



Focus Germany

Above potential growth, no wage excesses

January 28, 2016

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German GDP 2015 – where we got it wrong and why. After three years of high GDP forecast accuracy, we were off the mark by a substantial margin in 2015. The miss can mainly be traced to our assumptions with regard to oil, the USD, the magnitude of the refugee influx and a bit of bad timing, as the USD and oil saw a massive adjustment right after we had published our 2015 forecast. Last year's imponderables are once again at the top of our list of forecast uncertainties for 2016. Movements so far indicating lower oil and weaker global activity (US, China) do offset each other with respect to their GDP impact. We therefore stick to our forecast of 1.9% GDP growth in 2016 but acknowledge that for the time being upside risks are dominating (and hope for the best).

Moderate wage round in 2016. 2015 wage negotiations yielded a robust plus of 2 ½%. Although the rise was lower than in the previous year (+3%), it still generated the highest increase in real hourly wages since 1999, courtesy of the oil price collapse. Especially with regard to the introduction of the statutory minimum wage in early 2015, the relatively moderate development of negotiated and effective wages is surprising. This is also true for the employment effects of the minimum wage. Transitional arrangements via sectoral minimum wages, shortcomings of official statistics and subdued wage growth in the higher income groups seem to have curtailed the negative effects. The current labour market environment points to continued, robust wage growth in 2016. Our GDP growth forecast implies further strong labour demand. With several indicators already pointing towards labour supply shortages. Together this should improve the bargaining power of the workers, while weak external demand and geopolitical risks should strengthen the employers' position, at least in exporting sectors. Adjustments to our wage model have improved the ex-post fit over the past few years. In particular, through a shortening of the sample period for the regression analysis. Thereby, we implicitly give the structural changes of the last decade in the German labour market a bigger weight. In total, we expect negotiated hourly wages to increase by 2.7% in 2016. This would be in line with average rise over the past four years.

The view from Berlin. Merkel's asylum policy – time is crucial for success. As a result of the Cologne New Year's events, for the first time a clear majority of 60% now think that Germany is unable to cope with the high number of refugees. However, public backing of Chancellor Merkel's asylum policy had already started to weaken in the course of last autumn, forcing the government to correct its open-door policy. While, in principle, the governing partners CDU/CSU and SPD agree on further more restrictive measures to reduce the influx of refugees, the public bickering continues, mirroring the parties' nervousness in the run-up to important state elections on March 13. To regain the confidence of the public Merkel's modified approach, i.e. a mix of measures on the EU and the national level, has to result in declining refugee numbers soon.

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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	0.2	0.8	2.0	8.1	7.8	7.7	0.5	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	2.2	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	0.3	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	0.3	1.6	-1.1	-1.6	-1.8	-2.9	-2.9	-2.7
United States	2.4	1.8	2.1	0.1	1.6	2.3	-2.4	-2.8	-3.0	-2.4	-2.9	-2.9
Japan	0.7	0.9	0.7	0.7	0.4	1.8	3.4	4.7	4.8	-4.3	-4.1	-3.1
China	6.9	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	3.2	3.6	3.3	3.9	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

	2013	2014	2015	2016F	2017F	2015				2016			
						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	0.2	0.8	2.0	0.0	0.5	0.1	0.3	0.3	0.3	0.9	1.8
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	0.5	0.0	0.0								
Public debt, % GDP	77.4	74.9	71.4	68.9	66.7								
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



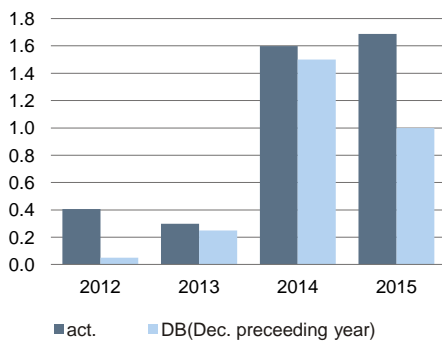
German GDP 2015

– where we got it wrong and why

- After three years of high GDP forecast accuracy, we were off the mark by a substantial margin in 2015.
- The miss can mainly be traced to our assumptions with regard to oil, the USD, the magnitude of the refugee influx and a bit of bad timing, as the USD and oil saw a massive adjustment right after we had published our 2015 forecast.
- Last year's imponderables are once again at the top of our list of forecast uncertainties for 2016. Movements so far indicating lower oil and weaker global activity (US, China) do offset each other with respect to their GDP impact. We therefore stick to our forecast of 1.9% GDP growth in 2016 but acknowledge that for the time being upside risks are dominating (and hope for the best).

DB GDP forecasts and outcome

1

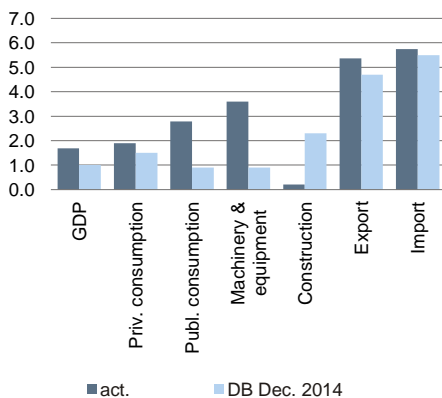


Sources: Federal Statistical Office, Deutsche Bank Research

After three years of very good forecast accuracy, our 2015 forecast (produced at the end of 2014) of a meagre 1% increase in German GDP was off the mark by a painfully wide margin. The preliminary number reported by the Statistical Office in early January showed a 1.7% rise. If one takes forecasting seriously – as we do – it is important to analyse the discrepancy in order to avoid similar mistakes in the future, assuming that the errors are not just random.

2015 GDP: DB forecast & outcome

2



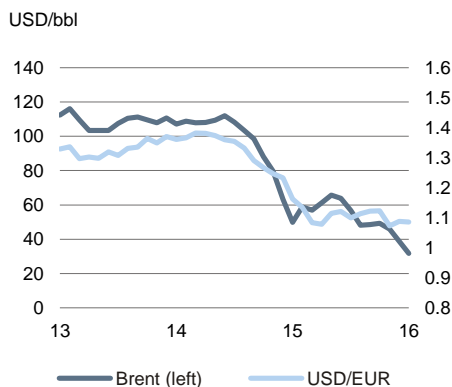
Sources: Federal Statistical Office, Deutsche Bank

Massive underestimation of public consumption due to refugees

An analysis of the different demand components reveals that we were too pessimistic regarding private consumption expecting an only 1.5% rise, which would have been an acceleration compared to 2014 (1.1%), but was less than the 1.9% reported by the Statistical Office. This explains 0.2 of a percentage point (pp) in our underestimation of GDP growth. With regard to government consumption we expected a 0.9% increase but got a whopping 2.8% surge. Government consumption accounts for 19.5% of nominal GDP, on a par with gross investment (19.9%). Hence our underestimation of this component explains another 0.3 pp of the GDP miss. Our call regarding gross investment, the most volatile GDP component, was spot on (1.6% versus 1.7%). Fortunately, the forecasting errors in the sub-components machinery & equipment (0.9% vs 3.6% reported) and construction (2.3% vs only 0.2%) cancelled each other out. Forecasts for exports (4.7% vs 5.4%) and imports (5.5% vs 5.7%) were reasonably good, but on balance net trade added 0.2 pp to GDP growth, whereas we had predicted a neutral contribution. Inventories – always a bit of a wild card – subtracted 0.4 pp, whereas we expected -0.3 pp.

USD & oil falling at the start of 2015

3



Source: Thomson Reuters

Forecast errors are largely explained by incorrect assumptions

As always, the first things to check are the assumptions. On the external side these include Deutsche Bank's forecasts for global GDP, exchange rates and oil prices. The biggest delta opened up in the oil price development. After the USD 40/bbl drop between August and December 2014 our analysts expected Brent to stabilise in H1 and reach USD 75 by end-2015. In reality the slump continued and oil prices fell below USD 40/bbl in December 2015. The annual average turned out USD 20 less than predicted. This was the major reason why our inflation forecast of 1% for 2015 was way above the actual outcome of 0.3%. In EUR terms, oil was 25% lower than expected, despite the faster-than-expected EUR depreciation. According to our rules of thumb the CPI effect of this drop is around 0.6 pp, which is consistent with the CPI miss. However, the deceleration

