



Economic weakness, political turbulence

November 4, 2019

Authors

Barbara Böttcher
+49 69 910-31787
barbara.boettcher@db.com

Eric Heymann
+49 69 910-31730
eric.heymann@db.com

Kevin Körner
+49 69 910-31732
kevin.koerner@db.com

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

Marc Schattenberg
+49 69 910-31875
marc.schattenberg@db.com

Stefan Schneider
+49 69 910-31790
stefan-b.schneider@db.com

Editor

Stefan Schneider

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

www.dbresearch.com

DB Research Management

Stefan Schneider

Content

Page

Forecast tables.....	2
German exports: No turnaround before spring 2020	3
Rapid growth in mortgages likely to fuel house prices and macro-prudential risks.....	6
German labour market: Employment growth is moderating.....	9
Taking the pulse of the German automotive industry: Mixed signals but the trough is in sight	13
German politics: Turbulent political days – but not the end of the Groko (yet)	16
DB German Macro Surprise Index.....	20
Data calendar.....	21
Financial forecasts	22
Data monitor.....	23

German exports: No turnaround before spring 2020. German exports and global trade have been moving in lockstep recently and more or less grinded to a halt in yoy terms. We found that the Bundesbank's leading indicator for global industrial production leads German exports by 4 to 5 months. Recent declines in this indicator do speak against a recovery in German exports before the end of Q1 2020, despite recent signs of stabilization in German foreign order intake.

Rapid growth in mortgages likely to fuel house prices and macroprudential risks. The recent credit surge is pouring oil on the fire. This is particularly true as mortgage rates are likely to remain very low for an extended period. Moreover, risk appetite among lenders and borrowers seems to have risen considerably.

German labour market: Employment growth is moderating. Despite the economic weakness the German labour market is holding up well. Except for temp agencies employment is still rising in yoy terms, especially in the services sector. The number of people working short shifts is rising but only gradually. We expect employment growth to slow further and the number of unemployed starting to rise moderately in the coming months.

Taking the pulse of the German automotive industry: Mixed signals but the trough is in sight. Business expectations in the German automotive industry and domestic orders have improved of late. Order backlog has started to increase again since the middle of 2019. However, capacity utilization and foreign orders have continued to decline. We expect global car demand to recover in 2020 supporting the German automotive industry.

German politics: Turbulent political days - but not the end of the Groko (yet). The far-left and far-right won more than half of the seats in the state parliament of Thuringia. Leadership battles among the social democrats (formally) and the CDU (informally) cast a shadow over the government coalition in Berlin. The probability of an early Groko demise is on the rise, but we still think that the status quo forces are more likely to prevail; meaning that the Groko treaty will be the ultimate arbiter in case of (more likely) conflicts. Given current polls especially the SPD (but also the CDU) does not have strong incentives to leave the coalition and trigger new elections.



Economic weakness, political turbulence

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	3.1	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	2.6	2.5	2.3	-2.2	-2.0	-2.2
Spain	2.4	2.1	1.5	1.7	0.8	0.9	1.9	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	1.5	1.1	0.8	2.3	1.3	1.4	-1.0	-0.5	0.0	-0.7	-1.4	-1.8
Austria	2.3	1.5	1.2	2.1	1.4	1.5	2.3	2.1	2.1	0.2	0.3	0.3
Finland	1.7	1.2	0.9	1.2	1.2	1.2	-1.4	-1.5	-1.0	-0.8	-0.6	-1.1
Greece	1.9	1.4	1.5	0.8	0.3	0.3	-2.8	-2.0	-1.5	1.0	1.1	1.0
Portugal	2.4	1.8	1.3	1.2	0.3	0.5	0.4	-0.8	-1.1	-0.4	-0.4	-0.2
Ireland	8.3	5.3	2.5	0.7	0.8	0.7	10.6	8.5	8.0	0.1	0.7	0.0
UK	1.4	1.2	1.3	2.5	1.9	1.9	-4.3	-3.8	-3.7	-1.9	-2.3	-2.4
Denmark	1.5	1.8	1.6	0.7	0.9	1.2	7.1	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	0.8	1.1	1.1
Czech Republic	2.9	2.5	2.4	2.1	2.9	2.2	0.3	0.4	0.2	1.1	0.3	0.1
Hungary	5.1	4.7	3.2	2.9	3.3	3.2	-0.5	-0.7	-0.4	-2.3	-1.7	-1.6
Poland	5.1	4.3	3.7	1.7	2.3	2.7	-1.0	-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	-3.0	-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	2.9	3.6	0.4	1.5	1.1	-4.2	-4.5	-5.0
World	3.8	3.1	3.2	3.3	3.1	3.2						

*Consumer price data for European countries based on harmonized price indices except for Germany. This can lead to discrepancies compared to other DB publications.
Sources: National Authorities, Deutsche Bank

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

	2017	2018	2019F	2020F	2019				2020			
					Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Real GDP	2.5	1.5	0.3	0.7	0.1	0.4	-0.1	0.2	0.4	-0.1	-0.5	0.0
Private consumption	1.3	1.3	1.3	0.8	0.1	0.2	0.0	0.4	0.8	0.1	0.1	0.1
Gov't expenditure	2.4	1.4	1.8	1.2	0.0	0.6	0.1	0.4	0.8	0.5	0.2	0.2
Fixed investment	2.5	3.5	2.9	2.0	0.9	1.0	0.7	0.9	1.6	-0.1	0.1	0.2
Investment in M&E	4.0	4.4	1.8	0.4	2.0	0.4	0.5	0.3	1.4	0.6	-0.6	-0.7
Construction	0.7	2.5	3.8	3.4	0.5	1.3	0.7	1.2	2.5	-1.0	0.4	1.0
Inventories, pp	0.5	0.3	-0.4	-0.3	0.1	0.3	0.8	-0.6	-0.6	-0.1	-0.2	0.1
Exports	4.9	2.1	0.5	0.6	-0.3	0.6	-0.6	0.2	1.8	-1.3	-0.7	0.1
Imports	5.2	3.6	2.4	1.8	-0.4	1.6	1.1	0.7	0.9	-0.3	0.2	0.5
Net exports, pp	0.3	-0.4	-0.8	-0.5	0.0	-0.3	-1.0	0.0	0.2	-0.1	-0.4	-0.2
Consumer prices*	1.5	1.7	1.5	1.3								
Unemployment rate, %	5.7	5.2	5.0	5.2								
Industrial production	2.9	1.1	-4.0	0.5								
Budget balance, % GDP	1.2	1.9	1.0	0.4								
Public debt, % GDP	65.3	61.9	59.1	57.1								
Balance on current account, % GDP	8.1	7.3	6.9	6.4								
Balance on current account, EUR bn	261.9	245.0	238.1	227								

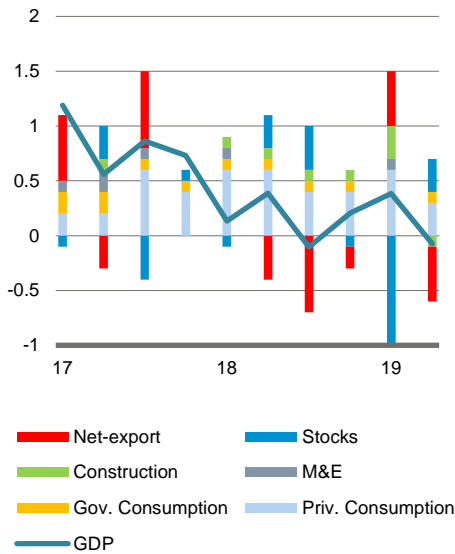
*Inflation data for Germany based on national definition. This can lead to discrepancies to other DB publications.
Sources: Federal Statistical Office, German Bundesbank, Federal Employment Agency, Deutsche Bank Research



Economic weakness, political turbulence

Net export: Growth contribution 1

% qoq, pp, real, SA



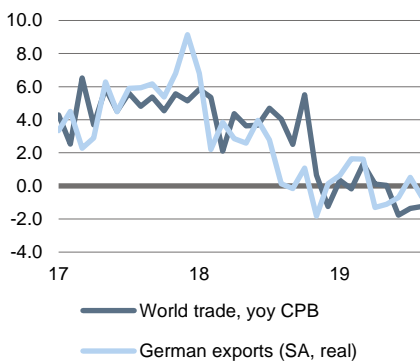
Sources: Deutsche Bundesbank, Deutsche Bank

German exports: No turnaround before spring 2020

- Although the slump in German exports started before the slowdown in global trade, both have been moving in lockstep more recently and more or less ground to a halt in yoy terms.
- Medium-term forecasts for German exports are more or less dominated by the assumptions about Brexit and the US-Chinese trade conflict as well as still possible US tariff increases on car imports.
- We found that the Bundesbank's leading indicator for global industrial production leads German exports by 4 to 5 months. Recent declines in this indicator do speak against a recovery in German exports before the end of Q1 2020, despite recent signs of stabilization in German foreign order intake.

The German economy's sharp deceleration during 2018 and in 2019 was – despite some domestic idiosyncrasies – largely driven by the swing in net exports from a surplus into deficit.¹ Germany's export weakness was first and foremost the result of global trade growth losing momentum during 2018 and grinding to a complete halt by mid-2019. Granted, the decline of German export growth in 2018 was more pronounced than the slowdown in world trade. In Q1 this was probably a negative payback from the very dynamic export demand in H2 2017 and in the later part of 2018 the German car industry's WLTP problems left their imprint. But in 2019 both German and global trade are moving in lockstep, with global trade even clearer in negative territory (due to its higher base in 2018). The stronger slump of German exports in 2018 can also be attributed to Germany's regional export structure and its exposure to countries where import demand suffered from specific events (UK, Turkey, Russia and South Africa). Moreover, the product structure of Germany's exports did not help either. With its focus on capital goods German exports were hard hit by the increase in global economic policy uncertainty which sapped the global investment cycle.

