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Exports and autos weigh heavily on the German economy in 2019

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German exports 2019: An uphill battle. German exports were up by 3% in nominal terms in 2018 – a significant slowdown from 2017's 6.2%. The trade surplus shrank to 6.7% of GDP, the lowest level since 2011. As in 2017, exports to China and the Netherlands boosted total shipments, whereas exports to the UK and to Turkey declined significantly. The pharmaceutical industry, mechanical engineering and electrical engineering were the biggest German exporters in 2018.

World trade to grow only by 1 ½%-2% in 2019. World trade grinded to a halt towards the end of last year. The trade conflict between China and the US and the Brexit related uncertainties will probably keep world trade growth in 2019 below its long-term average. Still, we expect the uncertainties to abate during the year, allowing for a modest pick-up in world trade during the second half of 2019.

The automotive industry's performance will be decisive for German manufacturing to overcome recession. At the time when the WLTP-induced supply shock is slowly abating global demand has been slowing significantly. Despite a setback in January, output and domestic order intake point to a stabilisation. However, the ifo business and output expectations, above all export expectations, have recently declined again, following a 4.8% mom drop in Feb. foreign orders.

Public finances: No stimulus package. The government will stick to the "black zero", at the expense of a full depletion of the refugee reserve fund. The expected decline in the structural balance of ½ pp of GDP is merely the result of already adopted measures. We believe that only in case of a clear drop in GDP the federal government would be prepared to give up on the black zero.

The view from Berlin: More grandstanding. Groko partners are desperate to sharpen their profile. The SPD is returning to its traditional focus on social matters, the CDU/CSU has turned more conservative on tax policy and migration. While the SPD remains almost stuck in the opinion polls, though, this polarization seems to work in favour of the CDU/CSU. The new party chair AKK broadens her platform, most recently by laying out her vision of “Getting Europe right”. Still, the public is not convinced that she qualifies as Merkel's successor.

Exports and autos weigh heavily on the German economy in 2019

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	1.8	0.9	1.3	1.8	1.2	1.5	2.9	2.3	2.0	-0.8	-1.0	-1.0
Germany	1.4	0.5	1.4	1.9	1.7	1.4	7.4	6.5	6.1	1.7	0.8	0.5
France	1.6	1.3	1.3	2.1	1.5	1.7	-0.3	-0.3	-0.2	-2.5	-3.2	-2.0
Italy	0.9	0.3	0.7	1.2	1.2	1.4	2.5	2.2	2.2	-2.1	-2.4	-2.2
Spain	2.6	2.1	2.0	1.7	1.3	2.0	0.9	1.2	1.0	-2.7	-2.2	-1.8
Netherlands	2.7	1.9	1.8	1.6	2.3	2.0	10.8	9.9	9.7	0.8	0.6	0.4
Belgium	1.4	1.4	1.4	2.3	1.8	1.6	-1.3	0.4	0.5	-1.1	-1.3	-1.4
Austria	2.8	1.9	1.8	2.1	1.6	1.8	2.3	2.3	2.5	-0.2	0.1	0.3
Finland	2.3	1.9	1.8	1.2	1.3	1.5	-1.9	0.0	0.5	-0.7	-0.7	-0.6
Greece	1.9	1.9	1.8	0.8	1.0	2.7	-1.0	-0.6	-0.3	0.6	1.1	1.3
Portugal	2.1	1.7	1.5	1.2	0.7	1.6	-0.4	0.0	0.0	-0.8	-0.7	-0.6
Ireland	6.8	3.4	3.3	0.7	1.0	1.1	9.1	10.0	9.0	0.0	0.0	0.3
UK	1.4	1.5	1.3	2.5	1.9	2.2	-3.9	-3.3	-3.0	-1.1	-1.9	-1.5
Denmark	1.4	1.9	1.7	0.7	1.5	1.8	6.1	6.2	6.1	-0.3	-0.2	0.2
Norway	1.7	2.1	2.0	2.8	2.1	2.0	8.1	6.0	6.1	7.2	5.3	5.2
Sweden	2.4	2.0	1.9	2.0	1.9	1.9	2.0	3.1	3.1	1.7	0.9	0.6
Switzerland	2.5	1.4	1.6	0.9	0.8	1.1	10.2	10.3	10.7	0.4	0.5	0.4
Czech Republic	2.9	2.7	2.8	2.1	2.4	2.0	0.5	0.3	0.3	1.4	1.0	0.9
Hungary	4.9	3.3	3.0	2.9	3.1	3.0	1.6	1.0	1.2	-2.1	-2.0	-1.8
Poland	5.1	3.8	3.4	1.8	1.8	2.7	-0.7	-1.2	-1.1	-0.6	-1.8	-2.1
United States	2.9	2.5	2.1	2.4	1.9	2.3	-2.5	-3.5	-3.5	-3.8	-4.2	-4.0
Japan	0.8	0.3	0.2	1.0	0.5	0.7	3.4	3.7	4.1	-2.2	-2.0	-1.9
China	6.6	6.1	6.0	2.1	2.4	2.6	0.4	-0.2	-0.4	-3.5	-4.5	-4.0
World	3.8	3.4	3.5	3.3	3.1	3.1						

