Deutsche Bank
DB Research

Current Issues
Business cycle

Focus Germany

Exuberance and fear

October 31, 2013

Authors
Bernhard Gräf
+49 69 910-31738
bernhard.graef@db.com

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

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

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

Editor
Stefan Schneider

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

www.dbresearch.com

DB Research Management
Ralf Hoffmann

Content Page

Labour market: Still picking up. Recently, the labour market has been marked by rising unemployment alongside a sustained increase in overall employment. The surprisingly strong increase in unemployment in September was reported by some newspapers as a "stalling German jobs miracle". However, the rise in unemployment was due to a one-off effect. Additionally, in our opinion, employment is the more meaningful indicator in this case since it reflects the direct demand for labour. The labour market upswing is therefore still intact. Leading indicators suggest that the increase in employment is likely to accelerate again towards year-end. We expect the number of persons in employment to rise by 230,000 to a record high of 42.3 million in 2014. The labour market has also improved in structural terms. The scale of atypical employment has decreased, and the reduction in full-time jobs subject to social security contributions has come to a standstill. Moreover, the numbers of fixed-term jobs and of low-paid jobs as primary occupation are also falling. The number of temporary (work) agency employees has been climbing since January but is still shy of its pre-year level.

New IAB labour market barometer: Useful but no replacement for ifo and PMI. In October the IAB released a new leading indicator for the short-term development of the labour market. In contrast to other leading indicators of the labour market the IAB index aims to forecast the change in the number of unemployed instead of the number of employed. With a value of 99.6 in October the IAB index points to an ongoing sideways movement of the labour market over the next few months, which is in line with our own expectation. The new index is a good predictor of the monthly changes in the number of unemployed, however, from a growth perspective employment is the more important indicator.

German house price increases in perspective. The increase in German house prices since 2008 has triggered concerns about the beginning of a housing boom. Our analysis of OECD house price cycles reveals that the current German upswing has been moderate so far compared to past German upswings and is one of the least pronounced among the cycles in OECD countries. We expect that real house prices continue to increase in Germany in the coming years, but that the formation of a bubble is rather unlikely thanks to no sign of excess in other relevant factors (e.g. labour market and credit growth). Moreover, institutional features (e.g. high capital requirements and early loan discharge fees) are stabilising factors. The demographic change and possible interventions of regulatory authorities and the government should also counteract an overheating of the housing market. In addition, affordability measures do not – despite several shortcomings – indicate the start of a speculative bubble. So far, we see the current real price increases as being a return to normal.

Economic forecasts

	Real GDP (% growth)			Consumer Prices* (% growth)			Current Account (% of GDP)			Fiscal Balance (% of GDP)		
	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Euroland	-0.2	1.2	1.4	1.5	1.4	1.5	1.8	1.4	1.3	-2.9	-2.4	-2.0
Germany	0.5	1.5	1.4	1.5	1.5	1.8	7.1	7.0	7.1	0.0	0.2	0.4
France	0.2	1.3	1.9	1.1	1.5	1.3	-1.7	-1.5	-1.3	-4.1	-3.3	-2.9
Italy	-1.7	0.6	0.5	1.5	1.5	1.5	0.6	1.3	1.8	-3.1	-2.9	-2.9
Spain	-1.5	0.5	1.3	1.7	1.1	1.2	1.2	1.5	1.8	-6.5	-5.3	-4.0
Netherlands	-1.1	0.4	1.2	2.8	1.8	1.8	12.8	11.7	12.3	-3.9	-3.3	-3.0
Belgium	0.1	1.2	1.6	1.2	1.4	1.6	-0.5	0.5	0.5	-3.0	-2.9	-2.7
Austria	0.4	1.4	1.8	2.1	1.7	1.8	3.2	3.5	3.5	-2.1	-1.8	-1.6
Finland	-1.0	0.9	1.5	2.4	2.0	1.9	-0.8	-0.4	0.7	-2.7	-1.8	-0.7
Greece	-4.3	0.8	2.0	-0.6	-0.4	0.0	0.0	1.0	2.0	-4.5	-3.4	-2.5
Portugal	-1.7	0.8	1.3	0.6	0.9	1.1	0.5	1.5	2.0	-5.4	-4.4	-3.3
Ireland	0.5	2.0	2.0	0.8	1.1	1.3	3.5	4.0	4.0	-7.4	-4.9	-2.8
UK	1.5	2.5	2.0	2.7	2.2	2.0	-3.5	-3.2	-2.8	-6.0	-4.8	-4.1
Denmark	0.2	1.8	1.5	0.7	1.5	1.9	6.3	6.1	6.0	-2.0	-1.8	-1.5
Norway	1.8	2.4	2.6	2.3	2.6	2.0	12.5	12.0	11.5	11.0	10.5	10.0
Sweden	0.7	2.3	2.5	0.1	1.1	2.0	6.5	6.0	6.0	-1.5	-1.0	0.5
Switzerland	1.9	2.0	2.0	-0.1	0.5	1.0	12.5	12.1	11.8	0.7	0.8	1.0
Czech Republic	-0.5	2.0	2.8	1.4	1.2	2.0	-0.6	-1.0	-2.5	-3.1	-2.7	-2.6
Hungary	0.4	1.1	1.7	1.9	1.9	3.1	1.2	0.6	0.2	-2.9	-2.9	-2.7
Poland	1.0	2.5	2.8	1.1	2.1	2.4	-1.0	-2.2	-2.8	-3.6	-3.3	-3.1
United States	1.8	3.2	3.5	1.7	2.6	2.3	-3.0	-3.1	-3.2	-3.8	-3.1	-2.0
Japan	1.8	1.0	1.2	0.2	2.7	1.5	1.6	2.9	3.8	-9.3	-7.4	-6.0
World	2.8	3.7	3.9	3.0	3.5	3.4						

*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

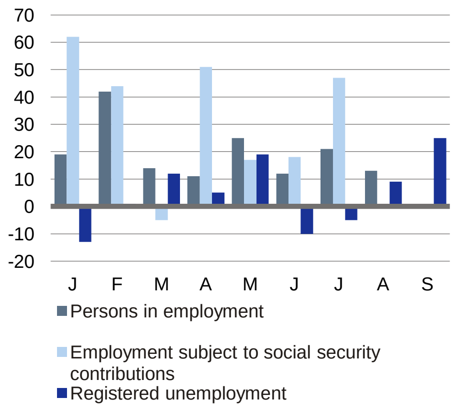
						2012				2013			
	2011	2012	2013F	2014F	2015F	Q1	Q2	Q3	Q4	Q1	Q2	Q3F	Q4F
Real GDP	3.3	0.7	0.5	1.5	1.4	0.7	-0.1	0.2	-0.5	0.0	0.7	0.3	0.3
Private consumption	2.3	0.8	0.9	1.0	0.8	0.0	0.0	0.3	0.1	0.2	0.5	0.4	0.3
Gov't expenditure	1.0	1.0	0.8	0.7	0.2	0.4	-0.5	0.6	0.1	0.1	0.6	0.1	0.1
Fixed investment	6.9	-2.1	-1.2	3.4	2.8	-0.4	-1.9	0.1	-0.6	-2.1	1.9	0.4	0.6
Investment in M&E	5.8	-4.0	-2.5	4.1	3.7	-0.4	-3.7	-0.6	-0.3	-2.1	0.9	0.5	1.0
Construction	7.8	-1.4	-1.1	2.2	2.5	-0.5	-1.0	0.5	-1.0	-2.2	2.6	0.3	0.3
Inventories, pp	-0.1	-0.5	0.2	0.0	0.0	-0.1	-0.1	-0.3	0.1	0.4	-0.1	-0.1	0.0
Exports	8.0	3.2	1.7	6.5	6.0	1.7	1.4	0.5	-1.6	-0.7	2.2	2.0	2.3
Imports	7.4	1.4	2.5	6.7	6.0	0.1	0.7	0.1	-0.9	-0.4	2.0	2.3	2.7
Net exports, pp	0.7	0.9	-0.2	0.3	0.5	0.8	0.4	0.3	-0.5	-0.2	0.2	0.0	0.0
Consumer prices*	2.1	2.0	1.5	1.5	1.8	2.1	1.9	2.0	2.0	1.5	1.5	1.6	1.5
Unemployment rate, %	7.1	6.8	6.9	6.7	6.6	6.8	6.8	6.8	6.9	6.9	6.8	6.8	6.9
Budget balance, % GDP	-0.8	0.1	0.0	0.2	0.4								
Balance on current account, % GDP	6.2	7.0	7.1	7.0	7.1								

*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, DB Research

Labour market: Still picking up

Labour market performance in 2013 | 1

Change (mom, sa, '000)



Sources: BA, Federal Statistical Office

— Recently, the labour market has been marked by rising unemployment alongside a sustained increase in overall employment.

— In our opinion, employment is the more meaningful indicator in this case since it reflects the direct demand for labour.

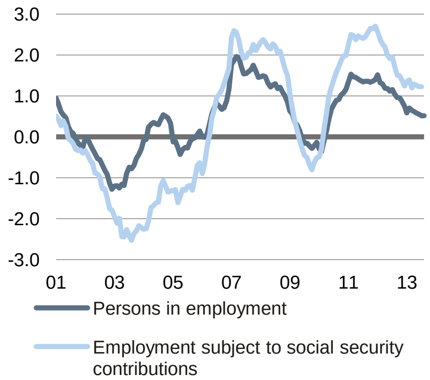
— The labour market upswing is therefore still intact. Leading indicators suggest that the increase in employment is likely to accelerate again towards year-end. We expect the number of persons in employment to rise by 230,000 in 2014, to a record high of 42.3 million, and the unemployment rate to fall from 6.9% to 6.7%.

— The labour market has also improved in structural terms. The scale of atypical employment has decreased, and the reduction in full-time jobs subject to social security contributions has come to a standstill. Moreover, the numbers of fixed-term jobs and of low-paid jobs as primary occupation are also falling. The number of temporary (work) agency employees has been climbing since January but is still shy of its pre-year level.

Number of unemployed rose surprisingly strong in September

Employment | 2

% yoy



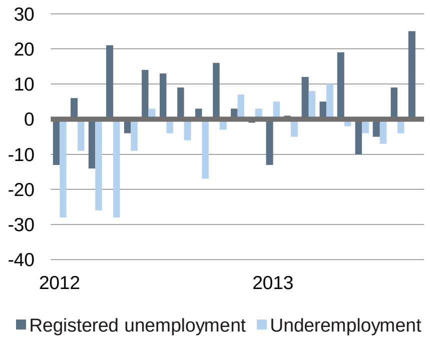
Sources: BA, Federal Statistical Office

The Federal Employment Agency (BA) announcement of a seasonally-adjusted 25,000-person increase in the number of the unemployed in September disappointed the media. In fact, some newspapers reported talk of a "stalling German jobs miracle", and that the "euro crisis was now becoming tangible". By contrast, the report that the number of persons in employment in Germany had increased further and that the number of employees in jobs subject to social security contributions had grown by no less than 47,000 in July caused little stir – at least in the headlines. Such an increase really cannot be called a "stalling German jobs miracle". Rising unemployment alongside a sustained increase in overall employment – a major heading in the BA's monthly report for September – is not a rare phenomenon. In the last 4 years such a pattern was to be seen in nearly one-third of all the months, and in the current year in seven months of the first ten as unemployment increased by 2,000 in October. How can this be explained? Which labour market indicators should be focused on in particular, and how is the situation going to continue? The following report shall seek to answer these questions.

Employment trend is the more meaningful indicator

Unemployment & underemployment | 3

Change (mom, sa, '000)



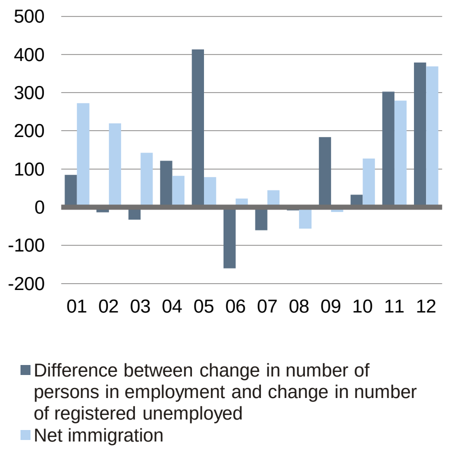
Source: Federal Employment Agency

The trend in the number of the unemployed, and the unemployment rate in particular, is no doubt an important indicator in analyses of labour market performance. However, we believe that the employment trend is the more meaningful indicator because it reflects the direct demand for labour and shows little distortions from labour market policy, something which played a key role in the unemployment trend especially in September.

For this reason we consider the current trend in the labour market – despite the recent jump in unemployment – to still be robust and the upswing intact. The first seven months of 2013 saw the creation of some 234,000 new jobs subject to social security contributions, whereas the whole of 2012 saw only 326,000. All the same, the momentum of employment growth has weakened. This mainly reflects the sluggish winter half, with real GDP shrinking by 0.5% in Q4 2012 and flatlining in Q1 2013. Since the number of those employed in jobs subject to social security contributions was still nearly 2% higher in September 2012 than one year earlier, the year-on-year increase in September 2013 came to only

Labour market and immigration 4

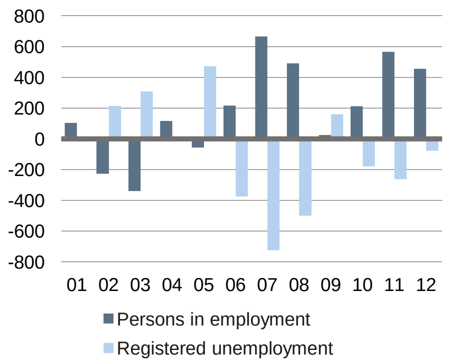
('000)



Sources: Federal Employment Agency, Federal Statistical Office

Persons in employment & registered unemployed 5

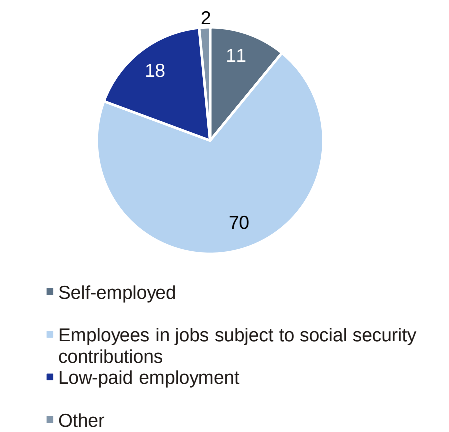
Change (yoy, sa, '000)



Sources: Federal Employment Agency, Federal Statistical Office

Labour market 2012 6

Share of persons in employment (%)
2012 total: 41.6 m



Sources: Federal Employment Agency, Federal Statistical Office

1.2%. However, this employment growth is nonetheless a notable success. By comparison, the average increase in the past 12 ½ years was merely a trifle less than ½%.