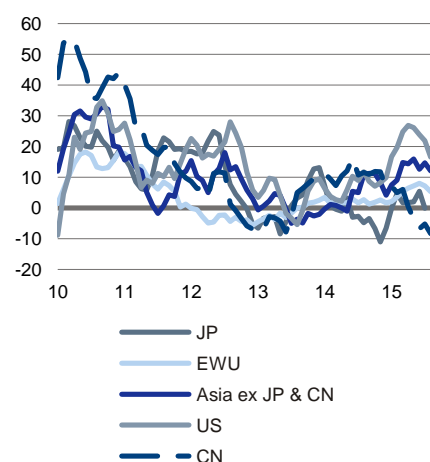


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German exports: Regions

4

3M-average, % yoy

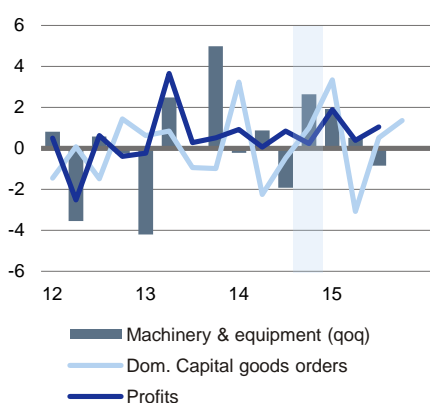


Source: Federal Statistical Office

M&E spending surprised in Q4 2014

5

% yoy, % qoq



Source: Federal Statistical Office

in the deflator for private consumption (+0.6% yoy in 2015) was somewhat smaller than in the CPI, which partly explains why the resulting error in our private consumption forecast remained relatively modest, especially when taking additional expenditures for asylum-seekers – another factor where the magnitude had been grossly underestimated in early 2015 – into account. The somewhat stronger-than-expected increase in employment of 0.8% vs 0.5%, was pretty much offset by a smaller-than-expected wage increase (see article on 2016 wage round). The arrival of more than one million refugees during 2015 left its imprint mainly in government consumption, which expanded by 2.8%, more than twice its long-term average of 1.3%.

At the end of 2014 we expected global GDP to rise by 3.6% in 2015, which by now seems about 0.5 pp too high. Ceteris paribus, this should have caused a worse-than-expected export performance, but was overcompensated by a more rapid rise of the USD vs the EUR, in particular in early 2015, when the USD/EUR rate fell from 1.23 (December 2014) to 1.08 in March/April. This led to a temporary surge in exports, especially to the US, in H1 2015.

Basis effects pushed capital expenditure growth higher

The better-than-expected rise in investment in machinery & equipment was mainly the result of a basis effect. In Q4 2014 investment spending unexpectedly jumped by 2.6% qoq. This increase, which was followed by another 1.9% rise in Q1, was of course not known by end-2014, nor was it – at least until the end of 2014 – really visible in the development of most leading indicators for investment spending such as profits, domestic capital goods orders or the development of external demand. At any rate, it turned out to be a mere flash in the pan. From Q2 onwards, investment in machinery & equipment started heading south, confirming our sceptical view on capital spending based on weak external demand combined with ongoing political uncertainty.

Construction: A price/activity conundrum

By contrast, the meagre 0.2% rise in construction spending looks a bit like a conundrum. After a weather-supported 1.9% rise in Q1, followed by a -1.3% payback in Q2, construction spending virtually flatlined in H2. Residential construction slowed from 3.3% in 2014 to 1.5% in 2015. This seems odd given the continued acceleration in German house prices¹. In Q3 2015, the change stood at 5.6% yoy, compared to 2.5% on average in 2014. Moreover, ample anecdotal evidence² points to an increasing demand overhang, at least in more urban parts of Germany. One explanation for the limited response of investment in residential property could be capacity bottlenecks on the supply side, which might have been exacerbated by recent legislation such as the rent cap (Mietpreisbremse). Responses within the ifo business survey in the construction sector point in this direction. Although slightly lower than at the all-time highs in 2013/14, capacity utilisation, complaints about the lack of employees and the reach of orders at hand do indicate that this construction segment is facing some capacity constraints. So far, these bottlenecks are not showing up in residential construction prices, which have been stable at 1.6% yoy in 2015 (2014: 1.8%). However, expectations of price increases in the next 3 months have risen strongly during the last 12 months. Non-residential construction actually went into reverse in 2015. Structural engineering shrank by 2.2% (2014: +1.0%) while investment in civil engineering projects dropped by 1.2% (+5.3%).

¹ Jochen Möbert. "European house prices: German cities still have potential...". Focus Germany. October 2015.

² Deutschlandfunk. November 10, 2015. "Wohnungsnot in den Großstädten".

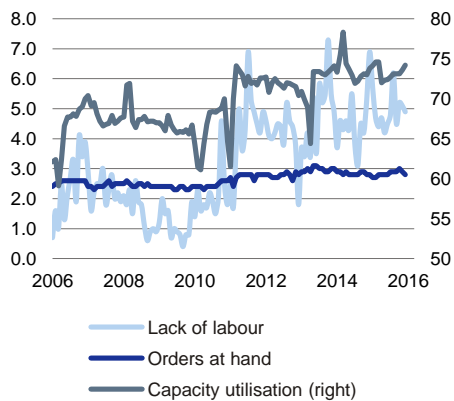


In structural engineering, still high vacancy rates in the office market as well as the increasing weight of online retailing might have played a role. In civil engineering, implementation lags might delay the GDP impact of the infrastructure programmes launched in early 2015, providing some potential for catch-up this year.

Construction: Bottlenecks?

6

2010=100, months (left), % (right)

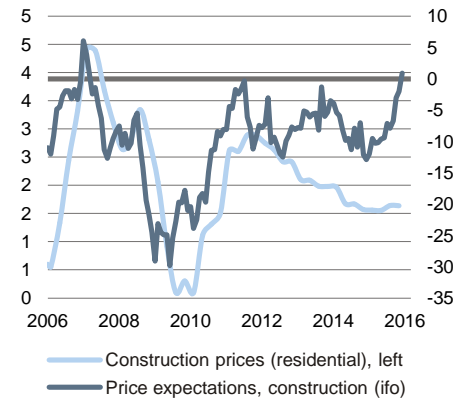


Source: ifo

Construction prices: Bullish expectations

7

% yoy (left), 2010=100 (right)

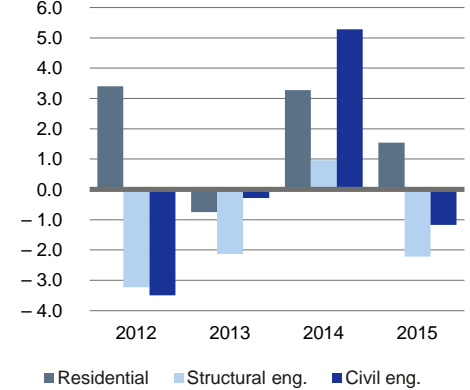


Sources: Federal Statistical Office, ifo

Construction conundrum

8

% yoy



Source: Federal Statistical Office

Given the huge surprises with regard to our assumptions at the start of 2015, we actually did manage to adjust them relatively quickly. On February 2 we lifted our German GDP forecast to 1.4%, due to stronger GDP growth in Q4 2014 and movements in oil and the USD.

Implications for our 2016 GDP call

Oil prices have strongly surprised to the downside once again, while the EUR might – at least in the short run – remain somewhat stronger than expected. Our commodity strategists have just lowered their oil price forecast. We now expect the price of Brent to continuously increase from an average of just 33 USD/bbl in Q1 to USD 50/bbl in Q4. This yields an average of USD 42.50, USD 11.50 lower than projected before. This means another positive shock to consumers' purchasing power, and might result in a private consumption increase slightly above 2%. Based on the above used rule of thumb GDP growth might – ceteris paribus – turn out about a ¼%-point higher. Furthermore, refugee-related expenditures, which we expect to add about ¼% to this year's GDP growth, might turn out stronger than expected, depending on the number of people arriving, returning and being resettled within the EU. On the other hand, recent macro data from important economies such as China and the US as well as the gyrations in financial markets have certainly increased the downside risks too, as can be seen in the January PMI and ifo index. Therefore, all in all, we stick to our forecast of 1.9% GDP growth in 2016, but acknowledge that for the time being the upside risks are dominating.