German exports & world trade 2



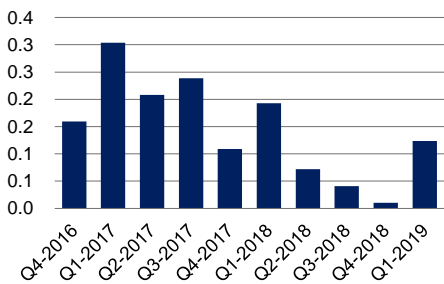
Sources: Deutsche Bundesbank, CPB

Strong wage increases make problems worse

In addition, the unexpected slowdown of the German economy has in combination with last year's high wage settlements resulted in strongly rising unit labour costs, as companies were unable to pass rising wage costs on to their customers. This is also reflected in corporates' assessment of their competitive position outside EMU where the balance of replies has reached its most negative value since 2009.

Gross fixed capital investment 3

pp-growth contribution, 3q-average



Source: OECD

Export outlook: Political assumptions are key

There has been some stabilization in foreign order intake following their slump in H1. The 3m comparison (Jun./Aug. v. Apr./Jun.) shows a 0.3% rise and 0.7% in core goods (ex. transport). In the monthly ifo and PMI surveys the export outlook is still negative but has not deteriorated further in October. The export outlook in the manufacturing sector (ifo) clearly improved in October (to -1.2 from -5.3). This could be due to more positive signals regarding a possible Phase I US-Chinese trade deal, the somewhat reduced probability of a hard Brexit and a stabilization in Chinese sentiment indicators, as for example the Oct. PMI. Obviously, the outlook for 2020 is determined by the assumption regarding the fur-

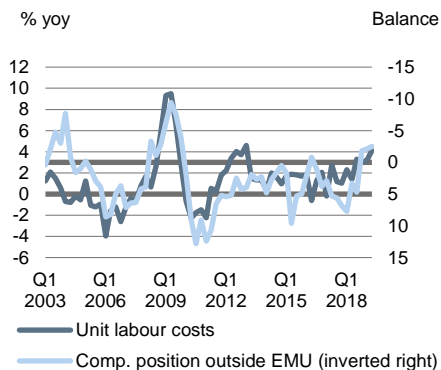
¹ The + 0.5% pp contribution in Q1 2019 was a one-off due to some WLTP-related catching up and strong demand from the UK ahead of the initial 31st March Brexit date.



Economic weakness, political turbulence

Unit labour costs & companies' own competitive position assessment

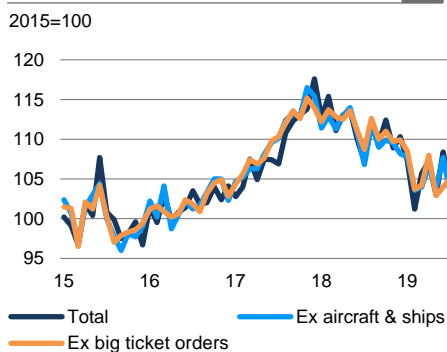
4



Sources: Deutsche Bundesbank, EU Commission

Foreign orders

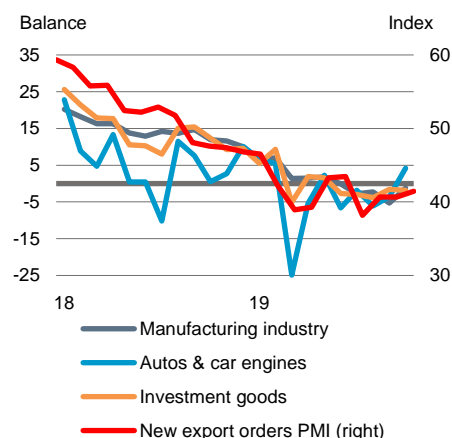
5



Sources: Federal Statistical Office, Deutsche Bank Research

Export expectations

6



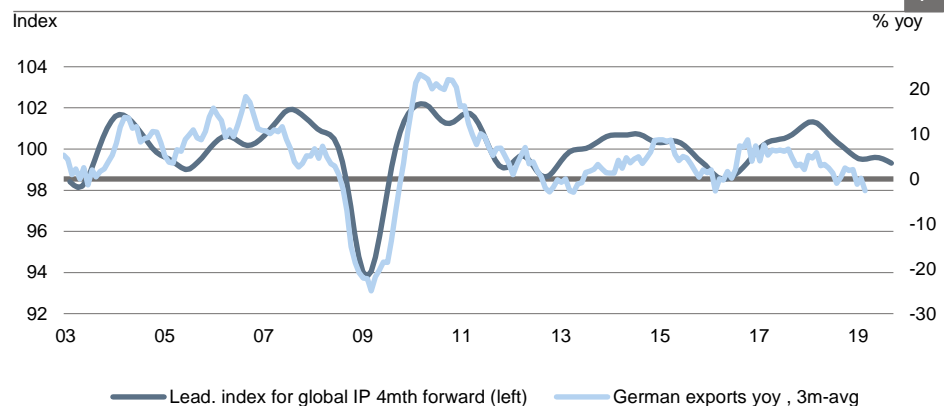
Sources: ifo, IHS Markit

ther development in the US-China conflict. Although we believe that the underlying rift is due to the intensified geopolitical challenge China is posing to the US, rather than the bilateral trade deficit, we assume no further escalation in the next few months given that the ratcheting up of bilateral tariff is by now clearly leaving its imprint on both economies, which should become more of a concern for the US administration ahead of the 2020 elections. Still, according to IMF estimates even current measures could reduce global growth by up to 0.8% in 2020.² Nevertheless, the IMF assumes that global trade in goods and services will rebound to around 3% next year after mustering only about 1% in 2019 (the IMF number includes services, the monthly numbers for goods trade published by the CPB referred to above do not). The IMF's forecast implies the elasticity of global GDP growth and global trade moving back to 1, where it stood in 2018. Germany research institutes base their assumptions regarding world trade on the goods data series provided by CPB. They expect a decline in world trade in goods of 0.8% and a meager 0.7% rise in 2020.

Although US-Chinese tariff hikes have certainly not reached their full effect with regard to trade, as the latest measures have become effective in September only, one can assume that bilateral trade will decline by less than in 2019, especially as China has committed itself to buy more US agricultural products. In the first 8 months US exports to China were down 18.2% while Chinese imports to the US fell by 12.4%. Therefore global trade growth should swing back to positive territory, although maybe not as much as expected by the IMF whose forecasts have been rather optimistic in recent years.

German export & Bundesbank's leading index for global IP

7



Sources: Deutsche Bundesbank, Deutsche Bank Research

German exports – no improvement before spring

With the medium-term outlook highly uncertain given the geopolitical imponderabilia we have tried to find proxy indicators glimpsing as far into the future as possible. Our best candidate is the Bundesbank's leading indicator for global industrial production, which is based on subcomponents of the global PMI survey, the Sentix survey and S&P Global 1200 share price index. This index leads German exports by 4 to 5 months (correlation of 0.89 for both lags). The Buba's index has drifted lower by about 0.1 points until September. We will get the

² World Economic Outlook, October 2019. These simulations include the tariff increase from 25% to 30% on USD 250bn Chinese exports initially planned for mid-October as well as tariff hikes on consumer goods becoming effective by mid-December. Both measures have been postponed by the US.



Economic weakness, political turbulence

October reading in early November. The improvement of the Sentix index and in some of the flash PMI suggest that the Buba's leading global IP index might have stabilized in October, although it should clearly remain below the 100 level, which divides between contraction and expansion of global IP. Based on our correlation analysis this suggests that German exports are unlikely to recover before the end of Q1 2020 - but might stabilize thereafter, if our optimistic assumptions regarding the global trade conflicts were correct.

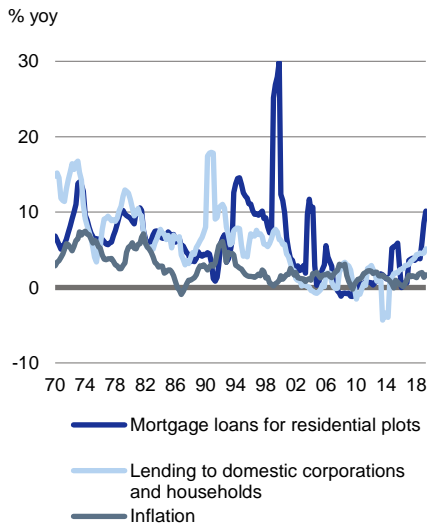
Stefan Schneider (+49 69 910-31790, stefan-b.schneider@db.com)



Economic weakness, political turbulence

Germany: Credit growth

1



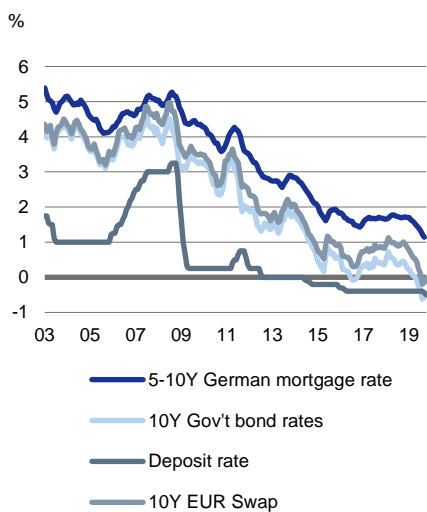
Sources: Bundesbank, Deutsche Bank Research

Rapid growth in mortgages likely to fuel house prices and macroprudential risks

- The recent credit surge is pouring oil on the fire. While a housing bubble has still not materialized, the risk that one will eventually emerge has increased considerably. As risk appetite among lenders and borrowers seems to have risen, the macroprudential risks are also on the rise.
- In the first years of the current house price cycle which started in 2009 the pace of growth in new lending business had been very subdued. New lending received a strong impetus when mortgage rates fell below 2% in 2015.
- The sluggish economy in the euro area, in particular in Germany, led the ECB to resort to additional unorthodox measures. The new bond purchases announced by the ECB this September have pushed capital market yields and subsequently mortgage rates to new all-time lows and prompted a surge in new mortgages.
- We forecast that mortgage rates move sideways at 1.2% in 2020. It seems unlikely that mortgage rates move back above 2% in the coming years. By contrast, the risk is, in our view, rather tilted to even lower rates which could result in an even larger increase in lending.

