Deutsche Bank
Research

Focus Germany

September 30, 2019

Climate package: No game changer for fiscal policy

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A new (green) 'fiscal deal' in Germany? The climate protection programme is no game changer for fiscal policies as it will be largely counter-financed by additional revenues. The ecological steering effect of the climate package is also limited since the initial carbon price will be low. Speculations that Germany will finally relent and embark on a decisive fiscal policy loosening have proved to be overplayed. We stick to our call that we will not see a fiscal package unless Germany enters a severe recession. Still, Germany's budget surpluses are set to narrow considerably in 2019/2020.

Germany: Struggling but remaining calm. We expect Q3 GDP to shrink by ½% pushing Germany into a technical recession. Private consumption and construction are still well supported. This should allow for a stabilisation in 2020, provided we see no further geopolitical escalations. Under this scenario we do not expect a countercyclical fiscal package in 2020.

German labour market: Skid marks. The robust German labour market has so far been an anchor of stability during the economic uncertainties of the past 12 months. After unprecedented highs in employment figures in the past months, the current weak phase of the German economy raises the question of how long the comfortable situation will continue. Employment rose again slightly in July and reached a new high of 45.25 million, even though the change compared with the previous month was only an increase of 14,000 jobs.

German industrial production likely to shrink by 4% in 2019 – slight rebound expected for 2020. We have trimmed our forecast for manufacturing output in Germany and now expect a real decline of 4% in 2019 (previously: -1.5%). External factors will likely continue to slow global investment activity and, as a consequence, German industrial dynamics in 2020. We expect domestic production to grow by 0.5% in 2020.

Taking the pulse of the German automotive industry: The trough is in sight. Sentiment indicators in the German automotive industry are still weak. However, order intake has stabilised as of late and production expectations jumped into positive territory. Domestic production and exports will decline significantly in 2019 but might have reached the trough.

View from Berlin: The grand coalition's fate in limbo. The disappointing election results in Sachsen and Brandenburg still provided a breather for the Groko. But with the SPD leadership decision and the elections in Thuringia on Oct 26/27 looming, the future of Merkel's government remains in limbo. However, latest polls show that a clear majority of Germans has a positive view of the Groko's work and expects the coalition to serve its full term until 2021.

Economic forecasts

	Real GDP (% growth)			Consumer Prices* (% growth)			Current Account (% of GDP)			Fiscal Balance (% of GDP)		
	2018	2019F	2020F	2018	2019F	2020F	2018	2019F	2020F	2018	2019F	2020F
Euroland	1.9	1.1	0.8	1.8	1.2	1.2	2.9	2.3	2.0	-0.5	-0.9	-1.0
Germany	1.5	0.3	0.7	1.7	1.5	1.3	7.3	6.5	6.1	1.9	1.0	0.4
France	1.7	1.3	1.1	2.1	1.3	1.4	-0.7	-0.3	-0.2	-2.5	-3.2	-2.4
Italy	0.7	0.1	0.6	1.2	0.7	0.8	2.5	2.5	2.3	-2.1	-1.9	-2.0
Spain	2.4	2.1	1.5	1.7	0.8	0.9	0.9	0.6	0.5	-2.5	-2.2	-2.2
Netherlands	2.6	1.8	1.6	1.6	2.8	1.9	10.8	9.9	9.7	1.5	0.7	0.2
Belgium	1.4	1.1	0.8	2.3	1.3	1.4	-1.3	-0.5	0.0	-0.7	-1.4	-1.8
Austria	2.6	1.5	1.2	2.1	1.4	1.5	2.3	2.1	2.1	0.1	0.3	0.3
Finland	1.7	1.2	0.9	1.2	1.2	1.2	-1.4	-1.5	-1.0	-0.7	-0.6	-1.1
Greece	1.9	1.4	1.5	0.8	0.3	0.3	-2.9	-2.0	-1.5	1.1	1.1	1.0
Portugal	2.1	1.8	1.3	1.2	0.3	0.5	-0.4	-0.8	-1.1	-0.5	-0.4	-0.2
Ireland	8.3	5.3	2.5	0.7	0.8	0.7	10.6	8.5	8.0	0.0	0.7	0.0
UK	1.4	1.2	1.3	2.5	1.9	1.9	-3.9	-3.8	-3.7	-1.1	-2.3	-2.4
Denmark	1.5	1.8	1.6	0.7	0.9	1.2	5.8	6.6	6.4	-0.3	0.4	-0.1
Norway	1.6	2.4	1.9	2.8	2.3	1.8	7.2	7.0	6.5	8.1	7.5	7.2
Sweden	2.4	1.4	1.3	2.0	1.7	1.7	1.7	4.0	3.8	1.7	0.6	0.4
Switzerland	2.8	0.9	1.6	0.9	0.6	0.7	10.5	10.1	10.0	0.9	1.1	1.1
Czech Republic	2.9	2.5	2.4	2.1	2.9	2.3	0.3	0.4	0.2	0.9	0.3	0.1
Hungary	4.9	4.5	3.2	2.9	3.3	3.3	0.4	0.1	0.3	-2.2	-1.7	-1.6
Poland	5.1	4.3	3.7	1.7	2.4	3.0	-0.6	-0.8	-0.8	-0.3	-1.4	-1.5
United States	2.9	2.2	1.5	2.4	1.7	1.9	-2.4	-3.2	-3.5	-3.8	-4.5	-4.6
Japan	0.8	0.8	-0.2	1.0	0.6	0.6	3.5	3.5	4.1	-2.3	-2.2	-2.2
China	6.6	6.2	5.9	2.1	2.5	2.6	0.4	1.5	1.1	-4.2	-4.5	-5.0
World	3.8	3.1	3.2	3.3	3.0	3.0						

*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

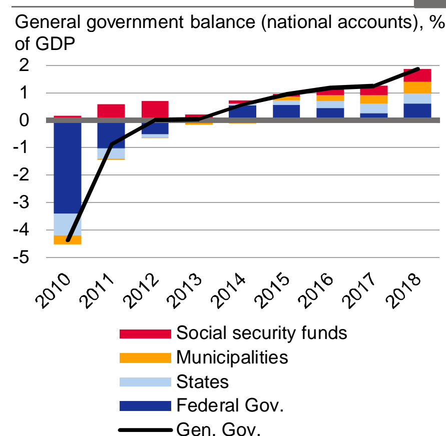
Forecasts: German GDP growth by components, % qoq, annual data % yoy

					2019				2020			
	2017	2018	2019F	2020F	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Real GDP	2.5	1.5	0.3	0.7	0.4	-0.1	-0.5	0.0	0.2	0.2	0.2	0.2
Private consumption	1.3	1.3	1.3	0.8	0.8	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Gov't expenditure	2.4	1.4	1.8	1.2	0.8	0.5	0.2	0.2	0.3	0.3	0.3	0.3
Fixed investment	2.5	3.5	2.9	2.0	1.6	-0.1	0.1	0.2	0.5	0.4	0.4	0.5
Investment in M&E	4.0	4.4	1.8	0.4	1.4	0.6	-0.6	-0.7	0.3	0.0	0.0	0.3
Construction	0.7	2.5	3.8	3.4	2.5	-1.0	0.4	1.0	0.8	0.7	0.7	0.7
Inventories, pp	0.5	0.3	-0.4	-0.3	-0.6	-0.1	-0.2	0.1	0.0	0.0	0.0	0.0
Exports	4.9	2.1	0.5	0.6	1.8	-1.3	-0.7	0.1	0.2	0.2	0.2	0.2
Imports	5.2	3.6	2.4	1.8	0.9	-0.3	0.2	0.5	0.3	0.3	0.3	0.3
Net exports, pp	0.3	-0.4	-0.8	-0.5	0.2	-0.1	-0.4	-0.2	0.0	0.0	0.0	0.0
Consumer prices*	1.5	1.7	1.5	1.3								
Unemployment rate, %	5.7	5.2	5.0	5.1								
Industrial production	2.9	1.1	-4.0	0.5								
Budget balance, % GDP	1.2	1.9	1.0	0.4								
Public debt, % GDP	64.5	60.9	59.1	57.1								
Balance on current account, % GDP	8.1	7.3	6.5	6.1								
Balance on current account, EUR bn	261.2	241	219	212								

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

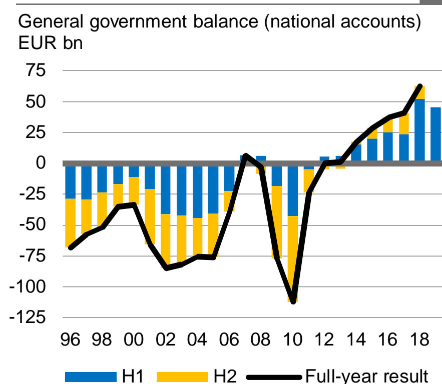
A new (green) 'fiscal deal' in Germany?

Germany: General government balance has been in surplus since 2012 — 1



Sources: Wefa, Federal Statistical Office, Deutsche Bank Research

Government surplus in H1 2019 fell below levels seen in H1 2018 — 2



Sources: Federal Statistical Office, Deutsche Bank Research

— Given Germany's at least technical recession and the government's intention to launch a comprehensive package to achieve Germany's ambitious ecological targets, speculation that Germany will finally relent and embark on a decisive fiscal policy loosening is boiling.

— Fiscal easing already under way. 'Black zero' only on paper. Within two years the federal government's structural balance will swing from a surplus of EUR 7.5 bn (2018) into a deficit of more than EUR 16 bn (2020), a deterioration of 0.7 percentage points of GDP in just two years. At the same time, the structural balance of the general government (all government levels including social security funds) seems set to deteriorate by around 0.7 percentage points of GDP in 2019 alone and a further 0.3 pp in 2020.

— German (nominal) public investment is expanding with an annual rate of 8 ½%. In real terms, growth is at a much lower 4 ½%. The lack of capacities in construction has resulted in price increases of around 4% for public investment, additional spending would boost prices further but yield little in real terms.

— The climate package is no game changer for fiscal policies. The package foresees additional (cumulative) government spending of around EUR 54 bn over the next four years (2020-23) (or c. 1.6% of GDP forecast for 2019). Still, it should be largely self-financing as it does not only involve additional spending but also leads to additional revenue. The additional fiscal impulse could be 0.05 percentage points of GDP in 2020 and thus come in at the lower end of our previous guestimates of between 0.1 and 0.25 pp of GDP. Altogether, we do not foresee any meaningful fiscal impulse and hence growth effect from the package in 2020.

— Counter-cyclical package only in case of a severe recession. Unless Germany enters a severe recession – which would in our view require an annual GDP decline of around 1% as well as an increase in the unemployment rate of at least ¾ percentage points – we do not expect a countercyclical fiscal package.

Keynesian calls from abroad: More money, higher growth, more inflation

In recent years foreign policymakers and economists have demanded that Germany increase public spending and investment in order to boost its economic growth rate, pointing towards sizeable fiscal and current account surpluses and the country's comparatively low public investment ratio. Based on this narrative, Germany's financial surpluses are the result of underspending and underinvestment which not only saps current growth for the global and the EMU economies, but will curtail Germany's own future growth potential.

The markets' expectation regarding German fiscal policy have reached fever pitch in recent weeks as heightened economic downside risks to euro area growth coincide with the perception that the ECB is approaching the limits of monetary policy, highlighted by outgoing President Draghi's desperate claim that fiscal policy "should be the main instrument" now to stimulate economic growth in the euro zone.

Indeed, the German government has recorded budget surpluses for the past seven years[1]. In 2019, the general government's budget surplus (including all

[1] In August, the Federal Statistical Office published the results of its 2019 general revision of the country's national accounts data. This exercise, which usually takes place every five years, was

levels of government and the social security funds; national accounting) widened to a re-unification record high of EUR 62.4 bn (or 1.9% of GDP) (Chart 1). Notwithstanding the current economic slowdown, the government sector posted as still large, albeit falling, surplus of EUR 45 bn in H1 (Chart 2). The fact that Germany's public debt ratio will ultimately fall below the Maastricht threshold of 60% by year-end gives further ammunition to the critics of Germany's allegedly overly conservative fiscal policy stance. However, these people do often not acknowledge that

1. Germany's public finances are confronted with severe medium/long-term challenges resulting from population ageing,
2. Germany's fiscal outturn would have been much weaker if interest rates and hence public interest spending had not fallen that dramatically for the past decade, and
3. Germany's fiscal stance is already loosening quite considerably (including a strong rise in public investment) and that as a result of this Germany's government budget will narrow substantially in the coming two years.

The debate within Germany: National debt brake in question to finance more investment

Meanwhile, the 'fiscal debate' has also reached Germany at a time when the economy is slowing considerably, downside risks are dominating the outlook and the country is facing plenty of structural challenges.

This include, e.g.:

1. deepening skills shortages and falling potential growth due to adverse demographics,
2. the related rising pressures on medium/long-term public debt sustainability from 2025 onwards,
3. the need to invest in digital infrastructure and education in order to successfully manage the digital transformation of the economy, as well as
4. promoting more eco-friendly but still affordable power supply in order to counteract climate change.