Germany: Economic forecast

9

% yoy	2014	2015	2016	2017
Real GDP	1.6	1.7	1.9	1.6
Private consumption	0.9	1.9	1.8	1.3
Gov't expenditure	1.7	2.6	2.1	1.1
Fixed investment	3.5	2.3	1.9	1.9
Investment in M&E	4.5	4.0	1.6	1.7
Construction	2.9	0.8	2.2	2.2
Inventories, pp	-0.3	-0.5	0.0	0.0
Exports	4.0	5.6	4.0	5.3
Imports	3.7	5.9	4.5	5.6
Net exports, pp	0.4	0.4	0.0	0.2
Consumer prices	0.9	0.2	0.8	2.0
Unemployment rate, %	6.7	6.4	6.5	6.8
Budget balance, % GDP	0.3	0.5	0.0	0.0
Balance on current account	212.1	246.3	245.5	248.0
% GDP	7.3	8.1	7.8	7.7

Sources: Federal Statistical Office, Deutsche Bank Research

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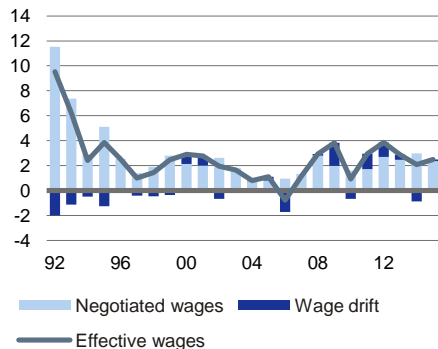


Moderate wage round in 2016

2015: Lower negotiated wage growth

1

Total economy, % yoy, hourly basis

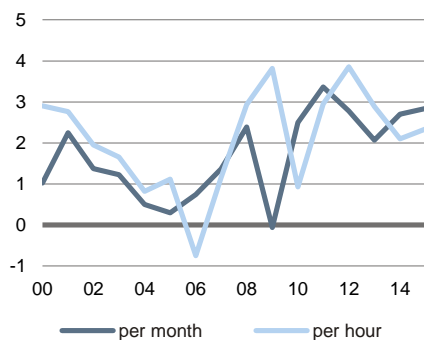


Sources: Federal Statistical Office, Deutsche Bank Research, Deutsche Bundesbank

Nearly 3% wage growth on monthly basis

2

Gross wages and salaries, % yoy

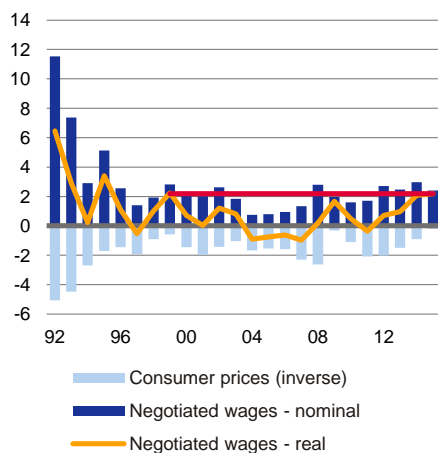


Source: Federal Statistical Office

Highest real wage growth since 1999

3

% yoy, hourly basis



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

- 2015 wage negotiations yielded a robust plus of 2 ½%. Although the rise was lower than in the previous year (+3%), it still generated the highest increase in real hourly wages since 1999, courtesy of the oil price collapse.
- Especially with regard to the introduction of the statutory minimum wage in early 2015, the relatively moderate development of negotiated and effective wages is surprising. This is also true for the employment effects of the minimum wage. Transitional arrangements via sectoral minimum wages, shortcomings of official statistics and subdued wage growth in the higher income groups seem to have curtailed the negative effects.
- The current labour market environment points to continued, robust wage growth in 2016. Our GDP growth forecast implies further strong labour demand. With several indicators already pointing towards labour supply shortages. Together this should improve the bargaining power of the workers, while weak external demand and geopolitical risks should strengthen the employers' position, at least in exporting sectors.
- Adjustments to our wage model have improved the ex-post fit over the past few years. In particular, through a shortening of the sample period for the regression analysis. Thereby, we implicitly give the structural changes of the last decade in the German labour market a bigger weight.
- In total, we expect negotiated hourly wages to increase by 2.7% in 2016. This would be in line with average rise over the past four years.

Standard wages 2015: Strong plus in real terms

Not only German employees are having high expectations with regard to their wage development. The ECB probably also wishes for stronger German wages helping the aimed for normalisation of inflation in Europe. In addition, other countries do hope for strong German demand for their exports. In combination with a deterioration of Germany's price competitiveness, this could help reduce macroeconomic imbalances in Europe. Given these hopes, the actual wage growth in 2015 was clearly a disappointment. Negotiated hourly wages increased by 2.4%, after a 3% in 2014 and 2.7% on average during the previous three years.³ In our last publication on this topic in March 2015 we expected a rate of 3%, in line with consensus.⁴

The development of effective wages (gross wages and salaries per hour worked) was also moderate. They rose by 2.3% (2014: 2.1%; 3-year average: 2.9%). These include for example payments for overtime, non-collective special payments and, especially, the effect of the introduction of the minimum wage for people not covered by collective bargaining. This should have manifested itself in a positive wage drift, which, however, did not materialise in 2015.

Thanks to a further strong increase in working time, the growth of the average effective monthly wages was considerably more positive than their hourly counterparts. Effective monthly wages even increased by 2.8% (2014: 2.7%), above the average of the previous three years (2.5%).

³ Data of the German Bundesbank until October, incl. special- and one-time payments, hourly basis. According to the Federal Statistical Office, monthly wages even increased by a meagre 2.1%, compared to 3.2% in 2014.

⁴ Consensus according to Consensus Economics. See Focus Germany: Stronger growth and wages – little reaction from savers. Focus Germany. 2 March 2015. Deutsche Bank Research.

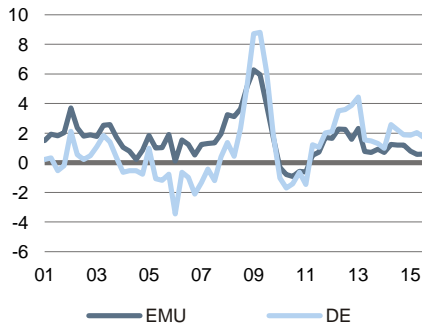


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Unit labour costs: Germany getting more expensive

4

Nominal unit labour costs, % yoy

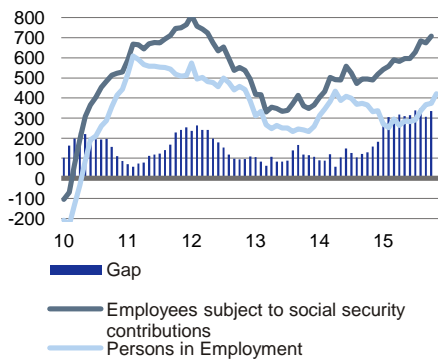


Source: Eurostat

Ongoing strong increase of employment

5

Change yoy, ('000 persons)

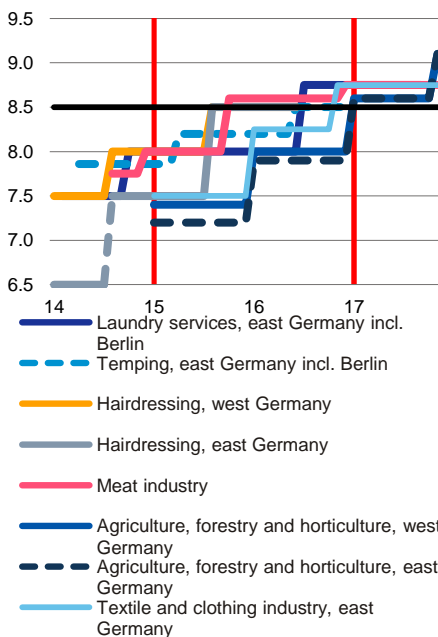


Sources: Federal Employment Agency, Federal Statistical Office, Deutsche Bank Research

Sector-specific minimum wages below EUR 8.50 after 2015

6

EUR per hour



Sources: Federal Ministry of Labour and Social Affairs, Deutsche Bank Research

Furthermore, the collapse of the oil price led to a notable disinflation. In real terms, i.e. subtracting consumer price inflation, negotiated wages rose by 2% – the highest rate since 1999 and the fourth strong increase in a row – which was also visible in strong private consumption (see article on GDP growth). In addition, German unit labour costs increased more strongly than the EMU average (Q1-Q3 2015: 1.9% yoy vs. 0.7% in EMU) – as they have done since 2012. This might lead to a gradual reduction of economic imbalances in Europe; however, should unit labour costs growth remain above the EMU average for a sustained period of time, this could negatively impact corporate investment decision in the medium-term.⁵

Minimum wage 2015: moderate impact

The introduction of the minimum wage on January 1, 2015, does not seem to have resulted in a materially negative outcomes so far – at least when looking at the aggregated labour market performance. This measure was relevant for roughly 10% of the employees, having earned around 35% below the minimum wage before its introduction. Some sectors are still subject to transitory arrangements, allowing wages below EUR 8.50 up until late 2016.⁶

The reason for not seeing any major negative effects so far might well be the very fortunate timing of the introduction. Strong domestic growth, fuelled by the oil price collapse, fostered a further, significant increase in labour demand. The economy wide job openings stand at about 1 million with more and more regional and sectoral bottlenecks showing up.

The total number of persons in employment rose by 324k in 2015, employees by 421k and the ones subject to social insurance contributions even by 633k.⁷ The increase in employment was nearly only driven by the services sector, particularly on corporate and public service providers.