5-10Y Mortgage rate vs. ECB deposit rate

2



Sources: ECB, Deutsche Bank Research

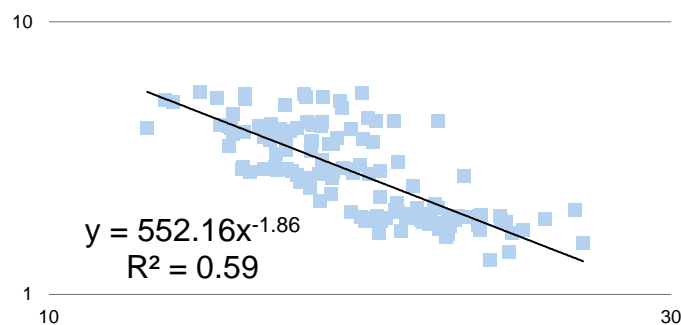
New mortgage growth accelerates

On Sept 12, 2019 the ECB announced a new round of asset purchases worth EUR 20 bn per month for an indefinite period of time. In the run-up to the restart of the asset purchases on Nov 1, the average mortgage rate fell to an all-time low of 1.2% – a decline of more than a ½ pp relative to the start of the year. These developments pushed the new mortgage volume to a new all-time high of EUR 25 bn in the summer months. Mortgage volumes increases exponentially with falling mortgage rates (see chart). If mortgage rates continue to fall the functional relationship shown in the chart implies that the monthly volume will increase further (a level of 1% implies EUR 23 bn per month, 0.5% EUR 28 bn and in the unlikely case of 0.1% the monthly mortgage volume would shoot up to EUR 44 bn).

Volume of new mortgages with log-log-scale

3

y-axis: log(5-10Y mortgage rate in %)
x-axis: log(new volume in EUR bn per month)

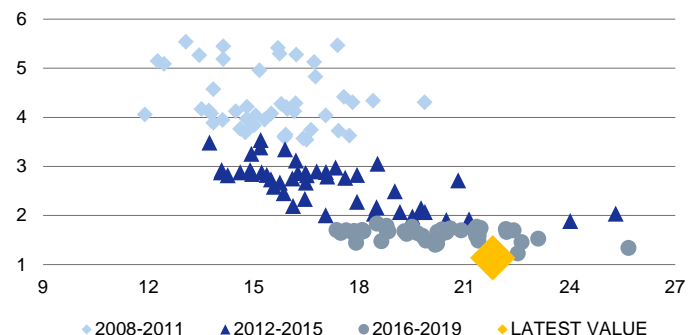


Sources: Bundesbank, Deutsche Bank Research

Volume of new mortgages

4

y-axis: Mortgage rate in %
x-axis: New volume in EUR bn per month



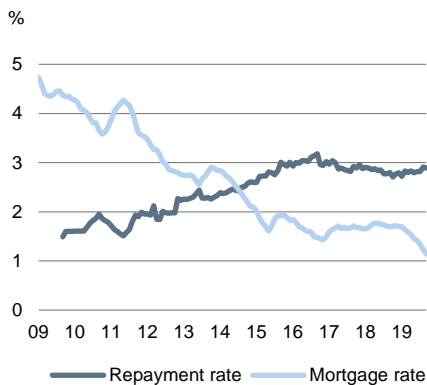
Sources: Bundesbank, Deutsche Bank Research



Economic weakness, political turbulence

Repayment and mortgage rate

5



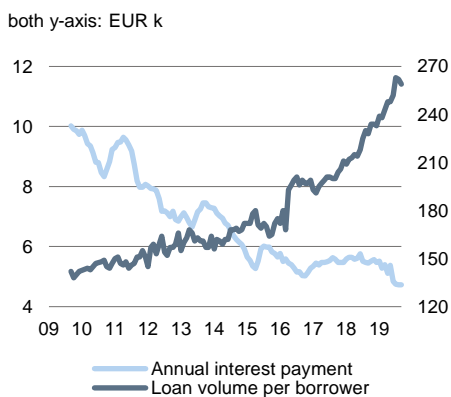
Sources: ECB, Dr. Klein, Deutsche Bank Research

We assume low and negative rates for the years to come

From today's perspective such low mortgage rates still seem unlikely. However, we currently see no substantial rise in short or long-term rates in the coming years. We forecast the main refinancing rate of the ECB will remain at 0% until the end of 2023 and we also forecast that the 10Y Bund yields remain in negative territory and stand at -0.32% and 10Y swap rates at 0.08% at the end of 2020. On this basis, we continue to expect mortgage rates to remain clearly below 2% for years. We forecast that mortgage rates move slightly lower to 1.0% in the coming months before moving back to 1.2% in 2020 (latest forecast from July: sideways movement at 1.46%). The forecasts imply that mortgage spreads to 10Y Bunds and 10Y Swaps remain on an elevated level but slightly decline relative to summer months.

Annual interest payment vs loan volume per borrower

6



Sources: Dr. Klein, Deutsche Bank Research

Mortgage growth driven by higher average mortgages – number of transactions is declining

Throughout the cycle from 2009 to today, the rise in new mortgage volume of 35% was driven by the mortgage volume per borrower rising by 78%.³ The average loan volume was roughly EUR 140,000 in 2009 and increased to EUR 250,000 in 2019. A particular steep rise of EUR 50,000 was recorded in the last 20 months alone. To some extent this is a result of fewer transactions due to the substantial price increases over the last 10 years. Many German households are lacking purchasing power and were squeezed out of the housing market. However, the higher mortgage volume per borrower may also reflect the rising risk appetite. Consistent with such an interpretation, the repayment rate moved sideways slightly below 3% p.a. over the past two years. From 2009 to 2017, declining interest rates usually implied higher repayment rates. It seems that at least some of the traditionally very risk-averse German mortgage borrowers are finally starting to alter their behavior. From 2009 to 2014 the current cycle was credit-free, i.e. the real total mortgage volume stagnated, and only subsequently mortgage growth started to increase. In the last 12 months it accelerated to 10% yoy, i.e. the mortgage book has increased by more than EUR 130 bn. This is a result of both the surging new mortgage volume and the stagnating repayment rate. As house prices increase and lenders and borrowers become more risk-tolerant everything seems to suggest that a "housing bubble" is inevitable over the coming years.

Germany: Residential prices

7



Sources: Hypoport, Deutsche Bank Research

Risk of a housing bubble: "Fueling the flames" of an already over-valued market

If the surge of mortgages were to boost the number of new dwellings and therefore help to overcome the supply shortages in the housing market, this would reduce the risk of a housing bubble. However, our own calculations show that most mortgages are granted for existing dwellings.⁴ Hence, lending contributes to accelerating prices. As the German housing market is already overvalued, at least slightly and in some regions, it seems appropriate to sound the alarm,

³ See <https://www.drklein.de/presse.html>

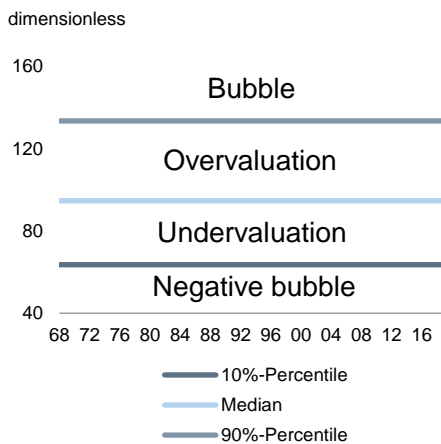
⁴ See Deutsche Bank Research. Focus Germany. July 2016.



Economic weakness, political turbulence

Percentiles of OECD price-to-rent ratios from 1970 to today

8

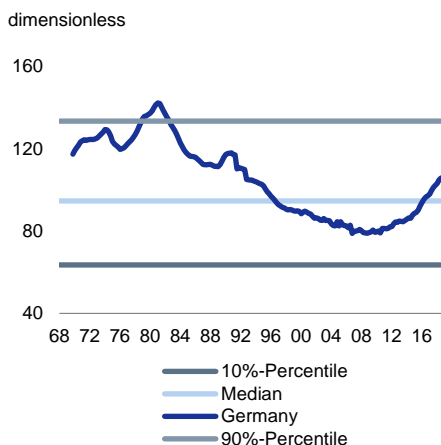


Percentiles calculated on the basis of all countries

Sources: Deutsche Bank Research, OECD

Percentiles of OECD price-to-rent ratios from 1970 to today

9



Percentiles calculated on the basis of all countries

Sources: Deutsche Bank Research, OECD

once again.⁵ According to Hypoport, house and apartment prices have already increased by roughly 10% year-over-year in August 2019. A famous historian, Charles Kindleberger, who analyzed four hundred years of bubbles in financial markets and real estate markets used the now well-known phrase “fueling the flames” to describe the regular recurrence of lending which boosted prices.⁶ The phrase seems adequate again for the current developments in the German housing market. Fueled by credit the already overvalued housing and dwelling prices are likely to move up and the ongoing scarcity in the supply of new dwellings implies that the cycle continues. Therefore, we stick to our forecast that the sharp increases in prices will last at least until 2022.