The pronounced increase in unemployment in September was mainly attributable to a lesser volume of policy relief especially in the area of promotion for the self-employed. Thus, the BA's yardstick of underemployment, which not only factors in the unemployed but also persons in some type of labour-market relief programme or suffering from a short-term disability and hence takes account of policy changes, remained constant in September in seasonally-adjusted terms. According to the BA definition, 3.903 million persons were underemployed in September, as in August, on a seasonally-adjusted basis, with 2.975 million of this number registered as unemployed.

Rising unemployment alongside a sustained increase in employment – how is that possible?

The divergence between the unemployment and employment developments is surprising at first glance, since an increase in employment ought to be reflected in less unemployment. However, the differing performance can be explained by immigration to Germany and the development of the participation rate. It emerges that the profiles and/or qualifications of the unemployed are often a poor match for companies' demand for labour, as is impressively indicated by the roughly 430,000 job vacancies currently on record. Moreover, the companies not only have access to the labour offered by the registered unemployed but also – and this holds for the past two years in particular – by immigrants. In the crisis years 2008 and 2009 a net total of around 70,000 persons emigrated from Germany. Since then, the inflow of migrants has increased again considerably, with a net total of nearly 280,000 persons in 2011 and in fact almost 370,000 persons in 2012. In these two years these flows nearly exactly equalled the discrepancy between the change in the number of unemployed and the change in employment.[1] On average, the number of the unemployed fell by 262,000 in 2011, while the number of persons in employment increased by 555,000, and in 2012 the number of unemployed declined by 77,000, while the number of those in employment increased by 456,000. Moreover, those workers newly entering the domestic labour market are also available to companies seeking recruits. In this respect, not only demographic factors – such as baby-boom years – but also societal trends – such as a higher female labour participation rate – may play a key role. The labour force participation rate, i.e. the share of persons available to the labour market in relation to the total population, has increased since the mid-1990s, from around 50% to 53.6% at present.

Encouraging structural changes in employment trend

The German labour market not only managed to endure the global economic crisis of 2008/09 without sustaining any appreciable damage. The structure of the employment trend also developed encouragingly. As the global economy slowed down in 2012, especially because of the repercussions of the sovereign debt crisis in Europe, Germany barely scraped its way past a technical recession in the 2012/13 winter half. As a result, the employment uptrend also lost momentum. However, the number of persons in employment still exceeds

[1] At first glance this implies that all immigrants actually found a job, which is no doubt not exactly right, as in this case the flows in and out of unemployment would have to be examined more closely. However, this paints a very impressive picture of the huge importance of immigration for the German labour market.

the year-earlier level by 0.5%, or 215,000, and is now at a record high of 41.9 m.

The historically high level of employment is rarely celebrated as a success, though, but indeed is often called into question by the assertion that the additional jobs are primarily in the atypical segment and are mainly precarious forms of employment in the low-wage segment.

Atypical employment has fallen since 2011

The following analysis of the structure of the labour market shows that its constitution has improved considerably since the labour market reforms of the mid-2000s. The number of persons in jobs subject to social security contributions increased more noticeably between 2005 and 2012 at 2.8 million than the number of employees as a whole (2.5 million) and not, as is often asserted, the number of those in atypical employment (see table in appendix). Some 2/3 of the jobs additionally created between 2005 and 2012 are in the area of regular employment. In 2011 and 2012, regular employment grew again as a percentage of all dependent employment and remains the most typical form of employment with a share of over 75%. In 2012 the number in atypical employment in fact declined across all of the constituent groups.

By contrast, the number of unemployed has decreased substantially since 2005, by 2 million persons, and in this total the figure for the long-term unemployed has fallen by 600,000.

The structure of the labour market is probably going to improve again in the current year.[2] The share of atypical employment is poised to decline further.

Reduction of full-time jobs has come to a standstill

Part-time work – by far the biggest group under atypical employment – continued to rise in H1 2013 as it had already done before in 2011 and 2012, but the number of full-time jobs has increased at a faster pace, so the share of full-time jobs is likely to pick up moderately in the current year as a whole. The decades-long trend of a disproportionately strong rise in part-time employment driven by the marked increase in the female labour participation rate has thus come to a standstill, with the downtrend in full-time jobs having already stopped back in 2007. In many cases, part-time employment with a small number of working hours is the job form of choice particularly for women if they have several children or have to look after household members requiring long-term care.

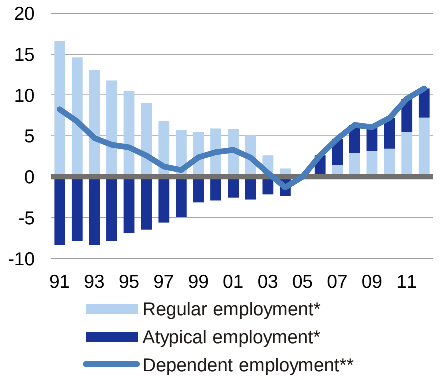
Decline in fixed-term jobs and in low-paid employment as primary occupation

The share of fixed-term employment has been on the decline especially among younger workers aged 15 to 24 since 2011. In the first half of 2013 the share of those on a fixed-term contract was down slightly, at 13.6%, on the year-earlier reading. There was a more pronounced decline in fixed-term contracts among younger employees, whose reading of 52.7% was 1 pp lower than one year

[2] Data on the atypical employment trend is published annually by the Federal Statistical Office on the basis of the microcensus. However, to analyse the groups constituting atypical employment during the year it is possible to obtain monthly and quarterly data from the Federal Employment Agency (BA), Eurostat and the IAB. While the database differs and the groups are in some cases defined in slightly differing terms, the data nonetheless paint a relatively good picture of the trends in the course of a year.

Mainly more regular employment since mid-2000 — 7

%, percentage points

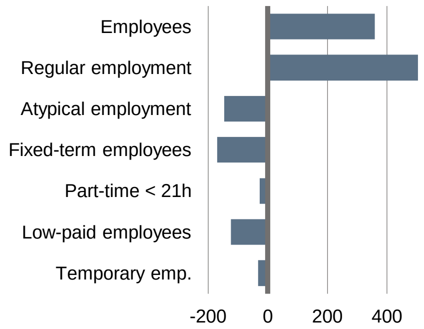


*Growth contribution of differing forms of employment in pp
**Change in dependent employment versus 2005 (%)

Sources: Federal Statistical Office, DB Research

Atypical employment fell across all groups in 2012 — 8

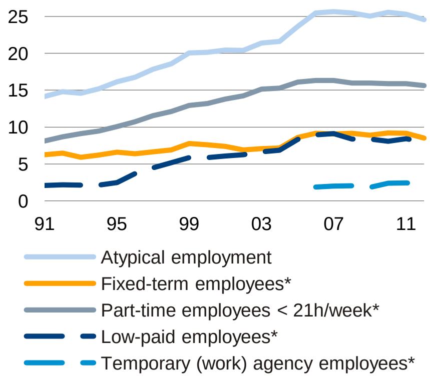
Change year-on-year ('000), 2012



Sources: Federal Statistical Office, DB Research

Share of atypical employment down since 2011 — 9

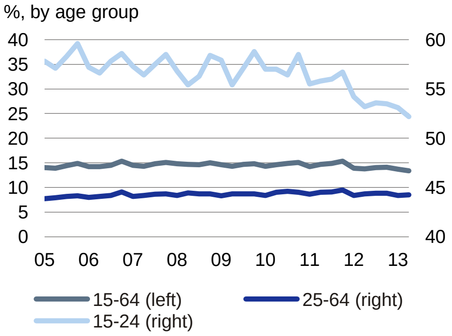
% of all persons in employment



* Overlaps between the groups

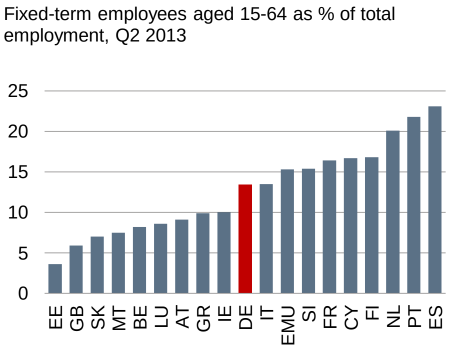
Sources: Federal Statistical Office, DB Research

Decline in fixed-term employment in Germany 10



Source: Eurostat

Fixed-term employment in Germany below EMU average 11



Source: Eurostat

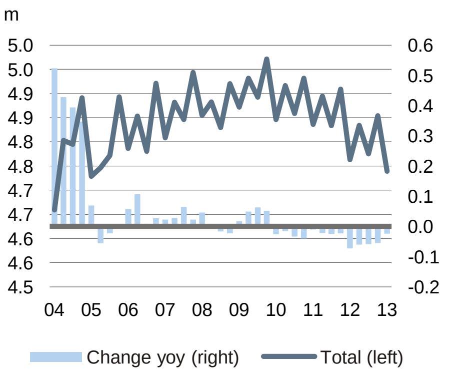
earlier. At the end of 2010 this share still came to 58.5%. The share of fixed-term contracts in Germany on the whole is less than the eurozone average. Spain, Portugal and the Netherlands report the highest shares, at 20% to 23%, while among the large industrial countries the UK in particular has one of the lowest shares at just barely 6%.

Thanks to the relatively good state of the labour market the number of those in low-paid jobs as their primary occupation – currently some 4.8 m persons – has been trending down since 2010. By contrast, the number of those in low-paid employment as a side job – currently about 2.6 million persons – is continuing to increase slightly on the year. This is probably due to the tax incentives for these minijobs and will perhaps partly lead to a crowding-out of jobs subject to social security contributions, although this is likely to remain within limits.[3] One-quarter of those in low-paid employment as their primary occupation responding to a survey conducted by the Federal Statistical Office and the Federal Employment Agency said they wanted to work more, but could not do so because of personal or family circumstances. The cohort of those in low-paid employment as their primary occupation mainly breaks down into 4 groups of persons: stay-at-home spouses with a share of 35%, pensioners with 22%, school pupils and students with 20%, and unemployed at 11%.[4]

Number of temporary (work) agency employees still down on the year

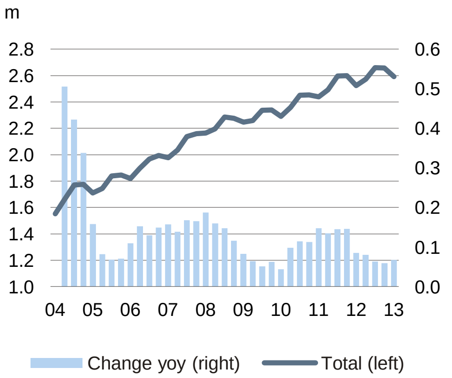
In a year-on-year comparison the number of temporary (work) agency employees is still down on the year-earlier reading owing to the slowdown in H2 2012; however, it has been rising again since the start of the year and probably totalled around 880,000 in July. This is equal to roughly 3% of those in jobs subject to social security contributions. While temporary employees are exposed to greater adjustment burdens across the economic cycle, temping enables many unemployed persons to (re-)enter the labour market in the first place. Before taking up temporary work, more than half of these people had been unemployed and 20% had either been long-term unemployed or had never held a job.

Low-paid employment as primary occupation 12



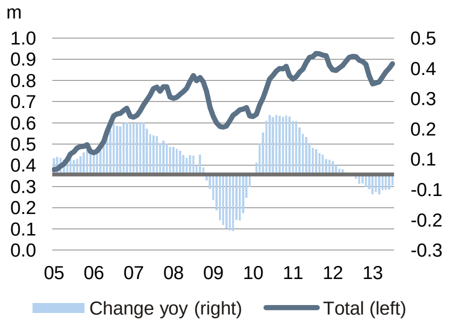
Source: Federal Employment Agency

Low-paid employment as side job 13



Source: Federal Employment Agency

Temporary (work) agency employees 14



From January 2013 extrapolated to reflect number of employees in temporary jobs subject to social security contributions

Source: Federal Employment Agency, DB Reserach

[3] See Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (2012). Stabile Architektur für Europa – Handlungsbedarf im Inland, Jahresgutachten 2012/13.

[4] See Körner, T., Meinken, H., Puch, K. (2013). Wer sind die ausschließlich geringfügig Beschäftigten? Eine Analyse nach sozialer Lebenslage. In: Wirtschaft und Statistik. Federal Statistical Office. January 2013.

What happens next?

At the moment the weak economic performance in the winter half of 2012/13 is still weighing on labour market performance. After the strong expansion of economic activity in Q2 (+0.7% qoq) that was partly driven by weather-induced special effects, we expect the recovery to continue on the back of an improving global economy and robust demand at home. On an annual average we look for GDP expansion of 0.5% this year and 1.5% in 2014.

This means that the employment momentum is likely to be reinforced towards year-end and unemployment is likely to fall. This assessment is supported by the improvement of the leading indicators (PMI employment component and the Ifo Employment Barometer), which have a time lead of 4 months.

On an annual average, employment is set to increase by roughly 240,000 in 2013 and then again by about 230,000 in 2014 to a record high of 42.3 million. After a slight increase in unemployment of about 40,000 in 2013 this reading is poised to decline again by 80,000 in 2014, to 2.8 million, and thus hit the lowest level since German unification. The unemployment rate will probably ease to 6.7% in 2014 on average, down from 6.9% in 2013. Given the good labour market performance, the necessity of active labour market policy is continuing to decline.

Bernhard Gräf (+49 69 910-31738, bernhard.graef@db.com)
Heiko Peters (+49 69 910-21548, heiko.peters@db.com)

Positive labour market performance since mid-2000 15

Million	2005	2012	Change
Population	82.5	81.9	-0.5
Economically active population	43.4	43.9	0.4
Unemployed persons	4.6	2.3	-2.3
Persons in employment	38.9	41.5	2.7
Self-employed including family workers	4.4	4.5	0.1
Employees	34.5	37.0	2.5
- Part-time employment	11.2	12.8	1.5
Selected groups			
Employment in jobs subject to social security contributions *	26.2	29.0	2.8
-Temporary employment (%) *	1.6	2.7	
Low-paid jobs not subject to social security contributions *	6.8	7.4	0.7
- Low-paid jobs as a side job *	1.9	2.6	0.7
- Low-paid jobs as primary occupation (%) *	4.9	4.8	0.0
Registered unemployment	4.9	2.9	-2.0
- Long-term unemployed	1.6	1.0	-0.6
- Short-term unemployed	3.3	1.9	-1.4
Underemployment (excluding short time work)	6.1	3.9	-2.2

*) June
Sources: Federal Statistical Office, Federal Employment Agency, DB Research

New IAB labour market barometer: Useful but no replacement for ifo and PMI

— In October the research institute of the German Federal Employment Agency (IAB) released a new leading indicator for the short-term development of the labour market. The index is based on a survey of the CEO's of the Federal Employment Agency's regional offices.