However, first negative effects are already observable (Table 24) in the trade-off between the improvement of the employment situation of the still employed persons and the induced loss of jobs. The reduction of employment opportunities was particularly pertinent among the low-skilled who earned only around 60% of the EUR 8.50 before the introduction of the minimum wage. Here, employment fell by 166k directly after the introduction and on a yearly average probably by 180k. This reduction was, as one might expect, especially pronounced in the sectors and regions with the lowest wage levels.

Analysis of labour market flows by the IAB⁸ from early 2015 show that approximately half of the reduction of low-skilled jobs can be attributed to a conversion of the contracts into ones subject to social insurance contributions. These employees partly enjoyed considerable wage increases.

The other half seems to have lost their job. However, as the large majority completely left the labour market, only around 5% of those fell into official unemployment. The current situation of the majority of this group cannot be determined at this point. Transitions into temporary or long-term unemployment, a switch into the informal sector or retirement are all possibilities.

⁵ Rakau, Oliver (2015). Cracks in the foundation? Focus Germany. Deutsche Bank Research. 3 August 2015.

⁶ From January 1, 2018, the minimum wage agreed by the minimum wage commission will be binding for every employee.

⁷ The larger increases of the sub-groups of total employment are explained by shifts within the groups.

⁸ See for details vom Berge, P. (2016). Arbeitsmarktspiegel – Entwicklungen nach Einführung des Mindestlohns. IAB-Forschungsbericht 1/2016.



Focus Germany



Sources: Federal Employment Agency, Deutsche Bank Research



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

The main reason for not seeing a major employment adjustment after the introduction of the minimum wage is probably the solid, consumption driven economic development in Germany which made the surge in costs bearable for most firms. This should, nevertheless, change during the next crisis which should reveal the negative consequences of the minimum wage. We continue to view the introduction very critically, as this has particularly adverse effects for the weakest group in the labour market.⁹ Further, strong increase in 2017 – levels of EUR 10 per hour were already called for by some politicians – bears substantial risks.

The salary increase on the lower end of the wage scale following the introduction of the minimum wage is in line with expectations especially visible in a stronger growth of effective compared to negotiated wages and, therefore, in an increasing wage drift in 2015, from negative levels one year before. This is mainly driven by the fact that the minimum wage usually does not have any implications for collective wage negotiations which are based on a benchmark basic pay rate which presupposes a completed apprenticeship and several years of practical experience.¹⁰ Therefore, these benchmark rates usually lie above the minimum wage floor of EUR 8.50.

The impact of the minimum wage on the effective wages is somehow weaker than expected, though. Due to transitional sector specific minimum wages, parts of the statutory minimum wage effects might be absorbed by negotiated wages. Nonetheless, there are no official statistics on the share of employees subject to the minimum wage and on the number of persons under the transitory arrangements. These transitional agreements point to a spread of the minimum wage effects over several years. Further, there are considerable incentives to circumvent the minimum wage, e.g. via unpaid overtime or the transition into the informal sector. Finally, there might be an insufficient coverage, as the Structure of Earnings Survey and the Earnings Survey relies on companies with more than 10 employees and a considerable amount of employees earning less than the minimum wage before its introduction work in smaller companies.¹¹

The minimum wage effect is also evident when looking at different employee groups. Nominal wages increased much stronger in eastern Germany (3.7% vs. 2.5% in western Germany), for low-skilled workers (4.3%) and untrained workers (+3.9%). Overall, wages increased by 2.6% yoy in Q3 2015.

Wage round 2016: Robust macro-environment with external risks

As in 2015, there will be wage negotiations for well over 11 million employees or about a quarter of the workforce this year. The mechanical and electrical engineering industry (~3.5m employees) and the public sector (federal and local level; 2.4 m employees) are the major negotiations. Their current wage contracts terminate at the end of March and February, respectively. Especially the negotiations in the metal sector often serve as a guide-post for negotiations in the rest of the economy. Other negotiations in sectors with a large number of employees will take place in the construction sector (0.7 m), public sector (German Länder, 0.9 m) and temp agencies (~0.9 m). Unions' initial claims average at around 5%, but there has only been a small number so far.

⁹ See Peters, H. (2014). Minimum wage of EUR 8.50 per hour: Grand Coalition on the wrong track. Deutsche Bank Research. Focus Germany. 4 June 2014.

¹⁰ Deutsche Bundesbank (2015). Outlook for the German economy. June 2015.

¹¹ Boysen-Hogrefe, J. et al. (2015). Deutsche Konjunktur: Expansionstempo bleibt hoch. Kieler Konjunkturberichte Nr. 8 (2015|Q2). Institut für Weltwirtschaft, Kiel (Kasten 1: 7).



Focus Germany

Strong labour demand 9

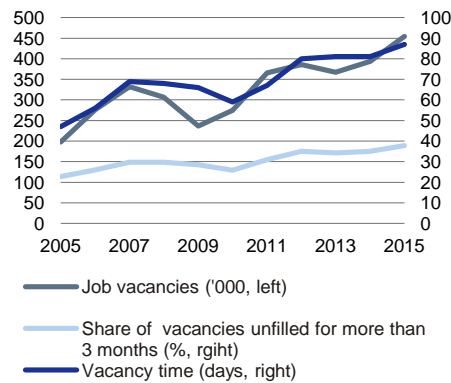
Standardised values (since 2008)



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

Tight labour market 10

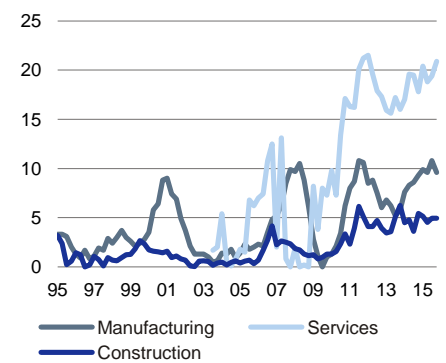
Number of registered openings subject to social security contributions



Source: Federal Employment Agency

Companies experience labour shortage 11

Labour shortage as limiting factor, share of companies, %

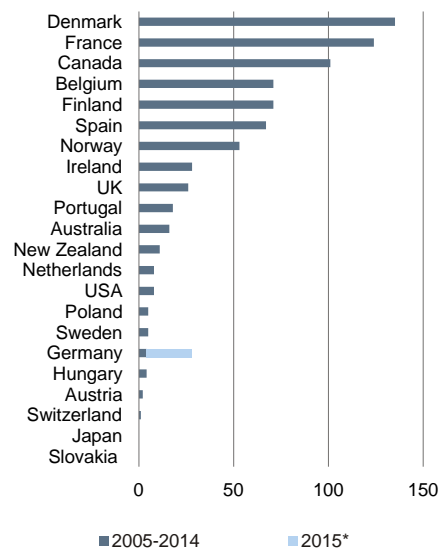


Source: EU Commission

In 2016 negotiated wages should also show robust growth given our macroeconomic and labour market outlook. German GDP growth is expected to grow slightly faster by 1.9% in 2016 (2015 1.7%). Employment growth might slow somewhat (+0.4% vs. 0.7%). Early indicators for the labour market also support expectations of solid labour demand. The ifo employment barometer and the PMI employment component are at or close to their highest levels since the post-crisis recovery phase 2010/11. The Federal Employment Agency's job index (BA-X) has enjoyed new all-time highs every month since mid-2014. Our expectation of a small uptick in the unemployment rate (6.5% vs. 6.4%) is solely driven by the difficult integration of the refugees into the German social security system and not by the underlying labour market environment.

Low number of strike days in Germany 12

Strike days per 1,000 employees, annual avg.

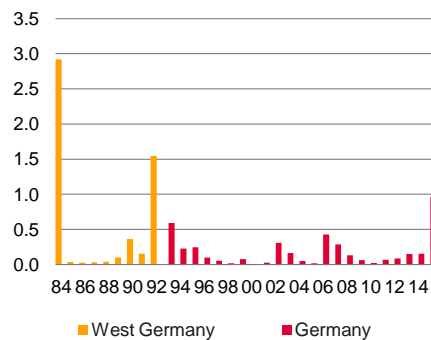


*Striked days 2015 estimate by IW Cologne

Sources: IW Köln, Deutsche Bank Research

2015 A surge in strike days 13

Mio. lost workdays due to labour strikes



2016: Estimate from IW Cologne based on employee and labour union data and press reports

Sources: Federal Employment Agency, IW Köln

Weak global trade to weigh on wages? 14

% yoy



Sources: Eurostat, Deutsche Bank Research, Federal Statistical Office

At the same time several indicators suggest that labour supply is getting increasingly scarce. Out of the about 450,000 reported job openings some 38% have been vacant for more than 3 months (2014: 35%; 2010: 26%; 2005: 23%). The vacancy time, thus, rose to 87 days (2014: 81; 2010: 59; 2005: 47). In the US it is 28 days. Also a large share of companies mentions labour supply as a restriction for their growth. According to a regular survey by the EU Commission the share in the construction, manufacturing and services sector are close to their historic highs. These factors point towards a solid negotiation position of employees / labour unions. This is also reflected in the substantially increased



willingness to strike. The number of days lost to strikes could have risen to 960,000 in 2015 – the highest since 1992. While this has been driven by the long strikes in the postal service and the social services, it could well be a sign of a less cooperative bargaining attitude on the unions' side. However, even based on the 2015 numbers, Germany only ranks in the middle of an international comparison.