What should be done? Focus on the creation of new dwellings and living space. Stricter regulation will not avoid the housing bubble

The government, regulators and banks should focus on financing new housing in order to reduce the pricing pressure. Building new houses and finally creating vacancies is presumably the only viable approach to avoid a bubble. By contrast, lending for purchases of existing property drives prices up. Stricter regulation, at least the mainly ineffective stricter rental regulation which is the current political consensus, is very likely a door opener to regulatory arbitrage. The focus on rental regulation clearly signals that the scarce supply is here to stay for an extended period of time. As a result, more and more investors perceive the housing market as a “get rich quick” scheme, another recurrent concept in the literature on asset bubbles.

When a bubble emerges and bursts, expect drastic social consequences

The social cohesion of our society is the fertile ground to successfully face challenges from climate change to demographics and competitiveness on global markets. If the housing policy remains errant and ineffective we will not only risk a housing bubble and negative economic consequences but it may also have the potential to endanger the social cohesion and political stability, as the availability of affordable housing is another key concern for citizens.

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

⁵ See Deutsche Bank Research. Standpunkt Deutschland. Misguided policy raises risk of housing bubble, 2015.

⁶ Charles P. Kindleberger, Robert Z. Aliber (2015): Manias, Panics, and Crashes: A History of Financial Crises. 7th Edition.

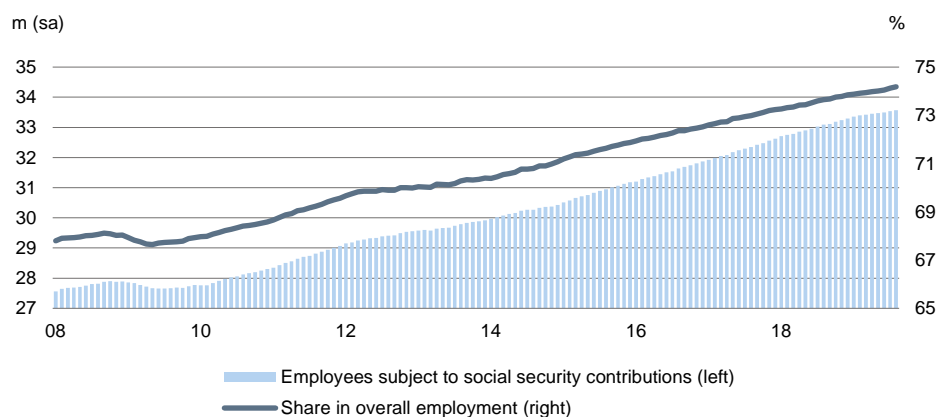


German labour market: Employment growth is moderating

Despite the continued economic weakness – the German economy is likely to have slipped into a technical recession in Q3 – the labour market is still in good shape. Granted, the labour market is a lagging indicator trailing the economic cycle by around six months, so this is no reason for over-optimism. After the sharp increase in employment in the past year, the current upward trend is noticeably flattening compared with the previous year.

Strong growth in employment s.t. social security contributions

1

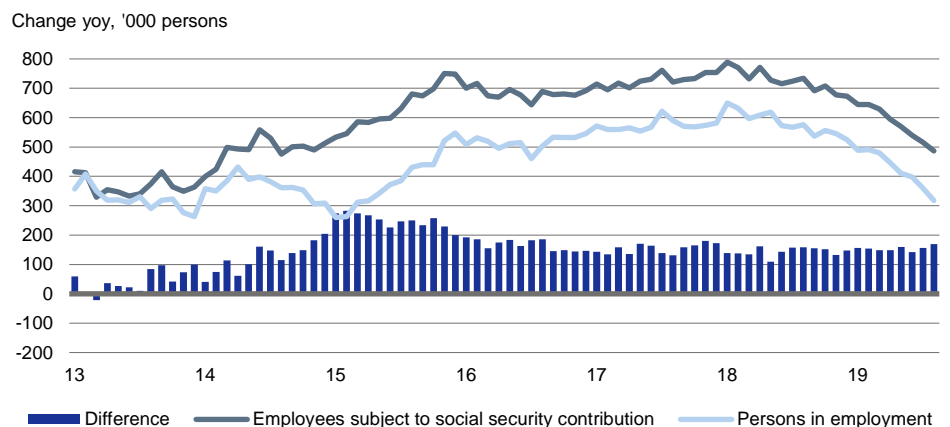


Sources: Deutsche Bundesbank, Deutsche Bank Research

In Q3, annual employment growth decelerated further to 0.8% yoy, after 1.0% in Q2 and 1.1% at the start of the year. Still, during the quarter the economy added 50k new jobs compared to only 32k in Q2. In Q4 we expect employment growth to average 0.5% yoy. The slowdown in the growth momentum also applies to employment subject to social security contributions, although this group (33.6m) is right now still expanding at annual rates of around 1 ½%. Up until August (latest detailed data) employment has been shrinking almost exclusively at temp agencies (106k yoy). Qualified corporate service providers, health, social & care, IT, construction and even metal and electrical engineering are still reporting higher payrolls compared to a year ago.

Ongoing but slowing employment growth

2



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

Early labour market indicators by the ifo and IAB (employment barometers) as well as the subcomponents of the purchasing managers' indices (PMI) point to a



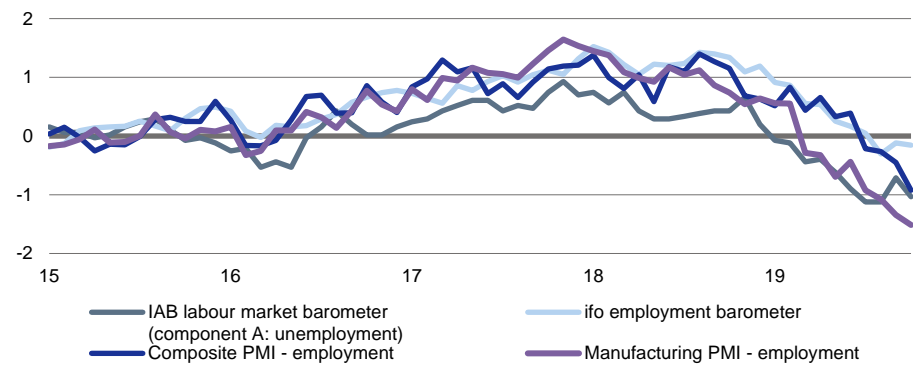
Economic weakness, political turbulence

further deterioration in the current situation. However, most recent ifo data indicate a slight stabilization of employment. This applies in particular to the survey results in manufacturing. However, job cuts are still likely to outweigh the increase in the number of jobs.

Labour market indicators: No fundamentally different message

3

Standardised values



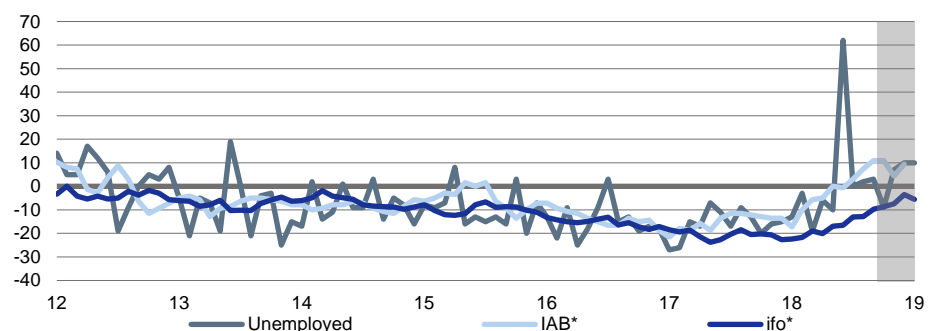
Sources: ifo, IAB, IHS Markit, Federal Employment Agency

The slight decline in the ifo barometer was driven by the services sector. It is another indication that service providers are gradually forfeiting their role as employment drivers, as the recession in manufacturing spreads more and more to their sector. PMI employment in the services sector has also been weaker in recent months (52.4 Oct, 54.5 Q3, 56.7 Q2), but is still in expansionary territory (above 50 pts). Unemployment which has been stagnant during the last 6 months, is therefore expected to start inching higher in Q4 (+30k).

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 an 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

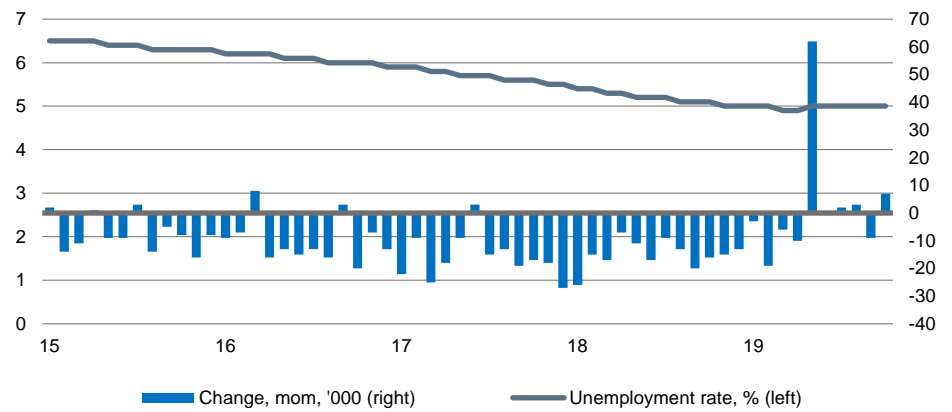
As a result of the weakening outlook, we expect the lack of labour demand will also be compensated by more people working short shifts. According to estimates of the Federal Labour Agency (BA) the number of people working short shifts has gradually increased to 80.8k in November (Oct. 75.7k, Sep 50.1k). This compares to just 42.9k in Nov. 2018.