Not only the grand coalition's self-determined fiscal policy goal of a so-called 'black zero' (i.e. no new net borrowing at the federal government's core budget) is questioned, but voices grow louder demanding either the abolishment of the national debt brake or at least some modifications to increase space for fiscal manoeuvre. They argue along two different lines: (1) the debt brake prevents growth-enhancing infrastructure (e.g. buildings, motorways, schools, green / digital infrastructure) and (2), they fear it curtails the government's policy space for counter-cyclical fiscal policies.

done last in 2014. Mainly because of the inclusion of the public service broadcasting authorities into the general government sector as well as the modified treatment of auction proceeds from mobile communication frequencies (e.g. UMTS), government revenue and spending data had to be revised back to 1991. Under the new rules, proceeds from mobile communications are now treated as leasing receipts and hence are distributed over time instead of being fully recorded as one-time revenue in the year of the sale. As a result, Germany's government sector already posted small financial surpluses of EUR 0.3 bn in 2012 and EUR 1.1 bn in 2013 (instead of modest deficits of EUR 0.9 bn and EUR 4.0 bn prior to the revision).

Federal budget 2018-23 in the context of the debt brake 3

EUR bn	Actual 2018	Target 2019	Draft 2020	Financial plan 2021	2022	2023
Expenditures	**336.7**	**356.4**	**359.8**	**364.2**	**370.4**	**373.7**
% yoy	3.5	5.9	1.0	1.2	1.7	0.9
of which: Investment expenditures	38.1	37.9	40.0	39.8	39.8	39.8
% yoy	12.1	-0.5	5.5	-0.5	0.0	0.0
% of expenditures	11.3	10.6	11.1	10.9	10.7	10.7
of which: Interest payments	16.4	18.8	15.4	16.2	17.3	16.7
% yoy	-6.3	14.6	-18.1	5.2	6.8	-3.5
% of expenditures	4.9	5.3	4.3	4.4	4.7	4.5
of which: Global over-/underspending	0.0	-1.2	-4.4	-4.8	-5.0	-5.0
% of expenditures	0.0	-0.3	-1.2	-1.3	-1.3	-1.3
Revenues	**347.6**	**350.6**	**350.3**	**352.4**	**365.1**	**375.4**
% yoy	5.2	0.9	-0.1	0.6	3.6	2.8
of which: Tax revenues	322.4	325.5	327.7	334.2	345.5	356.1
% yoy	4.2	1.0	0.7	2.0	3.4	3.1
% revenues	92.8	92.8	93.5	94.8	94.6	94.9
of which: Global excess revenues / revenue shortfall	0.0	-0.2	-4.0	-13.2	-11.0	-10.2
% revenues	0.0	-0.1	-1.1	-3.7	-3.0	-2.7
Budget balance (excluding extra budgetary units of the federal government)*	**10.9**	**-5.8**	**-9.5**	**-11.8**	**-5.3**	**1.7**
Budget balance (including extra budgetary units of the federal government)	**14.9**	**-9.3**	**-14.4**	**-10.8**	**-5.3**	**1.7**
Refugee reserves						
Balance of flows: (+) Payments / (-) Withdrawals	11.2	-5.5	-9.8	-12.4	-7.5	0.0
Stock	35.2	29.7	19.9	7.5	0.0	0.0
Net borrowing of the federal government (total) (-) / net debt retirement (+)	-4.0	3.5	4.9	-1.0	0.0	0.0
of which: Core budget	0.0	0.0	0.0	0.0	0.0	0.0
of which: Relevant extra budgetary units	-4.0	3.5	4.9	-1.0	0.0	0.0
Cyclical component	**6.7**	**0.7**	**1.3**	**-0.1**	**-0.4**	**0.0**
Balance of financial transactions	**0.7**	**0.7**	**0.7**	**1.8**	**1.9**	**0.8**
Balance of relevant extra budgetary units of the federal government	**4.0**	**-3.5**	**-4.9**	**1.0**		
Energy and climate fund (Energie- und Klimafonds)	2.9	-0.7	-2.5			
Reconstruction aid fund (Aufbauhilfefonds)	-0.6	-0.7	-0.5			
Municipal investment promotion fund (Kommunalinvestitionsförderungsfonds)	-0.7	-1.9	-2.0			
Digitalisation fund (Digitalisierungsfonds)	2.4	-0.2	-0.9			
Supervision and care of primary school pupils			1.0	1.0		
Structural net borrowing (-) / net debt retirement (+)	**-3.4**	**-4.9**	**-6.9**	**-0.7**	**-1.5**	**-0.8**
% GDP	-0.10	-0.14	-0.19	-0.02	-0.04	-0.02
Maximum permissable structural net borrowing (upper limit)	**11.4**	**11.4**	**11.9**	**12.2**	**12.6**	**13.0**
% GDP	0.35	0.35	0.35	0.35	0.35	0.35
Maximum permissable net borrowing (upper limit)	**4.0**	**10.0**	**9.8**	**10.5**	**11.1**	**12.2**
% GDP	0.12	0.29	0.28	0.29	0.29	0.31
Structural budget balance	**7.5**	**-10.7**	**-16.4**	**-12.5**	**-6.8**	**0.9**
% GDP	0.22	-0.31	-0.46	-0.34	-0.18	0.02

* Revenues minus expenditures.

**Rounding errors are possible.

Sources: Federal Ministry of Finance, Deutsche Bundesbank, Deutsche Bank Research

Both points are ill-founded in our view. First, the debt brake is per se not an 'investment brake' as it leaves the government the possibility to fund any additional public spending / investment that are viewed as essential (e.g. in measures to mitigate the climate change) by either raising (tax) revenues and/or by shifting expenditure items. Indeed, the national debt brake requires policymakers to set up clear budget priorities that are financed by incoming revenues instead of postponing finance matters into the very distant future (as done in the past).[2] Secondly, the German debt brake allows the federal government to actually let the country's well-defined automatic stabilizers work during economic downturns. For instance, a negative output gap of 1% of potential GDP would allow the federal government to post a cyclically-driven deficit of around 0.2% of GDP.[3] According to the draft 2020 budget and financial plan to 2023, the federal government has still some fiscal space left, which according to our calculations could amount to a cumulative EUR 40 bn over the 2020-23 period (see "safety margin to maximum permissible structural net borrowing" in Chart 4).

Derivation of the structural net borrowing of the federal government — 4

	Actual	Target	Draft	Financial plan		
EUR bn	2018	2019	2020	2021	2022	2023
Budget balance of the federal government (core budget)	**10.9**	**-5.8**	**-9.5**	**-11.8**	**-5.3**	**1.7**
+ Balance of relevant extra budgetary units of the federal government	4.0	-3.5	-4.9	1.0	0.0	0.0
= Financial balance of the federal gov. (incl. relevant extra budgetary units)	**14.9**	**-9.3**	**-14.4**	**-10.8**	**-5.3**	**1.7**
- Cyclical component	6.7	0.7	1.3	-0.1	-0.4	0.0
- Balance of financial transactions	0.7	0.7	0.7	1.8	1.9	0.8
= Structural budget balance	**7.5**	**-10.7**	**-16.4**	**-12.5**	**-6.8**	**0.9**
Net borrowing (-) / net debt retirement (+) of the federal gov't (core budget)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
+ Balance of relevant extra budgetary units of the federal government	4.0	-3.5	-4.9	1.0	0.0	0.0
= Net new borrowing (-) / net debt retirement (+)	4.0	-3.5	-4.9	1.0	0.0	0.0
- Cyclical component	6.7	0.7	1.3	-0.1	-0.4	0.0
- Balance of financial transactions	0.7	0.7	0.7	1.8	1.9	0.8
= Structural net borrowing (-) / net debt retirement (+)	**-3.4**	**-4.9**	**-6.9**	**-0.7**	**-1.5**	**-0.8**
Maximum permissable structural net borrowing according to the debt brake (upper limit)	**11.4**	**11.4**	**11.9**	**12.2**	**12.6**	**13.0**
Maximum permissable structural net borrowing (upper limit), % of GDP	0.35	0.35	0.35	0.35	0.35	0.35
Nominal GDP of the preceding year of budgeting	3,134.1	3,263.4	3,386.0	3,481.0	3,604.5	3,713.7
Saftey margin to maximum permissable structural net borrowing	**8.0**	**6.5**	**5.0**	**11.5**	**11.1**	**12.2**
% GDP	0.24	0.19	0.14	0.31	0.29	0.31
Maximum permissable net borrowing according to the debt brake	**4.0**	**10.0**	**9.8**	**10.5**	**11.1**	**12.2**

*Rounding errors are possible.

Sources: Federal Ministry of Finance (Federal Fiscal Report 2020, Monthly Report August 2019), Deutsche Bundesbank, Deutsche Bank Research

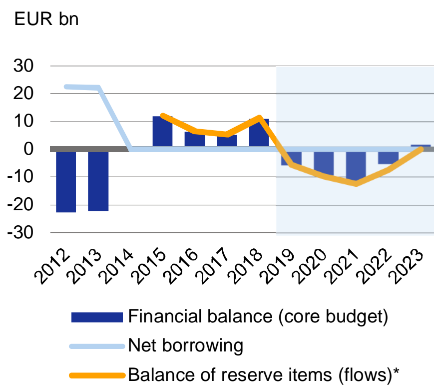
[2] That said, empirical evidence clearly shows that economies where governments ignored the 'principle of sustainability' (structurally balanced budgets), they benefitted from interim upturns but later suffered from even deeper downturns when capital markets where not willing anymore to lend money at affordable rates (see e.g. eurozone sovereign debt crisis).

[3] In the framework of Germany's debt rule, this would be explicitly captured by a so-called negative cyclical component ('Konjunkturkomponente'). This cyclical component is calculated as the product of the output gap and an estimated fiscal semi-elasticity of 0.203 for the federal government. In good economic times with a positive output gap, it tightens the government's fiscal space, while it eases the latter in economic downturns/recessions when the (positive) output gap narrows or turns negative. For the government sector as a whole (including the states, municipalities and the social security funds), the EC currently estimates Germany's fiscal semi-elasticity to be at around 0.504. This implies that a one percentage point decrease in the country's output gap would lead to a c. ½ percentage point of GDP deterioration in the general government's budget balance.

The draft 2020 budget & financial plan to 2023: Is Germany really spending too little? No, not really

The federal gov't is planning with persistent deficits at least until 2022 — 5

EUR bn

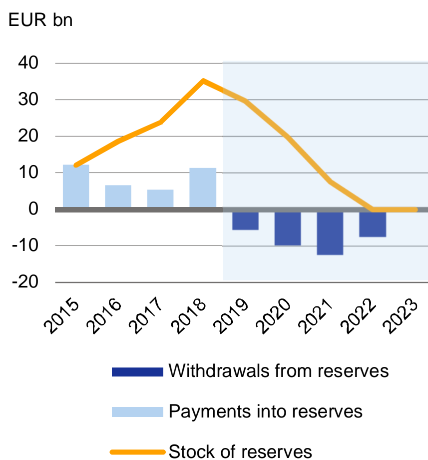


Financial balance: Excluding payments into and withdrawals from reserves, respectively.
* only refugee reserves fund

Sources: Federal Ministry of Finance, Deutsche Bank Research

Government plans to fully deploy the refugee reserves fund by 2022 — 6

EUR bn



Sources: Federal Ministry of Finance, Deutsche Bank Research

Earlier this month Minister of Finance Scholz presented the draft 2020 budget to the parliament (Bundestag). According to the 2020 budget draft and the financial plan to 2023, the federal government intends to run – despite a further significant budgetary relief from interest spending (due to low / negative Bund yields) – a cumulated deficit of c. EUR 25 bn during the 2020-23 period (Chart 3).[4] In order to keep the 'black zero' at least on paper (i.e. in budget law terms), the government will fully deplete its financial reserves by the end of 2022 (Chart 3, 5 and 6).[5] This means that the 'black zero' is effectively not really a 'black zero' anymore as the government is de facto (though not de jure) posting deficits and thereby driving federal government debt already upwards again.

A weak point of the draft budget and financial plan is that the government is diverting an ever larger share into social spending. This is problematic as social spending is not lifting Germany's growth potential but is harmful to the former as it is financed through already high social security contributions and taxes (Germany's tax ratio stood in 2018 at an all-time re-unification high). While total federal government spending is set to grow on average at a modest 1.2% p.a. over the 2020-23 period, social spending will rise at the same time by 2.8%. At an average annual growth rate of 3.8%, federal government subsidies to the public pension system will grow even more strongly and finally exceed the EUR 100 bn threshold in 2020 (and by then accounting for c. 28.3% of total federal spending).That said, the share of social spending will increase from around 50% in 2019 to 53.4% by 2023. On top of that, the government still needs to cut spending by EUR 4.4 bn in its budget draft for 2020 (c. 1.2% of overall spending) ('general underspending item') (Chart 3). In sum: Not really sustainable, not really conservative fiscal policy!

Strong public investment growth hitting bottlenecks

In the next years, at least public investment in physical capital is set to rise strongly, too. According to the financial plan, the federal government's construction investment will grow at 8.6% p.a. during the 2020-23 period. That said, this number relates only to the investment part of the federal government: usually, the bulk of public infrastructure investment is undertaken by lower government levels, i.e. the federal states and in particular municipalities. According to the Federal Finance Report 2020, physical investments are set to increase by 7.8%, 13.3% and 12.3% in 2019 alone on the federal, state and local government level, respectively (core budgets in financial statistics, not national accounting terms).