On the other hand, the bargaining power of the labour unions might be weakened by the material uncertainty over the outlook for global trade, as world GDP growth will improve marginally at best in 2016. In addition, world trade has even underperformed moderate GDP growth in recent years. This has left its mark especially in German exports and could become more of an issue as the positive impetus from the strong EUR depreciation runs out in 2016. At the beginning of 2016 uncertainty has increased further. The financial market turbulences especially in China could be a sign of concerns over a potential "hard-landing" in China and demand from oil producers is likely to be weighed down further given the drag from the renewed oil price slump. This could affect foremost the mechanical and electrical engineering as well as the chemical sector, which together make up around 7% of total employment.¹²

Wage negotiations in selected* sectors

15

Sector	Expiry date	Wage demands	Result	Employees
Manufacturing (wood & plastic) (Lower Saxony/Bremen, Westphalia-Lippe, Hesse, Rhineland-Palatinate, Baden-Wuerttemberg, Bavaria, Saxony-Anhalt, Thuringia, Saxony)	December 31, 2015	5%, 12 months run time		174,300
Hotels and catering (Bavaria)	January 1, 2016			131,600
Civil service (federal and municipal level)	February 29, 2016			2,443,000
Metals and electrical engineering (west and east)	March 31, 2016			3,532,600
Printing	March 31, 2016			144,700
Construction	April 30, 2016			699,000
Banking (excl. cooperative banks)	April 30, 2016			235,500
Hotels and catering (North Rhine-Westphalia)	April 30, 2016			114,600
Painting and varnishing (excl. Saarland)	April 30, 2016			114,300
Volkswagen AG	May 31, 2016			110,000
Chemicals (North Rhine, Hesse, Rhineland-Palatinate)	July 31, 2016			234,000
Chemicals (Schleswig-Holstein, Hamburg, Lower Saxony, Bremen, Westphalia, Baden-Wuerttemberg, Bavaria, west Berlin)	August 31, 2016			268,300
Private transport (North Rhine-Westphalia)	August 31, 2016			151,100
Deutsche Bahn AG	September 30, 2016			134,000
Private transport (Bavaria)	September 30, 2016			111,100
Civil service (federal states, west and east)	December 31, 2016			899,600
Temporary employment (BAP)	December 31, 2016			465,000
Temporary employment (iGZ)	December 31, 2016			405,000

*Negotiations for more than 100,000 employees
Sources: WSI-Tarifarchiv, Deutsche Bank Research

¹² Heymann, E., Peters, H. (2015). German exports to oil-producing countries to decline in 2015. Current Issues. Deutsche Bank Research. 9 March 2015.



Our model overestimated wage growth in recent years

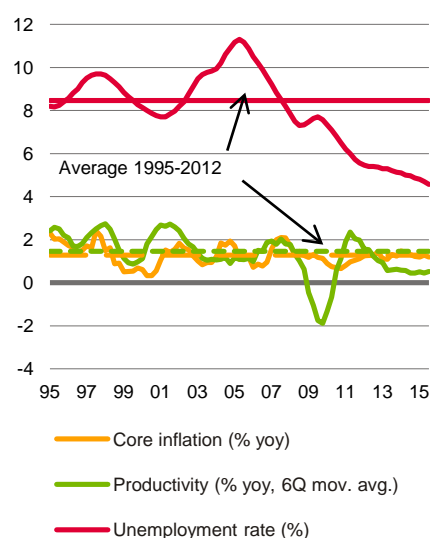
Our simple statistical model suggests wage growth of just below 3% in 2016 that could slow towards 2.7% in 2017. This model is based on the statistical relationship between wages and lagged core inflation, productivity growth and the current unemployment rate. In addition, there are dummies to correct for spikes in quarters when new wage settlements became effective in the metal sector. Given the size of this sector they result in a jump in wage growth in the total economy. However, over the last few years the model has systematically overestimated wage growth, weakening the good fit observed between 2004 and 2010. It is also noticeable that since early 2012 the model has produced forecasts with very low variance. This could be due to several (inter-connected) reasons.

Labour market environment structurally different

Wage determination might have structurally changed affecting the influence of the explanatory variables. The model's original estimation period is from 1995 to 2012. Thus, it also incorporates period of high structural unemployment, while the labour market is more recently characterized by very low and falling unemployment rates thanks in large part to labour market reforms in the early-2000s. Especially after 2009 the unemployment rate has fallen quickly and substantially below its historic average. This could have resulted in a too high weight for the (decline of the) unemployment rate and hence too high wage growth forecasts. Productivity growth has been very stable lately and has remained at a historically low level, which would actually result in lower wage growth predictions. Core inflation has not been unusually low in recent years, but also unusually stable.

In order to test whether there were structural changes we shorten the sample period from 1995-2012 to 2004-2012. This lowers the model error materially. A further improvement is achieved by extending the sample to 2015. The altered model gives us an average wage growth of 2.7% over the last four years – in line with actual growth rate. This supports our thesis from above.

Unemployment rate & productivity growth far away from historic average 16



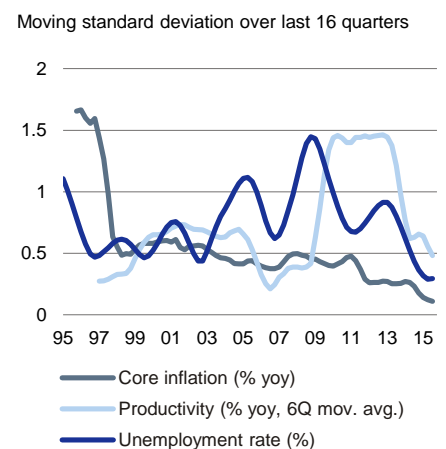
Sources: Federal Employment Agency, Federal Statistical Office, Deutsche Bank Research

Unemployment rate & wages: Drifting apart 17



Source: Federal Employment Agency, Bundesbank

Low volatility for all model factors at the same time 18

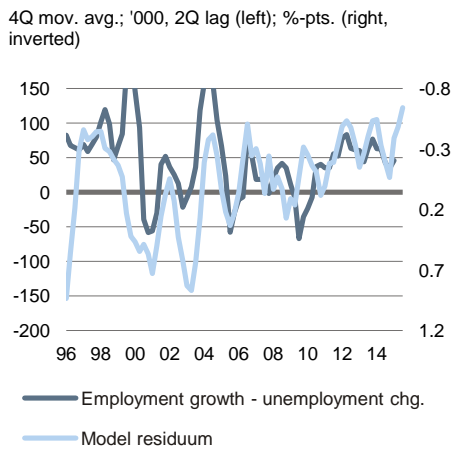


Sources: Federal Statistical Office, Federal Employment Agency, Deutsche Bank Research



Focus Germany

Tight correlation between model residuum and migration proxy lately **19**



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

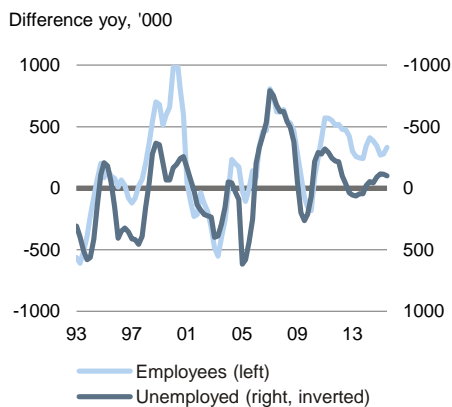
Unemployment rate: An incomplete gauge of labour shortage

Factors not included in the model could have gained influence. For instance, the unemployment rate is meant as a proxy for labour market shortages, but as we just described a substantial part of the decline was structural and not cyclical.

In addition, labour market reforms have induced a higher labour market participation rate. This statistically lowers the unemployment rate even if the number of unemployed remains unchanged. The strong migration inflow in recent years work in the same direction as a very large share of the migrants quickly took up work. The strong correlation between our model residuum and the difference between employment growth and unemployment decreases points into this direction.

To test this we incorporate the lagged change of the participation rate into the model. This also improves the model fit but only slightly. We will not incorporate the participation rate into our standard model. Given the lead of only two quarters we would have to forecast the participation rate. In addition, the positive influence on the model fit was concentrated in 2005-2008 when changes to the participation rate were strongest.

