in machinery and equipment: Anaemic development persists

Since German investment in machinery and equipment is largely determined by the investment activity of manufacturing companies that are strong in exports, this is where the export trend is reflected. With exports faltering in the course of 2015, equipment investment probably grew by about 4% yoy mainly due to strength in the early part of 2015, and in 2016 it is likely to rise only moderately (2016F: +1 ½% yoy). Capacity utilisation is only slightly higher than the long-term average, so the investments being made are likely to be mainly replacement investments. Supplementary negative factors are the geopolitical risks and concerns about the global economy.

Manufacturing sector: 2016 at best a marginal increase

The economic development of the manufacturing industry in Germany has not followed a uniform trend in the last few months, but has had a relatively large number of ups and downs. Overall, manufacturing firms managed to boost their output by 0.7% yoy in real terms in the first ten months of 2015. New order intake during the same period was 1.1% higher than in the corresponding pre-year period. In both cases the trend has, however, been mostly downward of late. The business expectations of manufacturers have improved for three months in row towards end-2015 and were in positive territory; this is certainly a sign of optimism. However, the increase was due in large part to the (surprisingly strong) rise in the leading indicator for the automotive industry. The capacity utilisation in manufacturing rose slightly at the start of Q4, after having fallen for two consecutive quarters; so the signals are also mixed in this sector.

In the full-year 2015, real manufacturing output in Germany is likely to have risen by around ½%. For 2016 we expect manufacturing output to be flat or at best to trend slightly upwards. The stimulus from exports and domestic investment will probably be too slight to make faster growth a possibility. Based on our projected production pattern the result for 2016 as a whole would be a borderline increase. Ultimately this would continue the phase of relatively small cyclical swings in manufacturing output which has lasted since 2012. Given the favourable interest rate environment, the drop in commodity prices and the low valuation of the euro against the currencies of its major trading partners this is a disappointing development. The fact that producer prices have been quite stable over recent months also suggests that the manufacturing sector is developing calmly.

Our manufacturing output forecast implies that the manufacturing share of total gross value added will fall once again in 2016 (as it did in 2015). Although the German manufacturing sector has done very well relative to its international competitors in recent years, a renaissance in manufacturing as a whole is improbable in the short term.

According to our current forecast many of Germany's major manufacturing segments will deliver zero or, at best, marginal output growth in 2016. We forecast auto industry output growth of ½% in 2016. In the metals industry (metal production and metal products) on average a small increase is also possible. We expect there will probably be stagnation in the mechanical and electrical engineering segments. The chemicals industry could see domestic output drop further in 2016. We expect both the pharma and plastics industries to boost their output by 1%.

It is striking that the manufacturing sector in Germany remains reluctant to invest, whereas the service providers are more inclined to invest. Real net fixed assets of the German manufacturing sector in 2013 (more recent data is not

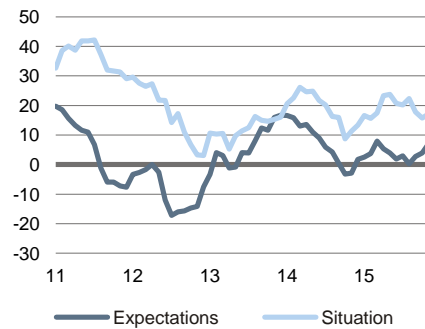


## Focus Germany

### Manufacturing: Business expectations & situation

24

Manufacturing, balance of opinion

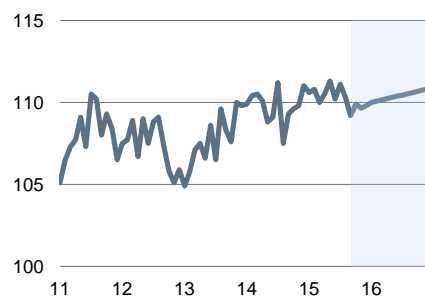


Source: ifo

### Industrial production

25

Manufacturing, real production, 2010=100

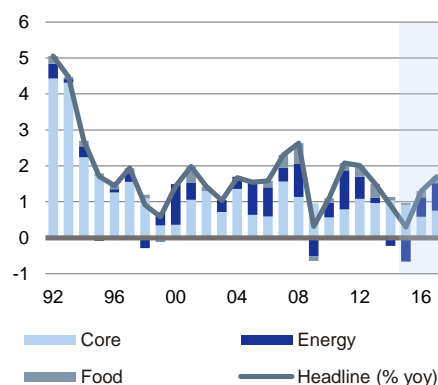


Sources: Federal Statistical Office, Deutsche Bank

### Inflation

26

Contribution to headline inflation, pp



Sources: Federal Statistical Office, Deutsche Bank

available) were slightly lower than in 1995. This is worrying given that real net fixed assets also include the capitalised R&D spending of corporates. Without sufficient investment in research and development, innovative products and efficient production technologies, it is always more difficult to boost productivity and hold one's own in international competition. In many cases this applies more to Germany as a business location than to German companies. After all, the latter are increasing their foreign investments and are increasingly also setting up R&D facilities abroad.