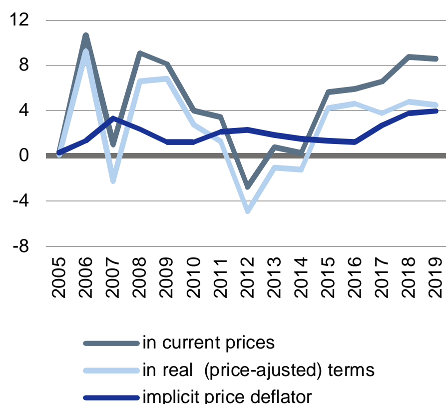
A look at Q2 national accounts data shows that public investment is already expanding briskly (Charts 7 and 8). In H1 2019 public investment increased by a high 8.6% yoy in nominal terms (by comparison 2018: 8.7% yoy). Among sub-components, capital expenditures surged by 11.2% yoy (11.9% yoy) while investment in construction expanded at 9.7% yoy (9.6% yoy). In 'real' (price-adjusted) terms total public investment expanded by still strong but much lower 4.5% yoy (thereof: capital expenditures at 9.6% yoy and construction at 3.5%).

[4] Following a planned deficit of around EUR 6 bn this year, the Groko intends to let the deficit widen further to EUR 9½ bn 2020 and almost EUR 12 bn in 2021. In 2022 they still expect a deficit of roughly EUR 5 bn. The budget shall not be balanced before 2023 and hence long past the current legislative period (next regular parliamentary elections are scheduled for autumn 2021 unless the coalition breaks up before).

[5] The government accumulated during strong budget years a fiscal buffer in the so-called 'asylum/refugees' funds, which was worth around EUR 35 bn at the end of 2018 (or c. 1% of GDP forecast for 2019).

Germany: Public investment is expanding briskly 7

Public gross fixed capital formation, % yoy

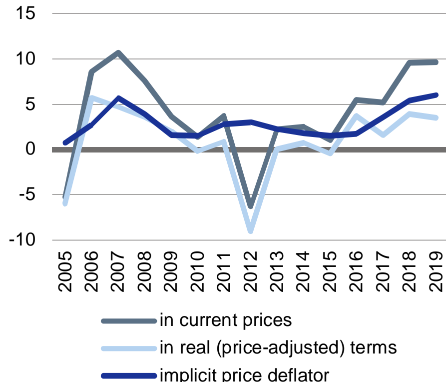


2019: H1 2019 vs. H1 2018

Sources: Federal Statistical Office, Deutsche Bank Research

Prices for public construction investment are rising strongly 8

Public construction investment, % yoy



2019: H1 2019 vs. H1 2018

Sources: Federal Statistical Office, Deutsche Bank Research

The exceptionally large deflator, most notably in construction, is a clear indication for supply-side constraints (high capacity utilisation and skill shortages), the major impediments to even higher (real) investment at present.

Furthermore, there is anecdotal evidence that red tape, lack of administrative capacity (specifically at the local government levels) and resistance by citizens to investment projects (e.g. towards wind power plants) are further complicating a timely and effective implementation of public investment[6]. All of these structural impediments to higher (real) public investment cannot be overcome overnight. Taking these structural issues into consideration it becomes clear that the calls for even more public investment spending are ill-founded. More public (infrastructure) investment spending will not lead to more construction – i.e. improve the country’s physical infrastructure – but only drive construction prices further up. Raising public investments even further at this stage of the economic cycle would be equal to burning taxpayers’ money. Therefore, it is the government’s task to set clear spending priorities and work towards a gradual (not abrupt) increase in public investment – something they seem to do. At the same time, the government should implement policy measures that mitigate the adverse effects from skills shortage (e.g. improved education), increase its own administrative capacity where needed and reduce unnecessary red tape.

The Altmaier idea of mobilising private capital for green investments: (How) would it work?

Amid the continuation of the ECB zero-rate policy, the minister for the economy, Peter Altmaier, has recently come up with a plan to mobilise private capital for green investments, according to press reports. Overall, Altmaier intends to activate up to EUR 50 bn in private capital for investments into eco-friendly projects. The CDU and SPD are toying with issuing a so-called 'climate' bond, a similar idea. According to press reports, the government could set up an extra-budgetary vehicle, e.g. organised in the form of a trust ('Bürger-Stiftung Klimaschutz'). As a starting point, the federal government would initially allocate EUR 5 bn of federal funds into this vehicle (from the core budget) and then regularly inject a further EUR 1 bn per annum into this vehicle. However, as these resources would not be enough to reach the amount of EUR 50 bn, the foundation (or the federal government on behalf of the foundation) could issue so-called 'citizen' bonds in capital markets ('Bürger-Anleihen') paying an interest rate of 2% per year. These funds could be used to grant loans at zero rates for green investments to promote the transformation into a green society.

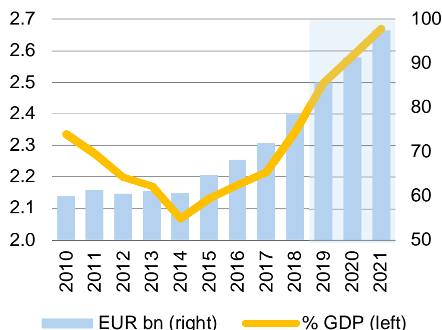
In the idea of the government, this could result in a win-win situation for bondholders (e.g. households) that would receive positive interest rates and the borrowers that would be able to fund their green investments at zero interest rates. However, the flip side of the idea is that the federal government (i.e. taxpayers) would likely have to cover the losses related to this vehicle / these transactions (in a simple calculation, these losses could amount to around EUR 1 bn per fiscal year)[7]. Moreover, it is questionable whether a (private) fund/trust could actually borrow in capital markets at zero rates as this would require sufficient backing by the federal government. Hence, if borrowers were unable to repay loans because of project failure, bondholders (in case of default) or the government (in case of a public guarantee) would make losses.

[6] For instance, the number of constructed wind power plants fell to just 35 in H1 2019, down sharply from 743 in 2018 and 1.792 in 2017. While investors need to wait roughly 300 days to receive a building permit, they nowadays often have to wait 900 days (see FAZ article from 5th of September 2019).

[7] Calculated as the yield difference of 2 percent and an amount of EUR 50 bn.

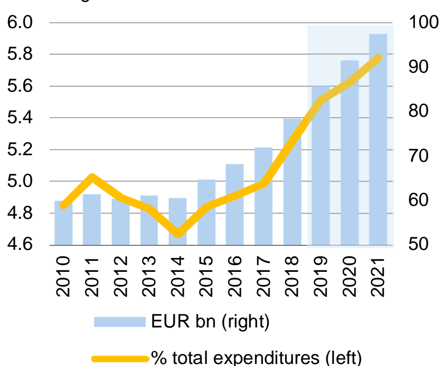
At a first glance, it also looks odd that the government would not delegate the above task of promoting green investments to its own development bank KfW.

Germany: Public investment is set to expand considerably 9



Sources: Federal Statistical Office, Deutsche Bank Research, IfW Kiel (forecasts)

Germany: Share of investment in total public spending has been on the rise since 2014 10



Sources: Federal Statistical Office, Deutsche Bank Research, IfW Kiel (Forecasts)

Only 13% of German voters are in favour of abolishing the debt brake (according to a recent poll)

Based on previous press reports, the federal government could aim to circumvent the rules of the national debt in order to increase its space for manoeuvre given its already stretched finances. But would such a 'budgetary' trick really work? The national debt brake clearly says that any federal extra-budgetary units will have to be considered under the rules of the debt brake, implying the government cannot gain any further fiscal scope by setting up units outside the regular core budget. Therefore, already today extra-budgetary units like the 'Energy and climate fund', the 'Reconstruction aid fund', the 'Municipal investment promotion fund' and the 'Digitalisation fund' are units that have to be considered under the debt brake.

However, the debt brake does not explicitly give guidance for the case of (private) foundations or trusts. This could be a loophole to be exploited by the government. For instance, the government could inject equity into a (private) climate trust funded outside the regular federal core budget. Should this item be classified as a (net-wealth neutral) financial transaction, it would not be counted in technical terms as structural spending. This would at the same time imply that structural borrowing were to remain unchanged in the context of the national debt brake.

However, if the government really ignored at least the spirit of the debt brake at the first sign of economic headwinds this would damage its credibility among many voters as would a formal change of the rule in the constitution requiring a 2/3 majority in both houses, i.e. the Bundestag and Bundesrat. In a recent Civey poll (as of September) on behalf of the 'Initiative Neue Soziale Marktwirtschaft', 62% of the German population view the 'black zero' since 2014 as a success story. Furthermore, a majority of 52.1% of the people polled argue that the government should continue abstaining from new borrowing while only less than a third (32.2%) has a contrary view.[8] Another poll by YouGov during the summer period shows that 69% of the population are supportive for the national debt brake while only 13% would opt for the abolishment of the rule (the remaining 18% have no clear opinion).

Anyway, after last week’s announcement of the climate package, it is clear that the above ideas of setting up a (private) trust and/or issuing ‘citizens bonds’ to fund green investments have at the moment no sufficient political backing, which however does not imply that this topic could come up again in the future (for instance, if Germany were hit by a deep economic recession).

Fiscal policies are already turning expansionary, investment rising strongly

Public investment is expanding briskly. Issues are mainly related to capacity constraints, skills shortages and lack of administrative resources – something the government can fix only over time. According to the CDU’s fiscal expert, Eckhardt Rehberg, far more than EUR 20 bn that were budgeted for public

[8] Furthermore, 86% of the population judge the current level of public revenues to be sufficiently large for the government to fulfil its tasks. In this context, around ¾ of the population (75.5%) are of the view that the federal government should divert a larger part of its revenue into public investment. While only 13.6% of polled people would opt for new borrowing, an even smaller share of 7.8% would support tax hikes. See article.

investment projects are ready to be withdrawn and spent (see FAZ from 8th September 2019).

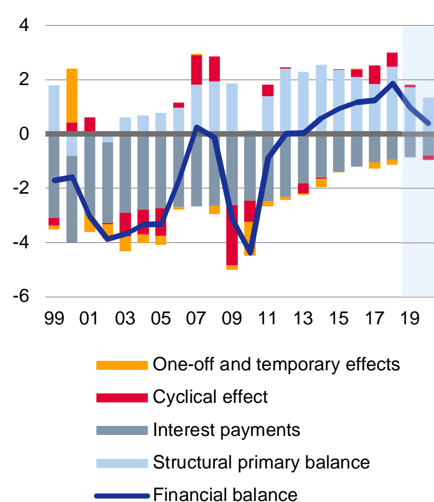
Germany's fiscal policy is already turning expansionary as can be seen by the deterioration of its budget position (both at the federal and general government levels). As regards the federal government, the structural deficit is set to widen from around EUR 11 bn this year (0.3% of GDP) to c. EUR 16 bn (0.5% of GDP) in 2020 (Chart 3). The safety margin – i.e. the gap of structural new net borrowing to the maximum permissible amount under the debt brake – amounts to only some EUR 6½ bn in 2019 and EUR 5 bn in 2020 implying that most of the federal government's fiscal scope has already been utilised (Chart 4). This notwithstanding, the government could mobilise a further cumulated EUR 40 bn over the period 2020-23 under the rules of the national debt brake. This amount – if deemed necessary – could still be used to e.g. fund additional spending such as green investments.

As regards the risk of recession, the government could let automatic stabilisers work in full any time as not the headline but the structural position matters for the debt brake rule, and the latter is by definition not affected by changes in the economic cycle.

At the general government level (federal, states, municipalities, social security funds), Germany's surpluses will shrink considerably in the coming years. The IfW (a well-respected German economic think tank) does even forecast Germany's general government budget to move from a surplus of EUR 62.4 bn (or 1.9% of GDP) in 2018 into a deficit of EUR 6.9 bn (or 0.2% of GDP) by 2021. In their view Germany's structural budget position, i.e. adjusted for cyclical and one-off effects, will deteriorate from more than EUR 30 bn in 2018 to around EUR 10 bn by 2021. As regards public investment, the IfW expects annual (gross) capital formation by the general government sector to rise from below EUR 60 bn in 2010 (or 2.3% of GDP and 4.9% of public spending) to EUR 97.4 bn (or 2.7% and 5.8%) by 2021 (Charts 9 and 10). That said, public investment spending is set to rise by 7.4% p.a. on average over the next three years, and thus much stronger than total government spending (4.3% p.a.). If all of the above is not considered 'expansionary', how large would a fiscal stimulus need to be in order to classify as expansionary?