Net migration caused employment/unemployment disconnect **20**



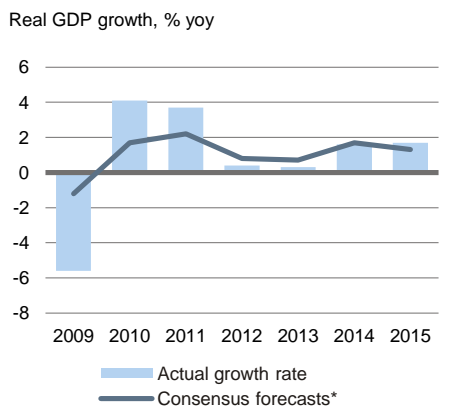
Sources: Federal Employment Agency, Federal Statistical Office, Deutsche Bank Research

Is uncertainty contributing to lower wage increases?

The years since 2009/10 have been marked by a high degree of uncertainty (and concerns) over global growth prospects. Especially for 2010 and 2011 consensus GDP forecasts for Germany were too pessimistic. But the economic cycle is just one aspect of the uncertainty of recent years. The euro crisis has resulted in material downside risks, although they only partially materialized in the end. This could have weighed on employees' and labour unions' bargaining power and hence resulted in lower wage growth.

There is not one definite measure of uncertainty. We have tested several options: i) The online search intensity for the German words crisis ("Krise") and euro crisis ("Euro-Krise") according to Google Trends. ii) A dummy variable for the euro crisis. iii) The VDAX, a measure of the volatility of the Dax. iv) The difference between the current business situation according to the ifo data and ifo business expectations two quarters before that. This gap has been much more volatile and larger in recent years. This implies that things turned out to be better than was expected given the multitude of risks. The ifo based measure improves the model fit slightly and we get a negative coefficient in our regression. Thus, the lower expectations were relative to the situation the lower wage growth turned out. This effect could be responsible for about a tenth of a percent of the models forecast error. While this variable improves the model only slightly, it still supports our hypothesis. Other measures of uncertainty did not improve the fit. We will not incorporate uncertainty measures into our model, since we would need to rely on (pretty uncertain) forecasts, given the small time lags. However, given current, heightened concerns over the global economy this could well have an impact on the 2016 wage round.

2010/11 rebound was underestimated **21**



* Consensus forecast for German GDP growth acc. to Consensus Economics, Nov/Dec of preceeding year

Sources: Federal Statistical Office, Consensus Economics

Strongly fluctuating inflation = material changes in distribution-neutral scope

In 2015 the model residuum was especially large with the model overestimating wage inflation. The gap between total and core inflation was also unusually large in 2014 and 2015. Our model incorporates lagged values of core inflation. Over the full data sample core inflation produces a better model fit compared to headline inflation. However, the massive drop of headline inflation from just below 2% in mid-2013 to around 0% in early-2015 could still have played a role. From the perspective of the respective wage negotiation partners it makes



sense to account for it as it effects real purchasing power but also employers' P&L (with the net effect probably varying from sector to sector). Using headline inflation instead of core inflation does, however, not improve the model fit.

Service sector employment has a smaller impact on overall wage growth

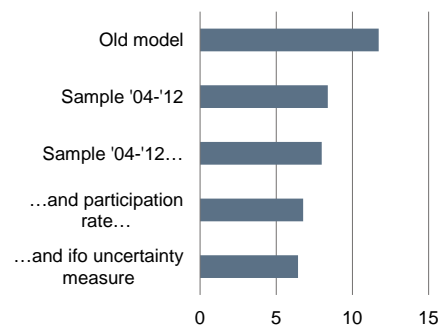
Employment gains over the last few years have been driven foremost by the services sector, where wages and wage gains are usually below average for the economy as a whole.¹³ This means that the composition of the German labour force has changed, which at least temporarily might have somewhat dampened wage. For instance, the employment share of business services rose from 10.8% at the end of 2004 to 13.4%, while that of the manufacturing fell from 18.6% to 17.5%. This development has been concentrated in the years before 2010. Therefore, it is unlikely to explain the weaker fit of the model in recent years.

As a proxy for the different business cycle positions of industry and services we incorporated the gap between the manufacturing and services PMI into the model. The results did not improve the model fit overall, though.

Forecast error declining

22

Sum squared residuals, 2004 Q1 - 2015 Q3



Source: Deutsche Bank Research

Minimum wage effect only partly accounted for in negotiated wages

Formal statistical test of the potential impact from the introduction of the minimum wage are extremely difficult. The impact could surface in a lot of different places across the wage/income data spectrum and is very hard to quantify given limited statistical data. It is also stretched over a longer time period as sector specific transitional minimum wages already started before 1 January 2015 and according to research from the Federal Employment Agency's research institute employers adjusted wages already in 2014 for new work contracts in many cases. For instance, in 2014 4.5% of all new jobs paid exactly EUR 8.50 per hour. No other hourly wage rate was fixed more often.¹⁴ Furthermore, wage agreements might already have adjusted wages for the lower income ladders in 2014 to prevent another adjustment step of wages in 2015.

These front loading effects related to the minimum wage could be one explanation for the relatively large residual in 2014, when the model pointed to 2.7% wage growth but actual growth amounted to 3.0%. In 2015, (2.4% vs. 2.8% forecast) could have been a countermovement to this development. This discrepancy could not be removed through the above mentioned model changes. However, these should not play any role anymore in the next years.

Wages: Model vs. actual data

23

Hourly negotiated wages, % yoy



Sources: Deutsche Bundesbank, Deutsche Bank Research

Wage growth: 2.7% in 2016, but lower in 2017

Our updated wage model points to an increase of negotiated wages of 2.7%. This is about in line with the forecasted and actual average over the last four years. Given our forecast for inflation to reach 1.3% only in 2015 and the strong downside risks to this forecast, German employees will again receive substantial real wage gains. The fundamental drivers remain the same: The relatively tight labour market strengthens workers bargaining power, while low productivity growth dampens.

¹³ Since 2004 wages in the total economy grew more strongly than in industry only in two years implying below average wage gains in services sectors.

¹⁴ Auswirkungen des Mindestlohns im Jahr 2015. Bossler, Mario (2016). Aktuelle Berichte 1/2016. Institut für Arbeitsmarkt- und Berufsforschung. 13 January 2016.



In 2017 wages might decelerate slightly to 2.5% based on our model. This is driven by the lagged impact of slowing core inflation (due to the lagged impact of lower oil prices) and the modest increase in the unemployment rate. The latter is driven by the gradual integration of refugees into the German unemployment insurance system. This increases labour supply at the lower end of the qualification spectrum and could slightly weaken employees bargaining position.

In sum, the labour market environment points to robust wage growth. Domestically driven growth should continue and keep labour demand high; normalizing inflation rates over the next two years could also add to employees bargaining power. This is also true for labour market regulation that has become more restrictive again lately. The regular adjustments of the minimum wage are also likely to be supportive. In addition, the minimum wage limits the wage dampening effect that would likely have been associated with the integration of the refugees into the labour market. From a macroeconomic perspective this is not a positive development as it is also likely going hand in hand with a limited uptake of work by the refugees.

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Labour market figures

24

	2014	2015	2015
	Change		'000 persons
	('000 persons, yoy)		
Population	337	580	81,563
Economically active population	279	184	44,914
Persons in employment	371	324	42,964
Self-employed	-62	-97	4,300
Employees	433	421	38,664
Employees subject to social security contributions*	490	633	30,851
Marginally employed persons*	10	-183	4,845
Unemployed persons (ILO)	-92	-140	1,950
Unemployment rate (ILO, %)	4.7	4.3	
Unemployed persons (national definitions)	-52	-104	2,795
Unemployment rate (national definition, %)	6.7	6.4	
Vacancies (IAB)**	144	28	1,039
Negotiated wages per hour (% yoy)*	3.0	2.4	
Effective wages per hour(% yoy)	2.1	2.5	
Hourly unit labour costs (% yoy)	1.7	1.6	
Hours worked per person in employment (% yoy)	0.3	0.4	
Hourly labour productivity (% yoy)	0.4	0.5	
Persons in employment (% yoy)	0.9	0.8	

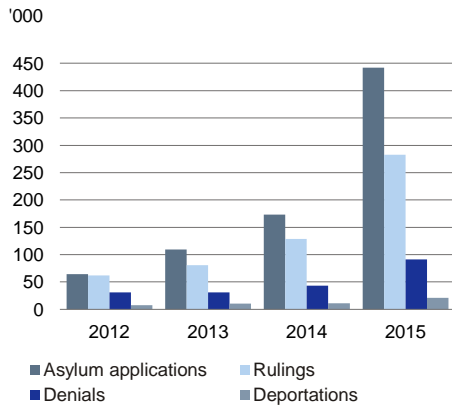
* Annual number based on incomplete data, ** Data for Q3