— In contrast to other leading indicators of the labour market (ifo employment barometer and the employment component of the composite PMI) the IAB index aims to forecast the change in the number of unemployed instead of the number of employed. In the future the index will be released towards the end of each month around two days before the offical labour market report.

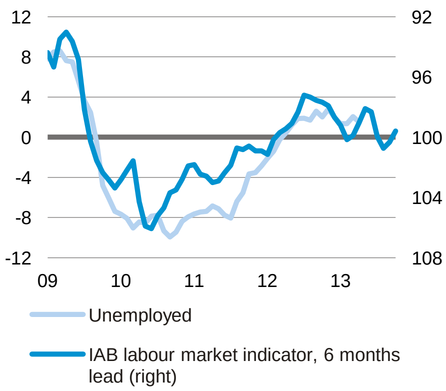
— With a value of 99.6 in October the IAB index points to an ongoing sideways movement of the labour market over the next few months, which is in line with our own expectation.

— The new index is a good predictor of the monthly changes in the number of unemployed as it is better at incorporating e.g. one-off developments due to the broader set of information from the regional agencies. However, from a growth perspective employment is the more important indicator, which the IAB index is naturally less informative on. Therefore, the IAB barometer is a good additional information source, but it cannot replace the ifo or the PMI.

With its new IAB labour market barometer the Research Institute of the Federal Employment Agency (IAB) provides a further leading indicator of the German labour market.[5] The index will be released once a month about two days before the release of the official labour market report from the Federal Employment Agency and is supposed to describe the development of unemployment numbers over the next three months. The crucial difference to existing indicators is that the IAB barometer aims at the number of unemployed not the number of employed. The most common and useful indicators for employment are probably the ifo employment barometer and the employment component of the PMI composite index.

IAB labour market indicator points to stable unemployment 1

% yoy (left); Index, invertet (right)



Sources: IAB, , Federal Employment Agency

Labour market indicator with value added

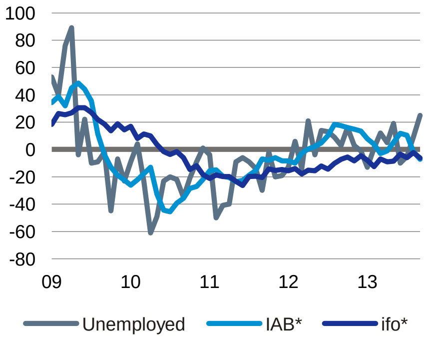
All of the more than 150 CEOs of the regional employment agencies are surveyed for the index and asked how unemployment will change in their own district over the next three months (discounting seasonal effects). The possible answers are: "much more", "more", "same", "less" and "much less". The answers are translated into an index with a value of 100 pointing to an unchanged number of unemployed. Numbers above 100 signal a decline in unemployment. All CEOs are required to fill out the survey. However, the survey has only started in November 2008 limiting the data availability and in addition the time period is heavily influenced by the effects from the financial and sovereign debt crisis.

According to the IAB advantages of the new index are, for example, better at capturing the local situation and local information. For instance, the regional agencies are in regular contact with local companies as well as chambers of crafts and commerce. Larger firm closures or establishments should, therefore, be captured. However, these should also be reflected in the employment

[5] See Hutter, Christian, Enzo Weber, Katrin Schmidt und Silke Delfs (2013). Neuer Frühindikator für die Entwicklung der Arbeitslosigkeit: Startschuss für das IAB-Arbeitsmarktbarometer. IAB-Kurzbericht, 20/2013. or Hutter, Christian und Enzo Weber (2013). Constructing a New Leading Indicator for Unemployment from a Survey among German Employment Agencies. IAB-Discussion Paper Nr. 17. Nürnberg.

Forecasts: IAB index better than ifo 2

Change, mom, ths.

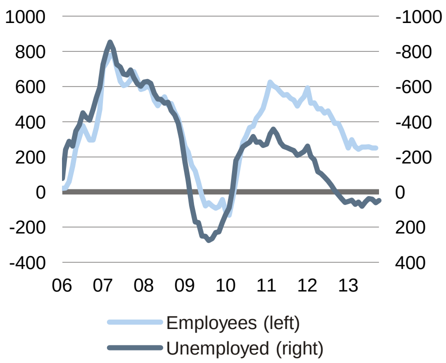


* Simple linear regression of the unemployment change based on the respective labour market index. Indices have a lead of one and two months.

Sources: ifo, IAB, Federal Employment Agency

Disconnect between employment and unemployment since 2010 3

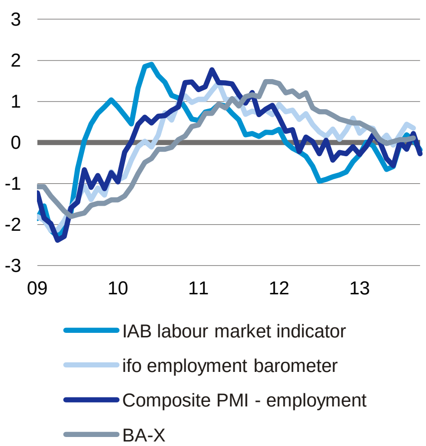
Ths. yoy



Sources: Federal Statistical Office, Federal Employment Agency

Labour market indicators: No fundamentally different message 4

Standardised values



Sources: ifo, IAB, Markit, Federal Employment Agency

intentions (ifo/PMI). Thus, the more important value added from the indicator compared to employment indicators could be that it better captures one-off developments such as the end of labour market programmes that produce an increase in unemployment in one month. In addition, people becoming unemployed have to report to the unemployment agency at least three months before the actual end of their employment in order to get the full set of benefits. This can allow the indicator to lead the actual change in unemployment.

High forecast quality for monthly unemployment numbers

The release of the official monthly labour market report often produces surprises. For instance, the end of labour market programmes lead to a large one-off increases of 25 ths. in September compared to a decrease of 5 ths. as forecasted by analysts on average. A simple forecast based on the new IAB index has not strongly outperformed relative to existing indicators in this instance. However, over the existing time period the indicator has a lead of about a month and can explain around 67% of the variance in the number of unemployed (chart 2). For the ifo index the number is much lower at 32% and for the PMI it is 44% (both with a lead of two months). Thus, the new IAB labour market barometer has an appreciable value added for this specific task.

Less relevance for business cycle analysis

For the business cycle analysis employment is (currently) the better indicator. Due to high net immigration and rising participation rates for the elderly and women there exists a discrepancy between the changes in employment and unemployment currently. For example, the number of employed is about 250 ths. higher than a year ago, while the number of unemployment is also up by around 50 ths., which paints a more negative picture. The impetus for income and value added provided by rising employment strongly outweighs the negative impetus suggested by somewhat higher unemployment.

Given the construction and the purpose of the new index it is generally less well suited to forecast the change in employment compared to the ifo employment barometer and the PMI employment component. For these indices companies are asked for their employment intentions. The PMI is able to explain about 80% of the changes in employment on a monthly basis, while the explanatory power of the IAB barometer and the ifo index are only about half as large.

Irrespective of the specific forecast quality for the monthly changes in employment and unemployment all indicators currently suggest ongoing stability on the German labour market with some modest upward tendencies over the next months in some cases. The IAB provides a further valid index on the labour market that supports this expectation.

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

German house price increases in perspective

— The increase in German house prices since 2008 has triggered concerns about the beginning of a housing boom.

— Our analysis of OECD house price cycles reveals that the current German upswing has been moderate so far compared to past German upswings and is one of the least pronounced among the cycles in OECD countries.

— We expect that real house prices could continue to increase in Germany in the coming years, but that the formation of a bubble is rather unlikely thanks to no sign of excess in other relevant factors (e.g. labour market and credit growth). Moreover, institutional features (e.g. high capital requirements and early loan discharge fees) are stabilising factors. The demographic change and possible interventions of regulatory authorities and the government should also counteract an overheating of the housing market. In addition, affordability measures do not – despite several shortcomings – indicate the start of a speculative bubble. So far, we see the current real price increases as being a return to normal.

Higher German house prices since the beginning of 2008, especially in major metropolitan areas[6], have triggered concerns about the beginning of a housing boom, not least given recent developments in countries such as the United States, Spain and Ireland. Indeed, the conditions necessary for a boom are currently in place: historically low interest rates, concerns about rising inflation, and low housing valuations compared to other countries.

However, as our following analysis of OECD house price cycles reveals, current German house price increases – 1.7% per year in real terms since 2008 – have so far not only been moderate compared to the evidence on record in Germany, but also far less pronounced than cycles in other OECD countries. However, while these comparisons help to put the status quo of the German cycle into perspective, they cannot predict future developments.

Although we expect real price increases to continue in the coming years, we still consider the formation of a bubble in Germany unlikely due to little sign of excess in the economy and due to particular institutional features, demographic change and possible interventions of regulatory authorities and the government. The price increases seen in the current upswing have to be interpreted so far as a return to normal.[7]

Identification of house price cycles

To identify house price cycles we use a relatively simple and straightforward approach.[8] A house price upswing is defined as at least six consecutive quarters of increases between trough and peak, irrespective of the magnitude. By

---

[6] According to Deutsche Bundesbank calculations, house prices in major metropolitan areas could be overvalued by 10% compared to the level that can be explained by demographic and economic factors alone. In the attractive large German cities the upward deviations are as high as 20% in some cases. See Deutsche Bundesbank (2013). Die Preissteigerungen bei Wohnimmobilien seit dem Jahr 2010: Einflussfaktoren und regionale Abhängigkeiten. Monthly Report October 2013.

[7] See also Focus Germany: GDP forecast: Uptick in Q1, slippage in Q2. April 2013. Focus Germany: Gradual improvement in 2013. January 2013. Focus Germany: German business cycle at the turning point? December 2013. Focus Germany: A giant leap or the “Hopping procession of Echternach”? October 2012. Global Economic Perspectives: Euro area property prices: Germany versus the rest. June 2012.

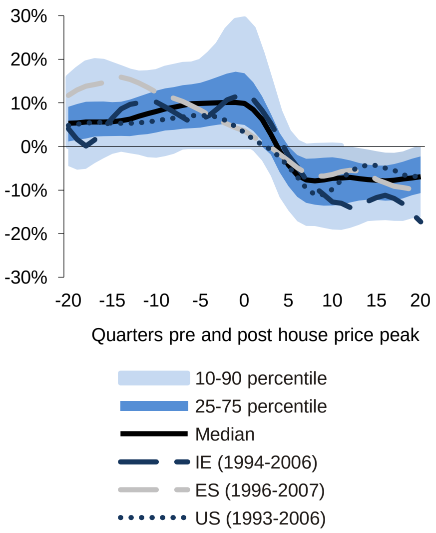
[8] See Harding, D. (2003). Towards an econometric foundation for turning point based analysis of dynamic processes, Yale PhD dissertation, Chapter 4; Cunningham, R.; Kolet, I. (2007). Housing Market Cycles and Duration Dependence in the United States and Canada. Bank of Canada Working Paper 2007-2.

contrast, a downswing is defined as at least six quarters of falling prices in a row between peak and trough. Using the OECD house price sample we analyse quarterly price indices of 27 industrialised countries going back to 1970.[9] Applying our identification method, our sample includes 92 upswings and 74 downswings.

Since we are specifically interested in the economic developments in the more extreme, boom-and-bust housing cycles, we split our sample further. To delineate between normal and boom-bust cycles we use the median price increase of all upswing periods (6.9% per year). We define price increases below the median as normal and price increases above the median as a boom.

Real house price growth (boom-bust sample) 1

Annualised qoq rates



Sources: OECD, DB Research

Size and duration of international house price cycle

International house price cycles reveal interesting differences between boom-bust periods and normal cycles. Within the group of OECD cycles, the amplitudes during German cycles were in the sample of normal cycles and were in fact among the least pronounced among them. Thus, Germany has not had to shoulder the burden of a housing bust so far.

International nominal house prices increased 13.3% per year during housing booms and 7.6% per year in our subsample of normal cycles. In real terms house prices rose 9.2% and 3.6%, respectively (chart 1 and 2). During busts real prices fell by 7.2%, compared to 3.2% during normal downturns. The median duration of booms was 17 quarters (average: 25) and somewhat longer than the duration of busts (14 quarters, average: 17). The high average relative to the median was caused by a few extraordinarily long booms (chart 3). Among those were the recent ones in Ireland, Spain and the United States that lasted for 50 quarters (1994-2007), 45 quarters (1996-2007) and 56 quarters (1993-2006), respectively. In the United States, prices increased in total by 62%, in Spain by 121% and in Ireland by a whopping 251%. Subsequently, from peak to trough, prices declined by 28% in the United States, 35% in Spain and 50% in Ireland. These busts had particularly large negative spill-over effects into financial markets and the real economy.

[9] The countries in our sample are Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Italy, Japan, Korea, Netherlands, New Zealand, Norway, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom and United States.