Economic weakness, political turbulence

Decrease in unemployment has come to a halt

5

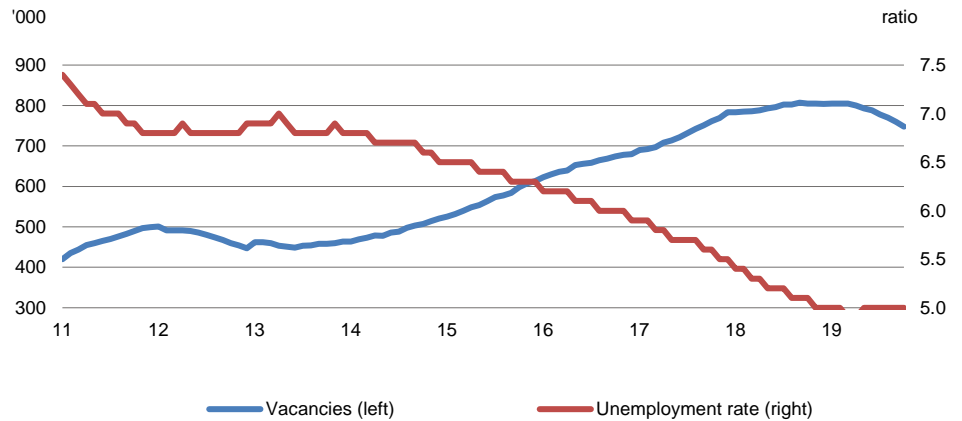


Source: Federal Employment Agency

Overall, the German labour market is still in good shape. The number of vacancies – albeit slowly shrinking (Oct. 748k after Sep. 760k) – still indicates strong demand for qualified labour.

Labour market: Near full employment but cyclical skid marks

6



Source: Deutsche Bundesbank

For 2020, we expect employment growth to slow to 0.1%, unemployment to rise by 80k to a good 2.3 m, and as a result the unemployment rate to rise slightly to 5.2%.

Marc Schattenberg (+49 69 910-31875, marc.schattenberg@db.com)



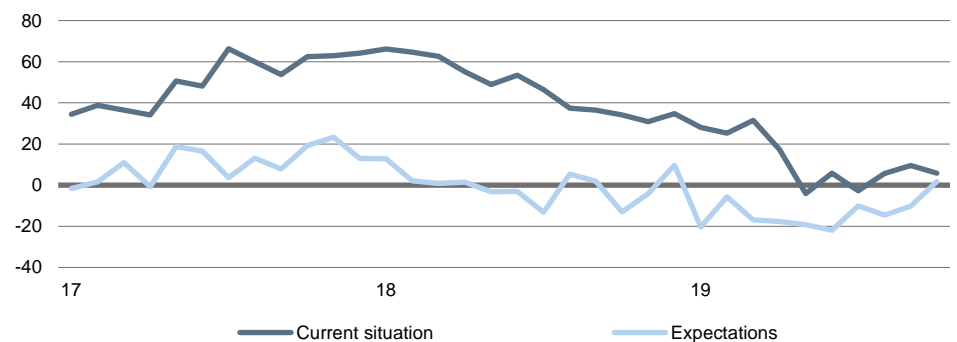
Taking the pulse of the German auto industry: Mixed signals but the trough is in sight

The automotive industry is the largest industrial sector in Germany, measured by revenue. Its performance will decide when and to which extent the German manufacturing industry will overcome the recession that has started in Q3 2018. Domestic production has been declining in 2019 since global car demand remains weak. Sentiment indicators in the sector have shown a mixed picture during the last few months. Domestic orders surged strongly while foreign order intake continued to drift lower at the latest reading. It would be a massive set-back 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. Recent statements from the US administration seemed to suggest a more flexible stance.

ifo business climate in German automotive industry

1

balance of positive and negative company reports (%)



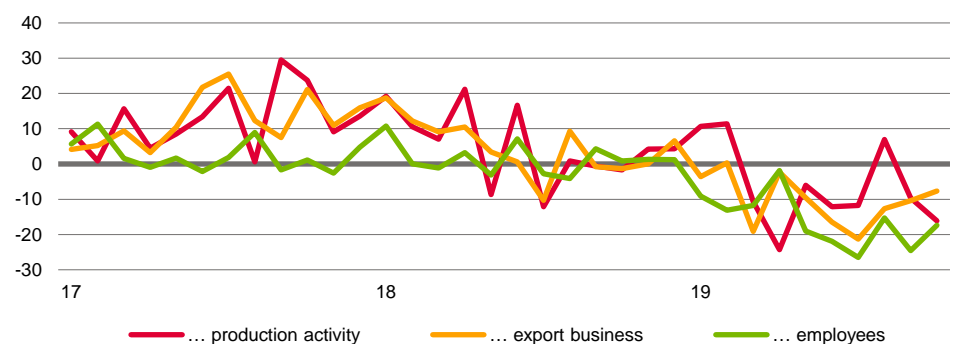
Source: ifo

Chart 1: Business expectations in the German automotive industry had been negative since the beginning of the year but returned into positive territory at the latest reading. On balance, companies have been optimistic about the current situation since August. Order backlog in the sector is still on a high level and has even started to increase again since the middle of the year.

ifo expectations with regard to ...

2

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



Source: ifo

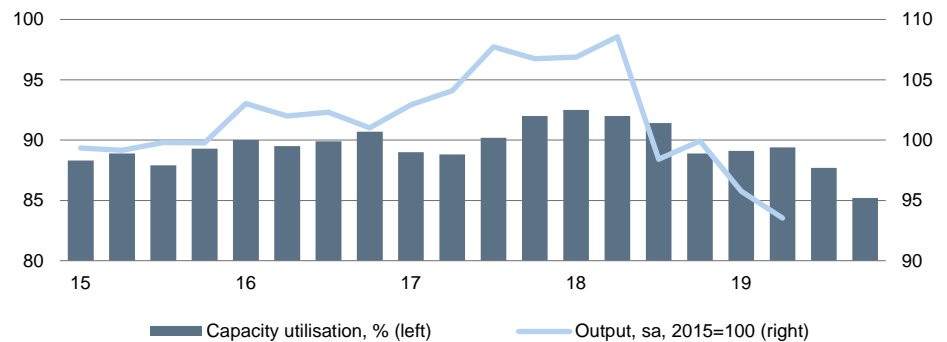


Economic weakness, political turbulence

Chart 2: The turnaround in overall business expectations of the sector is not yet reflected in the subcomponents of the ifo survey. Production, export and employment expectations were negative in October. However, all three time series have been quite volatile during the last few months. We expect a slight decrease in employment in the sector in 2019.

Output and capacity utilisation in German automotive industry

3

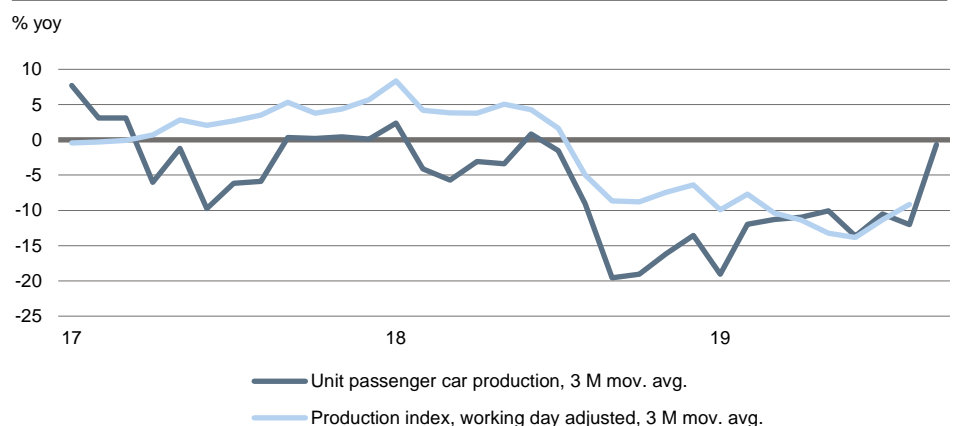


Sources: Federal Statistical Office, ifo

Chart 3: At the beginning of Q4 2019, capacity utilization in the German auto industry was considerably below the value of 2018 and fell slightly below the long-term average. The renewed decrease in capacity utilization at the beginning of Q4 2019 was a disappointment but could mark the trough in the current cycle. We expect global car demand to stabilize in the remainder of 2019 and increase moderately in 2020. Thus, utilization could pick up again in H1 2020 (see also Chart 6).

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 September, production increased by 4% yoy. The decline in the output index, which also includes qualitative criteria (such as better equipment of cars), is smaller in general. The output index could decrease again slightly in Q3 2019 (vs. Q2). However, we expect the production index to recover thereafter. The year-on-year growth rate looks set to be 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.