### Inflation: From nought to ...?

The inflation pattern in 2016 may well be dominated by energy prices once again. After headline inflation had still amounted to just under 1% in 2014 prices barely increased in 2015. This was largely due to the slump in the oil price in H2 2014 and H1 2015, which resulted in energy prices falling as sharply as during the crisis year 2009 and headline inflation being lowered by more than ½ percentage point. In 2016 there is likely to be a partial turnaround, also supported by the expected further depreciation of the EUR against the USD. Core inflation may, however, decline somewhat in 2016. Although the robust domestic economy and the sound development in pay and employment are supportive factors, the primary negative factor, by contrast, is the development in rents, which is probably linked with the introduction of the rent cap. Rents are the biggest single component in the goods basket of German consumers with a share of around one-fifth. In addition, the moderate uplift from the introduction of the minimum wage is likely to disappear in 2016. Overall, the constraining impact of inflation on the real purchasing power of German consumers will thus remain extremely moderate. All told German inflation should remain slightly higher than the eurozone average for the fourth year in a row, which should help to reduce the economic imbalances in the eurozone a little.

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## The View from Berlin

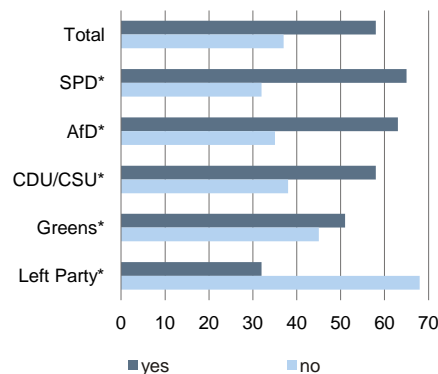
### New year, old problems

The turn of the year will not provide respite for policymakers in Germany even though the government, which took office on December 17, 2013, has reached the middle of its term. Today's challenges are no less exacting than two years ago, but they are of a different kind. At the beginning, it was presumed that implementation of the SPD's pet projects would become a stumbling block for the grand coalition. However, the coalition partners unanimously agreed on early retirement at the age of 63 for employees with longer working lives as well as the EUR 8.50 minimum wage – ignoring serious objections from the business community. Due to favourable economic and labour market conditions that benefited from external tailwinds i.e. low commodity prices and a euro depreciation, these projects have been implemented without major fallout to date. Thus, in the first half of the coalition's term European and foreign policy took more centre stage than previously expected. One of the major concerns here was the situation in the euro area, which has markedly improved in economic terms whereas political risks have increased again recently given the new formation of a minority government in Portugal and the stronger showing by the Front National in France.

Broad backing for military assistance for France

1

"Should Germany provide military assistance in the fight against the IS?" % of all responses



\* Supporters of the respective party

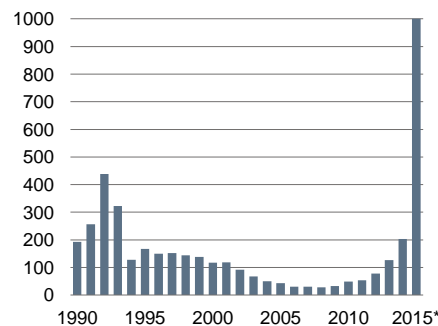
Source: Infratest dimap, ARD Deutschland Trend

European and foreign policy will likely dominate the government's agenda for 2016 with Germany in demand as a mediator and as a source of finance. One major issue is the re-negotiation of British EU membership. Negotiations need to be speeded up in order to reach an agreement at the February 2016 EU summit. Germany sees the UK as a close ally with major common interests and values. Both usually sing from the same hymn sheet when it comes to advocating liberal (economic) policy in the EU, be it the completion of the Single Market, cutting red tape or fostering free trade and thus boosting competitiveness and productivity. However, the narrative of German European policy is still that – in today's globalised world – problems more often than not require a European response and thus closer cooperation in many policy fields. In particular, there is a demand for deeper coordination in fiscal policy for the euro area in order to bolster the euro's stability and sustainability. Satisfying the four British demands laid out in PM Cameron's letter to EU President Tusk without calling into question the achievements or the general prospects of further integration will be a challenging task. Chancellor Merkel is likely to play a prominent role here.

Number of asylum seekers in Germany at record high

2

Asylum applications, '000



\* EASY system data, Jan to mid-Dec

Sources: BAMF, Bavarian Ministry for Labour, Social Affairs, Family and Integration

The central pillar for Germany's European policy will remain its relations with France. It was a matter of course for the German government to agree to President Hollande's request for support for the French campaign to fight terrorism in Syria. Accordingly, on December 4, the Bundestag decided with a clear majority of CDU/CSU and SPD to support the French engagement with a German reconnaissance force. The decision is backed by 58% of the Germans who support the military assistance to France. And a similar majority, i.e. 57%, thinks the global political situation is threatening for Germany. In January the respective figure was just 44%.