General government budget position 11

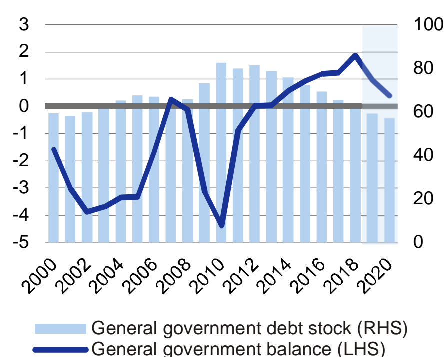
% of GDP



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

Government surplus is set to decline due to weak economy and expansive fiscal policies 12

% of GDP (general government level) (NA)



Sources: WEFA, Federal Statistical Office, Eurostat, DB

Budget surplus to shrink in 2019/20, deficit looming in 2021

As a result of the latest general statistical revision of Germany's national accounts data in August 2019, Germany's fiscal data was revised, too. Specifically, Germany's fiscal surplus was revised upwards to EUR 62.4 bn or 1.9% of GDP (compared to previous EUR 58.0 or 1.7% of GDP)[9]. On the backdrop of this upward revision and our expectation of continued fiscal easing in the years ahead – as reflected in a projected deterioration in Germany's structural budget balance (general government) of around 0.7 percentage points of GDP this year and a further 0.3 pp next year – the general government's fiscal balance might narrow considerably to around 1.0% of GDP in 2019 and just 0.4% in 2020 (Chart. 11). If this trend continued, Germany could post a deficit already by 2021. This notwithstanding and thanks to a negative interest rate / GDP growth differential[10], Germany's general government debt ratio will

[9] The larger budget surplus was driven by a strong upward revision to non-tax revenue (by c. EUR 9.4 bn), which over-compensated the upward adjustments to expenditures (by roughly EUR 5 bn; of which around EUR 0.8 bn were related to higher interest payments).

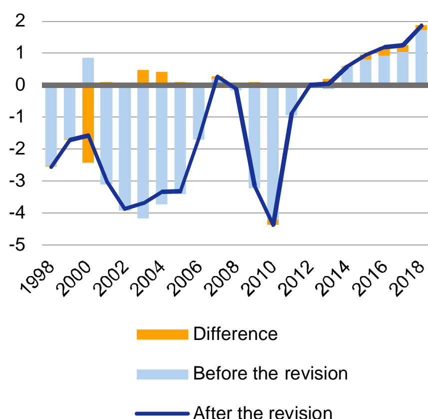
[10] In 2018, this differential stood at c. -1.5 pp given the implied interest rate on government debt of around 1.5% and nominal GDP of around 3%. We project this differential to stay widely negative in 2019/20.

continue trending lower, reaching 59.1% of GDP by end-2019 and 57.1% in 2020 (Chart 12).

Climate package: No game changer for German fiscal policies

Financial balance of the general gov't before and after the general statistical revision (Generalrevisino 2019) 13

% GDP and percentage points of GDP



Sources: WEFA, Destatis, Deutsche Bank Research

The climate package revealed last Friday foresees additional (cumulative) government spending of around EUR 54 bn over the next four years (2020-23) (or c. 1.6% of GDP forecast for 2019) (Chart 14). The above spending will be primarily channeled through the federal government's 'Energie and Climate Funds' ('Energie- und Klimafonds'; EKF) – an off-budget entity that has to be considered under the rules of the national debt brake (Chart 3) and is seen as the main financing vehicle for the energy transition and climate protection. Based on data by the Federal Ministry of Finance total annual spending regarding the climate package will rise gradually over time, from around EUR 10.3 bn in 2020 to EUR 15.6 bn in 2023 (Chart 14). Spending measures include items such as premiums to the buyers of e-cars, subsidies for building restoration as well as expenditures related to the upgrade / extension of the public local transport system.

Though the package should be largely self-financing as it does not only involve additional spending but also leads to additional revenue. That said, the government stressed that it is not its intention to create additional government revenue for other government tasks. Instead, the additional government revenue will be fully invested in climate protection measures and/or given back to citizens (e.g. via tax relief or expenditure relief measures). In this context, the government confirmed once more that it will stick to the 'black zero' and that the corresponding measures on the revenue and expenditure side will make sure that the financial effects will be balanced for the federal government budget. Overall, (net) government revenues – calculated as additional revenue (such as proceeds from CO_2 pricing) minus tax shortfalls (e.g. from tax promotion measures or tax cuts) – are expected to amount to roughly EUR 42 bn over the next four years (Chart 14).

Our calculations show that the net fiscal effect (i.e. the net of spending, tax revenue shortfalls and additional revenue) should be moderate overall, rising from EUR 1.8 bn (0.05% of GDP) in 2020 to EUR 4.6 bn (0.12% of GDP) in 2023 (Chart 14). How the government plans to finance this financial gap given its renewed avowal of the 'black zero' remains to be seen. Yet, the debt brake would not be a binding constraint as the government has still some fiscal space left under the rule.

The above climate package is not (yet) included in the finance ministry's budgetary outlook discussed earlier in this note. At this stage, it seems likely that the package will lead to a modest fiscal deterioration only mainly affecting the federal government level (though some suggested measures as the VAT cut on train tickets from 19% to 7% will also affect states and municipalities). Therefore, expectations for a considerable fiscal boost to the German and European economy have proved to be unrealistic and overplayed.

As Chart 14 suggests, any additional spending from the package can only be implemented gradually over time given existing supply-side bottlenecks in the German economy. Based on current information, the additional fiscal impulse could be 0.05 percentage points of GDP in 2020 and thus at the lower end of our previous guestimates of between 0.1 and 0.25 pp of GDP. Altogether, we do not foresee at this stage any meaningful fiscal impulse and hence growth effect from the package in 2020.

Unless Germany enters a severe recession – which would in our view require an annual GDP decline of around 1% as well as an increase in the unemployment rate of at least ¾ percentage points – we not expect a dedicated countercyclical

fiscal package. That said, discretionary fiscal policy measures are already stimulating the economy. Raising public investment spending significantly further above current plan levels would only result into even strong price increases.

14

Fiscal effects on the revenue and expenditure side from the climate protection programme (2020-23)

			2020	2021	2022	2023	Cumulative	2020	2021	2022	2023	Cumulative
			EUR bn				EUR bn	% GDP				% GDP (2019)
1	a	**Revenues Energy and Climate Funds (EKF)**	**8.8**	**10.1**	**11.2**	**11.9**	**42.0**	0.25	0.28	0.30	0.31	1.22
		Proceeds from certificate (before CO2 pricing)	2.7	2.9	3.1	3.3	12.0	0.08	0.08	0.08	0.08	0.35
		Allocation of federal funds (after CO2 pricing)	0.1	2.0	1.3	0.3	3.6	0.00	0.05	0.03	0.01	0.11
		Withdrawal from EKF reserves	6.0	1.6			7.6	0.17	0.04			0.22
		Gross revenue from CO2 pricing		3.6	6.9	8.3	18.8		0.10	0.18	0.21	0.55
	b	**Tax promotion measures**	**0.3**	**0.5**	**0.7**	**0.9**	**2.4**	0.01	0.01	0.02	0.02	0.07
		Energetic modernisation of buildings		0.2	0.3	0.5	0.9		0.00	0.01	0.01	0.03
		Promotion of electronic mobility	0.0	0.1	0.1	0.1	0.3	0.00	0.00	0.00	0.00	0.01
		Additional promotion of electronic company cars	0.0	0.0	0.0	0.1	0.1	0.00	0.00	0.00	0.00	0.00
		7% value added tax on train tickets	0.2	0.3	0.3	0.3	1.0	0.01	0.01	0.01	0.01	0.03
2	a	**Expenditures Energy and Climate Funds (EKF)**	**8.8**	**10.1**	**11.2**	**11.0**	**41.1**	0.25	0.28	0.30	0.28	1.20
		Programme spending (EKF)	7.2	10.1	11.2	11.0	39.5	0.20	0.28	0.30	0.28	1.15
		Contribution to EKF reserves	1.6				1.6	0.05				0.05
	b	**Additional expenditures on climate protection (sections)**	**1.5**	**1.7**	**1.7**	**2.2**	**7.1**	0.04	0.05	0.05	0.06	0.21
	c	**Relief measures (expenditure side)**		**1.0**	**2.0**	**2.5**	**5.4**		0.03	0.05	0.06	0.16
		EEG surcharge		0.9	1.8	2.2	4.9		0.02	0.05	0.06	0.14
		Commuter flat		0.0	0.2	0.2	0.4		0.00	0.00	0.01	0.01
		Housing benefit		0.1	0.1	0.1	0.2		0.00	0.00	0.00	0.01
I.		**Revenue (net, total): 1a - 1b**	**8.5**	**9.6**	**10.5**	**11.0**	**39.6**	0.24	0.26	0.28	0.28	1.15
II.		**Expenditures (total): 2 a + 2b + 2c**	**10.3**	**12.8**	**14.9**	**15.6**	**53.6**	0.29	0.35	0.40	0.40	1.56
III.		**Total fiscal burden**	**1.8**	**3.2**	**4.4**	**4.6**	**14.1**	0.05	0.09	0.12	0.12	0.41
		Programme volume: 1b + 2 (a, b, c)	10.6	13.3	15.7	16.5	56.1	0.30	0.37	0.42	0.42	1.63
		Programme volume (excl. Contribution to EKF reserves in 2019)	9.0	13.3	15.7	16.5	54.5	0.25	0.37	0.42	0.42	1.59

*Rounding errors are possible.

Sources: Federal Ministry of Finance, Deutsche Bank Research

Economic and ecological assessment of likely elements of the package

The climate package consists of four major elements. First, it contains general funding programmes for climate protection measures and technology-specific subsidies. Second, it includes setting up a uniform pricing system for CO_2 in the transport and heating sectors (buildings). Third, either the revenues from carbon pricing will be reinvested in climate protection measures (see first element) or private households are compensated for higher energy prices due to carbon pricing. The fourth element consists of further command and control measures that will be specified or introduced on the way to 2030.

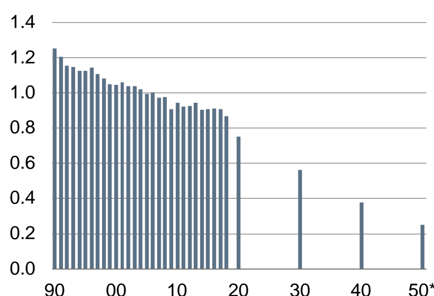
The climate package is a classic example of a political compromise. It is an attempt to support global climate protection by means of national measures without putting too much pressure on the rank and file of private households and corporates in Germany. Introducing a carbon price in the transport and heating sector is an important step to increase cost-efficiency of climate policy. Starting at a fixed price of EUR 10 (from 2021) and rising to EUR 35 per tonne by 2025, initial price signals are modest: At EUR 35 per tonne of CO_2, less than 10 cents will be added to the cost of a litre of petrol or diesel. From 2026 onwards, the system of fixed prices will transition to an emissions trading system with price floors and ceilings (minimum price: EUR 35 and maximum price EUR 60 per tonne of CO_2). Clearly, these price caps are not in line with the pure academic principle of emissions trading. Again, the aim is to avoid excessive burdens. In principle, however, the transition from a fixed-price system to an emissions trading system is a clear positive.

Many observers have criticized the low CO_2 price. The steering effect of this price signal is indeed very small. However, this is not the major drawback. What is more disconcerting is that the climate action package contains numerous measures that are inconsistent with uniform CO_2 pricing as well as general funding instruments and technology-specific subsidies, particularly in areas in which a fixed price on CO_2 emissions will be followed by an emissions trading system. The latter include the envisaged swap premium for old oil-fired heating systems and higher subsidies for electric vehicles. No need for these technology-specific subsidies here: They counteract the target of cost efficiency and are superfluous in an emissions trading system. Not to mention that such subsidies could thwart the emergence of enhanced technologies and may result in windfall effects or (given the bottlenecks at heating installation services) higher prices, which would be critical from a socio-political perspective.

Another feature of political compromise is that higher burdens for the citizens are accompanied by reliefs in other areas. The package contains higher prices for petrol, diesel and heating oil due to carbon pricing. The vehicle tax for cars with high CO_2 emissions will increase. Measures to soften the financial impact include higher housing allowances and lower electricity prices, which – given the high share of taxes and surcharges in electricity prices, along with plans to electrify (not only) transport – clearly makes sense. Moreover, the government aims to raise the commuter allowance to ease the burden on commuters, though this will hardly be beneficial to climate protection. Further measures include a reduction in value-added tax on train rides to 7%, higher aviation levies and a sharp uptick in railroad investment. The list is long.

Ambitious climate targets 15

Greenhouse gas emissions in Germany, CO_2 equivalent (billion tonnes)



* Federal government target for reduction of greenhouse gas emissions by 2050: at least -80% relative to 1990

Sources: Federal Environment Agency, Deutsche Bank Research

Germany's long-term climate targets still out sight

Germany officially aims to reduce its greenhouse gas emissions by 80-95% compared to 1990 by 2050. The following calculation gives you an example how huge this challenge is: Between 1990 and 2018 (i.e. including the German

unification effects), German greenhouse gas emissions declined by an average 1.3% per year. In order to achieve a reduction by 'only' 80% by 2050, emissions will have to be reduced by an average 3.8% per year. Unless new technologies are developed and broadly used, these long-term climate goals would require a major shift away from established consumption patterns and production processes. This will inevitably lead to higher prices for energy and considerable restrictions to private households' and corporates' freedom of choice and ownership rights. As it stands, the climate action package will not suffice to reach these goals. Even the most efficient climate policy could not prevent such fundamental changes (with current technologies).