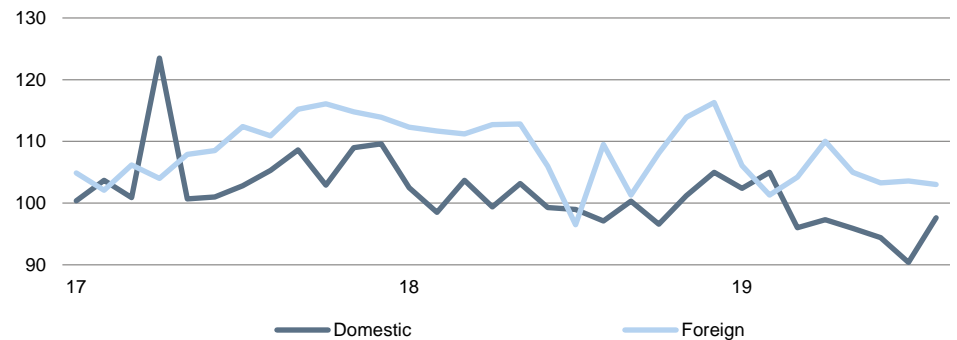


Economic weakness, political turbulence

New orders in German automotive industry

5

sa, 2015=100



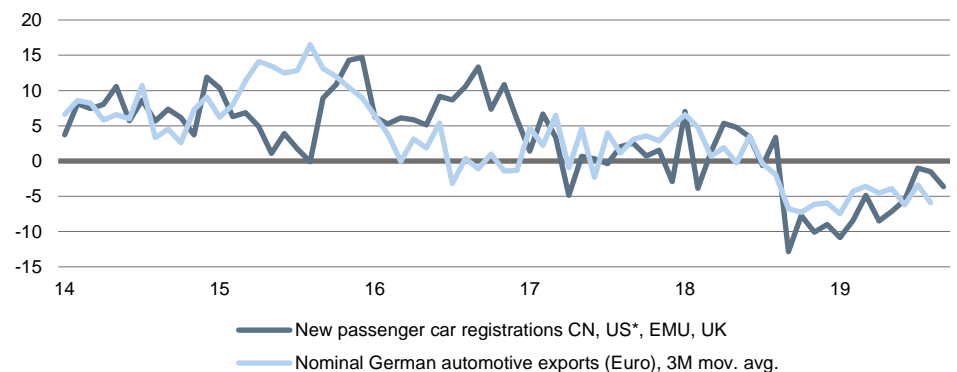
Source: Federal Statistical Office

Chart 5: Domestic and foreign order intake developed very differently in August (+8% and -0.6% mom respectively). On average, orders have somewhat stabilized during the last few months. German new passenger car registrations trended sideways at a high level in the first nine 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. There have been some political signs that Chinese car demand (which has been weak for several months) could be supported in the near future.

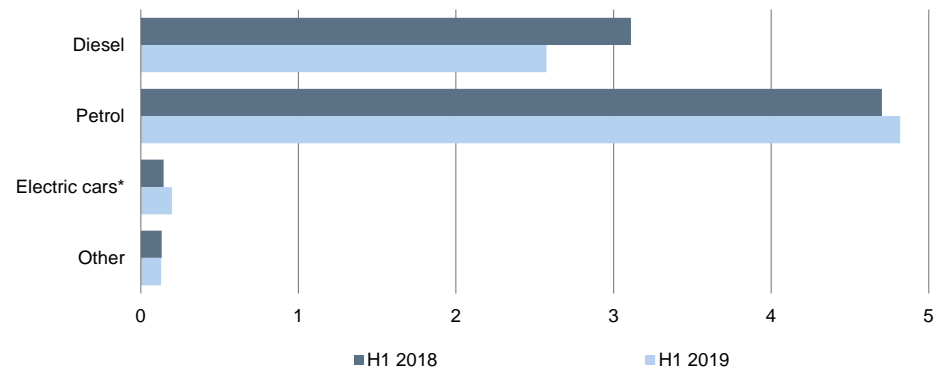


Economic weakness, political turbulence

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 and the corresponding supplier parts and equipment in their plants respectively. 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 (probably less than 5%), 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. At the same time domestic production is negatively influenced since some production sites are being retrofitted in order to ramp up production of electric vehicles (capacity is not fully available during restructuring of these plants). 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 subsidized, 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.

Eric Heymann (+49 69 910-31730, eric.heyman@db.com)



German politics: Turbulent political days – but not the end of the Groko (yet)

- Political fragmentation in Germany continues. The far-left and far-right now command more than half of the seats in the state parliament of Thuringia. Leadership battles among the social democrats (formally) and the CDU (informally) cast a shadow over the government coalition in Berlin.
- All in all, the probability of an early Groko demise is on the rise, but we still think that the status quo forces are more likely to prevail; meaning that the Groko treaty will be the ultimate arbiter in case of (more likely) conflicts. Calls from within the SPD to move to the opposition will not fall silent. Given current polls especially the SPD (but also the CDU) does not have strong incentives to leave the coalition and trigger new elections.

Elections in the Eastern German state of Thuringia: Left-wing Left-SPD-Greens government lost its majority

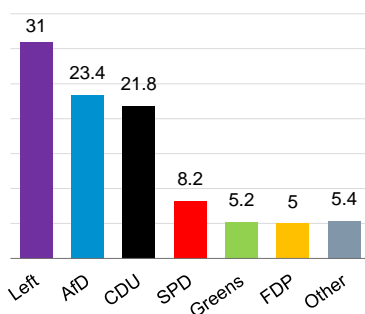
The state elections in Thuringia provided a further blow to both Groko parties: the CDU lost 11.7 points to stand at 21.8% (preliminary results), free-falling from rank 1 in 2014 to the third place. The SPD moved into single-digit territory, losing 4.2 points to a meager 8.2%. The Left party of PM Bodo Ramelow and the AfD led by radical right-wing Björn Höcke were the clear winners. The Left came in first at 31% (+2.8) and the AfD second at 23.4 (+12.8). The success of the Left can be attributed to the popularity of PM Ramelow, who is much more conservative than the party itself, which is actually pretty much in decline as the voter base in East Germany is gradually dying out. The Greens seemed not to have benefited from their increased popularity on the national level and just managed to pass the electoral threshold at 5.2% (-0.5). So did the liberal FDP at 5% (+2.5). The voter turnout was surprisingly high, increasing from 53% in 2014 to 65%.

Coalition building will be tough, as the CDU has explicitly ruled out any cooperation with either the Left or the AfD, making a minority government of the Left a likely outcome.

- The current Left-SPD-Green coalition only secured 42 seats⁷, 4 short of a majority in the 90 seats parliament. A majority could be secured by including the FDP (5 seats), but the liberals reject cooperation with the Left.
- The Left and the AfD now account for 51 out of 90 seats but are at opposite ends of the political spectrum. And none of the other parties entering the state parliament are willing to form a coalition with the AfD.
- Arithmetically, a government formed by the Left party and the CDU would be an option (50 seats). But only if the CDU dropped its categorical rejection to cooperate with the Left (which partly evolved from the former East German Communist Party).
- An (also unprecedented) centrist coalition (CDU, SPD, Greens, FDP) originally aimed at by Thuringia's CDU leader Mohring would only have 39 seats.

Thuringia state elections results
2019 elections, % of votes (preliminary results)

1

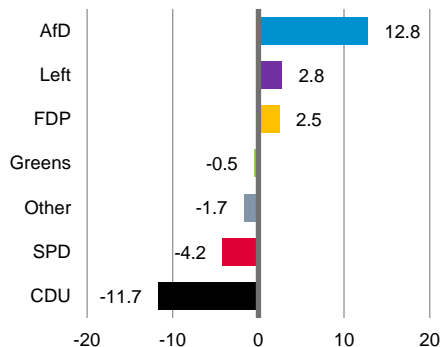


Source: Landeswahlleiter Thüringen

Thuringia state elections –
changes since 2014

2

Wins/losses 14-19, ppt (prelim.)



Source: Landeswahlleiter Thüringen

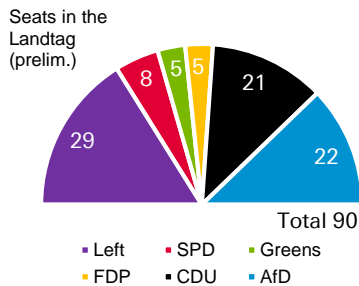
⁷ This is based on the preliminary election results published on Oct 27. If the ongoing review of results until November 7 would find that the FDP fails to enter parliament, seats allocation in parliament would be adjusted accordingly.



Economic weakness, political turbulence

Thuringia state elections – seats in the new parliament

3



Source: Landeswahlleiter Thüringen

Contrary to earlier hints by Thuringia's CDU leader Mike Mohring that he might be prepared to consider even a formal coalition between the CDU and the Left, press releases by the Thuringia CDU later made clear that neither a coalition with the Left or the AfD would be on the cards. Mohring then also ruled out that the CDU tolerates a red-red-green minority government and suggested a centrist minority coalition instead (which we consider very unlikely). Previously, some voices in the CDU have been urging for quite some time to differentiate between the Left and the AfD and to at least consider a possible coalition with the Left. The former German president Joachim Gauck, coming from East Germany himself, suggested a review of party lines given that the current Prime Minister Bodo Ramelow from the Left party has a very traditional background of labour unionist and is widely perceived as being pragmatic.

While Mohring still signaled his willingness to talk to Ramelow, in fact a red-red-green minority government appears to be left as the only viable option. Ruling Prime Minister Ramelow from the Left already declared his willingness to continue the current coalition in such a constellation. Ramelow is not in a hurry to start coalition negotiations as his government will serve as a caretaker as long as the state parliament has not elected a successor – and as opposed to other German states there is no deadline to be met.