OECD sample: Varying economic developments in boom/bust and normal house price cycles 2

	Prices ↑	Prices ↓	Mean comparison test (Prices ↑ vs. Prices ↓)
Average of median real price growth (qoq, annualized)			
Boom/bust	9.2%	-7.2%	***
Normal	3.6%	-3.2%	***
Average of median nominal house price growth (qoq, annualized)			
Boom/bust	13.3%	-0.6%	***
Normal	7.6%	0.4%	***
Average of median GDP growth (qoq, annualized)			
Boom/bust	3.2%	0.8%	***
Normal	2.8%	1.6%	***
Mean comparison test (boom/bust vs. normal)	**	***	
Average of median credit growth (qoq, annualized)			
Boom/bust	12.0%	8.0%	***
Normal	9.2%	8.0%	**
Mean comparison test (boom/bust vs. normal)	***		
Average of median unemployment rate			
Boom/bust	5.3%	6.2%	***
Normal	6.1%	7.2%	***
Mean comparison test (boom/bust vs. normal)	***	***	

Note: Booms are defined as above-median price increases and busts as subsequent downturns. "Normal" refers to below-median price increases and subsequent downturns. To test the equality of the means a simple mean comparison t-test is used. Equality of the means can be rejected at the 1% (***), 5% (**) and 10% (*) significance level.
Sources: OECD, DB Research

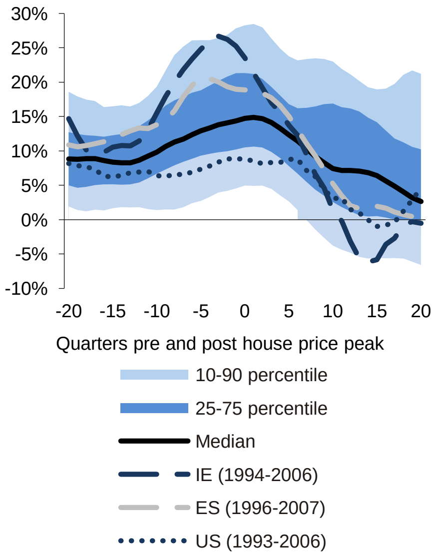
Super-long booms 3

Country	Date of peak	Price increase (p.a.)	Duration (in quarters)
Belgium	2010q4	7.7%	103
Netherlands	2008q4	9.6%	72
Norway	2007q3	13.3%	59
Denmark	2007q1	12.7%	56
US	2006q4	4.5%	56
Ireland	2007q1	20.1%	50
Sweden	2007q4	10.9%	49
UK	2007q4	14.6%	47
Spain	2007q3	10.8%	45

Sources: OECD, DB Research

Credit growth (boom-bust sample) 4

Annualised qoq rates



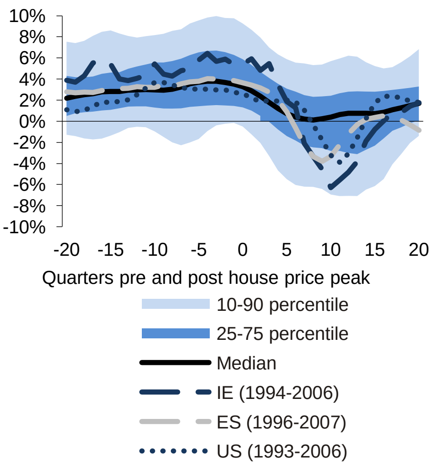
Sources: OECD, DB Research

Boom-bust house price cycles and the respective economy: Manifold interactions

During boom-bust cycles house prices had significant effects on financial markets and on the real economy (chart 2). However, the causality is not one-way and there might also be repercussions from the financial markets and the real economy on house prices. We took a detailed look into the development of important economic indicators (credit growth, economic growth and the unemployment rate) in the course of the boom-bust cycles with a particular focus on the most recent bubbles in Ireland, Spain and the United States (chart 3-6). The developments of the three variables are displayed in charts 4-6 for the 20 quarters before (boom phase) and after (bust phase) the housing price peak. The international boom-bust cycles show the development across the whole distribution of each of the variables, which points to the markedly different developments across the country-level boom-bust cycles.

Real GDP growth (boom-bust sample) 5

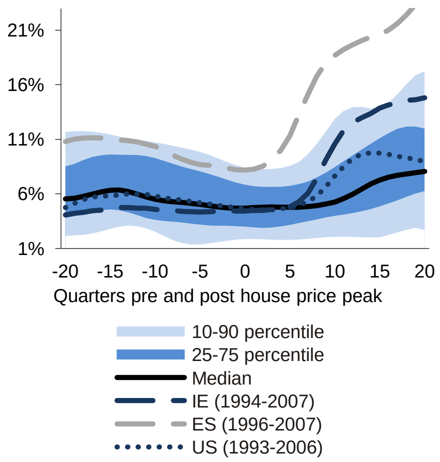
Annualised qoq rates



Sources: OECD, DB Research

Unemployment rate (boom-bust sample) 6

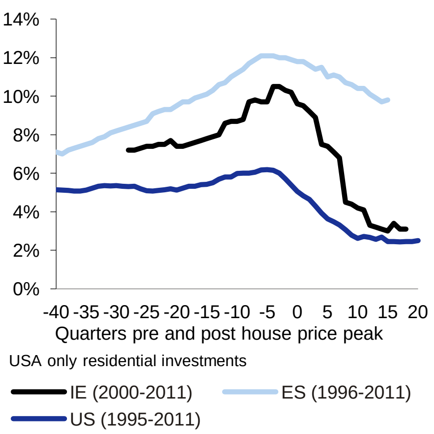
%



Sources: OECD, DB Research

Investment in construction 7

% of GDP



Sources: OECD, DB Research

One key trigger for housing booms was exuberant credit growth. During past housing booms in OECD countries credit growth soared (12%, chart 3) and peaked at around 15%, which pushed real economy growth rates to non-sustainable levels. When the bubble burst, credit growth slowed strongly to only 2.5% within five years. Financial markets and the real economy were hit hard. Moreover, public debt levels increased owing to massive central bank and government intervention. Prominent examples are the United States, Spain and Ireland.

During booms the countries posted GDP growth of 3.2% per year, which decelerated to only 0.8% in bust phases and even turned negative in the 25th percentile. In the latter case it took 5 years on average before GDP started expanding again. Hand in hand with the deceleration of GDP growth, the median unemployment rate increased continuously from about 5% at the time of the house price peak to 8% five years after prices peaked. The 75th percentile unemployment rate even reached 12% (+5 pp).

Interestingly, average GDP growth is lower during a full boom-bust cycle than in normal cycles. This shows that societies should try to avoid them from a public welfare perspective.

Until 2006/07 annual GDP growth rates were relatively stable in the United States (2%), Spain (3%) and Ireland (5%). In housing busts these economies contracted heavily, in particular between the first and third post-peak years. During this period GDP growth shrank up to 3.8% in the United States, 3.7% in Spain and even 7.1% in Ireland. After 20 quarters following the peak, real GDP growth in all the economies turned slightly positive again, but the GDP levels were still markedly below the level before the housing bubble burst. Especially strong was the increase in the unemployment rates in Spain, from 8% to 26%, followed by Ireland with an increase from 4% to 14%. In the United States the unemployment rate doubled from 5% to 10%, but thanks to the relatively earlier and stronger economic recovery in the United States and the more flexible labour market the unemployment rate started to recover earlier. Additionally, the expansion of the construction sector was markedly lower in the United States relative to that in Spain and Ireland in the boom phase (chart 7). Therefore, the burden from sectoral adjustments that pushed structural unemployment rates higher was lower in the United States.

International comparison of house price cycles: Moderate German amplitude

Simple mean comparison tests between the German house price cycles and the full international ones reveal that the swings in upturns and downturns were significantly lower in Germany (chart 2). In upswings which include our defined boom phases (median price increases above 6.9% per year) and periods of normal price increases real house prices were up by 2.6% per year in Germany, but increased by 6.9% in the OECD countries. In the subsequent downswings prices fell by 2.3% and 5.2%, respectively. Other economic variables also developed differently during German and international house price cycles. In the average international cycle economic growth increased by about 3% per year and credit growth about 11% per year during upswings, falling to 1% and to 8% during downswings, respectively. The unemployment rate increased about 1 pp. In Germany, such a clear pattern has not been visible due to the absence of boom-and-bust cycles so far. German economic growth was even higher in the course of the downswing relative to the upswing. Credit growth and the unemployment rate were not significantly different in upswings and downswings.

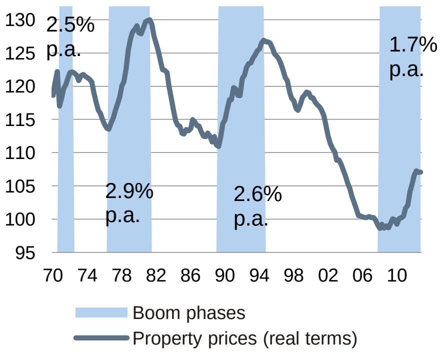
Development during price upswings and downswings: OECD sample vs. German cycles 8

	Prices ↑	Prices ↓	Mean comparison test (Prices ↑ vs. Prices ↓)
Average of median real house price growth (qoq, annualized)			
Full sample	6.9%	-5.2%	***
Germany	2.6%	-2.3%	***
Mean comparison test (Germany vs. full sample)	***	***	
Germany 2008-12	1.7%	-	
Average of median GDP growth (qoq, annualized)			
Full sample	3.0%	1.1%	***
Germany	1.8%	2.4%	***
Mean comparison test (Germany vs. full sample)	**		
Germany 2008-12	1.8%	-	
Average of median credit growth (qoq, annualized)			
Full sample	10.6%	7.7%	***
Germany	8.7%	8.4%	
Mean comparison test (Germany vs. full sample)	***		
Germany 2008-12	1.8%	-	
Average of median unemployment rate			
Full sample	5.4%	6.4%	***
Germany	5.1%	6.0%	
Mean comparison test (Germany vs. full sample)			
Germany 2008-12	6.8%	-	

Note: To test the equality of the means a simple mean comparison t-test is used. Equality of the means can be rejected at the 1% (***), 5% (**) and 10% (*) significance level.
Sources: OECD, DB Research

Real residential property prices in Germany 9

Index 2010 = 100



Sources: OECD, DB Research

Current German price increases lower than during past upswings

Past phases of real house price increases in Germany started when income and inflation expectations changed significantly (chart 9). In the course of the first phase at the beginning of the 1970s the German economy was booming and enjoying full employment. The phase at the end of the 1970s coincided with the oil price crisis resulting in surging inflation. The real price increases starting around the beginning of the 1990s were caused by German unification and attractive depreciation conditions which led to massive investments in residential property in east Germany. The latest phase began with the onset of the global economic crisis in 2008, with the ECB key rate lowered to close to 0%, historically low 10Y yields, lingering inflation concerns and a low housing valuation compared to other countries.

Putting the current real house price increases into perspective reveals that these have been more moderate so far than those seen in past upswings (chart 8). While prices have increased by 1.7% in real terms since the beginning of 2008, average real price increases of past German cycles were significantly higher at 2.6% per year.[10]

Conclusion

Our analysis of OECD housing cycles since the beginning of the 1970s reveals that housing busts had significantly negative effects on financial markets and the real economy. Not only were the economic fluctuations higher, but average economic growth over the complete cycle was also lower in boom-bust cycles than in normal cycles. The negative economic consequences were especially

[10] In nominal terms the picture is similar with 10.2% for industrial countries, 5.7% for past German cycles and 2.4% for the most recent German cycle.

severe when the recent housing booms in the United States, Spain and Ireland burst. Additionally, accumulated debt and an increase in structural unemployment rates weighed on longer-term growth rates.

Compared to this international evidence, German real house price increases in the 1970s and at the end of the 1980s were even modest within our sample of normal upswings. They started only when income and inflation expectations or financing conditions changed significantly.

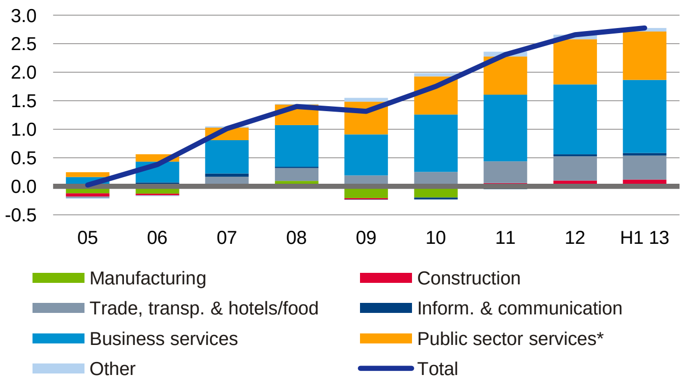
With respect to Germany's current so-called housing boom that started in Q1 2008, some tentative conclusions can be drawn: 1) It seems to be a very modest or rather benign price trend up to now compared to past upswings in Germany and relative to our OECD sample, but these comparisons are only a rough estimate as things stand today as we are, if at all, at the beginning of a possible boom. Moreover, prices in some major metropolitan areas have increased relatively strongly and could be overvalued by about 10% at the moment according to Deutsche Bundesbank. 2) The interactions of price expectations, credit and the overall economy typical for OECD boom-bust cycles are not in place in Germany. Actually, GDP growth is currently more or less equal to the potential growth rate and credit growth is moderate. Also, lending standards have been tightened, according to the Bank Lending Survey. Only the labour market sticks out with employment at a record peak. 3) We expect that the current German housing cycle, which has lasted for roughly four years so far, may continue for some time as interest rates will probably remain low for an extended period of time, net immigration will likely remain elevated, and the German economy should continue its robust development in the years ahead. Furthermore, bad news from the euro area periphery and a flare-up of financial market tensions could unleash additional demand for German residential property. 4) However, we do not expect the formation of a bubble in the German market due to its particular institutional features, e.g. high capital requirements and early loan discharge fees (*Vorfälligkeitsentschädigung*), demographic change and, if necessary, interventions of regulatory authorities and the government. Against the background of a preceding almost 15-year decline in German house prices in real terms, the current upswing has to be interpreted so far as a return to normal.

Marie Lechler
Jochen Möbert (+49 69 910-31727, jochen.moebert@db.com)
Heiko Peters (+49 69 910-21548, heiko.peters@db.com)

Chart of the month

Business services and public sector lead employment build-up

Cumulative employment increase since Q1 2005 by sector, m employees



* Public services including education and health care

Source: Federal Statistical Office

Employment change by sector

	Share % 1995	2005	H1 2013	Change, '000 H1 13 vs. Q4 04
Agriculture, forestry and fishing	2.3	1.7	1.6	-38
Industry (except construction)	23.4	19.9	18.8	5
Manufacturing	21.3	18.4	17.5	33
Construction	8.9	6.0	5.9	83
Trade, transport & hotels/restaurants	22.8	23.4	22.9	425
Information & communication	2.7	3.2	3.0	44
Financial and insurance activities	3.3	3.2	2.9	-69
Real estate activities	0.8	1.1	1.1	21
Business services	7.5	11.1	13.2	1281
Public sector, education, health care	21.7	23.0	23.3	850
Other services	6.5	7.4	7.3	170

Source: Federal Statistical Office

Job “miracle” thanks to business services and demography

At 41.84 m the number of employees has reached a new record high in September in seasonally adjusted terms. Employment grew by 2.8 m from early 2005 to mid-2013. Business services (+1.3 m) and the public sector (incl. education and health care, +850,000) stood for three quarters of the total employment increase, although they only make up about a third of all employees.

Around 46% of the total rise in the number of employees came from business services, of which roughly 40%[11] were from temporary work contracts. Other non-specified business services stood for nearly a quarter of the employment growth, while the share was 15% for employees in legal, accounting and auditing activities as well as consultancy.

In the public sector the employment build-up was concentrated in health and social sector as well as homes for the elderly (+690.000). This sector should continue to add meaningfully to employment growth given the ongoing demographic change. In the childcare and education sector (+290.000) employment went up strongly too, a third of which was due to the expansion of childcare coverage. In contrast, in public administration, defence and the social security system more than 200.000 employees were lost, half of which was due to fewer employees in the armed forces especially on back of the abolishment of the compulsory military service.

Trade, transportation and hotels/restaurants (early 2005 until mid-2013: +425.000) was the third sector that added strongly to the overall build-up in employment. Nearly 60% of this came from the hotel and restaurant sector, around 30% from transportation and 10% from trade.