A political debate about sacrifices, however, has enormous disruptive potential. Should the financial burden on private households rise sharply on the heels of climate policy measures, fringe parties are likely to gain momentum. The comments of the Bundestag parties on the pact give an indication for that. When putting together the recent climate action package, the federal government has apparently also paid tribute to its political disruptive potential – such procedure is surely understandable in a democracy.

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Germany: Struggling but remaining calm

— We expect Q3 GDP to shrink by ½% pushing Germany into a technical recession.

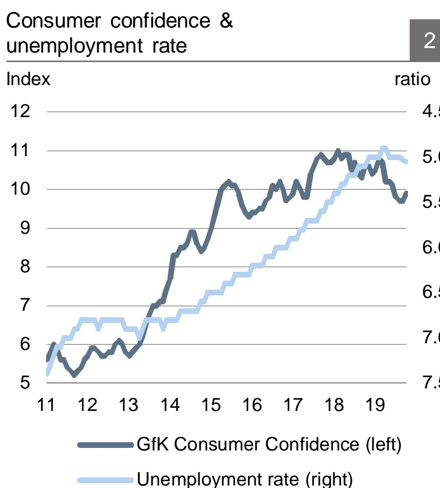
— Private consumption and construction are still well supported. This should allow for a stabilisation in 2020, provided no further geo-political escalations.

— Under this scenario we do not expect a countercyclical fiscal package in 2020.

Foreign order intake 1

Source: Federal Statistical Office

Consumer confidence & unemployment rate 2



Sources: GfK, Deutsche Bundesbank

Q3 GDP should fall by up to ½% qoq. Sentiment indicators through September suggest a further deterioration during the quarter after an already weak start evident from hard monthly data (Jul.). The latest German PMI data indicate a rising risk perception of companies. The Manufacturing PMI fell to a 10-year low (41.4) in September (Jun 2009: 40.9)! Although still in the expansionary territory, the service sector also lost considerable momentum (Sep: 52.5 vs. Aug: 54.8). As we already mentioned in the previous edition of Focus Germany, the combination of ongoing uncertainty and risk factors (trade dispute, Brexit, geopolitics), is increasingly having a negative impact on the economy. In the worst case (not our baseline scenario) these factors could lead to a self-reinforcing downward spiral and thereby to non-linear adverse effects. At the moment, we expect Q3 GDP to drop by up to ½%, pushing Germany into a technical recession, a scenario we already discussed back in February.

Weakness should be most pronounced in exports and capex, although the winter half's sharp contraction in foreign orders has clearly slowed in recent months. Export expectations, albeit clearly in contraction territory, showed signs of stabilization in August but the recovery was short-lived as expectations deteriorated significantly again in September. Gross operating profits fell 1.2% qoq in Q2 and are down 1.5% yoy, which together with a sharp increase in economic policy uncertainty points towards falling capex investment in H2. In Q2 hours worked in services declined by -0.1% qoq, the first drop since 2013: GVA still rose 1.4% yoy, compared to a 4.9% slump in industry. The labour market is so far holding up well, although unemployment is no longer falling. There are still more than ¾ m vacancies. Employment growth is slowing, we expect the yoy rate to be below 0.5% by year-end compared to 1.2% in Dec. 2018 (Jul 0.8%). There are more reports about companies working short-shifts – a key parameter to watch in the coming months -, particularly in supplier industries of the auto sector (although only one car maker is so far considering such a move). The number of people working short-shifts still stood at 46k in June compared to 17k a year ago. In its August report the labour office did not see a more substantial rise based on applications for the short-term work allowances. Based on the experience of the 2009 recession when GDP contracted by 5.7%, while employment fell a meagre 200k and the unemployment rate rose from 7.8% (Jan 2009) to 8.3% in June before starting to recede again, we do not expect a strong setback in the labour market. Given supply shortages and demographics companies are more likely to temporarily reduce working hours rather than cutting payrolls. (In 2009 the number of people working short shifts peaked at 1.4m). This will not only stabilize labour income but also ease employees' concerns about losing their job. In the EU consumer survey the balance expecting rising unemployment over the next 12 months has risen to 24.4 Aug. (2018 avg 7.7) which is still a far cry from its peak of 79.8 in Mar. 2009.

No fiscal package, still expansionary fiscal policy

Fiscal policy is more expansionary than the government's ostensible insistence on the 'black zero' is suggesting. Within two years the federal government's structural balance will swing from a surplus of EUR 7.5 bn (2018) into a deficit of more than EUR 16 bn (2020), a deterioration of 0.7 percentage points of GDP in just two years. At the same time, the structural balance of the general government (all government levels including social security funds) seems set to deteriorate by around 0.7 percentage points of GDP in 2019 alone and a further 0.3 pp in 2020. The climate package is no game changer for fiscal policies. It should be largely self-financing as it does not only involve additional spending but also leads to additional revenue. The additional fiscal impulse could be 0.05 percentage points of GDP in 2020 and thus come in at the lower end of our previous guestimates of between 0.1 and 0.25 pp of GDP. Altogether, we do not foresee any meaningful fiscal impulse and hence growth effect from the package in 2020. We do not expect the government to launch a countercyclical package, unless Germany is pushed into a severe recession for example by a complete Brexit disaster or increases of US auto tariffs.

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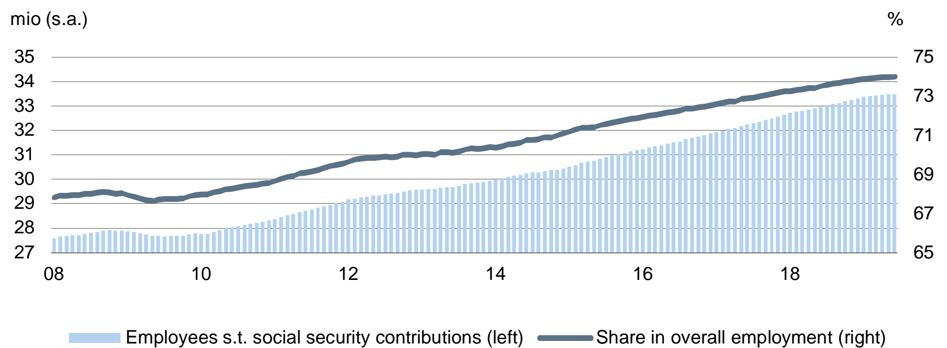
German labour market: Skid marks

The robust German labour market has so far been an anchor of stability during the economic uncertainties of the past 12 months. After unprecedented highs in employment figures of the past months, the current weak phase of the German economy raises the question of how long the comfortable situation will continue. Employment rose again slightly in July and reached a new high of 45.25 million (0.8% yoy), even though the change compared with the previous month was only an increase of 14,000 jobs.

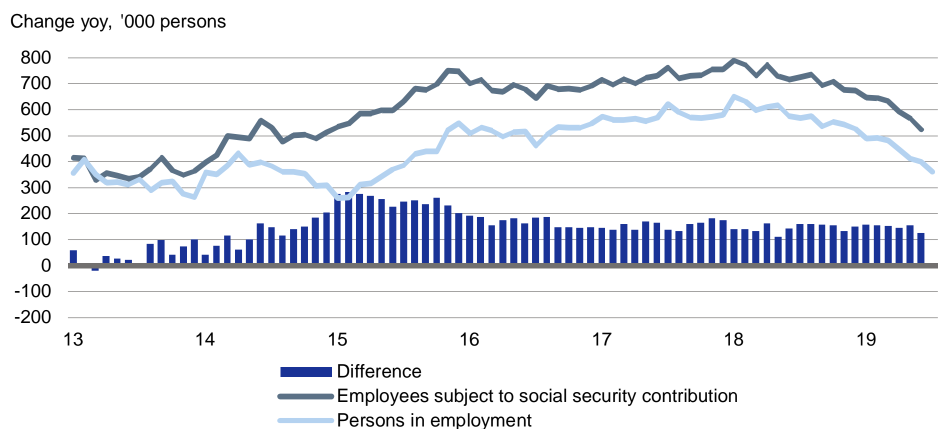
Strong growth in employment s.t. social security contributions 1



Sources: Deutsche Bundesbank, Deutsche Bank Research

The increase in the recent past was characterised in particular by an increase in the number of jobs subject to social insurance contributions (Jun: around 33.5 million, 1.6% yoy, new record high). Here, too, the monthly gains are now clearly less dynamic.

Ongoing but slowing employment growth 2

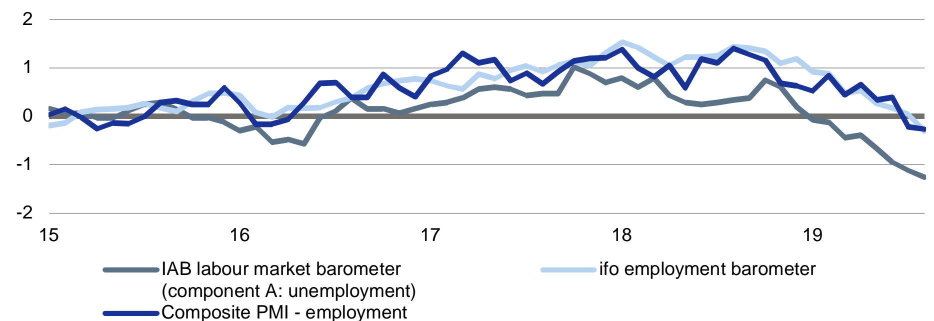


Sources: Federal Employment Agency, Federal Statistical Office, Deutsche Bank Research

Several early labour market indicators such as the ifo and IAB employment barometer as well as the corresponding Purchasing Managers' Index (PMI) have been signaling a deterioration in the current labour market situation and indicate a worsening outlook for the future.

Labour market indicators: No fundamentally different message 3

Standardised values

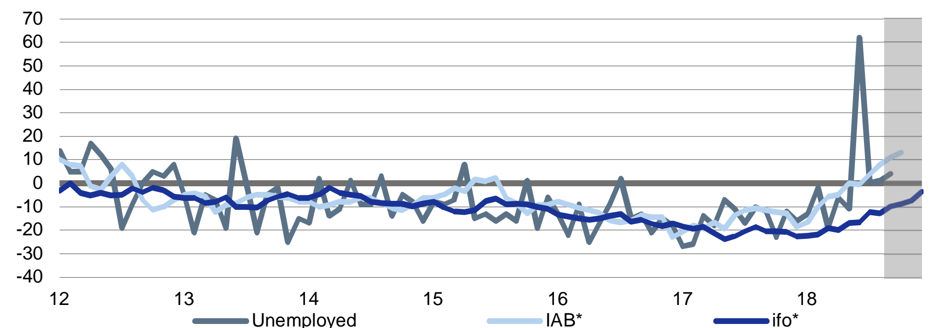


Sources: ifo, IAB, IHS Markit, Federal Employment Agency

This development is mainly due to the declining employment growth in the manufacturing sector. Further job cuts can be expected due to the ongoing recession in the German industry as capacity utilisation continued to decline (Q3: 83.9% vs. Q2: 85.3%). The employment component of the corresponding PMI has been in the contractive range of below 50 points since March 2019 and deteriorated to 43.2 points in September. However the services (Q3: 54.2) and construction sector (average Jul., Aug.: 51.9) still signal a positive employment trend.

Forecasts: IAB and ifo barometer pointing to higher unemployment (sa) 4

Change mom, '000 persons

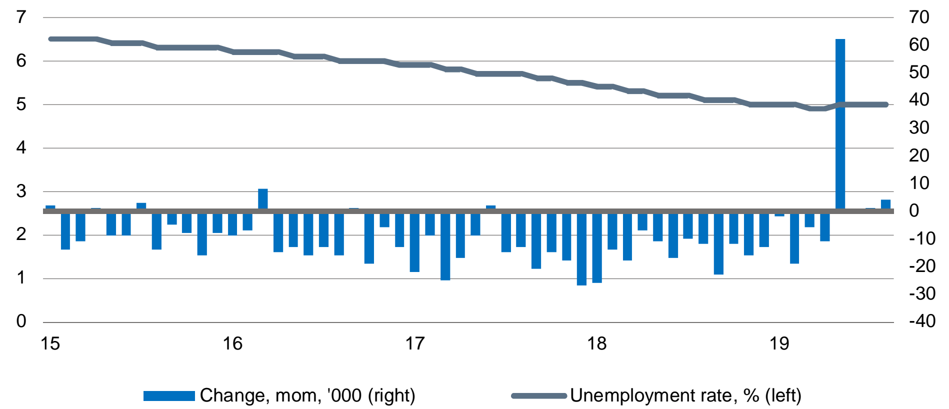


* Simple linear regression of unemployment change on the basis of leading labour market indicators (lagged by 1 resp. 2 months). In May 2019, we saw that seasonally-adjusted unemployment rose by a extraordinary 62k, due to the one-off effect from the special review of the placement status of ALG II recipients. Without this effect the increase would have been 20k - 30k.

Sources: ifo, IAB, Federal Employment Agency

The development of the seasonally adjusted unemployment figure is already showing clear signs of slowing. While there was a steady decline in 2018, this development has currently come to a standstill. The particularly strong increase of 62k in May 2019 resulted after a review of the placement status of ALG II recipients. Additionally, there was also an increase of 5k between June to August. Compared to the same period in the previous year, the figure shrank by a clear 39k.