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



The view from Berlin

Official asylum applications & results of asylum procedures*

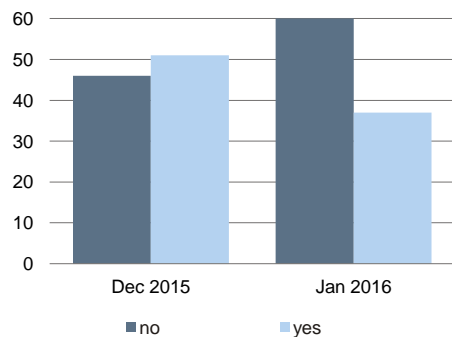


* It can take many weeks before refugees can file their application and much longer before decisions are made

Sources: BAMF, press reports

Increasing worries about the huge number of refugees

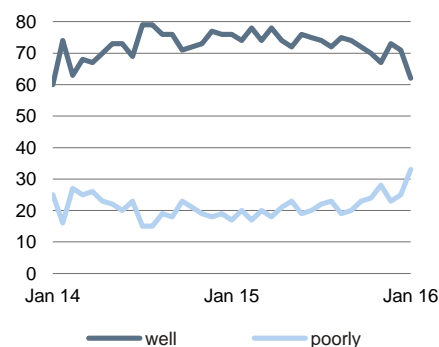
Question: Do you think Germany is able to cope with all the refugees immigrating at present, %



Source: Forschungsgruppe Wahlen: Politbarometer

Public assessment of the Federal government's general performance

Question: Do you think in general the Federal government is performing ... , % of respondents



Source: Forschungsgruppe Wahlen: Politbarometer

Merkel's asylum policy – time is crucial for success

Not surprisingly, asylum policy continues to grab the headlines in 2016 with commentators calling the Cologne New Year's events a turning point for Chancellor Merkel's liberal approach. But this is only partially true. Of course, public sentiment has changed. For the first time, a clear majority of 60% now think that Germany is unable to cope with the still rising number of refugees (about one million in 2015). And the approval rate for the chancellor's refugee policy has fallen from 47% in December to only 39% now, while 56% now argue that she is handling the issue poorly. However, public backing of her policy course had already started to weaken in the course of last autumn, forcing the federal government to slowly correct its open-door policy.

While the Cologne events played into the hands of the more critical factions of the CDU/CSU, they were a real blow to the SPD, which has remained reluctant to embark on the new course so far. Major factions of the SPD now support most of the more restrictive measures foreseen in the tabled legislative package and even demand action beyond that, e.g. an increase in police capabilities and easier deportation of refugees who commit crimes. SPD leader Gabriel stated that deportations should proceed faster and more efficiently. In fact, in contrast to the task incumbent upon them, several Länder (federal states) have only reluctantly used this instrument so far, but there are also legal barriers that will continue to prevent accelerated deportations.

While, content-wise, the governing partners CDU and SPD are not too far away from each other, the public bickering continues, mirroring the nervousness of the parties in the run-up to important state elections on March 13. The SPD is still blocking legislation for restrictions on family unification for refugees with subsidiary protection status only, as the CDU/CSU want to have Syrian refugees included. The internal quarrels in the CDU/CSU add fuel to the fire, with the Bavarian CSU insisting on upper limits to the influx of refugees, and in a recently published letter to Chancellor Merkel 41 CDU (+ 3 CSU) Bundestag MPs criticise the current asylum policy. Of course, this also reflects worries about a further strengthening of the populist AfD, which has successfully leveraged the Cologne events.

To regain the confidence of the sceptical public Merkel's modified approach has to result in declining refugee numbers. The federal government seems to be well aware of this. Besides its domestic action, though, the grand coalition relies on the measures that were decided on the European level last autumn. However, given the ailing support of EU partners in this regard, the European Commission is going to put forward new proposals in the course of March. With a number of countries under domestic pressure to close borders, the major target will be to preserve the passport-free Schengen area, i.e. enhance the management of the EU's external borders and speed up the establishment of additional hotspots for better registration of refugees in frontier countries. The respective fiscal resources could come from additional taxes, as has been proposed by German Finance Minister Schäuble – a wake-up call to European solidarity rather than a move to undermine Merkel's authority, as some observers have speculated.

The latest twist in the asylum policy debate is a proposal by influential circles of the CDU demanding amendments to the current legislation, e.g. registration camps at Germany's borders. This anticipates that Merkel's focus on solutions on the EU level will lack success, though the upcoming EU summit might produce some results. As determining the influx of refugees to Germany largely remains beyond Merkel's sphere of influence the risk to her leadership has increased.

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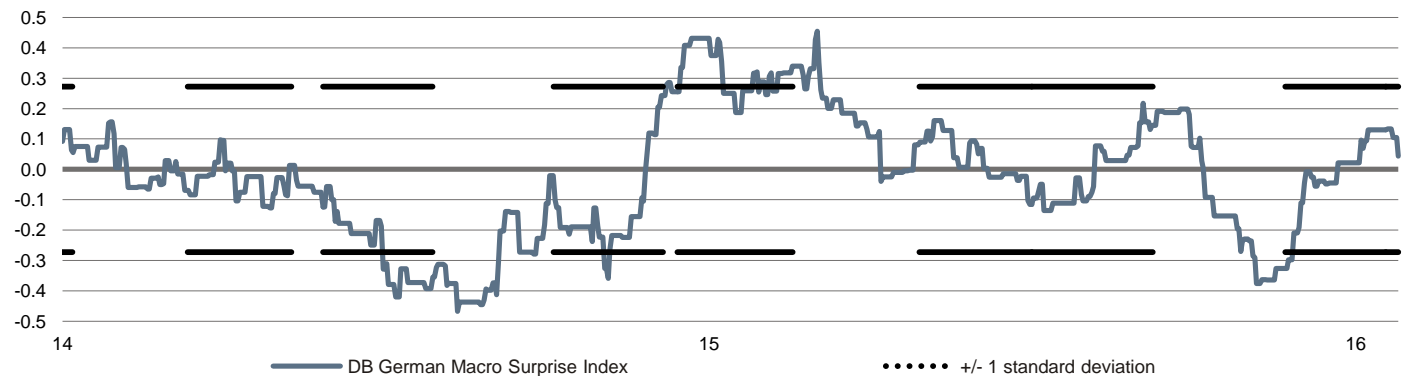
Focus Germany

DB German Macro Surprise Index

The DB German Macro Surprise Index compares published economic data with market forecasts and thus provides clues as to the direction of future forecast revisions.¹⁵

DB German Macro Surprise Index

Average of last 20 z-scores of data surprises



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

Sources: Bloomberg Finance LP, Deutsche Bank Research

Last 20 published economic data for Germany

Bloomberg Tickers	Indicator	Reporting month	Publication date	Current value	Bloomberg consensus	Surprise	Standardised surprise	Quantile rank
GRIPIMOM Index	Industrial production (% mom)	10 2015	07.12.15	0.5	0.8	-0.3	-0.2	0.4
GRCAEU Index	Current Account Balance (EUR bn)	10 2015	09.12.15	22.9	23.7	-0.8	-0.6	0.3
GRCP20YY Index	CPI (% yoy)	11 2015	11.12.15	0.4	0.4	0.0	0.3	0.3
GRZEWI Index	ZEW Survey Expectations	12 2015	15.12.15	16.1	15.0	1.1	0.1	0.6
GRZECURR Index	ZEW Survey Current Situation	12 2015	15.12.15	55.0	54.2	0.8	0.0	0.5
GRIFPBUS Index	Ifo Business Climate	12 2015	17.12.15	108.6	109.0	-0.4	-0.4	0.3
GRIMP95Y Index	Import Price Index (% yoy)	11 2015	22.12.15	-3.5	-3.7	0.2	0.5	0.8
MPMIDEMA Index	Markit Manufacturing PMI	12 2015	04.01.16	53.2	53.0	0.2	0.2	0.6
GRUECHNG Index	Unemployment Change (000's mom)	12 2015	05.01.16	-14.0	-8.0	6.0	0.0	0.5
MPMIDESAS Index	Markit Services PMI	12 2015	06.01.16	56.0	55.4	0.6	0.7	0.8
GRFRIAMM Index	Retail Sales (% mom)	11 2015	07.01.16	0.4	0.5	-0.1	0.2	0.6
GRIORTMM Index	Factory Orders (% mom)	11 2015	07.01.16	1.5	0.1	1.4	0.6	0.7
GRCAEU Index	Current Account Balance (EUR bn)	11 2015	08.01.16	24.7	21.0	3.7	0.8	0.8
GRIPIMOM Index	Industrial production (% mom)	11 2015	08.01.16	-0.3	0.5	-0.8	-0.6	0.2
GRCP20YY Index	CPI (% yoy)	12 2015	19.01.16	0.3	0.3	0.0	0.3	0.3
GRZEWI Index	ZEW Survey Expectations	1 2016	19.01.16	10.2	8.0	2.2	0.3	0.7
GRZECURR Index	ZEW Survey Current Situation	1 2016	19.01.16	59.7	53.1	6.6	0.8	0.8
MPMIDEMA Index	Markit Manufacturing PMI	1 2016	22.01.16	52.1	53.0	-0.9	-0.9	0.1
MPMIDESAS Index	Markit Services PMI	1 2016	22.01.16	55.4	55.5	-0.1	-0.1	0.5
GRIFPBUS Index	Ifo Business Climate	1 2016	25.01.16	107.3	108.4	-1.1	-1.0	0.1

Sources: Bloomberg Finance LP, Deutsche Bank Research

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¹⁵ See for details Focus Germany. August 4, 2014.