No majority in SPD leadership vote, run-off in November

On Saturday, the member vote on the future SPD leadership did not lead to a clear result as none of the six candidate duos gained a majority. The tandem of vice chancellor and finance minister Olaf Scholz and his running mate Klara Geywitz gained a narrow lead at 22.7% over their main contenders Norbert Walter-Borjans, the former finance minister of North-Rhine Westphalia, and Saskia Esken at 21%.

Olaf Scholz is an outspoken supporter of the Groko. If he were to be elected as the next SPD co-leader, this would thus be a strong sign for the continuation of the government coalition.

His contender, Walter-Borjans remained on the fence regarding Groko, arguing that a decision will depend on issues and how much can be achieved by staying, while his running mate Esken is clearly for leaving, as she is aiming for a more redistributive and worker-friendly policy, which she does not see CDU/CSU going along with.

Among the 14 candidates that originally showcased at regional conferences, six tandems – some with prominent, others with less prominent party members – have in the end been put to the vote. The performance of the Groko-sceptic duos has not been overwhelming and topical discussions played a stronger role than the fate of the Groko during the regional conferences. Before the release of the ballot results none of the campaigning duos had been identified as front-runners.

The results of the run-off between Scholz/Geywitz and Walter-Borjans/Esken will be presented on November 30, just in time for the SPD party convention on Dec 6-8. On this occasion the 600 delegates will not only approve the new leadership – rather a formality given the politically binding vote – but will also discuss the midterm review of the work of the Groko.

Despite his high political profile as vice chancellor and finance minister, Olaf Scholz ranks only in the middle in voter approval ratings and is respected rather for his political expertise than for his communicative skills. Walter-Borjans enjoys a strong reputation as a convinced fighter against tax evasion and proponent of social equality. He could build on the support of the large SPD state association of NRW and the youth association of the SPD. One can make the

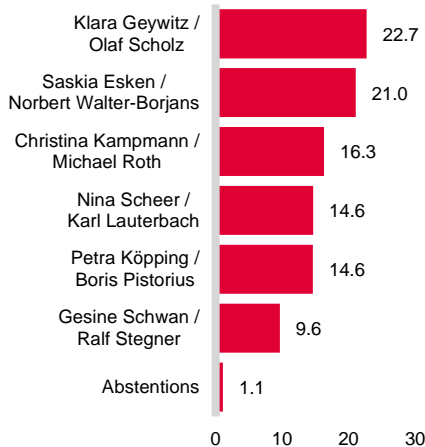


Economic weakness, political turbulence

No majority in SPD leadership vote, run-off vote in Nov

4

% of total votes



Source: SPD

point that Walter-Borjans/Esken are more likely to receive some of the votes which went to other more left-leaning teams which dropped out after round 1⁸. The one clear "Leave"-team, however, Lauterbach/Scheer did not perform particularly well with 15% of the votes. On the other hand, the participation rate among the SPD's 425,000 members was only 53%.

One might speculate that those yearning for change were more likely to vote in round 1, so that there might be more status quo votes in round two, a possible advantage for Scholz/Geywitz. While the turnout easily exceeded the 20% minimum it is still a disappointment, considering that the vote was aimed at anchoring the party leadership with the SPD's party base and injecting fresh spirit into the ailing SPD.

Shadows over the government in Berlin - but not the end of the Groko (yet)

The political fragmentation in Germany continues. While the weight of Thuringia with its population of 2.2 million in national politics is rather low, the fact that the far-left and far-right now command more than half of the seats in its state parliament will certainly have repercussions in Berlin. And also, the leadership battles that (formally) continue among the social democrats and (informally) flared up again within the CDU cast a shadow over the government coalition in Berlin.

Media will aim to turn the run-off for the SPD leadership into a make or break of Groko. Both teams will try to avoid such a simplification. The results of the run-off will be known on November 30, but the final approval will come from the party convention on Dec 6.-8. If the SPD left Groko, early elections are the most likely outcome (although the CDU might want to strike a temporary deal to make it through H2 2020 when Germany holds the EU presidency). This would not be an easy start for a new leadership team such as Walter-Borjans/Esken. In the best case, they would end as the Greens' junior partner, although based on current polls a majority for a Greens/SPD/Left coalition seems hard to achieve.

All in all, last weekend's events have certainly increased the probability of an early Groko demise, but we still think that the status quo forces are more likely to prevail. Meaning that the Groko treaty will be the ultimate arbiter in case of (more likely) conflicts.

Given that the domestic election calendar for 2020 only foresees state elections in the city state of Hamburg (February 2020), at least from this side further fall-out for the coalition parties should not be expected. That is to not say, though, that new issues might not come up, as illustrated by the recent move of Merkel's possible successor and defense minister Annegret Kramp-Karrenbauer on controversial peace plans for Syria. AKK's exposure might reopen internal bickering over the next CDU candidate for chancellor and thus also weaken the stability of the government coalition.

The federal government has announced it will present its midterm review at the beginning of November, most likely at the meeting of the government cabinet on November 6. This will allow both the CDU/CSU and the SPD to evaluate the review before the CDU party convention end-November and the SPD convention with the final approval of the new leadership in early December. The coalition partners will likely focus on a stocktaking of which parts of the coalition treaty have been resolved or are under way and indicate further projects. Most of the coalition treaty's policy agenda – large parts of which again is more SPD

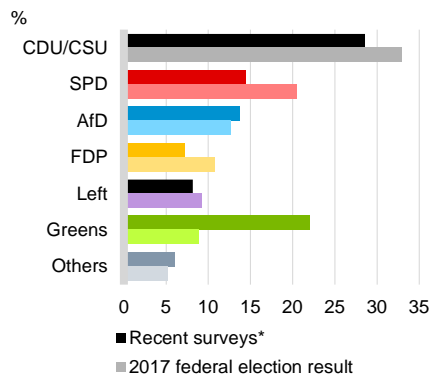
⁸ According to a Civey opinion poll on behalf of Der Spiegel (26.10.-28.10.2019), 54.2% of SPD supporters would like SPD members to vote for Walter-Borjans/Esken, only 35.4% for Scholz/Geywitz.



Economic weakness, political turbulence

Federal elections – 2017 results and current polls

5



* Average of major recent surveys (Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, Infratest dimap, INSA)

Source: Wahlrecht.de, October 28, 2019

programmatic than CDU/CSU – has been worked through. One of the last contentious issues, the details for the basic pension, is still under discussion.

After the stocktaking by the coalition, the SPD party will evaluate the review. On the party convention, the SPD executive committee will present its assessment and ask delegates for their opinion. Currently it is open, though, whether there will be an official vote on the coalition's track record, a potential roadmap for the second half of the term or an outright yes/no vote on continuing the coalition. Given that most of the delegates are in official positions at various governmental levels, there is a high likelihood of support for the Groko should the SPD executive opt for it and the new SPD leadership duo not take an opposite view.

In case of a break-up of the coalition (which is not our baseline view) in the course of 2020, recent polls indicate a majority for a conservative-green government (see Chart 5). The prospects for such a government formation has always been strongly related to Merkel and we would expect coalition talks under a possible next CDU/CSU chancellor (whoever that might be) to be rather challenging. In any case, while the focus of such a government would likely be even more on climate and environmental policies, policy shifts in other areas, above all a robust fiscal expansion without clear signs of a recession, remain unlikely.

Barbara Böttcher (+49 69 910-31787, barbara.boettcher@db.com)

Kevin Körner (+49 69 910-31718, kevin.koerner@db.com)



Economic weakness, political turbulence

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	Standardised surprise	Quantile rank
GRIMP95Y Index	Import Price Index (% yoy)	8 2019	27/09/2019	-2.7	-2.6	-0.1	0.0	0.6
GRFRIAMM Index	Retail Sales (% mom)	8 2019	30/09/2019	-0.1	0.5	-0.6	-0.3	0.4
GRUECHNG Index	Unemployment Change (000's mom)	9 2019	30/09/2019	-9.0	5.0	14.0	0.4	0.7
MPMIDEMA Index	Markit Manufacturing PMI	9 2019	01/10/2019	41.7	41.4	0.3	0.3	0.8
MPMIDESA Index	Markit Services PMI	9 2019	03/10/2019	51.4	52.5	-1.1	-1.3	0.1
GRIORTMM Index	Factory Orders (% mom)	8 2019	07/10/2019	-0.6	-0.3	-0.3	-0.2	0.4
GRIPIMOM Index	Industrial production (% mom)	8 2019	08/10/2019	0.3	0.0	0.3	0.4	0.7
GRBTEXMM Index	Exports (% mom)	8 2019	10/10/2019	-1.5	-1.0	-0.5	-0.3	0.4
GRCAEU Index	Current Account Balance (EUR bn)	8 2019	10/10/2019	16.9	17.9	-1.0	-0.6	0.3
GRTBALE Index	Trade Balance (EUR bn)	8 2019	10/10/2019	16.4	18.8	-2.4	-1.1	0.2
GRBTIMMM Index	Imports (% mom)	8 2019	10/10/2019	0.6	0.5	0.1	0.1	0.5
GRCP20YY Index	CPI (% yoy)	9 2019	11/10/2019	1.2	1.2	0.0	0.2	0.4
GRZEWI Index	ZEW Survey Expectations	10 2019	15/10/2019	-22.8	-26.4	3.6	0.5	0.7
GRZECURR Index	ZEW Survey Current Situation	10 2019	15/10/2019	-25.3	-23.6	-1.7	-0.3	0.3
MPMIDESA Index	Markit Services PMI	10 2019	24/10/2019	51.2	51.2	0.0	0.0	0.5
MPMIDEMA Index	Markit Manufacturing PMI	10 2019	24/10/2019	41.9	41.9	0.0	0.0	0.5
GRIMP95Y Index	Import Price Index (% yoy)	9 2019	28/10/2019	-2.5	-3.0	0.5	0.8	0.9
GRUECHNG Index	Unemployment Change (000's mom)	10 2019	30/10/2019	6.0	3.0	-3.0	-0.3	0.3
GRCP20YY Index	CPI (% yoy)	10 2019	30/10/2019	1.1	1.0	0.1	0.6	0.7
GRFRIAMM Index	Retail Sales (% mom)	9 2019	31/10/2019	0.1	0.2	-0.1	0.1	0.5

Sources: Bloomberg Finance LP, Deutsche Bank Research

Updated by Sebastian Becker 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.