A mixture of challenges for foreign, European and domestic policy are resulting from the refugee crisis. In all three areas this crisis will continue to produce political noise and related headlines in 2016. Given the influx of more than one million refugees this year, 71% of the Germans favour upper limits on the immigration of asylum seekers (ARD Deutschland Trend television opinion poll). However, the established EU framework for the registration and acceptance of asylum seekers, the so called Dublin III system, has been increasingly called into question as the frontier countries have been unable to cope with the

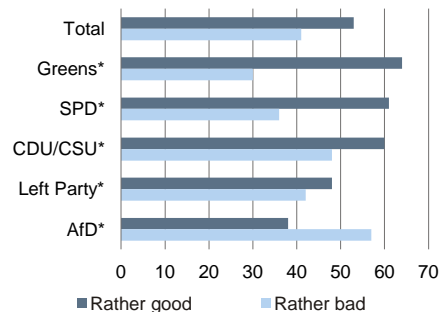


## Focus Germany

### Majority of Germans accepts the EU agreement with Turkey

3

"Do you consider this agreement rather good or rather bad?" % of all responses



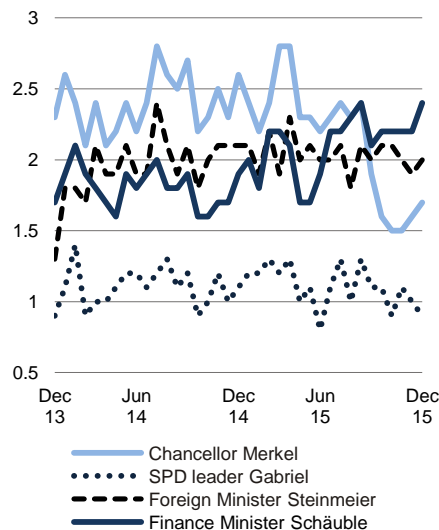
\* Supporters of the respective party

Source: Infratest dimap, ARD Deutschland Trend

### Major politicians' approval ratings

4

Approval rating for the respective politician on a scale from -5 to +5

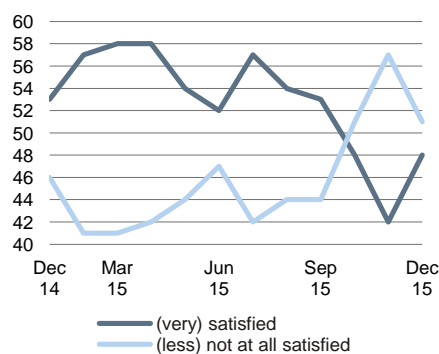


Source: Forschungsgruppe Wahlen, ZDF Politbarometer

### Satisfaction with government

5

"How satisfied are you with the work of the federal government?" % of all responses



Source: Infratest dimap, ARD Deutschland Trend

skyrocketing numbers. Debates on an alternative system go around in circles, however. German politicians from different camps have called for mandatory quotas, i.e. an obligation to accept a certain number of refugees, for all member states – an idea with a low chance of implementation. Even the relocation of 160,000 refugees from Italy and Greece on a quota basis, as decided in September 2015, is not working, not least because several member states have refused to participate from the beginning and are now referring the decision to the European Court of Justice.

Instead, member states have agreed on measures to significantly enhance the management of the EU's external borders and to improve the refugees' situation in the countries bordering Syria and other conflict regions that have hosted the bulk of the refugees to date. Here, the EU is seeking increased involvement by Turkey in managing the refugee wave in return for concessions in visa requirements, a re-energising of accession talks that started back in 2005 and fiscal support. Here, too, much depends on Chancellor Merkel. She will not only have to promote understanding for the Turkish requests within her sceptical party that has rejected a Turkish EU membership in its party programme but Germany is also likely to pay a disproportionate part of the EUR 3 bn financial bill. Nevertheless, 53% of Germans have stated that they consider the agreement with Turkey to be quite good.

It remains to be seen, whether all these measures will result in substantially lower numbers of refugees over the next months. Whatever the case, Germany will face a mammoth task in 2016 and beyond when it comes to integrating the immigrants into the labour market and the society. This will demand substantial human and financial resources.

The management of the refugee crisis will continue to cause bickering in the government coalition. Despite more moderate signals from the recent CDU party convention on December 14-15, where the party's conservative camp refrained from reasserting its call for a cap on the number of refugees, the conservatives are likely to stick to their demand for decisive measures to restrict the influx of asylum seekers. However, it will be hard for the SPD to compromise on that. Contentious issues in the coalition in this respect are the scope of social benefits, e.g. health services, for refugees and family reunification in the case of Syrian refugees, as the CDU/CSU favours more restrictive rules here.