Focus Germany

Germany: Data calendar

Date	Time	Data	Reporting period	DB forecast	Last value
29 Jan 2016	8:00	Retail sales (Index, sa), pch mom	December	-0.2	0.4
2 Feb 2016	10:00	Unemployment rate (% , sa)	December	6.3	6.3
5 Feb 2016	8:00	New orders manufacturing (Index, sa), pch mom	December	-2.5	1.5
9 Feb 2016	8:00	Industrial production (Index, sa), pch mom	December	0.5	-0.3
9 Feb 2016	8:00	Trade balance (EUR bn, sa)	December	19.9	19.7
9 Feb 2016	8:00	Merchandise exports (EUR bn, sa), pch mom (yoy)	December	0.5 (2.6)	0.4 (5.0)
9 Feb 2016	8:00	Merchandise imports (EUR bn, sa), pch mom (yoy)	December	0.3 (4.6)	1.6 (3.5)
12 Feb 2015	8:00	Real GDP (Index, sa), % qoq	Q4 2015	0.3	0.3
22 Feb 2015	9:30	Manufacturing PMI (Flash)	February	52.3	52.1
22 Feb 2015	9:30	Services PMI (Flash)	December	55.2	55.4
23 Feb 2015	10:30	ifo business climate (Index, sa)	December	107.5	107.3

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

Financial forecasts

	US	JP	EMU	GB	CH	SE	DK	NO	PL	HU	CZ
Key interest rate, %											
Current	0.375	0.10	0.05	0.50	-0.75	-0.35	0.05	0.75	1.50	1.35	0.05
Mar 16	0.625	0.10	0.05	0.50	-0.75	-0.35	0.05	0.75	1.50	1.35	0.05
Sep 16	1.125	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	-0.16	0.59							
Mar 16	0.83	0.15	-0.15	0.61							
Sep 16	1.33	0.15	-0.15	0.89							
Dec 16	1.33	0.15	-0.15	0.91							
10Y government bonds yields, %											
Current	1.97	0.40	0.37	1.69							
Mar 16	2.00	0.30	0.55	1.80							
Sep 16	2.00	0.35	0.85	2.00							
Dec 16	1.75	0.40	1.10	2.20							

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	1.08	118.14	0.76	0.70	1.10	9.29	7.46	9.49	4.49	312.73	27.01
Mar 16	1.05	123.00	0.72	1.46	1.08	9.10	7.46	9.58	4.43	316.25	27.10
Sep 16	0.93	128.75	0.71	1.31	1.11	8.79	7.46	8.85	4.32	318.75	27.10
Dec 16	0.95	128.00	0.74	1.28	1.12	8.75	7.46	9.21	4.25	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	Aug 2015	Sep 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016
Business surveys and output											
Aggregate											
Ifo business climate	104.6	107.2	108.3	108.3	108.6	108.4	108.5	108.2	109.0	108.6	107.3
Ifo business expectations	100.4	102.7	102.8	102.7	104.4	102.2	103.3	103.9	104.8	104.6	102.4
Industry											
Ifo manufacturing	99.9	102.8	104.0	103.0	103.2	103.1	102.6	102.4	103.6	103.6	101.7
Headline IP (% pop)	0.8	0.5	0.2	-0.2		-0.6	-1.1	0.5	-0.3		
Orders (% pop)	1.6	-1.5	2.6	-2.7		-2.1	-0.7	1.7	1.5		
Capacity Utilisation	84.1	84.5	84.3	84.2	84.4						
Construction											
Output (% pop)	1.2	1.2	-0.7	-0.7		-0.2	1.1	2.5	2.3		
Orders (% pop)	-0.9	7.7	-4.6	0.2		0.0	7.2	-5.1	15.0		
Ifo construction	120.2	118.8	120.0	121.4	123.6	121.1	122.9	123.0	124.1	123.6	122.3
Consumer demand											
EC consumer survey	-1.2	1.0	3.0	-0.3	-4.4	0.7	-2.9	-4.6	-4.5	-4.2	
Retail sales (% pop)	1.4	1.6	-0.3	0.9		-0.3	0.2	-0.3	0.4		
New car reg. (% yoy)	2.7	6.4	4.2	6.1	5.7	6.2	4.8	1.1	8.9	7.7	
Foreign sector											
Foreign orders (% pop)	1.2	-3.2	5.1	-4.8		-1.7	-1.1	1.9	0.6		
Exports (% pop)	1.1	1.7	3.4	-0.7		-5.2	2.7	-1.3	0.4		
Imports (% pop)	0.6	1.9	1.4	1.1		-2.8	3.5	-3.2	1.6		
Net trade (sa EUR bn)	58.5	59.1	65.8	61.1		19.3	19.3	20.6	19.7		
Labour market											
Unemployment rate (%)	6.6	6.5	6.4	6.4	6.3	6.4	6.4	6.4	6.3	6.3	
Change in unemployment (k)	-38.3	-41.3	-26.0	0.7	-22.7	-8.0	1.0	-7.0	-14.0	-13.0	
Employment (% yoy)	0.8	0.6	0.7	0.8		0.8	0.9	0.9	1.0		
Ifo employment barometer	106.4	107.6	108.0	108.1	109.8	108.4	108.6	109.1	109.9	110.5	
Prices, wages and costs											
Prices											
Harmonised CPI (% yoy)	0.4	-0.2	0.3	0.0	0.2	0.1	-0.2	0.2	0.3	0.2	
Core HICP (% yoy)	1.1	1.0	1.1	1.0	1.2	1.1	1.1	1.4	1.2	1.0	
Harmonised PPI (% yoy)	-1.2	-2.0	-1.4	-1.7	-2.3	-1.7	-2.1	-2.3	-2.5	-2.3	
Commodities, ex. Energy (% yoy)	0.9	2.3	-0.5	-7.0	-12.0	-9.0	-9.6	-10.7	-12.3	-12.8	
Oil price (USD)	76.4	55.1	63.7	51.3		48.4	48.5	49.4	46.0		
Inflation expectations											
EC household survey	8.6	0.5	6.1	4.9	4.0	1.0	6.6	1.3	5.6	5.0	
EC industrial survey	2.1	-0.4	1.5	0.8	1.5	-0.1	0.5	1.8	2.1	0.6	
Unit labour cost (% yoy)											
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							
Money (% yoy)											
M3	4.9	7.4	7.6	8.2		7.3	8.2	8.6	9.3		
M3 trend (3m cma)						7.8	8.0	8.7			
Credit - private	1.7	2.6	2.1	2.5		2.9	2.5	2.7	2.9		
Credit - public	12.6	32.3	12.2	11.1		15.5	11.1	15.9	14.8		

% pop = % change this period over previous period.

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



Focus Germany

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

Date	Event	Remarks
11-12 Feb	Eurogroup and ECOFIN, Brussels	Debates on the Commission winter economic forecast, on growth and jobs – quality of public finances, banking union.
16 Feb	German Constitutional Court, Karlsruhe	Oral proceedings on the ECB's OMT. The court resumes its inquiry on OMT following the ECJ judgment from June 16, 2015. Final ruling to be expected within a couple of months.
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, debate on migration issues.
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	We now expect further monetary policy easing.
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	Refugee crisis likely to take centre stage.
15-17 Apr	Spring meetings of IMF and World Bank, Washington D.C.	Debates on the global economy, international development and the situation on global financial markets.
21 Apr	ECB Governing Council meeting, press conference	Review of the monetary policy stance.
22-23 Apr	Eurogroup and informal ECOFIN, Amsterdam	

Source: Deutsche Bank Research

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Printed by: HST Offsetdruck Schadt & Tetzlaff GbR, Dieburg

Print: ISSN 1612-314X / Internet/E-mail: ISSN 1612-3158