Economic weakness, political turbulence

Germany: Data calendar

Date	Time	Data	Reporting period	DB forecast	Last value
6 Nov 2019	8:00	New orders manufacturing (% mom, sa)	September	0.2	-0.6
7 Nov 2019	8:00	Industrial production (% mom, sa)	September	-0.2	0.7
8 Nov 2019	8:00	Trade balance (EUR bn, sa)	September	18.6	18.4
8 Nov 2019	8:00	Merchandise exports (% mom, sa)	September	0.4	-1.5
8 Nov 2019	8:00	Merchandise imports (% mom, sa)	September	0.3	0.6
14 Nov 2019	8:00	Real GDP (% qoq)	Q3 2019	-0.5	-0.1
22 Nov 2019	8:00	Real GDP (% qoq) - Details	Q3 2019	-0.5	-0.1
22 Nov 2019	9:30	Manufacturing PMI (Flash)	November	43.0	41.9
22 Nov 2019	9:30	Services PMI (Flash)	November	52.0	51.2
25 Nov 2019	10:30	ifo business climate (Index, sa)	November	95.2	94.6
28 Nov 2019	14:00	Consumer prices preliminary (% yoy, nsa)	November	1.2	1.1
29 Nov 2019	9:55	Unemployment rate (% , sa)	November	5.0	5.0
2 Dec 2019	8:00	Retail sales (% mom, sa)*	October	0.5	0.1

*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

Marc Schattenberg, Sebastian Becker & Jochen Möbert (+49 69 910-31727, jochen.moebert@db.com)



Economic weakness, political turbulence

Financial Forecasts

	US	JP	EMU	GB	CH	SE	DK	NO	PL	HU	CZ
Key interest rate, %											
Current	1.625	-0.10	0.00	0.75	-0.75	-0.25	-0.75	1.50	1.50	0.20	2.00
Dec 19	1.625	-0.10	0.00	0.75	-0.75	-0.25	-0.85	1.50	1.50	0.25	2.00
Mar 20	1.625	-0.10	0.00	0.75	-0.75	-0.25	-0.85	1.50	1.50	0.25	2.00
Jun 20	1.625	-0.10	0.00	0.75	-0.75	-0.25	-0.85	1.50	1.50	0.25	2.00

3M interest rates, %

Current	1.89	0.01	-0.40	0.82
Dec 19	1.90	0.05	-0.45	0.85
Mar 20	1.75	0.05	-0.45	0.85
Jun 20	1.75	0.05	-0.45	

10Y government bonds yields, %

Current	1.71	-0.18	-0.38	0.66
Dec 19	1.85	-0.15	-0.40	1.12
Mar 20	1.70	-0.10	-0.35	1.13
Jun 20	1.70	0.00	-0.32	

Exchange rates

	EUR/USD	USD/JPY	EUR/GBP	GBP/USD	EUR/CHF	EUR/SEK	EUR/DKK	EUR/NOK	EUR/PLN	EUR/HUF	EUR/CZK
Current	1.12	108.18	0.86	1.29	1.10	10.68	7.47	10.14	4.25	327.99	25.51
Dec 19	1.13	108.00	0.93	1.22	1.13	11.00	7.46	10.15	4.35	335.00	25.70
Mar 20	1.16	106.00	0.93	1.25	1.14	11.00		10.11	4.40	330.00	25.60
Jun 20	1.19	104.00	0.93	1.28	1.14	11.00		10.08	4.38	325.00	25.55

Sources: Bloomberg Finance LP, Deutsche Bank Research



Economic weakness, political turbulence

German data monitor

	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	May 2019	Jun 2019	Jul 2019	Aug 2019	Sep 2019	Oct 2019
Business surveys and output											
Aggregate											
Ifo business climate	102.1	99.6	98.4	94.9		98.2	97.5	95.9	94.3	94.6	94.6
Ifo business expectations	98.4	94.9	94.8	91.4		95.2	94.0	92.1	91.3	90.9	91.5
Industry											
Ifo manufacturing	101.6	98.0	95.1	90.9		95.6	94.2	91.5	90.7	90.6	91.0
Headline IP (% pop)	-1.2	-0.7	-1.6			0.8	-1.3	-0.5	0.7		
Orders (% pop)	0.4	-4.2	-0.9			-2.0	2.7	-2.1	-0.6		
Capacity Utilisation	87.1	86.3	85.3	83.9	82.6						
Construction											
Output (% pop)	0.1	3.9	0.6			-2.2	3.9	-1.8	-1.8		
Orders (% pop)	10.0	-2.2	-5.3			-3.6	2.6	0.0	-2.6		
Ifo construction	116.6	111.7	113.2	112.8		114.1	112.9	113.2	112.4	112.7	112.3
Consumer demand											
EC consumer survey	0.4	-0.2	-1.7	-3.1		-1.4	-3.1	-2.9	-3.9	-2.4	-4.1
Retail sales (% pop)	0.4	2.0	0.1	0.6		-0.5	1.9	-0.4	-0.1	0.1	
New car reg. (% yoy)	-8.1	0.2	0.9	6.8		9.1	-4.7	4.7	-0.8	22.2	
Foreign sector											
Foreign orders (% pop)	0.9	-5.2	1.4			-3.9	5.2	-4.2	0.9		
Exports (% pop)	0.9	0.7	-1.8			1.4	-0.2	0.8	-1.5		
Imports (% pop)	0.0	0.4	-0.9			-0.4	1.3	-2.4	0.6		
Net trade (sa EUR bn)	55.8	57.0	53.5			18.9	17.5	20.5	18.4		
Labour market											
Unemployment rate (%)	5.0	5.0	5.0	5.0		5.0	5.0	5.0	5.0	5.0	5.0
Change in unemployment (k)	-48.0	-31.3	21.0	21.7		62.0	0.0	2.0	3.0	-9.0	7.0
Employment (% yoy)	1.2	1.1	1.0	0.8		1.0	0.9	0.8	0.8	0.7	
Ifo employment barometer	104.2	102.4	100.6	98.8		100.3	100.0	99.5	98.1	98.9	98.7
Prices, wages and costs											
Prices											
Harmonised CPI (% yoy)	2.2	1.6	1.6	1.0		1.3	1.5	1.1	1.0	0.9	
Core HICP (% yoy)	1.4	1.5	1.5	0.9		0.9	1.5	0.9	0.8	1.0	
Harmonised PPI (% yoy)											
Commodities, ex. Energy (% yoy)	-0.3	1.5	0.2	6.3		-3.4	0.1	10.0	2.3	6.7	
Crude oil, Brent (USD/bbl)	68.8	63.8	68.6	62.1		70.3	63.2	64.4	59.6	62.3	59.6
Inflation expectations											
EC household survey	34.3	31.7	33.8	33.7		35.4	33.4	34.0	35.6	31.5	34.0
EC industrial survey	17.6	14.4	7.1	2.2		8.4	6.2	2.6	3.0	1.1	2.3
Unit labour cost (% yoy)											
Unit labour cost	2.9	3.2	4.1								
Compensation	2.8	3.0	3.3								
Hourly labour costs	2.2	2.5	4.1								
Money (% yoy)											
M3	4.5	5.1	4.8	5.1		4.7	4.8	5.0	6.1	5.1	
M3 trend (3m cma)						5.0	5.1	5.0	4.8	5.3	5.4
Credit - private	3.9	4.1	4.6	4.5		4.4	4.6	4.6	4.8	0.0	
Credit - public	-6.3	14.1	5.7			6.3	5.7	7.0	7.8		

% pop = % change this period over previous period.

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



Focus Germany

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

- ▶ Economic weakness, political turbulence November 4, 2019
- ▶ Climate package:
No game changer for fiscal policy September 30, 2019
- ▶ Only a technical recession?
It is all about risks! August 19, 2019
- ▶ A looming black-green coalition:
Painful compromises needed July 8, 2019
- ▶ Not out of the woods, politics of no help May 20, 2019
- ▶ Exports and autos weigh heavily
on the German economy in 2019 April 9, 2019
- ▶ The German economy's Achilles heel March 4, 2019

© Copyright 2019. Deutsche Bank AG, Deutsche Bank 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, licensed to carry on banking business and to provide financial services under the supervision of the European Central Bank (ECB) and the German Federal Financial Supervisory Authority (BaFin). In the United Kingdom this information is approved and/or communicated by Deutsche Bank AG, London Branch, a member of the London Stock Exchange, authorized by UK's Prudential Regulation Authority (PRA) and subject to limited regulation by the UK's Financial Conduct Authority (FCA) (under number 150018) and by the PRA. 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 Inc. 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

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