In contrast to the refugee issue, other topics on the government's 2016 agenda are less controversial. This includes the reform of the system of revenue redistribution among the states (Länder) and between the Länder and the federal government. Originally observers thought this could become the grand coalition's masterpiece. Instead of putting the federal fiscal system on a sound footing, however, the Länder have agreed on a model that would increase their revenue share – to the detriment of the federal government – without enhancing the incentives for sound fiscal policy. Further topics are a reform of company pension schemes and higher pensions for low-wage earners with longer working lives. This projects, too, will burden the federal budget. However, Finance Minister Schäuble is likely to apply the brakes heavily enough to protect his aim of a balanced budget in 2016. Thus, the odds are that Schäuble will likely remain the most popular politician in Germany – and Merkel remain chancellor until the end of her term.

Merkel's popularity rating, which had fallen markedly in early autumn in response to her open-door policy for refugees, has stabilised in the meantime. Also, public approval for her government's work has increased again, recently. This reflects the above-mentioned public backing for Germany's solidarity with France among others.

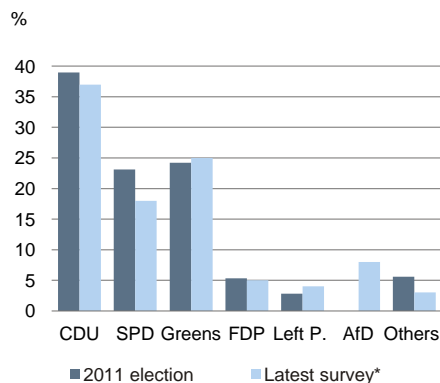
Political sentiment in 2016 will be indicated more than anything else by five state elections, namely in Baden-Wuerttemberg, Rhineland-Palatinate and Saxony-



Focus Germany

Baden-Wuerttemberg: Result of the last state election & political sentiment

6

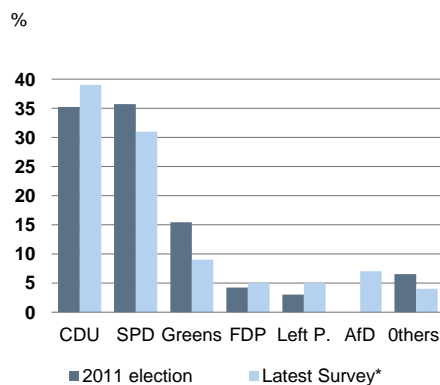


\* Survey from Dec 3

Sources: Infratest dimap, Wahlrecht.de

Rhineland-Palatinate: Result of the last state election & political sentiment

7



\* Survey from Dec 10

Sources: Infratest dimap, Wahlrecht.de

Anhalt on March 13 and in Mecklenburg-Western Pomerania and Berlin on September 4 and 14, respectively. Commentators will primarily focus on the first two states.

Baden-Wuerttemberg is a traditional CDU heartland. In the last election in 2011, however, the Greens – benefiting from the Fukushima nuclear disaster – grabbed enough votes to be able to form a coalition with the SPD. Now, CDU members expect their party to regain power. In fact, according to the latest surveys a change in government in Baden-Württemberg is very likely, as the ongoing poor showing of the SPD and the AfD’s stabilisation well above the 5% threshold required for entry into the parliament will probably prevent a renewed Greens/SPD coalition. The situation in Rhineland-Palatinate is similar. There, the CDU is counting on its nominee for prime minister, Julia Klöckner, CDU vice-chair, who in the likely event of a victory could further strengthen her political influence in Berlin.

In both states the current Greens/SPD and SPD/Greens coalitions could be ousted by a CDU/Greens alliance – arithmetically. Given the CDU’s more restrictive stance on asylum policy, however, such coalitions have become less likely. Instead, the CDU could form a coalition with the SPD in both states, too. This would increase the grand coalition’s number of seats in the Bundesrat from 24 to 34. But Merkel’s government would still fall short of a majority, i.e. 35 seats, in the upper house. The other three states with elections in 2016 already have SPD/CDU or CDU/SPD governments.

Speculation about a break-up of the grand coalition in 2016 lacks any substance. Nevertheless, the 21 months up to the next general election could become more troublesome for Merkel’s government than the past first half. The SPD and its leader Sigmar Gabriel in particular are facing a dilemma. To demonstrate strength and to improve his party’s approval rating, which has hovered around just 25% for quite some time, he has to adopt a more critical stance on Merkel’s course, e.g. in asylum policy. This, however, could spoil the prospects for a prolongation of the current coalition with the CDU beyond the 2017 general election, the SPD’s only realistic option for staying in power in the next parliamentary term, as things stand at present. In contrast to the CDU, the SPD is unlikely to be strong enough to form a coalition with the Greens in late 2017.