In the construction (+83.000) and manufacturing (+33.000) sector employment growth was comparably low. In manufacturing out-contracting of non-essential tasks, the increased use of international supply-chains as well as more temporary work contracts (counted in business services) were likely responsible

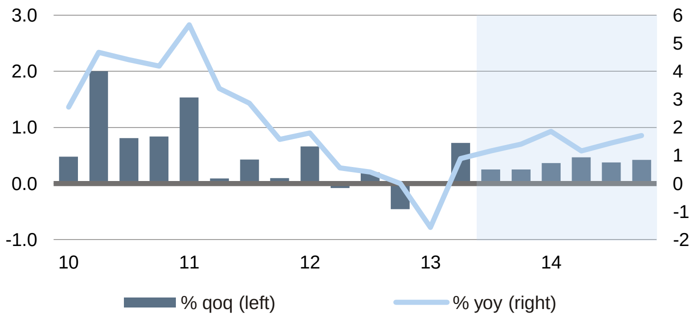
[11] More detailed data is only available on an annual basis and largely refers to the comparison 2012 vs. 2004.

for the limited employment build-up despite strong production growth. In construction there was a strong increase in employment lately. However, especially due to the decrease in 2005 the construction sector's contribution to the overall employment build-up remained low.

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

Chartbook: Business cycle (1)

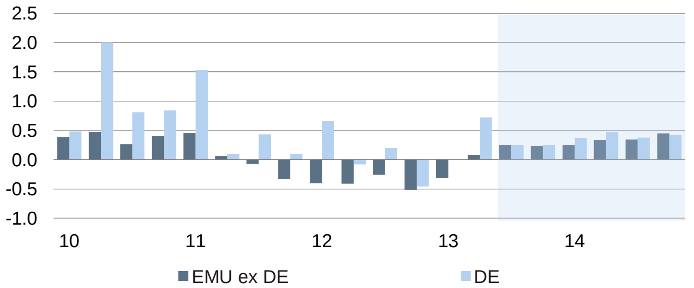
Real GDP growth



Sources: Federal Statistical Office, DB Research

GDP growth: DE vs EMU

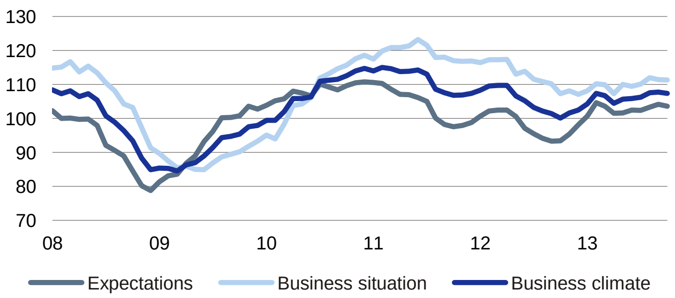
% qoq



Source: Eurostat

Ifo index - total economy

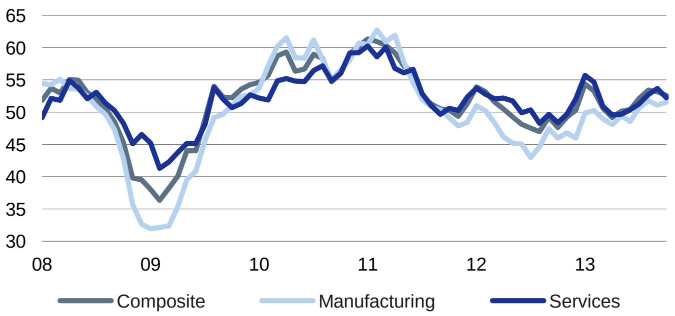
2005=100



Source: ifo

Purchasing Manager Index

PMI, index



Source: Markit

— In Q2 GDP grew by 0.7% qoq and thereby ended the growth weakness of the winter half. In part growth was driven by catch-up and special effects.

— GDP growth should be weaker in the current quarter. We expect 0.3% GDP growth in Q3. Orders and industrial production were up less strongly in July/August compared to Q2. The Q3 average of the composite purchasing manger index also supports our growth expectation while the ifo index even paints a somewhat more positive picture.

— We expect real GDP to grow +0.5% in 2013 and 1.5% in 2014.

— Euro area GDP grew by 0.3% qoq in Q2 ending the 6-quarter recession. Germany (+0.7% qoq) and France (+0.5%) contributed strongly. In Italy (-0.3%) and Spain (-0.1%) the GDP contraction became less severe.

— Considering the remaining adjustment needs in several EMU countries and weak global trade (August: +2.2% yoy, 3M moving average) the EMU economy should grow only modestly in H2.

— Despite positive growth in H2, EMU GDP should decline again in 2013 (2012: -0.6%). However, due to higher than expected Q2 growth we lifted our forecast to -0.2% from -0.6%.

— After five consecutive increases the ifo index fell modestly in October (107.4 vs 107.7 prev.) mainly due to lower expectations (103.6 after 104.2). The fiscal stand-off in the US could have played a role here. However, the ifo remained above its Q3 average and at their current level expectations point to decent GDP growth. In addition, export expectations rose to a new annual high.

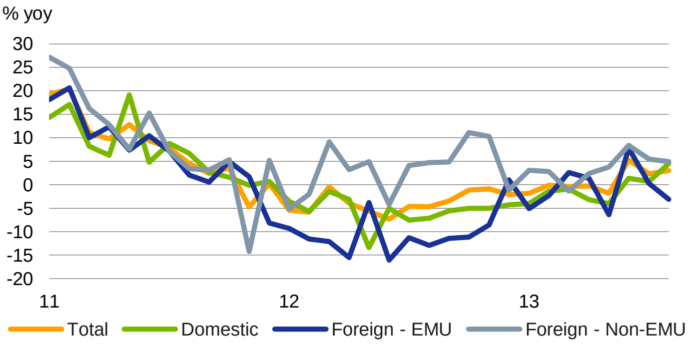
— The ifo index for the important manufacturing sector (103.0 vs 103.5 prev.) and the retail sector fell. In contrast the construction ifo remained unchanged on a high level, while the wholesale ifo compensated the previous month's fall.

— The composite PMI fell moderately in October (52.6 after 53.2 prev.). However, despite the second decrease in a row the index is still roughly on its Q3 average and points to moderate GDP growth.

— The decline in the composite index was due to the services sector. However, at 52.3 after 53.7 before the index still points to decent domestic demand growth. In addition, business expectations for that sector remained stable and high. In contrast to the services PMI, the index for the manufacturing sector rose slightly and supports our expectation of a moderate uptrend in the industrial sector.

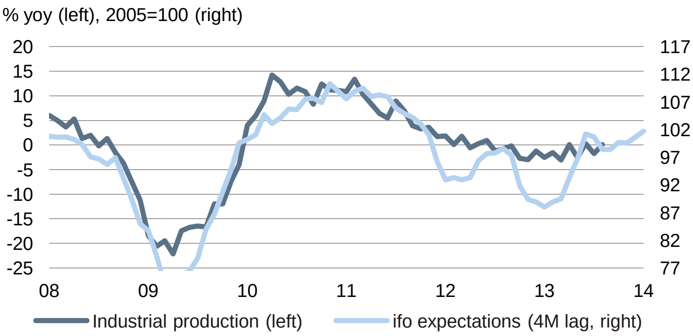
Chartbook: Business cycle (2)

New manufacturing orders



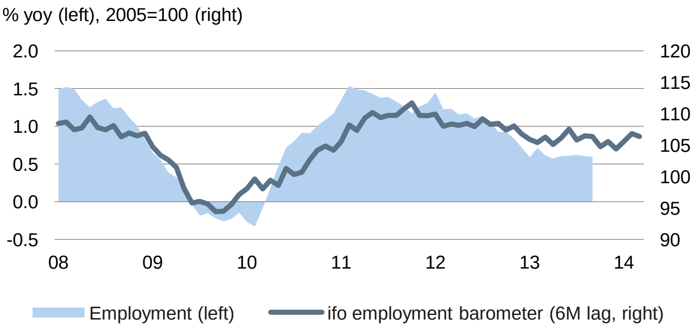
Source: Federal Statistical Office

Industrial production and ifo expectations



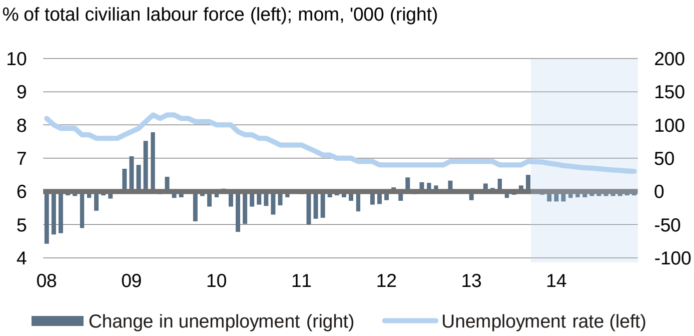
Sources: ifo, Federal Statistical Office

Employment and ifo employment barometer



Sources: ifo, Federal Employment Agency

Unemployment



Sources: Federal Employment Agency, DB Research

— The order intake currently follows a moderate (and due to orders of big-ticket items volatile) upward trajectory. Over the last three months the order intake was up 3.5% yoy on average. Excluding big-ticket orders from e.g. the Paris Air Show the increase was 1.3%. Thus, the order level is still low.

— In August (-0.3% mom) and July (-1.9%) orders fell but they were still up 0.7% compared to Q2. Excluding big-ticket orders the monthly increase was 2.9% in August after -1.8% in July.

— Ifo and PMI point to an upward trend in orders over the next couple of months.

— Rising by 1.4% mom in Aug. industrial production made up for the 1.1% decline in July. In August the primary driver was a strong plus in investment goods (+4.4%).

— If production remained stable in September production would rise by 0.8% qoq in Q3. The industrial sector would, therefore, add to GDP growth again but less strongly than in the previous quarter. All told the production level is still low. Over the last three months production was still nearly 1% below last year's levels.

— Sentiment, capacity utilization as well as the somewhat better global growth prospects all point to a continued, albeit moderate, industrial recovery in Q4.

— Thanks to immigration and rising participation rates employment continues to grow at a decent clip. In September it was up by around 250k compared to last year, while unemployment was also higher by around 50k, a somewhat weaker picture.

— Employment growth remained at 0.6% yoy in September 2013 – the moderate build-up of employment, therefore, continues. The level of employees subject to social security payments was up 1.2% yoy.

— Despite the only small rise in employment compared to the previous month employment continues to mark record highs (41.8 m).

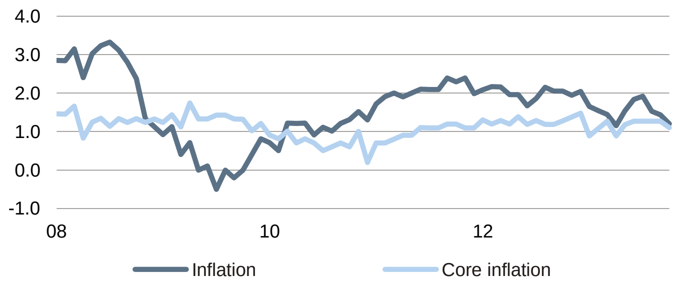
— The seasonal labour market recovery in autumn seems to be weaker this year. Unemployment inched up by 2k compared to September, the third consecutive increase. However, the strong increase of 25k in September that was driven by one-off effects was not repeated. The unemployment rate was unchanged at 6.9%.

— Leading indicators of the labour market currently point modest upward tendencies on the labour market. We expect the unemployment rate to average 6.9% in 2013 and fall to 6.7% next year on back of the improving business cycle.

Chartbook: Business cycle (3)

Inflation rate and core inflation rate

% yoy (core inflation only available since 2011 due to alteration in statistical collection)

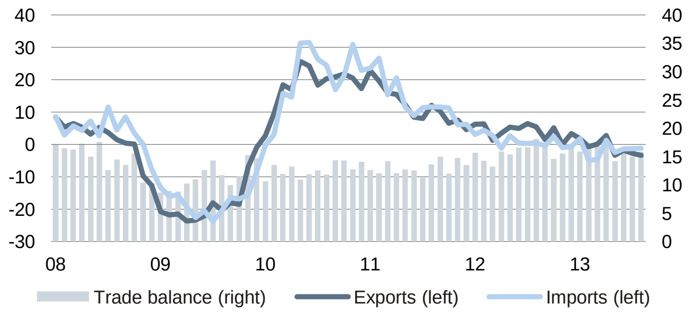


Sources: Federal Statistical Office

- Inflation fell further in October from 1.4% yoy to 1.2%. This was driven by energy (-0.5% after -0.2%), food prices (+4.1% after +4.7%) and core inflation (1.3% after 1.1%). Energy and food prices reflect the falling global commodity prices as well as the strong EUR. The drop in core inflation was likely in part driven by the abolishment of student fees in Bavaria.
- We lower our inflation forecast for 2013 from 1.6% to 1.5%. The year-to-date average is 1.5%. Given moderate GDP growth, the expectation of stable commodity prices and moderate wage growth inflation should remain muted.

Merchandise trade

% yoy (left), EUR bn (right)

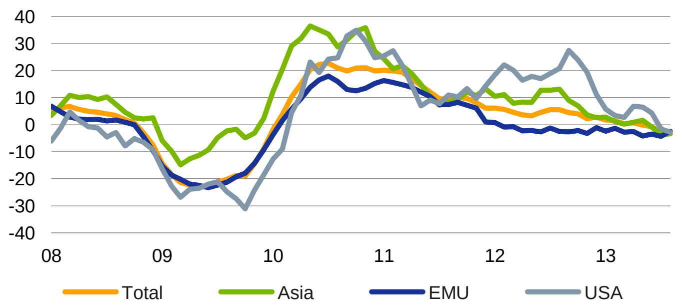


Source: Deutsche Bundesbank

- The trade balance surplus recovered somewhat in Aug. (EUR 15.8 bn after EUR 15.0 bn in July). While exports rose by 1.0% mom, imports rose less strongly by 0.1%.
- However, so far the surplus was slightly lower in Q3 than in Q2 as exports were generally weaker than imports.
- German foreign trade in H1 was weak and compared to the previous year exports and imports have lately turned slightly negative. Growing by 1.8% yoy in H1 world trade also remained weak (2012: +2.0%; 2011: +6.2%).