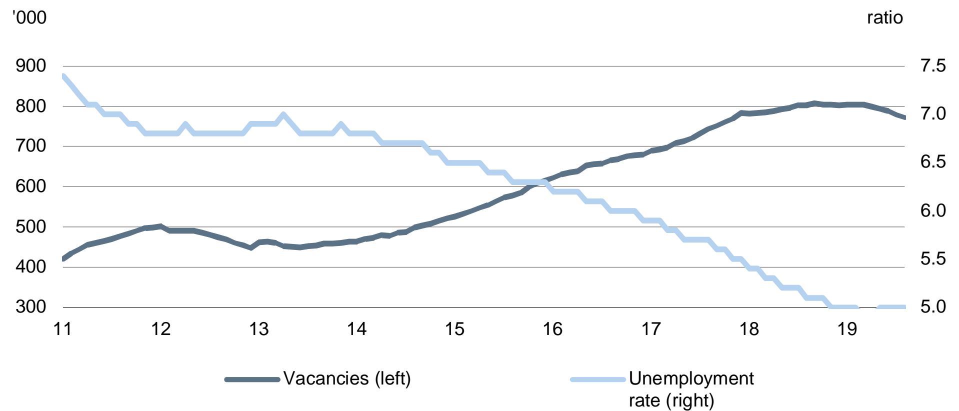
Decrease in unemployment has come to a halt 5



Source: Federal Employment Agency

At present, the German labour market is still in good shape. In August, 772k job vacancies were registered with the Federal Employment Agency. At 5%, the unemployment rate in August was slightly above the historic low of 4.9% (March, April). However, the labour market reacts with a delay of six to eight months to economic turning points.

Labour market: Near full employment but cyclical skid marks 6



Source: Deutsche Bundesbank

On the basis of sentiment indicators and the real economic conditions the situation is likely to deteriorate in the coming months. In the following issues of our "Focus Germany" we will present the developments in the German labour market here in a series of graphs.

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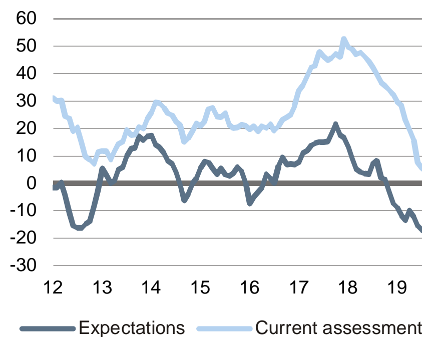
German industrial production likely to shrink by 4% in 2019 – slight rebound expected for 2020

Gloomy mood 1

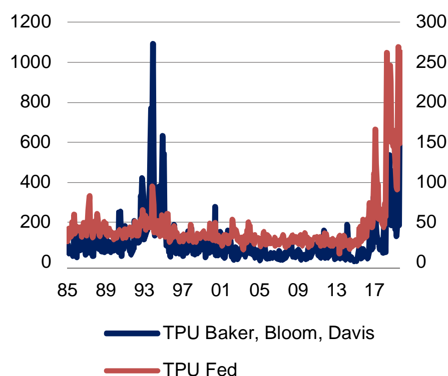
Manufacturing industry in DE, balance of positive and negative company reports, %



Source: ifo Institute

US: Trade policy uncertainty (TPU) 2

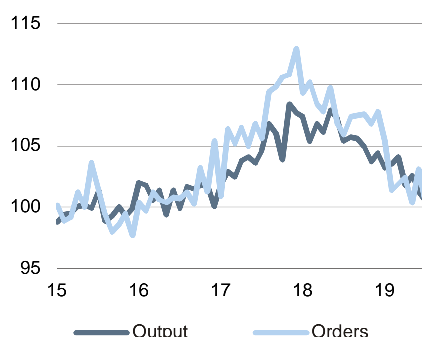
1985-2010 = 100



Sources: Baker, Bloom, Davis, Deutsche Bank

Downward trend continues 3

Manufacturing industry in DE, 2015=100



Source: Federal Statistical Office

— We have trimmed our forecast for manufacturing output in Germany and now expect a real decline of 4% in 2019 (previously: -1.5%). Given persistent trade conflicts and Brexit uncertainties, industrial production looks set to only move sideways at low levels until the end of the year.

— Putting a spanner in the works, external factors will likely continue to slow global investment activity and, as a consequence, German industrial dynamics in 2020. If, however, further escalation were avoided, catch-up and restocking effects, together with a gradual rebound in global automotive demand, might push domestic production growth up to 0.5% in the full year.

In the trade conflict between the US and China, the pendulum is currently swinging from higher resp. additional import tariffs to verbal de-escalation efforts. According to estimates by the Fed, higher tariffs alone have shaved nearly 1 pp off (cumulated) growth in the industrial countries since 2018. Even though we expect tensions to de-escalate somewhat, not least thanks to the 2020 presidential elections in the US, the upshot is that uncertainties continue to prevail, with trade policy uncertainty indices hitting new record highs in the US. The outcome of the Brexit drama is still entirely open, and, in parallel, singular geopolitical events are causing unrest (e.g. political protests in Hong Kong, attacks on oil facilities in Saudi Arabia, and, as a result, higher oil prices). Against this backdrop, G7 investment growth (machinery & equipment, construction) slowed from on average 3% in 2018 to 1.5% in the second quarter, and global trade stagnated in the summer.

Pessimistic mood – declining capacity utilisation

The adverse trade and geopolitical environment has weighed on industrial sentiment in recent months. Meanwhile, business expectations have plummeted to the lowest level since the 2008/09 recession. Besides sentiment, hard data such as production and orders are also on a steady decline, even though foreign orders have stabilised of late. In the third quarter of 2019, manufacturing output in Germany (quarterly data) looks set to fall for the fifth quarter in a row. Capacity utilisation and unfilled orders are also pointing to the downside, but absolute levels, at least, are still comfortable.

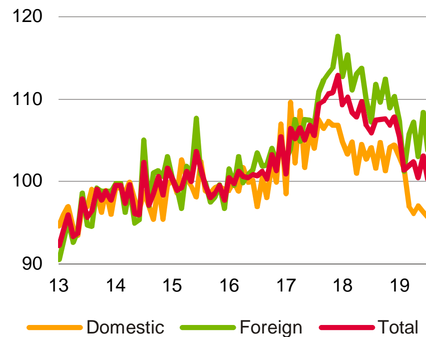
It is unlikely that the above-mentioned tensions will ease by year-end – on the contrary: A no-deal Brexit would inevitably lead to short-term frictions in the industrial value chain, and President Trump's threat to impose tariffs on car imports from the EU is not off the table. In our baseline scenario, however, we expect – as previously mentioned – a moderate de-escalation in the trade conflict between the US and China. Faced with tangible negative effects on their domestic industries, both parties should have little interest in further retaliatory measures, and, what is more, US presidential elections are upcoming in 2020. Still, given the inconsistency of US trade policy, a reliable forecast of trade relations between the US and China resp. the EU is difficult.

Industrial production 2019: -4%; 2020: +0.5%

We have revised our forecast of manufacturing output in Germany and now expect a real decline of 4% in 2019 (previously: -1.5%). Though this would mark the sharpest setback since 2009 – back then industrial production nose-dived by nearly 17% – the current recession in industry is certainly painful for the companies, but manageable, the more so as liquidity levels are still very

Domestic order intake disappointing 4

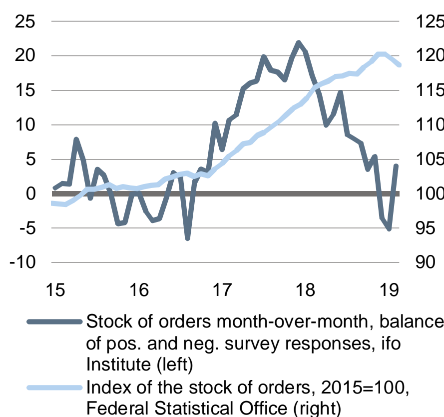
Manufacturing industry in DE, orders, 2015=100



Source: Federal Statistical Office

Unfilled orders in German industry: Near their peak 5

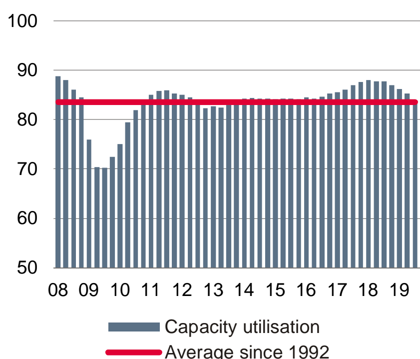
German manufacturing sector



Sources: ifo, Federal Statistical Office, Deutsche Bank Research

Capacity utilisation is falling steadily 6

Capacity utilisation in the manufacturing industry in Germany, %



Source: ifo Institute

comfortable. Following steady increases since 2010, employment growth in manufacturing is now faltering. Furthermore, producer prices are rising at a much slower pace than on average in 2017/2018.

In 2020, a modest rebound may be on the cards. We expect German industrial production to edge up by 0.5%. Given the above-mentioned external effects, however, our forecast is uncertain. Following a relatively long period of economic weakness, catch-up and restocking effects could push up demand. Provided the trade tensions ease, propensity to invest is likely to pick up in major German export markets.

At sector level, we expect production in 2019 to fall across all key industries – except for food – with automotive industry likely suffering the sharpest contraction (forecast: -7%) and production of other capital goods, mechanical and electrical engineering as well as chemicals, metals and plastic, also set to shrink by around 2 to 4%.

2020 is a different story. Next year, automotive industry may enjoy the strongest production gains, outperforming all other industries. Two reasons argue for this scenario. First, we expect global demand for cars to rebound in 2020 (China). Second, major new car models are being rolled out in Germany, after their predecessors reached the end of their life-cycle in 2019, which, of course, led to weaker demand for the older models. Moreover, our view of a significant uptick in German automotive production in 2020 is corroborated by a statistical factor: 2019 is likely to end with a large statistical overhang (see also our article on the performance of the automotive sector in this issue). In most other industrial sectors, production looks set to inch up only slightly (by less than 2%). And for chemicals (excluding pharmaceuticals), a further deterioration may be looming in 2020, as suggested by structural factors such as the declining capital stock.

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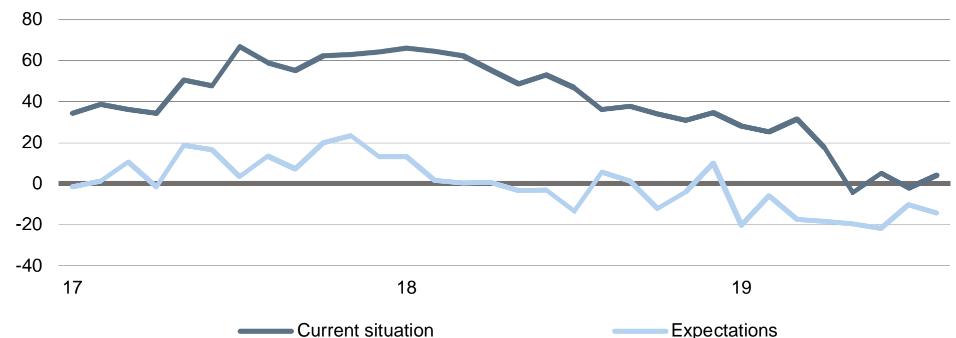
Taking the pulse of the German automotive industry: The trough is in sight

The automotive industry is the largest industrial sector in Germany, measured by revenue. Its performance will decide when the German manufacturing industry will overcome the recession that has started in Q3 2018. Domestic production has been declining in H1 2019 since global car demand remains weak. Sentiment indicators in the sector have mostly been in negative territory during the last few months. Domestic and foreign order intake developed differently at the latest reading. It would be a massive setback for the German automotive industry if the US government were to introduce higher tariffs on automotive imports from the EU, as has been threatened several times. A decision in this trade issue can probably be expected by mid-November 2019.

ifo business climate in German automotive industry — 1

balance of positive and negative company reports (%)

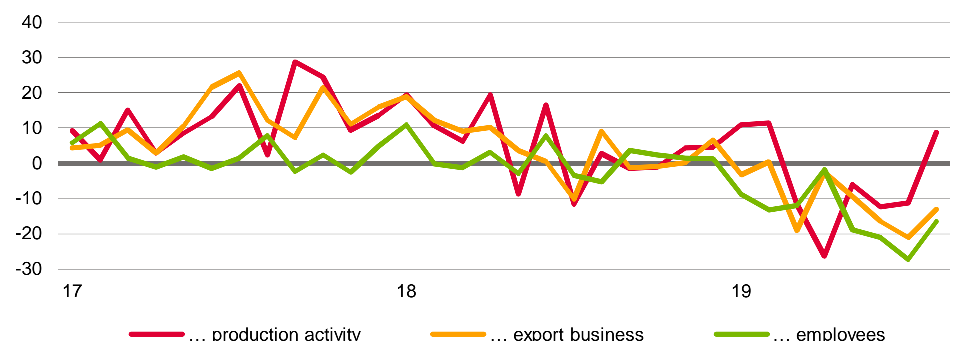


Source: ifo

Chart 1: Business expectations in the German automotive industry have been negative since the beginning of the year, not least due to weaker global demand for cars. There has not been any further deterioration of late, though. Companies were more optimistic about the current situation in August. Order backlog in the sector is still on a high level and has recently stopped declining.

ifo expectations with regard to... — 2

Automotive industry in Germany, balance of positive and negative company reports (%)

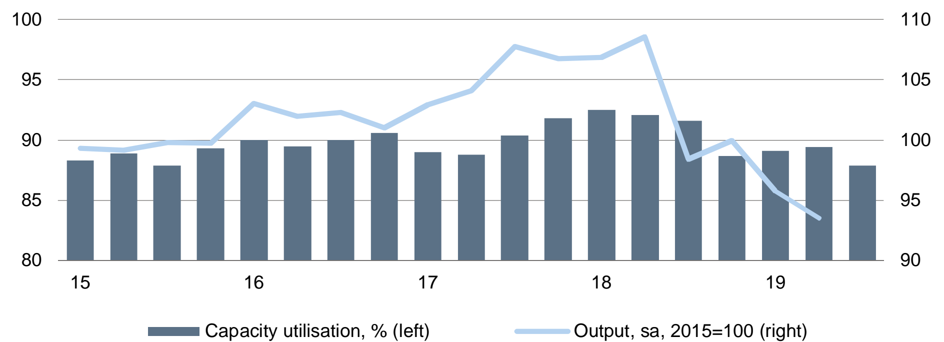


Source: ifo

Chart 2: The pessimistic expectations of the sector are reflected in the subcomponents of the ifo survey. However, production, export and employment

expectations increased in August. Production expectations jumped back into positive territory. We still expect a decrease in employment in the sector in 2019.