The recent SPD convention on December 10-12 has once again revealed the party’s inner conflicts. At the convention only 74% of the delegates re-elected Gabriel as party leader, even though he was the sole candidate. This has confirmed the SPD’s tendency to make life difficult for its chancellor candidates, especially those who advocate a more realistic and less leftist course in economic policy. Only four days later, in sharp contrast, the CDU at its party convention demonstrated unanimity and backed Chancellor Merkel with an impressive majority for the party leadership’s compromise proposals on the management of the refugee crisis. Even Merkel’s conservative critics have agreed on her course, at least for the time being.

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Focus Germany

Economic forecasts

	Real GDP (% growth)			Consumer Prices* (% growth)			Current Account (% of GDP)			Fiscal Balance (% of GDP)		
	2015F	2016F	2017F	2015F	2016F	2017F	2015F	2016F	2017F	2015F	2016F	2017F
Euroland	1.5	1.6	1.5	0.1	0.9	1.6	3.0	2.7	2.3	-2.2	-2.0	-1.6
Germany	1.7	1.9	1.6	0.3	1.3	1.7	8.1	7.8	7.7	0.3	0.0	0.0
France	1.1	1.4	1.5	0.1	0.8	1.3	-0.1	-0.5	-0.6	-3.8	-3.4	-2.9
Italy	0.7	1.4	1.0	0.1	0.8	1.5	2.1	1.8	1.8	-2.8	-2.4	-2.1
Spain	3.2	2.8	2.3	-0.6	0.7	1.6	1.5	1.6	1.4	-4.3	-3.3	-2.6
Netherlands	1.9	1.4	1.3	0.3	1.0	1.6	11.0	11.1	11.1	-2.0	-1.9	-1.8
Belgium	1.4	1.3	1.2	0.6	1.7	1.8	-0.8	-0.5	-0.2	-2.7	-2.7	-2.3
Austria	0.8	1.4	1.4	0.8	1.7	1.9	2.8	3.1	3.3	-2.0	-1.6	-1.2
Finland	0.1	0.8	1.0	-0.1	0.9	1.3	0.3	0.4	0.6	-3.4	-3.2	-3.1
Greece	-0.1	-0.7	1.8	-1.0	1.0	1.1	-0.5	0.5	1.0	-4.1	-3.0	-1.4
Portugal	1.5	1.7	1.5	0.6	1.1	1.5	1.1	1.2	0.9	-3.0	-3.0	-2.8
Ireland	5.2	3.5	3.0	0.0	1.5	2.0	5.0	4.5	4.5	-2.1	-1.5	-1.3
UK	2.4	2.5	2.3	0.0	1.1	1.9	-4.3	-3.1	-3.0	-4.0	-2.5	-1.0
Denmark	1.6	1.7	1.8	0.5	1.4	1.8	7.5	7.0	6.5	-3.0	-2.5	-2.0
Norway	1.4	1.4	2.2	2.1	2.4	2.3	7.5	7.0	6.5	7.5	7.0	6.5
Sweden	3.2	2.7	2.5	0.0	1.0	1.9	6.0	5.7	5.5	-1.5	-1.0	-0.5
Switzerland	1.0	1.2	1.6	-1.1	-0.4	0.3	9.0	8.0	8.0	0.0	-0.5	-0.5
Czech Republic	4.5	2.7	3.2	0.4	1.6	2.0	1.6	1.2	0.7	-1.9	-1.4	-1.2
Hungary	2.7	2.4	3.3	0.0	2.1	2.7	3.1	3.3	2.5	-2.4	-2.2	-2.0
Poland	3.4	3.5	3.5	-0.9	1.1	1.7	-1.1	-1.6	-1.8	-2.9	-2.9	-2.7
United States	2.4	2.1	2.1	0.2	1.9	2.3	-2.4	-2.8	-3.1	-2.4	-2.2	-2.1
Japan	0.7	1.1	0.8	0.8	0.7	2.1	3.3	3.5	3.8	-5.0	-4.2	-3.1
China	7.0	6.7	6.7	1.4	1.8	1.8	3.3	2.8	2.5	-3.2	-3.5	-3.5
World	3.1	3.3	3.6	3.4	4.0	4.2						