German merchandise exports by destination

Merchandise exports, % yoy, 3M moving average

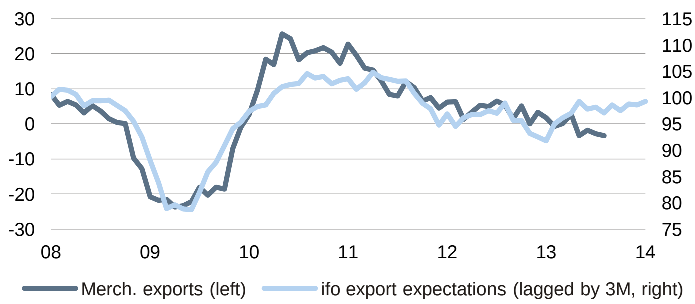


Source: Deutsche Bundesbank

- In the last three months the yoy-growth rate of exports fell into negative territory (August: -2.3%, 3M moving average) as even exports to the USA fell below their previous year's level in July. Exports to EMU have been falling since early 2012.
- Since the onset of the euro crisis EMU's share in German exports has dropped by almost 10 percentage points to around 37% (Asia 16% and the US 8%), as the crisis economies have reduced their imports from Germany significantly since 2008 (2012 Spain: -36%; Italy: -10%; Portugal: -24%).

Exports & ifo export expectations

% yoy (left), index (right)



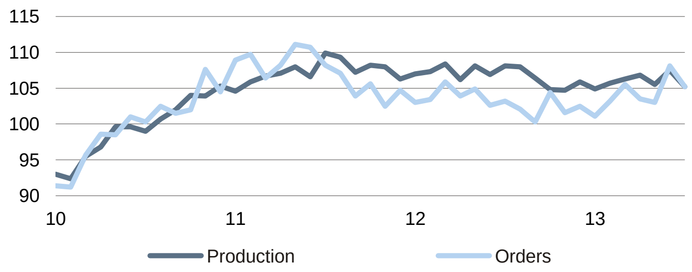
Sources: Deutsche Bundesbank, ifo

- Ifo export expectations have broadly moved sideways since early 2013 and were somewhat above their long-term averages. New export orders according to the PMI also stood in expansionary territory. Ifo expectations have lately overstated export growth, however. Therefore, we do not expect export growth to pick up markedly over the coming months.
- In the coming months German import growth might be higher than export growth due to the small increase of commodity prices, the end of destocking, the high level of employment and increases in real income.

Chartbook: Sectors

Manufacturing: Production and order intake

2010=100, sa



Source: Federal Statistical Office

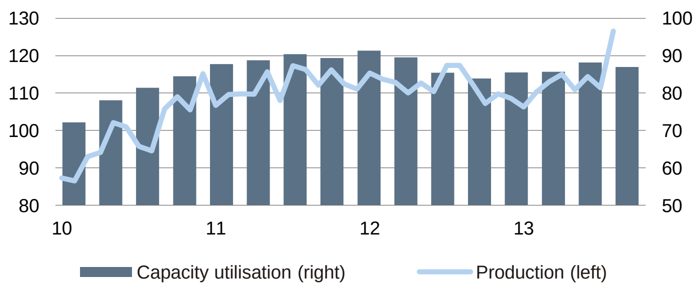
— Real industrial production in Germany was 0.9% higher in June-August 2013 compared to the average level of the preceding period. August output came in particularly well. The order intake rose by 2% in real terms in the same period.

— Demand from outside Europe has developed better than demand from EMU countries for a considerable time. Declines were recorded in both cases in August.

— In full year 2013 we expect industrial production to stagnate (2012: -1%). We are more optimistic for 2014 and expect an increase by 4%.

Automotive industry: Production and capacity utilisation

2010=100, sa (left), capacity utilisation % (right)



Sources: Federal Statistical Office, ifo

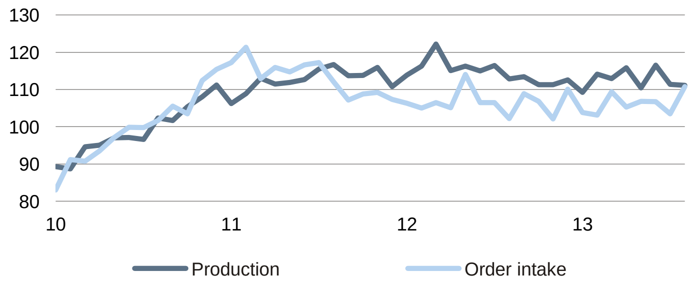
— The German automotive industry reported a significant increase of domestic production in August. Since incorrect statistical numbers had recently caused a significant downward revision of the data we stick to our forecast of production in the sector stagnating in 2013.

— In 2014, automotive production could increase by 6%. Rising car demand in Western Europe is expected to be an important driver.

— Business expectations dropped into the negative range of late. Capacity utilisation also decreased slightly in Q4 2013.

Mechanical engineering: Production and order intake

2010=100, sa



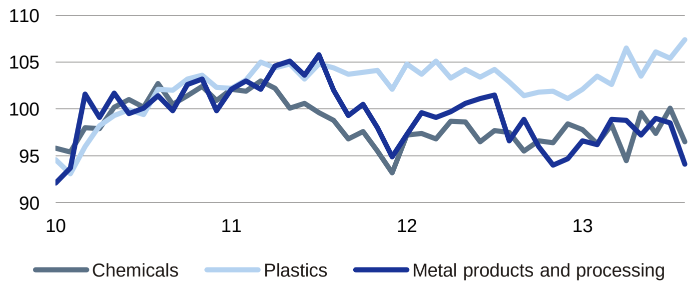
Source: Federal Statistical Office

— Order intakes in the mechanical engineering industry have provided mixed signals over the last few months but increased at the latest reading. Foreign demand could be revived in the remainder of 2013 and in 2014 due to a stabilisation of the euro area and the expected growth acceleration in China.

— However, for 2013 as a whole we expect mechanical engineering output to decline by roughly 1.5% (2012: +1.3%), with output trending upwards in the course of the year. In 2014, domestic production in the sector is set to increase by 4%.

Production: Early cycle sectors

2010=100, sa



Source: Federal Statistical Office

— The early-cycle sectors still give a mixed picture regarding signs of a growth rebound.

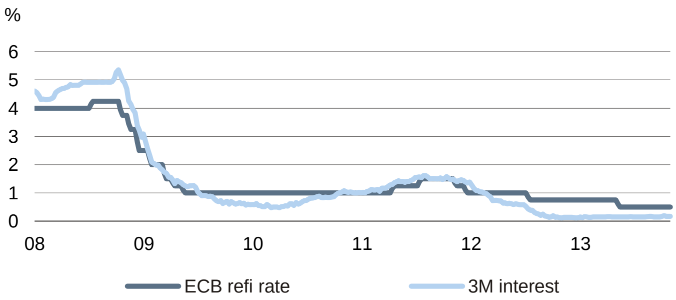
— Plastics production has tended upwards during the last few months. We expect domestic production to rise by 1.5%.

— The metal industry registered a significant drop in production of late. Production could stagnate in full year 2013 at best.

— Production in the chemical industry is expected to increase by 1% in 2013 (2012: -2.6%). Output declined again in August, though.

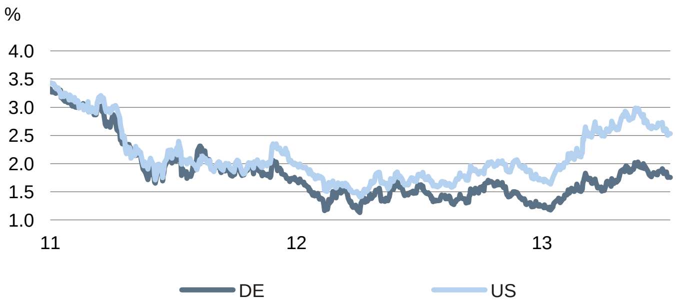
Chartbook: Financial markets (1)

EMU: Refi rate & 3M Interest



Sources: ECB, Global Insight

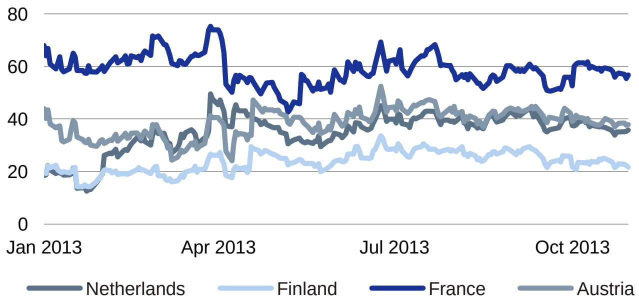
US and German government bonds: 10Y yields



Source: Global Insight

EMU: Bond yield spreads

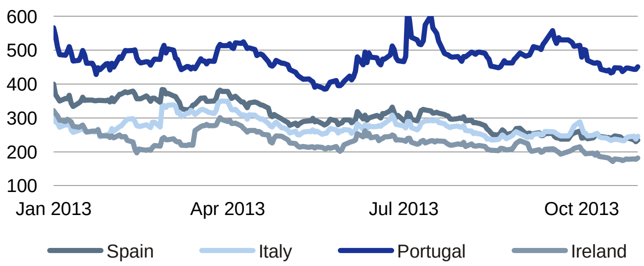
Versus German govt. bond yield, basis points



Source: Global Insight

EMU: Bond yield spreads

Versus German govt. bond yield, basis points



Source: Global Insight

— According to announcements of ECB president Draghi the modest economic recovery of EMU continues, but downside risks to the ECB's GDP forecasts prevail (2013: -0.4% yoy, 2014: +1.0% yoy).

— Additionally Draghi pointed out that the falling excess liquidity is a positive signal and reflects a lower fragmentation of financial markets within EMU. If falling too strong, the ECB stands ready to use all available instruments. If necessary, we expect the ECB to offer a further LTRO.

— The message that the ECB will continue its loose monetary policy for an extended period is still valid.

— In a last minute deal the US congress agreed to a new continuing resolution lasting until January, 15th and to suspend the debt ceiling until February, 7th. Thus (fiscal) uncertainty is set to persist. Together with relatively weak labour market data as of late this should keep the Fed from tapering before March 2014. This process should be concluded in H2 2014.

— As a consequence, 10Y treasury yields fell again lately and stand at around 2.5% at the moment.

— This led German bund yields to fall to currently 1.8%. Accordingly, the US/German yield spread decreased by 25 bp to 75 bp since mid-September.

— Triggered by the Fed's decision to postpone the tapering start, the global interest rate level fell moderately again.

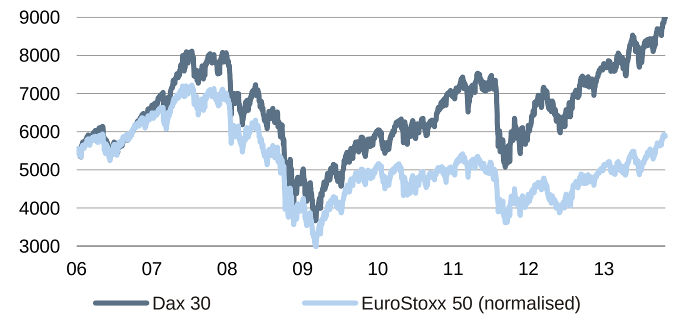
— The yields of other EMU core countries also moderated slightly. As a result the spreads versus Germany remained on a sideways trend.

— Peripheral spreads have been weighed down since mid-July due to improved economic indicators and hopes that the EMU recovery will continue.

— While the spread in Spain, Italy and Ireland fell relatively strongly, it narrowed only much less in case of Portugal. The positive Troika review and the release of the next loan tranche to the Portuguese government have, however, led the spread down to below 500 bp. According to the Irish government it plans to return to the market on December 15. The countries spreads are below 200 bp.

Chartbook: Financial markets (2)

Equity indices

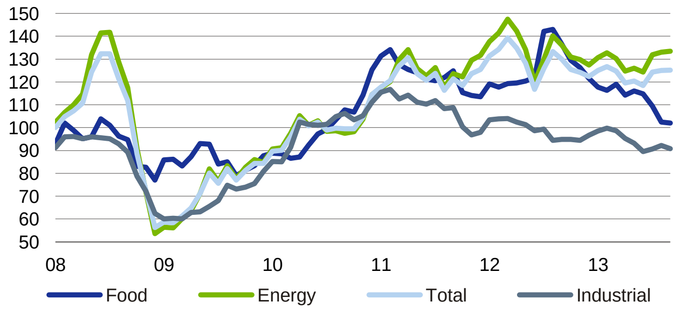


Sources: Global Insight, DB Research

- Our equity strategists have hiked their year-end DAX target from 8,000 to 8,400. The implied fall relative to the current level of around 9,000 points is explained with margins that continue to be weighed down by low pricing power and the expectation that 2013 EPS growth will be downgraded during the Q3 reporting season.
- Given the recovery of the global economy the DAX should rise at its trend rate and increase to 9,700 towards end-2014.
- For the EuroStoxx600 our strategists forecast a level of 315 at end-2013, while the index currently stands at around 320.

Raw material prices

HWWI index, 2010=100, based on EUR

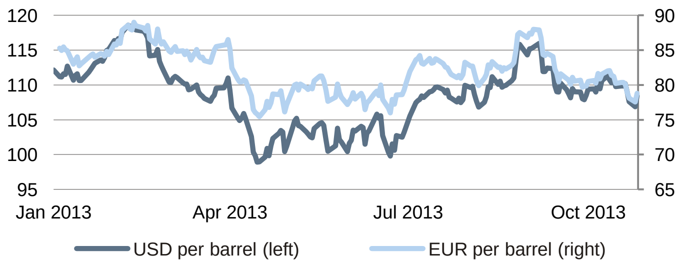


Source: HWWI

- Raw material prices have pointed downwards in 2013 initially due to concerns about Chinese growth and the debate about Fed tapering. Signs of Chinese and global growth accelerating in H2 and the Fed not tapering in September as initially expected have led raw material prices generally higher lately.
- By contrast, food prices have dropped markedly since the peak of August last year. Although the decline has slowed in H1, food prices decreased again since mid-2013. They are currently almost 25% lower than a year ago.
- Over the medium term prices should accelerate according to the OECD.

Oil price

Brent Blend, USD or EUR per barrel

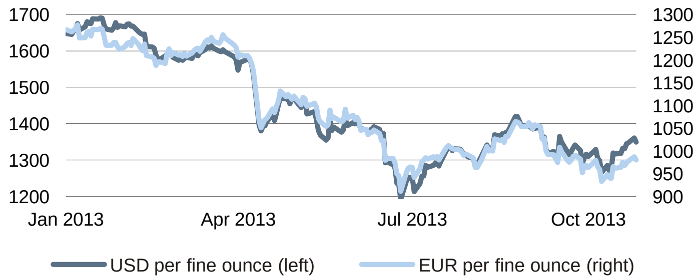


Sources: Global Insight, Reuters, DB Research

- Since the end of September the oil price has moved down considerably as the worries over Syria subsided. Lately, somewhat weaker US data likely caused a further decline. Currently the oil price is at USD 110 per barrel.
- Our commodity strategists expect an oil price of USD 110 per barrel in Q4 2013. The marked supply expansion – especially thanks to the higher production of shale oil in the US – and the higher demand on back of the global recovery should roughly balance out.