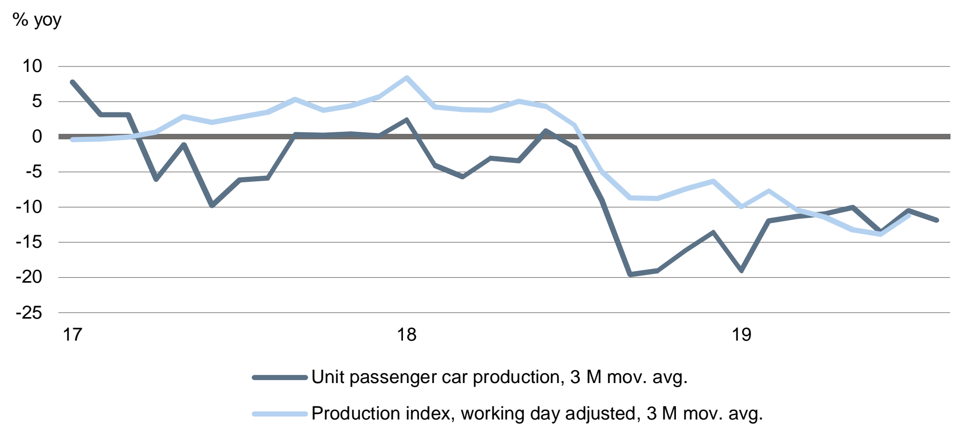
Output and capacity utilisation in German automotive industry 3



Sources: Federal Statistical Office, ifo

Chart 3: At the beginning of Q3 2019, capacity utilisation in the German auto industry was considerably below the value of 2018 but still above the long-term average. The renewed slight decrease in capacity utilisation at the beginning of Q3 2019 suggests that domestic production activity has probably not yet reached the trough in Q3. The recent turnaround in production expectations and first signs of a stabilising global car demand give reason to hope, though.

Automotive production in Germany 4

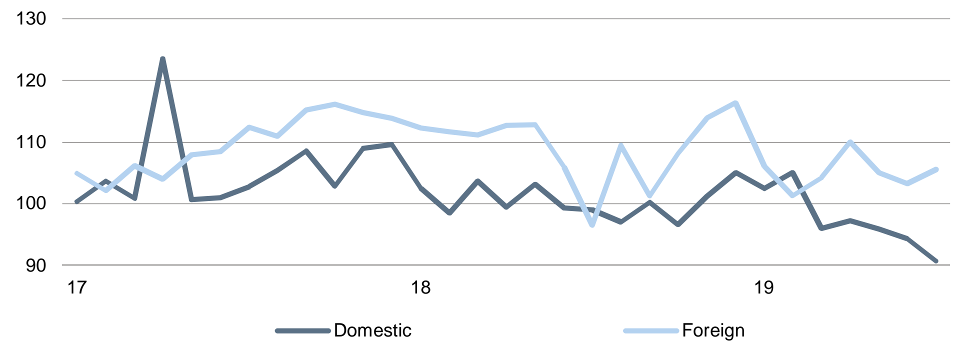


Sources: Federal Statistical Office, VDA

Chart 4: German car production (in unit terms) was considerably down in year-on-year terms in the first months of 2019. In August, production increased by 1% yoy. The decline in the output index, which also includes qualitative criteria (such as better equipment of cars), is smaller in general. According to the Federal Statistical Office, the output index decreased by 2.3% qoq in Q2 2019. We could see a qoq increase in Q3. The year-on-year growth rate looks set to turn positive again in H2 2019, as the WLTP effect pushed down the basis for comparison during H2 2018. However, domestic production will decline significantly in 2019 as a whole. A rebound in 2020 is likely.

New orders in German automotive industriy 5

sa, 2015=100

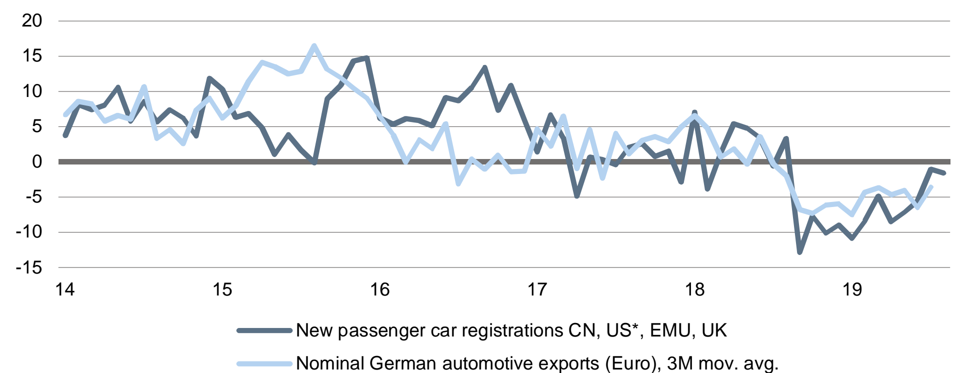


Source: Federal Statistical Office

Chart 5: Domestic and foreign order intake developed differently in July (-2.5% and +2.2% mom respectively). On average, orders have somewhat stabilised during the last few months. German new passenger car registrations trended sideways at a high level in the first eight months of 2019. Export orders could continue to pick up slightly in Q4 2019.

Global car demand and German automotive exports 6

% yoy



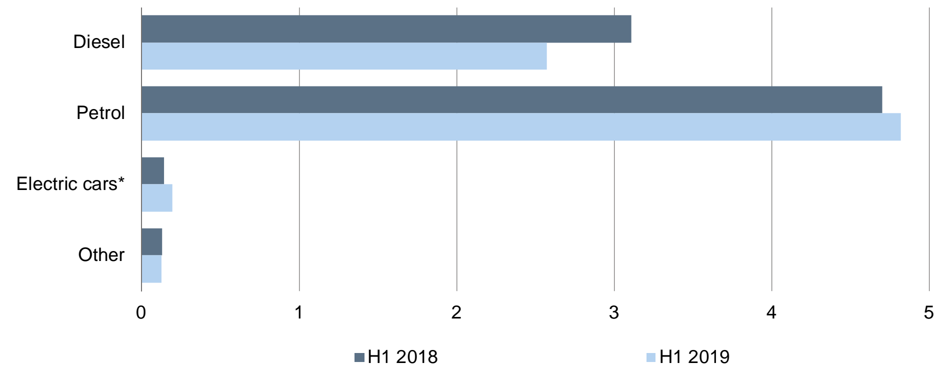
* Light vehicles

Sources: ACEA, Bureau of Economic Analysis, China Automotive Information, Federal Statistical Office

Chart 6: Weak demand in important German export markets towards the end of 2018 and in the first months of 2019 weighed on auto exports. On average, exports will decline in 2019. However, a relative improvement in global car demand is in sight.

New passenger car registrations in the EU by propulsion technology 7

m, units



* Battery electric, plug-in hybrid, range extender, fuel cell

Source: ACEA

Chart 7: Barring the economic cycle, carmakers and suppliers continue their efforts to ramp up production of electric vehicles resp. the corresponding supplier parts and equipment in their plants. More and more models are available on the market. Still, with EVs likely to account for only a small share of total passenger car production in 2020, the evolutionary change in propulsion technologies is not yet strongly reflected in production figures. Output value, however, benefits, as current prices for electric vehicles are on average higher than those for their counterparts with combustion engines. Being largely driven by strict European CO2 emission limit values for new passenger cars rather than market forces, technological change is a major challenge (not only for German, but) for global automotive industry. Unless electric vehicles are heavily subsidised, consumer acceptance continues to be low. Their market share in the EU was 2.4% in H1 2019. High investment hence contrasts with a small market. Again: This is not a problem that is idiosyncratic to German automotive industry.

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The view from Berlin: The grand coalition's fate in limbo

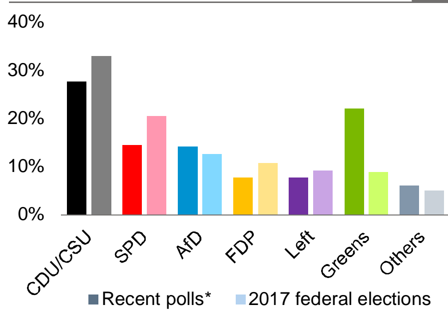
— The disappointing election results in Sachsen and Brandenburg two weeks ago still provided a breather for the Groko in Berlin. But with the SPD leadership decision and the elections in Thuringia on Oct 26/27 looming, the future of Merkel's government remains in limbo.

— However, latest polls show that a clear majority of Germans has a positive view of the Groko's work and expects the coalition to serve its full term until 2021.

— Controversies around climate and fiscal policy dominate the current policy agenda – on national as well as EU level.

Despite the shift in the political landscape following the state elections in Sachsen and Brandenburg (Focus Germany, Sep 2), the German electorate shows little appetite for (unplanned) political changes at the federal level. More so, sentiment towards the Groko seems to have improved recently: According to Forschungsgruppe Wahlen (September 5, 2019), 62% have a positive view of the Groko's work – up by 12 ppt from August. Also, 72% expect the current government coalition to conclude its full term. And 73% of those asked welcome that Merkel intends to stay in office until 2021. This number is highest among supporters of the CDU (88%) and the Green Party (85%) but also a majority of FDP, SPD and the Left supporters favor Merkel to finish her term.

Major political parties' popularity & results of the last federal election 1

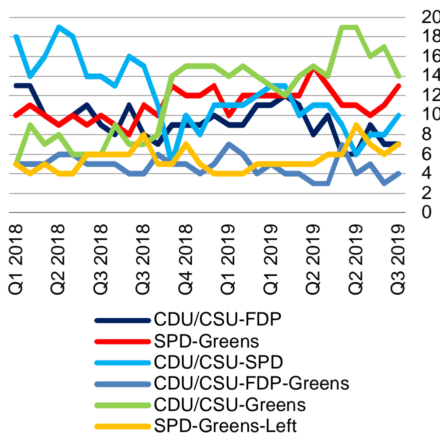


*Average of major recent surveys (Allensbach, Emnid, Forsa, Infratest dimap, INSA)
Source: Wahlrecht.de (September 20, 2019)

The benign sentiment towards the Groko, however, does not translate into voting intentions. If there were federal elections next Sunday, the CDU/CSU and the SPD would not manage to secure a majority of votes according to recent surveys (see chart 1).The only two-party coalition with a clear majority could be formed between the CDU/CSU and the Greens. A deeper look reveals, though, that the support for a conservative-green government has weakened recently (see chart 2). One reason could be that the general enthusiasm for climate change policy is about to face a reality check. The controversial political debate on the toolbox for achieving the agreed climate targets forces voters to realise that ambitious climate policy comes at a price for the economy as a whole and individuals alike (see chart 3). Balancing the impact on income and wealth distribution with an effective climate policy will be a major challenge for all parties including the Greens. The difficult compromise on the government's climate package reflects this political dilemma (see page 3).

Preferred federal government coalitions 2

percentage of those asked, %



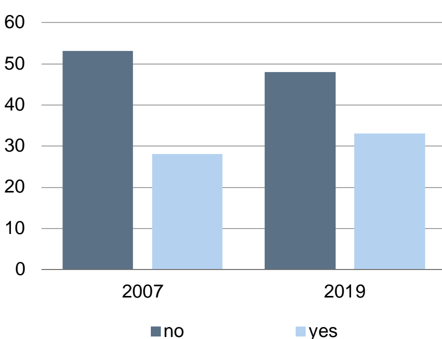
Source: Forschungsgruppe Wahlen: Politikbarometer, September 05, 2019

Germany's fiscal policy course under friendly fire

With decisions on climate policy and pensions pending, the German 2020 budget proposal is still unfinished business. Further risks could stem from a potential no-deal Brexit and trade war plus risks of an accelerating cyclical downturn. Despite calls from the ECB and from abroad, the German government does not seem inclined to pre-emptively launch a fiscal package that puts the "black zero" at risk or even breaches the debt brake, though. This gradual and reactive approach enjoys the support of the electorate and extends into EU politics as well. Germany remains reluctant to support a large financial endowment of the planned euro area budgetary instrument (BICC). On the EU's budgetary framework 2021-2027, Germany insists together with some northern EU members on a lower cap than the 1.11% of GNI proposed by the EU Commission, claiming e.g. that net spending for EU states will already increase to compensate for discontinued UK contributions.