\*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

						2015				2016			
	2013	2014	2015F	2016F	2017F	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F
Real GDP	0.3	1.6	1.7	1.9	1.6	0.3	0.4	0.3	0.3	0.5	0.2	0.5	0.5
Private consumption	0.6	0.9	1.9	1.8	1.3	0.4	0.1	0.6	0.3	0.4	0.4	0.4	0.4
Gov't expenditure	0.8	1.7	2.6	2.1	1.1	0.4	0.7	1.3	0.8	0.3	0.3	0.3	0.3
Fixed investment	-1.3	3.5	2.3	1.9	1.9	1.7	-0.4	-0.3	1.0	1.0	-0.2	0.4	0.4
Investment in M&E	-2.3	4.5	4.0	1.6	1.7	1.9	0.5	-0.8	0.4	0.3	0.7	0.7	0.7
Construction	-1.1	2.9	0.8	2.2	2.2	1.8	-1.3	-0.3	1.6	1.7	-0.9	0.2	0.2
Inventories, pp	0.6	-0.3	-0.5	0.0	0.0	-0.2	-0.3	0.2	0.0	0.0	0.0	0.0	0.0
Exports	1.6	4.0	5.6	4.0	5.3	1.5	1.8	0.2	0.5	1.2	1.0	1.2	1.2
Imports	3.1	3.7	5.9	4.5	5.6	2.1	0.5	1.1	0.9	1.3	1.2	1.0	1.0
Net exports, pp	-0.5	0.4	0.4	0.0	0.2	-0.1	0.7	-0.4	-0.1	0.0	0.0	0.2	0.2
Consumer prices*	1.5	0.9	0.3	1.3	1.7	0.0	0.5	0.1	0.7	1.2	1.1	1.3	1.7
Unemployment rate, %	6.9	6.7	6.4	6.5	6.8	6.5	6.4	6.4	6.4	6.4	6.5	6.6	6.6
Industrial production	0.1	1.5	0.6	0.6									
Budget balance, % GDP	-0.1	0.3	0.3	0.0	0.0								
Public debt, % GDP	77.4	74.9	71.5	69.2	67.1								
Balance on current account, % GDP	6.5	7.3	8.1	7.8	7.7								
Balance on current account, EUR bn	182	212	246	245	248								

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



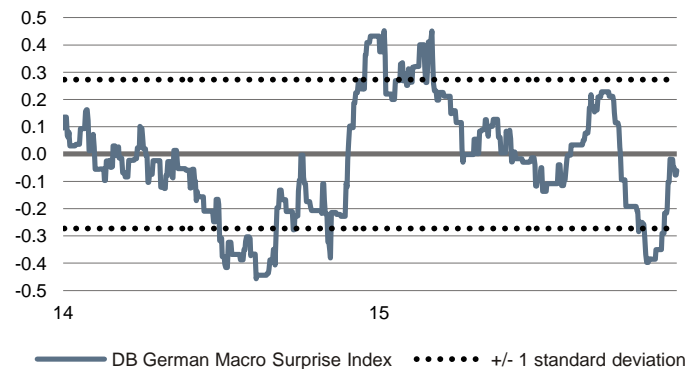
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DB German Macro Surprise Index

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.<sup>3</sup>

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
GRFRIAMM Index	Retail Sales (% mom)	9 2015	30.10.15	0.0	0.4	-0.4	0.0	0.5
MPMIDEMA Index	Markit Manufacturing PMI	10 2015	02.11.15	52.1	51.6	0.5	0.5	0.8
MPMIDESA Index	Markit Services PMI	10 2015	04.11.15	54.5	55.2	-0.7	-0.7	0.2
GRIORTMM Index	Factory Orders (% mom)	9 2015	05.11.15	-0.7	1.0	-1.7	-0.8	0.2
GRIPIMOM Index	Industrial production (% mom)	9 2015	06.11.15	-1.1	0.5	-1.6	-1.3	0.1
GRCAEU Index	Current Account Balance (EUR bn)	9 2015	09.11.15	25.0	21.9	3.1	0.6	0.7
GRCP20YY Index	CPI (% yoy)	10 2015	12.11.15	0.3	0.3	0.0	0.3	0.3
GRZECURR Index	ZEW Survey Current Situation	11 2015	17.11.15	54.4	55.2	-0.8	-0.2	0.4
GRZEWI Index	ZEW Survey Expectations	11 2015	17.11.15	10.4	6.0	4.4	0.5	0.7
GRIFPBUS Index	IFO Business Climate	11 2015	24.11.15	109.0	108.2	0.8	0.5	0.7
GRGDPPGQ Index	GDP (% qoq)	9 2015	24.11.15	0.3	0.3	0.0	-0.1	0.4
GRIMP95Y Index	Import Price Index (% yoy)	10 2015	27.11.15	-4.1	-3.9	-0.2	0.2	0.6
GRFRIAMM Index	Retail Sales (% mom)	10 2015	30.11.15	-0.4	0.4	-0.8	-0.3	0.3
MPMIDEMA Index	Markit Manufacturing PMI	11 2015	01.12.15	52.9	52.6	0.3	0.3	0.7
GRUECHNG Index	Unemployment Change (000's mom)	11 2015	01.12.15	-13.0	-5.0	8.0	0.1	0.6
MPMIDESA Index	Markit Services PMI	11 2015	03.12.15	55.6	55.6	0.0	0.0	0.5
GRIORTMM Index	Factory Orders (% mom)	10 2015	04.12.15	1.8	1.2	0.6	0.2	0.6
GRIPIMOM Index	Industrial production (% mom)	10 2015	07.12.15	0.2	0.8	-0.6	-0.5	0.3
GRCAEU Index	Current Account Balance (EUR bn)	10 2015	09.12.15	23.0	23.7	-0.7	-0.6	0.3
GRCP20YY Index	CPI (% yoy)	11 2015	11.12.15	0.4	0.4	0.0	0.3	0.3

Sources: Bloomberg Finance LP, Deutsche Bank Research

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<sup>3</sup> See for details Focus Germany. August 4, 2014.