Gold price

USD or EUR per fine ounce



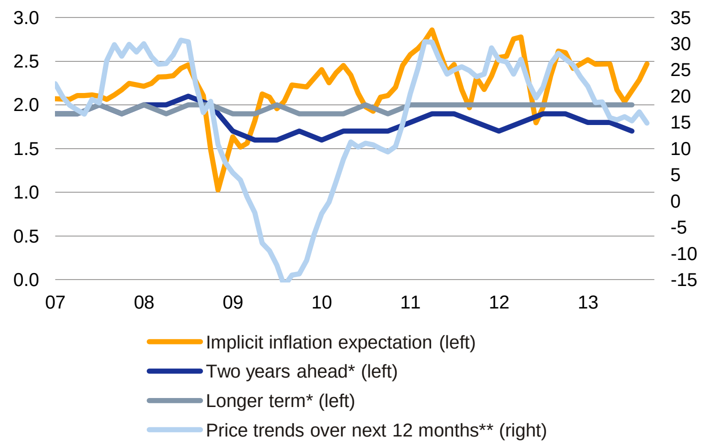
Sources: Global Insight, Reuters, DB Research

- The gold price has fallen from USD 1400 per ounce at the end of August to a low of around USD 1300 per ounce. The changed expectations with regards to the timing of Fed tapering have lately caused the gold price to appreciate again to currently USD 1350. The gold price is about 25% below the previous year's peak (October 4, 2012: USD 1792 per ounce).
- Our commodities analysts expect the gold price to amount to USD 1,350 per fine ounce at Q4 2013. Nevertheless, the gold price is expected to decline yoy (eop) by the fastest pace since 1997.

Chartbook: Financial markets (3)

Inflation expectations Eurozone

% yoy (left), balance of pos. and neg. responses (right)



* ECB Survey of Professional Forecasters, ** EC Consumer Survey

Sources: ECB, EU Commission, Bloomberg

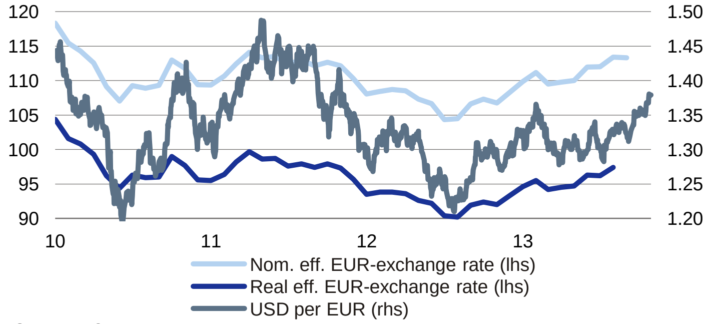
— Contrary to lingering inflation concerns in the general public the private forecasters of the ECB survey expect no increase of the EMU inflation rate. The expected inflation rate in 2 years has fallen from 1.8% to 1.7%, while it held steady at 2.0% in 5 years.

— The implied inflation rate for the next 10 years – calculated as the difference between the yield of 10Y German government bonds and the yield of inflation-protected bonds – hovers between 2 and 2 ½% since the beginning of 2011.

— However, the “implicit inflation expectation” may be biased. On the one hand the current real interest rates close to zero earned on an inflation protected bond are hard to reconcile with economic considerations. On the other hand nominal bond yields are depressed by massive purchases of several major central banks and still persistent flight to quality.

Exchange rate development for the EUR

1999Q1=100 (left), USD per EUR (right)



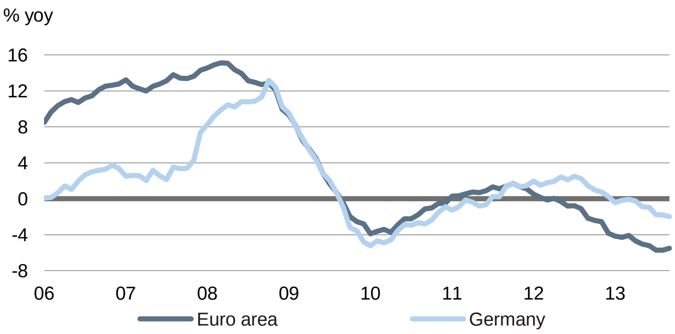
Sources: ECB, Reuters

— After peaking at 1.37 in February EUR/USD has moved in a narrow 1.28-1.35 range during Q2. Recently, the debate of the US budget and the postponement of Fed tapering as well as somewhat weaker US data have lead the EUR to appreciate to USD 1.38.

— Our FX-strategists see the fundamental drivers for an appreciation of the USD still in place, though they were surprised by the ongoing weakness of the USD. Neither the relative growth dynamics nor the capital movements support the current strength of the EUR. Therefore, they stick to their expectation of the EUR/USD exchange rate moving lower to reach 1.25 in Q4 2013 and 1.23 in Q1 2014. They see the emerging strength of the USD as the beginning of a multiyear uptrend and forecast that the USD will reach parity to the EUR by 2017.

Chartbook: Financial markets (4)

Loans to companies



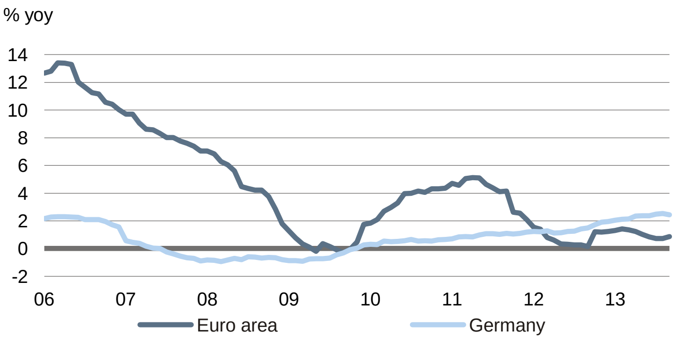
Sources: ECB, DB Research

— The decrease in lending to corporates continued in September. Reductions are clearly more pronounced in the euro area (-5.5%) – mainly reflecting the macroeconomic situation and ongoing deleveraging in countries strongly affected by the crisis. However, the pace of reduction slightly slowed (August: -5.7%).

— Lending in Germany with decreases since the start of the year. Shrinking tendencies have become more pronounced in Q3 (September: -2% yoy).

— The substitution effect of the debt capital markets combined with low investment activity seems to be reflected in lending volumes.

Mortgage volumes



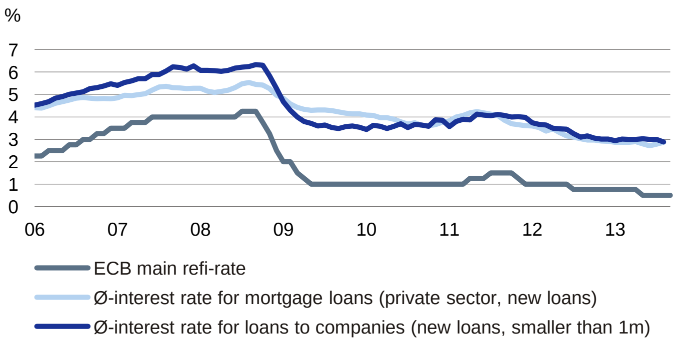
Sources: ECB, DB Research

— Mortgage volumes in the euro area slightly up: +0.9% yoy (Aug. +0.7%).

— Growth for German mortgage lending has clearly reached pre-crisis level. Until August (+2.5% yoy), growth had been accelerating continuously with September signaling a pause (+2.4% yoy).

— Low interest rates coupled with stable income and labour market conditions bolster property demand by house-holds.

Interest rates



Sources: ECB, Bundesbank

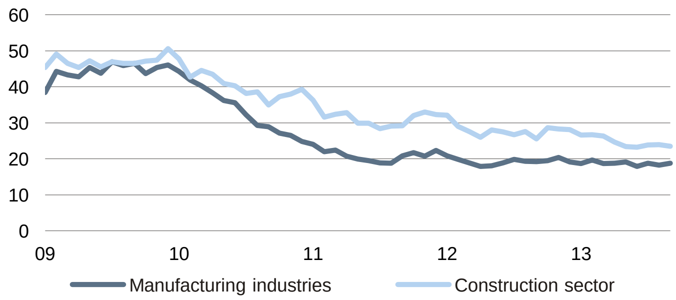
— Interest rates for mortgages and loans to corporates have remained at historic lows. Both interest rates for loans to companies and mortgage credit stood at 2.9% in August.

— Interest rates for loans to corporate slightly decreased (-0.1 pp compared to July). Mortgage rates rose again by 0.1 pp for the second time in a row from their low in June (2.7%).

— The low interest rate environment makes for lower refinancing costs and allows banks to pass on favourable conditions to their clients.

Lending standards

Share of companies that consider lending policies "restrictive" (in %)



Source: ifo

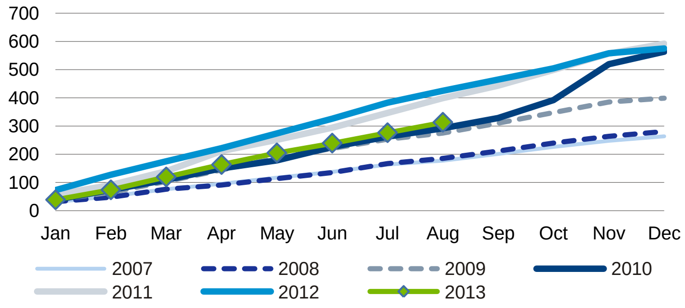
— Corporates on average continued to report no problem with credit supply in September. The share of corporates that consider lending policies restrictive remained at very low levels in September.

— Sectoral perceptions slightly diverge, though. While construction industries report further easing (-0.4 pp compared to previous months). Manufacturing companies report slight tightening (+0.6 pp compared to previous month).

Chartbook: Financial markets (5)

Gross issuance of public debt securities

Cumulative issuance volume, EUR bn



Sources: Bundesbank, DB Research

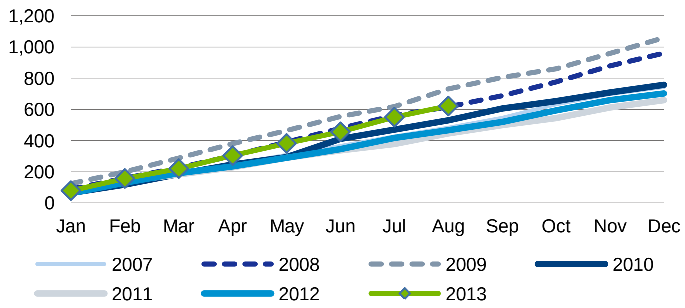
— Monthly debt security issuance of German public sector increased second time in a row and catch the long term trend of 2013. Germany's Länder and the federal government issued around EUR 37 bn in August.

— The cumulative issuance to date amount to some EUR 313 bn and remained somewhat subdued compared to the last two years pace.

— With favourable interest rates slowly normalising, German public sector bonds seem to benefit to a lower extent from the safe-haven effect which boosted markets during the previous years.

Gross bank debt issuance

Cumulative issuance volume, EUR bn



Sources: Bundesbank, DB Research

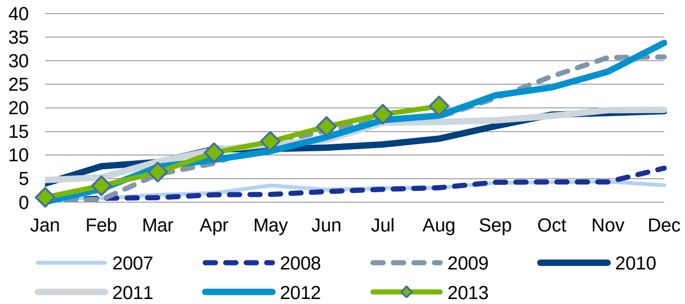
— Bank bond issuance stands at around EUR 71 bn in August, somewhat lower than the 2013 average.

— The traditional summer lull combined with the volatile fixed income market conditions in the aftermath of the discussion on Fed tapering seem to cut down the speed of the bank bond issuance.

— In cumulative terms meanwhile, German banks have generated EUR 621 bn on bond markets in the first eight months of 2013, the highest value for this period since 2009.

Gross non-bank corporate debt issuance

Cumulative issuance volume, EUR bn



Sources: Bundesbank, DB Research

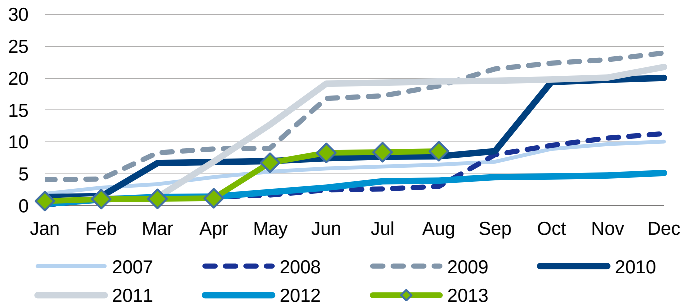
— Corporate bond issuance has lost pace in August. Firms issue EUR 1.7 bn, the second lowest issuance of 2013.

— The rally in the first half of 2013 helped the cumulative issuance to mark a year-to-date record, with cumulative issuance amounting to EUR 20.3 bn.

— Seasonal slowdown combined with possible reduction in bond purchase programme of Fed ("tapering") seems to dampen the corporations' willingness to tap the bond markets.

Gross equity issuance

Cumulative issuance volume, EUR bn



Sources: Bundesbank, DB Research

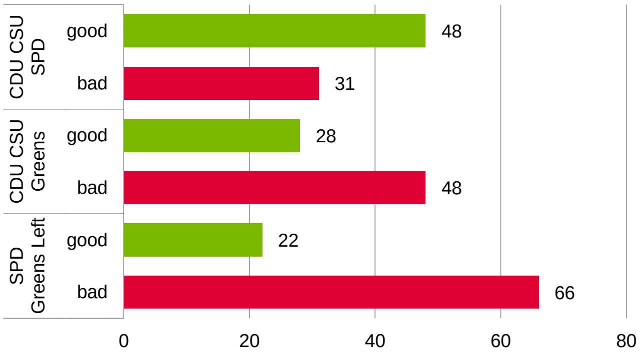
— Equity issuance remained moderate in August: Companies issued EUR 158 m. Taking the previous years as benchmark, activity remained below average albeit somewhat higher than in August 2012.

— The considerable cooling down in issuance in July and activity remaining restrained in August, stock issuance lost pace and now stands at some EUR 8.5 bn year-to-date.