Are you willing to pay higher energy prices to fight climate change? 3

percentage of those asked, %



Source: Allensbach

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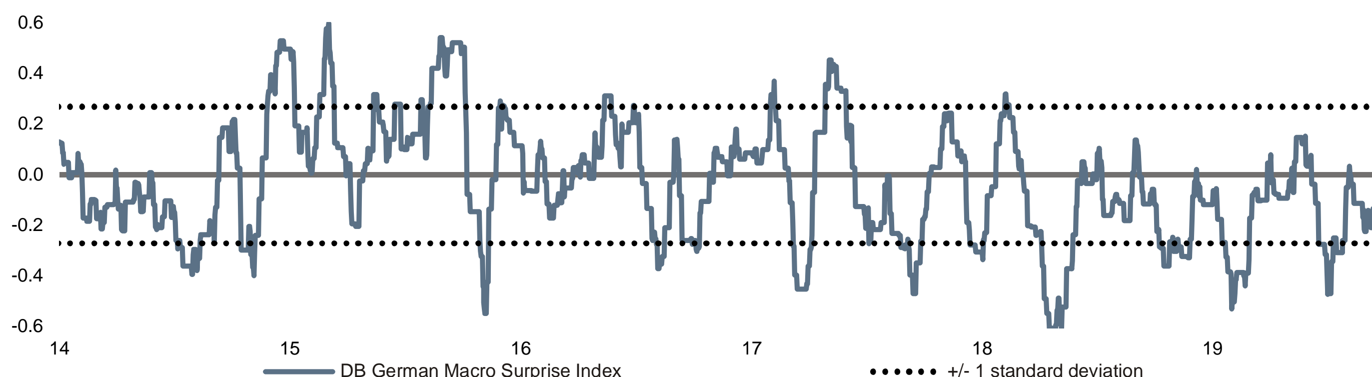
DB German Macro Surprise Index

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

DB German Macro Surprise Index

Average of last 20 z-scores of data surprises



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

Sources: Bloomberg Finance LP, Deutsche Bank Research

Last 20 published economic data for Germany

Bloomberg Tickers	Indicator	Reporting month	Publication date	Current value	Bloomberg consensus	Surprise	Standar-dised surprise	Quantile rank
GRZEWI Index	ZEW Survey Expectations	8 2019	13.08.2019	-44.1	-28.0	-16.1	0.0	0.0
GRZECURR Index	ZEW Survey Current Situation	8 2019	13.08.2019	-13.5	-6.3	-7.2	-1.2	0.1
GRCP20YY Index	CPI (% yoy)	7 2019	13.08.2019	1.7	1.7	0.0	0.2	0.4
GRGDPPGQ Index	GDP (% qoq)	6 2019	27.08.2019	-0.1	-0.1	0.0	-0.2	0.3
GRIMP95Y Index	Import Price Index (% yoy)	7 2019	28.08.2019	-2.1	-2.0	-0.1	0.3	0.6
GRUECHNG Index	Unemployment Change (000's mom)	8 2019	29.08.2019	4.0	4.0	0.0	-0.2	0.4
GRFRIAMM Index	Retail Sales (% mom)	7 2019	30.08.2019	-1.6	-1.3	-0.3	0.0	0.5
MPMIDEMA Index	Markit Manufacturing PMI	8 2019	02.09.2019	43.5	43.6	-0.1	-0.1	0.3
MPMIDESA Index	Markit Services PMI	8 2019	04.09.2019	54.8	54.4	0.4	0.5	0.8
GRIORTMM Index	Factory Orders (% mom)	7 2019	05.09.2019	-2.7	-1.4	-1.3	-0.6	0.3
GRIPIMOM Index	Industrial production (% mom)	7 2019	06.09.2019	-0.6	0.4	-1.0	-0.8	0.2
GRTBALE Index	Trade Balance (EUR bn)	7 2019	09.09.2019	21.6	17.4	4.2	1.5	1.0
GRBTIMMM Index	Imports (% mom)	7 2019	09.09.2019	-1.6	-0.3	-1.3	-0.6	0.2
GRBTEXMM Index	Exports (% mom)	7 2019	09.09.2019	0.8	-0.5	1.3	0.6	0.7
GRCAEU Index	Current Account Balance (EUR bn)	7 2019	09.09.2019	22.1	16.4	5.7	1.4	0.9
GRCP20YY Index	CPI (% yoy)	8 2019	12.09.2019	1.4	1.4	0.0	0.2	0.4
GRZEWI Index	ZEW Survey Expectations	9 2019	17.09.2019	-22.5	-38.0	15.5	2.0	1.0
GRZECURR Index	ZEW Survey Current Situation	9 2019	17.09.2019	-19.9	-15.0	-4.9	-0.8	0.1
MPMIDEMA Index	Markit Manufacturing PMI	9 2019	23.09.2019	41.4	44.0	-2.6	-2.9	0.0
MPMIDESA Index	Markit Services PMI	9 2019	23.09.2019	52.5	54.3	-1.8	-2.1	0.0

Sources: Bloomberg Finance LP, Deutsche Bank Research

Updated by Sebastian Becker, Marc Schattenberg and Jochen Möbert (+49 69 910-31727, jochen.moebert@db.com)
Source: Heiko Peters (2014). DB German Macro Surprise Index. Focus Germany, 4 August 2014.

Germany: Data calendar

Date	Time	Data	Reporting period	DB forecast	Last value
30 Sep 2019	8:00	Retail sales (% mom, sa)*	August	0.7	-1.6
30 Sep 2019	9:55	Unemployment rate (%, sa)	September	5.0	5.0
30 Sep 2019	14:00	Consumer prices preliminary (% yoy, nsa)	September	1.2	1.4
7 Oct 2019	8:00	New orders manufacturing (% mom, sa)	August	0.6	-2.7
8 Oct 2019	8:00	Industrial production (% mom, sa)	August	0.5	-0.8
10 Oct 2019	8:00	Trade balance (EUR bn, sa)	August	18.8	20.2
10 Oct 2019	8:00	Merchandise exports (% mom, sa)	August	-1.0	0.7
10 Oct 2019	8:00	Merchandise imports (% mom, sa)	August	0.3	-1.5
24 Oct 2019	9:30	Manufacturing PMI (Flash)	October	42.0	41.4
24 Oct 2019	9:30	Services PMI (Flash)	October	52.0	52.5
25 Oct 2019	10:30	ifo business climate (Index, sa)	October	95.0	94.6

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

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

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Financial Forecasts

	US	JP	EMU	GB	CH	SE	DK	NO	PL	HU	CZ
Key interest rate, %											
Current	1.875	-0.10	0.00	0.75	-0.75	-0.25	-0.75	1.50	1.50	0.21	2.00
Sep 19	1.875	-0.10	0.00	0.75	-0.75	-0.25	-0.75	1.50	1.50	0.25	2.00
Dec 19	1.375	-0.10	0.00	0.75	-0.75	-0.25	-0.85	1.50	1.50	0.25	2.00
Mar 20	1.125	-0.10	0.00	0.75	-0.75	-0.25	-0.85	1.50	1.50	0.25	2.00
3M interest rates, %											
Current	2.10	0.01	-0.41	0.76							
Sep 19	2.00	0.05	-0.43	0.79							
Dec 19	1.90	0.05	-0.45	0.85							
Mar 20	1.75	0.05	-0.45	0.85							
10Y government bonds yields, %											
Current	1.74	-0.25	-0.58	0.53							
Sep 19	2.05	-0.20	-0.45	1.03							
Dec 19	1.85	-0.15	-0.40	1.12							
Mar 20	1.70	-0.10	-0.35	1.13							
Exchange rates											
	EUR/USD	USD/JPY	EUR/GBP	GBP/USD	EUR/CHF	EUR/SEK	EUR/DKK	EUR/NOK	EUR/PLN	EUR/HUF	EUR/CZK
Current	1.10	107.71	0.89	1.24	1.08	10.65	7.46	9.93	4.39	334.45	25.86
Sep 19	1.10	107.00	0.89	1.24	1.08	10.67		9.93	4.35	330.00	25.80
Dec 19	1.13	108.00	0.93	1.22	1.13	11.00	7.46	10.15	4.35	330.00	25.70
Mar 20	1.16	106.00	0.93	1.25	1.14	11.00		10.11	4.40	320.00	25.60

Sources: Bloomberg Finance LP, Deutsche Bank Research

Climate package: No game changer for fiscal policy

German data monitor

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Apr 2019	May 2019	Jun 2019	Jul 2019	Aug 2019	Sep 2019
Business surveys and output											
Aggregate											
Ifo business climate	103.2	102.2	99.5	98.4	94.9	99.4	98.2	97.5	95.8	94.3	94.6
Ifo business expectations	99.9	98.4	94.9	94.8	91.4	95.3	95.2	94.0	92.1	91.3	90.8
Industry											
Ifo manufacturing	104.5	101.6	98.0	95.1	90.9	95.5	95.6	94.2	91.5	90.7	90.5
Headline IP (% pop)	-1.4	-1.2	-0.7	-1.6		-2.2	0.8	-1.3	-0.8		
Orders (% pop)	-1.1	0.4	-4.2	-0.9		0.5	-2.0	2.7	-2.7		
Capacity Utilisation	87.8	87.1	86.3	85.3	83.9						
Construction											
Output (% pop)	0.5	0.1	3.9	0.6		-1.6	-2.2	3.9	-1.3		
Orders (% pop)	1.2	10.1	-2.0	-5.6		-1.7	-4.2	3.0	0.0		
Ifo construction	116.3	116.6	111.7	113.2	112.8	112.5	114.1	112.9	113.2	112.4	112.7
Consumer demand											
EC consumer survey	0.4	0.4	-0.2	-1.7		-0.7	-1.4	-3.1	-2.9	-3.9	
Retail sales (% pop)	-0.6	0.2	2.0	0.5		-0.1	-1.2	3.1	-1.6		
New car reg. (% yoy)	1.2	-8.1	0.2	0.9		-1.1	9.1	-4.7	4.7	-0.8	
Foreign sector											
Foreign orders (% pop)	-2.4	0.9	-5.2	1.4		1.4	-3.9	5.2	-4.2		
Exports (% pop)	-0.2	0.9	0.7	-1.9		-3.2	1.3	-0.1	0.8		
Imports (% pop)	2.3	-0.1	0.6	-1.1		-0.9	-0.4	0.7	-1.6		
Net trade (sa EUR bn)	52.7	56.1	56.7	53.5		16.9	18.7	17.9	20.3		
Labour market											
Unemployment rate (%)	5.1	5.0	5.0	5.0		4.9	5.0	5.0	5.0	5.0	
Change in unemployment (k)	-40.7	-46.3	-30.7	20.0		-11.0	62.0	0.0	1.0	4.0	
Employment (% yoy)	1.3	1.2	1.1	0.9		1.0	0.9	0.9	0.8		
Ifo employment barometer	104.8	104.2	102.4	100.6		101.5	100.3	100.0	99.5	98.1	
Prices, wages and costs											
Prices											
Harmonised CPI (% yoy)	2.2	2.2	1.6	1.6		2.1	1.3	1.5	1.1	1.0	
Core HICP (% yoy)	1.4	1.4	1.5	1.5		2.0	0.9	1.5	0.9	0.8	
Harmonised PPI (% yoy)											
Commodities, ex. Energy (% yoy)	-0.5	-0.3	1.5	0.2		4.1	-3.4	0.1	10.0	2.3	
Crude oil, Brent (USD/bbl)	75.1	68.0	63.1	69.0		71.2	71.2	64.3	63.9	59.0	62.8
Inflation expectations											
EC household survey	34.2	34.3	31.7	33.8		32.7	35.4	33.4	34.0	35.6	
EC industrial survey	15.8	17.6	14.4	7.1		6.7	8.4	6.2	2.6	3.0	
Unit labour cost (% yoy)											
Unit labour cost	3.3	2.9	3.2	4.1							
Compensation	3.3	2.8	3.0	3.3							
Hourly labour costs	3.4	2.2	2.5	4.1							
Money (% yoy)											
M3	4.1	4.5	5.1	4.8		5.5	4.7	4.8	5.0		
M3 trend (3m cma)						5.0	5.1	5.0	4.9		
Credit - private	4.3	3.9	4.1	4.6		4.1	4.4	4.6	4.6		
Credit - public	-2.7	-6.3	14.1	5.7		6.2	6.3	5.7	7.0		

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

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Printed by: HST Offsetdruck Schadt & Tetzlaff GbR, Dieburg

ISSN (Print) 2510-5248 / ISSN (Online) 2512-0824