## Focus Germany

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

Date	Event	Remarks
17-18 Dec	European Council, Brussels	Debate on the refugee crisis and the measures to stabilise the situation at the EU's external borders.
14-15 Jan	Eurogroup and ECOFIN, Brussels	European Semester: Euro area report – country specific recommendations, annual Growth Survey, Alert Mechanism Report, discussion on growth and jobs, Cyprus – 8th review, Greece.
21 Jan	ECB Governing Council meeting, press conference	Changes in the monetary policy stance open.
11-12 Feb	Eurogroup and ECOFIN, Brussels	Debates on the Commission winter economic forecast, on growth and jobs – quality of public finances, banking union.
18-19 Feb	European Council, Brussels	Debate and poss. agreement on the British requests in the context of the planned EU referendum in the UK.
7-8 Mar	Eurogroup and ECOFIN, Brussels	Fiscal surveillance: Excessive Deficit Procedure implications of the Commission winter forecast, (poss.) debates on Greece and Cyprus.
10 Mar	ECB Governing Council meeting, press conference	New staff forecasts; changes in the monetary policy stance open.
13 Mar	State elections in Baden-Wuerttemberg, Rhineland-Palatinate and Saxony-Anhalt	The latest surveys indicate that the Greens/SPD and SPD/Greens coalition governments in the two states in Western Germany are unlikely to be re-elected.
17-18 Mar	European Council, Brussels	

Source: Deutsche Bank Research

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## Focus Germany

### Germany: Data calendar

Date	Time	Data	Reporting period	DB forecast	Last value
30 Dec 2015	8:00	Import prices (Index, sa) pch mom (yoy)	November	-0.5 (-3.8)	-0.3 (-4.1)
4 Jan 2016	14:00	Consumer prices preliminary (Index, sa), pch mom (yoy)	December	0.3 (0.7)	0.1 (0.4)
5 Jan 2016	10:00	Unemployment rate (% , sa)	December	6.4	6.3
7 Jan 2016	8:00	New orders manufacturing (Index, sa), pch mom	November	-1.0	1.8
8 Jan 2016	8:00	Industrial production (Index, sa), pch mom	November	0.0	0.2
8 Jan 2016	8:00	Trade balance (EUR bn, sa)	November	18.0	20.8
8 Jan 2016	8:00	Merchandise exports (EUR bn, sa), pch mom (yoy)	November	-2.2 (2.3)	-1.2 (3.0)
8 Jan 2016	8:00	Merchandise imports (EUR bn, sa), pch mom (yoy)	November	0.7 (2.5)	-3.4 (2.8)
8 Jan 2016	8:00	Retail sales (Index, sa), pch mom	November	0.5	-0.1
14 Jan 2016	8:00	Real GDP, % yoy	2015	1.7	1.6

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

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## Focus Germany

### Financial forecasts

	US	JP	EMU	GB	CH	SE	DK	NO	PL	HU	CZ
<b>Key interest rate, %</b>											
Current	0.125	0.10	0.05	0.50	-0.75	-0.35	0.05	0.75	1.50	1.35	0.05
Dec 15	0.375	0.10	0.05	0.50	-0.75	-0.35	0.05	0.75	1.50	1.35	0.05
Jun 16	0.875	0.10	0.05	0.75	-0.75	-0.35	0.05	0.50	1.50	1.35	0.05
Dec 16	1.125	0.10	0.05	1.00	-0.75	-0.35	0.05	0.50	1.50	1.35	0.05

### 3M interest rates, %

Current	0.26	0.15	-0.13	0.58
Dec 15	0.58	0.15	-0.15	0.58
Jun 16	1.08	0.15	-0.15	0.85
Dec 16	1.33	0.15	-0.15	1.12

### 10J government bonds yields, %

Current	2.22	0.40	0.57	1.83
Dec 15	1.90	0.35	0.60	1.80
Jun 16	2.25	0.45	0.80	2.00
Dec 16	2.50	0.55	1.10	2.40

### Exchange rates

	EUR/USD	USD/JPY	EUR/GBP	GBP/USD	EUR/CHF	EUR/SEK	EUR/DKK	EUR/NOK	EUR/PLN	EUR/HUF	EUR/CZK
Current	1.10	120.92	0.73	0.66	1.08	9.35	7.46	9.57	4.36	317.12	27.04
Dec 15	1.05	125.00	0.71	1.48	1.12	8.90	7.46	9.37	4.20	315.00	27.10
Jun 16	0.97	127.50	0.71	1.37	1.11	8.83	7.46	8.90	4.15	317.50	27.10
Dec 16	0.90	128.00	0.71	1.27	1.15	8.75	7.46	9.72	4.10	320.00	26.00