Chartbook: Economic policy

Assessment of possible coalition governments

As % of

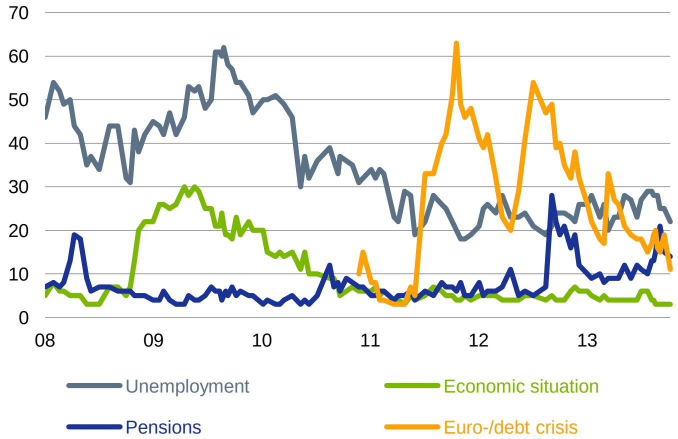


Sources: Politbarometer, Forschungsgruppe Wahlen and ZDF

- In the wake of the general elections, current polls show that a "grand coalition" of the CDU/CSU and SPD is still the most welcomed coalition to form the government. But the approval rates have weakened recently.
- However, when asked, over 60% of respondents are convinced that a "grand coalition" may be best suited to solve the problems in Germany.
- Nearly 60% of respondents believe that in the long run the Greens should be open to a coalition with the CDU/CSU. Among the respective supporters, the approval rates are even higher. A first attempt (in a territorial state) to form a CDU-Green government could emerge in Hesse − given the outcome of the regional election there − where coalition negotiations have not yet started.

Most important political issues in Germany

Two possible mentions

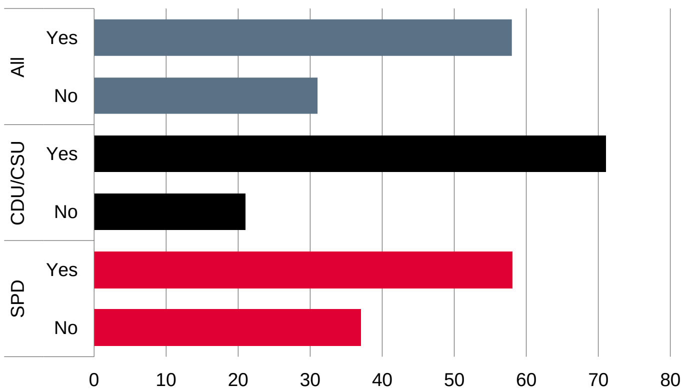


Source: Forschungsgruppe Wahlen

- While until early 2013 the crisis in the euro area was the dominant political issue for German voters, it has since receded to the background.
- When asked about the two main issues for German politics, 22% of the respondents cited unemployment as being number one − despite the currently robust labour market.
- The second most frequently mentioned issue was the sustainability of the pension system (14%). The euro crisis was singled out by only 11%, down from more than 50% in mid-2012.

SPD drops explicit demand for tax increases: Do you welcome this concession towards the CDU/CSU?

As %



Sources: Infratest dimap, ARD Morgenmagazin

- Just before the coalition talks commenced the SPD waived their explicit demand that taxes should be increased.
- The concession towards the CDU/CSU is welcomed by a significant majority of voters.
- Among the CDU/CSU supporters approval is naturally much higher – but also the majority of SPD supporters welcome the concession on that point towards the CDU/CSU.

Contact persons for our chartbooks:

Business cycle and financial markets:
Heiko Peters (+49 69 910-21548, heiko.peters@db.com)
Oliver Rakau (+49 69 910-31875, oliver.rakau@db.com)
Jan Schildbach (+49 69 910-31717, jan.schildbach@db.com)

Sectors:
Antje Stobbe (+49 69 910-31847, antje.stobbe@db.com)

Economic policy:
Dieter Bräuninger (+49 69 910-31708, dieter.braeuninger@db.com)
Frank Zipfel (+49 69 910-31890, frank.zipfel@db.com)

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

Date	Event	Remarks
7 Nov.	Meeting of the ECB Council, press conference	Review of the monetary policy stance.
14-16 Nov.	SPD federal party convention in Leipzig	Election of the party leadership.
14/15 Nov.	Eurogroup/ECOFIN meeting	Discussion of EU autumn forecasts, state of implementation of ESM bank recapitalisation and SSM roadmap.
2nd. half of Nov.	Likely end of the negotiations between the CDU/CSU and the SPD on a treaty for a grand government coalition.	The coalition treaty is likely to provide detailed specifications and policy targets in order to prevent bickering among the new coalition.
End of Nov. to beginning of Dec.	SPD members vote on the draft of the coalition treaty	The announced mail voting of the SPD members on the treaty for a grand coalition is likely to start in the 2nd half of November.
5 Dec.	Meeting of the ECB Council, press conference	Review of the monetary policy stance.
9/10 Dec.	Eurogroup/ECOFIN meeting	Discussion of IMF Article IV interim mission to the euro area, review of the transition to the SSM, discussion of national draft budgetary plans.
Mid Dec.	Likely date for the election of the chancellor	After the likely agreement of the SPD members and of the CDU's and the CSU's small party convention on the coalition treaty the Bundestag will elect Angela Merkel as chancellor of a grand coalition.
19/20 Dec.	European Council	EU heads of State and Government meet in Brussels. Official Agenda on Common Security and Defence Policy.

Source: DB Research

Dieter Bräuninger (+49 69 910-31708, dieter.braeuninger@db.com)
Nicolaus Heinen (+49 69 910-31713, nicolaus.heinen@db.com)

Germany: Data calendar

Date	Time	Data	Reporting period	DB forecast	Last value
6 Nov 2013	12:00	New orders manufacturing (Index, sa), pch mom	September	1.5	-0.3
7 Nov 2013	12:00	Industrial production (Index, sa), pch mom	September	1.0	1.4
8 Nov 2013	8:00	Trade balance (EUR bn, sa)	September	17.3	15.8
8 Nov 2013	8:00	Merchandise exports (EUR bn, sa), pch mom (yoy)	September	1.8 (0.6)	1.0 (-3.3)
8 Nov 2013	8:00	Merchandise imports (EUR bn, sa), pch mom (yoy)	September	0.3 (-0.1)	0.1 (-1.2)
14 Nov 2013	8:00	Real GDP (Index, sa), % qoq	Q3 2013	0.3	0.7
21 Nov 2013	9:30	Manufacturing PMI (Flash)	November	51.5	51.5
21 Nov 2013	9:30	Services PMI (Flash)	November	52.7	52.3
22 Nov 2013	10:30	ifo business climate (Index, sa)	November	107.5	107.4
28 Nov 2013	14:00	Consumer prices preliminary (Index, sa), pch mom (yoy)	November	0.4 (1.5)	-0.2 (1.2)
28 Nov 2013	10:00	Unemployment rate (%, sa)	November	6.9	6.9

Sources: DB Research, Federal Statistical Office, Federal Employment Agency, ifo, Markit

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

Financial Forecasts

	US	JP	EMU	GB	CH	SE	DK	NO	PL	HU	CZ
Key interest rate, %											
Current	0.125	0.10	0.50	0.50	0.00	1.00	0.20	1.50	2.50	3.60	0.05
Jan 14	0.125	0.10	0.50	0.50	0.00	1.00	0.30	1.50	2.50	3.10	0.05
Apr 14	0.125	0.10	0.50	0.50	0.00	1.00	0.30	1.50	2.50	3.00	0.05
Oct 14	0.125	0.10	0.50	0.50	0.00	1.25	0.40	1.75	2.50	3.00	0.05
3M interest rates, %											
Current	0.24	0.22	0.23	0.52							
Jan 14	0.35	0.20	0.25	0.55							
Apr 14	0.35	0.20	0.30	0.55							
Oct 14	0.35	0.20	0.40	0.55							
10Y government bonds yields											
	Yields, %				Spreads vs. EMU, pp						
Current	2.50	0.57	1.75	2.44	-0.76	0.57	0.11	1.12			
Jan 14	2.50	0.90	2.20	3.00	-0.70	0.25	0.25	0.65			
Apr 14	2.75	0.90	2.30	3.25	-0.65	0.20	0.30	0.70			
Oct 14	3.00	0.90	2.50	3.75	-0.65	0.20	0.30	0.75			
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	1.38	97.56	0.86	1.61	1.23	8.76	7.46	8.12	4.17	293.14	25.74
Jan 14	1.25	110.00	0.86	1.45	1.25	8.50	7.46	7.75	4.15	293.80	25.60
Apr 14	1.23	111.25	0.85	1.44	1.25	8.25	7.46	7.25	4.11	290.00	25.50
Oct 14	1.18	115.00	0.84	1.40	1.24	8.05	7.46	7.15	4.04	282.50	25.10

Sources: Bloomberg, Deutsche Bank

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

German Data Monitor

	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	May 2013	Jun 2013	Jul 2013	Aug 2013	Sep 2013	Oct 2013
Business surveys and output											
Aggregate											
Ifo business climate	101.4	106.1	105.3	107.2		105.7	105.9	106.2	107.6	107.7	107.4
Ifo business expectations	95.6	103.0	101.9	103.3		101.6	102.5	102.4	103.3	104.2	103.6
PMI composite	49.1	52.8	49.9	52.9		50.2	50.4	52.1	53.5	53.2	52.6
Industry											
Ifo manufacturing	95.1	101.1	100.5	102.7		100.7	101.5	101.6	103.1	103.5	103.0
PMI manufacturing	46.3	49.7	48.7	51.2		49.4	48.6	50.7	51.8	51.1	51.5
Headline IP (% pop)	-2.5	0.0	1.5			-1.1	2.1	-1.1	1.4		
Orders (% pop)	0.9	0.5	1.4			-0.7	4.5	-1.9	-0.3		
Capacity Utilisation	81.4	82.5	82.1	83.2	83.2						
Construction											
Output (% pop)	-2.1	-5.9	10.5			-1.0	3.2	0.1	-0.9		
Orders (% pop)	2.8	1.6	0.9			0.5	4.0	1.5	-6.5		
Ifo construction	117.7	125.7	123.8	120.3		123.5	123.4	121.9	120.2	118.9	118.9
Services											
PMI services	50.0	53.8	49.9	52.6		49.7	50.4	51.3	52.8	53.7	52.3
Consumer demand											
EC consumer survey	-10.0	-6.5	-4.2	-3.2		-4.5	-3.2	-2.3	-3.4	-4.0	
Retail sales (% pop)	-0.8	1.5	-0.1	0.0		0.9	-1.0	0.5	-0.2		
New car reg. (% yoy)	-6.2	-10.5	-3.7	-1.4		-9.9	-4.7	2.1	-5.5	-1.2	
Foreign sector											
Foreign orders (% pop)	2.0	-0.9	3.4			0.2	5.1	-3.1	-2.1		
Exports (% pop)	-2.3	-0.1	0.1			-2.4	1.2	-0.8	1.0		
Imports (% pop)	-1.0	-1.5	1.3			1.4	-1.0	0.3	0.1		
Net trade (sa EUR bn)	47.0	50.1	47.6			14.2	16.0	15.0	15.8		
Labour market											
Unemployment rate (%)	6.9	6.9	6.8	6.8		6.8	6.8	6.8	6.8	6.9	6.9
Change in unemployment (k)	25.3	-6.0	20.3	6.3		18.0	-11.0	-5.0	7.0	24.0	2.0
Employment (% yoy)	0.8	0.6	0.6	0.6		0.6	0.6	0.6	0.6	0.6	
Ifo employment barometer	106.3	106.2	104.9	106.3		105.6	104.4	105.6	106.8	106.4	
Prices, wages and costs											
Prices											
Harmonised CPI (% yoy)	2.0	1.8	1.5	1.7		1.6	1.9	1.9	1.6	1.6	1.3
Core HICP (% yoy)	1.3	1.4	1.0	1.2		1.1	1.2	1.2	1.2	1.3	
Harmonised PPI (% yoy)	1.3	0.8	-0.1	-0.3		-0.2	0.1	0.0	-0.5	-0.5	
Commodities, ex. Energy (% yoy)	0.7	-3.5	-7.0	-12.2		-6.7	-8.2	-13.7	-11.5	-11.4	
Oil price (USD)	110.1	112.6	102.5	110.4		102.6	103.0	107.9	111.3	111.9	
Inflation expectations											
EC household survey	31.2	26.6	22.5	26.2		21.6	20.6	23.5	28.2	26.8	
EC industrial survey	2.9	3.7	-0.6	2.8		-1.8	0.5	1.3	2.8	4.3	
Unit labour cost (% yoy)											
Unit labour cost	3.1	4.0	1.4								
Compensation	2.9	2.2	1.6								
Hourly labour costs	3.7	4.2	1.1								
Money (% yoy)											
M3	7.0	5.4	3.8	2.4		5.2	3.8	2.9	3.1	2.4	
M3 trend (3m cma)						5.1	4.0	3.2	2.8		
Credit - private	-0.4	-0.2	1.3			-0.1	1.3	-0.5	-4.2		
Credit - public	13.5	-18.7	-22.4			-23.1	-22.4	-25.1	-24.1		

% 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

Focus Germany is part of the Current Issues series and deals with macroeconomic and economic policy issues in Germany. Each issue also contains a timetable of financial and economic policy events as well as a detailed data monitor of German economic indicators. Focus Germany is a monthly publication.

Our publications can be accessed, free of charge, on our website www.dbresearch.com You can also register there to receive our publications regularly by E-mail.

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

Available faster by E-mail:
marketing.dbr@db.com

© Copyright 2013. Deutsche Bank AG, DB Research, 60262 Frankfurt am Main, Germany. All rights reserved. When quoting please cite “Deutsche Bank Research”.
The above information does not constitute the provision of investment, legal or tax advice. Any views expressed reflect the current views of the author, which do not necessarily correspond to the opinions of Deutsche Bank AG or its affiliates. Opinions expressed may change without notice. Opinions expressed may differ from views set out in other documents, including research, published by Deutsche Bank. The above information is provided for informational purposes only and without any obligation, whether contractual or otherwise. No warranty or representation is made as to the correctness, completeness and accuracy of the information given or the assessments made.
In Germany this information is approved and/or communicated by Deutsche Bank AG Frankfurt, authorised by Bundesanstalt für Finanzdienst-leistungsaufsicht. In the United Kingdom this information is approved and/or communicated by Deutsche Bank AG London, a member of the London Stock Exchange regulated by the Financial Services Authority for the conduct of investment business in the UK. This information is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. and in Singapore by Deutsche Bank AG, Singapore Branch. In Japan this information is approved and/or distributed by Deutsche Securities Limited, Tokyo Branch. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product.
Printed by: HST Offsetdruck Schadt & Tetzlaff GbR, Dieburg

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