Sources: Bloomberg, Deutsche Bank

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## Focus Germany

### German data monitor

	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Jun 2015	Jul 2015	Aug 2015	Sep 2015	Oct 2015	Nov 2015
<b>Business surveys and output</b>											
<b>Aggregate</b>											
Ifo business climate	104.7	107.2	108.3	108.3		107.6	108.0	108.4	108.5	108.2	109.0
Ifo business expectations	100.4	102.7	102.8	102.6		102.1	102.4	102.2	103.3	103.9	104.7
<b>Industry</b>											
Ifo manufacturing	99.9	102.8	104.0	102.9		103.1	103.2	103.0	102.6	102.4	103.6
Headline IP (% pop)	0.8	0.5	0.2	-0.2		-0.8	1.0	-0.6	-1.1	0.2	
Orders (% pop)	1.6	-1.5	2.6	-2.7		1.8	-2.2	-2.1	-0.7	1.8	
Capacity Utilisation	84.1	84.5	84.3	84.2	84.4						
<b>Construction</b>											
Output (% pop)	1.2	1.2	-0.7	-0.7		-1.7	0.1	-0.2	1.1	2.0	
Orders (% pop)	-0.9	7.7	-4.6	0.2		-3.8	-1.0	0.0	7.2		
Ifo construction	120.2	118.8	119.9	121.4		120.5	120.1	121.1	122.9	123.1	124.3
<b>Consumer demand</b>											
EC consumer survey	-1.2	1.0	3.0	-0.3		2.8	1.4	0.7	-2.9	-4.6	-4.5
Retail sales (% pop)	1.2	1.6	-0.2	0.9		-0.7	1.7	-0.8	0.1	-0.1	
New car reg. (% yoy)	2.7	6.4	4.2	6.1		12.9	7.4	6.2	4.8	1.1	8.9
<b>Foreign sector</b>											
Foreign orders (% pop)	1.2	-3.2	5.1	-4.8		4.6	-6.3	-1.7	-1.1	1.8	
Exports (% pop)	1.1	1.7	3.4	-0.7		-1.1	2.2	-5.1	2.6	-1.2	
Imports (% pop)	0.5	1.9	1.5	1.1		-0.7	2.3	-3.3	3.8	-3.4	
Net trade (sa EUR bn)	58.7	59.1	65.7	61.2		21.8	22.2	19.7	19.3	20.8	
<b>Labour market</b>											
Unemployment rate (%)	6.6	6.5	6.4	6.4		6.4	6.4	6.4	6.4	6.4	6.3
Change in unemployment (k)	-38.3	-42.3	-26.0	2.0		0.0	8.0	-7.0	1.0	-7.0	-13.0
Employment (% yoy)	0.8	0.6	0.6	0.8		0.6	0.7	0.8	0.9	0.9	
Ifo employment barometer	106.4	107.7	108.0	108.1		107.8	107.1	108.4	108.6	109.1	109.9
<b>Prices, wages and costs</b>											
<b>Prices</b>											
Harmonised CPI (% yoy)	0.4	-0.2	0.3	0.0		0.1	0.1	0.1	-0.2	0.2	0.3
Core HICP (% yoy)	1.1	1.0	1.1	1.0		0.9	0.9	1.1	1.1	1.4	
Harmonised PPI (% yoy)	-1.2	-2.0	-1.4	-1.7		-1.4	-1.3	-1.7	-2.1	-2.3	
Commodities, ex. Energy (% yoy)	0.9	2.3	-0.5	-7.0		-1.6	-2.4	-9.0	-9.6	-10.7	-12.3
Oil price (USD)	76.4	55.1	63.7	51.3		63.7	56.9	48.4	48.5	49.4	
<b>Inflation expectations</b>											
EC household survey	8.6	0.5	6.1	4.9		7.8	7.0	1.0	6.6	1.3	5.6
EC industrial survey	2.1	-0.4	1.5	0.8		3.2	2.0	-0.1	0.5	1.8	2.1
<b>Unit labour cost (% yoy)</b>											
Unit labour cost	1.7	1.7	1.8	1.5							
Compensation	2.6	2.4	3.0	2.7							
Hourly labour costs	1.8	2.3	2.5	2.3							
<b>Money (% yoy)</b>											
M3	4.9	7.4	7.6	8.2		7.6	7.9	7.3	8.2	8.6	
M3 trend (3m cma)						7.6	7.6	7.8	8.0		
Credit - private	1.7	2.6	2.1	2.5		2.1	3.0	2.9	2.5	2.7	
Credit - public	12.6	32.3	12.2	11.1		12.2	8.9	15.5	11.1	15.9	

% pop = % change this period over previous period.

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



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