*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	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Real GDP	2.2	1.4	0.5	1.4	-0.1	0.3	0.4	0.3	0.2	0.2	0.2	0.3
Private consumption	1.8	1.0	0.8	1.3	0.1	0.4	0.4	0.3	0.2	0.3	0.3	0.3
Gov't expenditure	1.6	1.0	2.0	1.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Fixed investment	2.9	2.6	2.5	2.8	0.5	0.6	0.7	0.6	0.5	0.4	0.4	0.5
Investment in M&E	3.7	4.2	2.1	2.4	0.5	0.7	0.7	0.5	0.3	0.0	0.0	0.3
Construction	2.9	2.4	3.5	3.8	0.7	0.7	0.8	0.8	0.7	0.7	0.7	0.7
Inventories, pp	0.1	0.5	-0.2	-0.1	-0.2	-0.1	0.0	0.0	-0.1	0.0	0.0	0.0
Exports	4.6	2.0	1.6	3.2	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Imports	4.8	3.3	3.5	3.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Net exports, pp	0.2	-0.4	-0.8	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Consumer prices*	1.7	1.9	1.7	1.4								
Unemployment rate, %	5.7	5.2	4.9	4.8								
Industrial production**	2.9	1.2	0.0	1.0								
Budget balance, % GDP	1.0	1.7	0.8	0.5								
Public debt, % GDP	63.9	60.9	58.4	56.0								
Balance on current account, % GDP	8.0	7.4	6.5	6.1								
Balance on current account, EUR bn	261.2	249.1	226	220								

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

German exports 2019: An uphill battle

— Despite the difficult economic and geopolitical environment, German exports were up by 3% in nominal terms in 2018 – a significant slowdown from 2017, when they had increased by 6.2%. The trade surplus declined for the second time in a row and came in at 6.7% of GDP, i.e. the lowest level since 2011. As in 2017, exports to China and the Netherlands boosted total shipments, whereas exports to the UK and to Turkey declined significantly. The pharmaceutical industry, mechanical engineering and electrical engineering made the largest contributions to total German exports in 2018. These three sectors alone were behind almost 55% of the rise in goods exports (in absolute terms). Nominal auto exports were down by 2.3% due to the WLTP effect and lower global demand for cars.

— World trade slowed considerably towards the end of 2018 and even shrank around the turn of the year. It is unlikely to recover quickly and decisively in the current environment; just think of the trade conflict between the US and China, Brexit or the sanctions against Russia and Iran. Germany, as an export oriented economy, will be hit particularly hard by this trend. It seems that German goods exports will stagnate or rise moderately at best during the first half of 2019. An increase by 2% in nominal terms would probably be a good result for 2019 as a whole.

— World trade looks set to remain structurally weak in the foreseeable future. With protectionism becoming more and more popular in many countries, bilateral trade agreements appear the best option to secure free trade. Moreover, there are no signs of major steps towards more global integration, which might provide cross regional stimulus to world trade. During the first decade of the current century, for example, world trade benefited from China's joining the WTO or from the EU expansion.

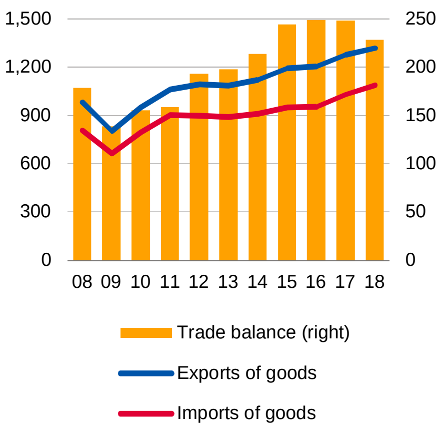
Goods exports grow moderately in 2018 – German trade surplus declines markedly

Germany, as an export oriented economy, suffered considerably from the economic and geopolitical environment in 2018. The US trade policy in particular caused some jitters. In addition, the protracted Brexit procedure weighed on trade between the EU and the UK. And finally, growth weakened in many countries towards the end of 2018 and dragged world trade down in turn. Despite these headwinds, German goods exports rose by 3% in nominal terms in 2018, even though the rate of growth became negative by the end of the year. This was a slowdown from 6.2% in 2017.

At 5.7%, nominal goods imports grew more quickly than exports for the second time in a row in 2018. As a result, the German trade surplus declined by almost 8%, to EUR 228 bn or 6.7% of GDP, i.e. the lowest level since 2011. The Netherlands were the only major western European economy which registered a higher surplus (measured as a percentage of GDP). The aggregate trade balance includes commodities, such as oil or gas, and agricultural products, where Germany traditionally runs a deficit. If we focus only on manufacturing goods, the surplus for 2018 rises to c. EUR 340 bn.

Trade surplus declined significantly in 2018 1

German exports and imports of goods and trade balance, EUR bn

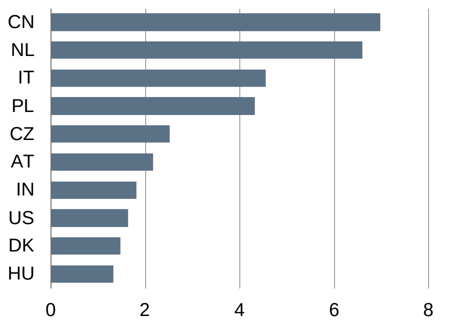


Source: Federal Statistical Office

Exports and autos weigh heavily on the German economy in 2019

German exports to China and the Netherlands rise significantly 2

Growth of German goods exports by country, 2018, EUR bn



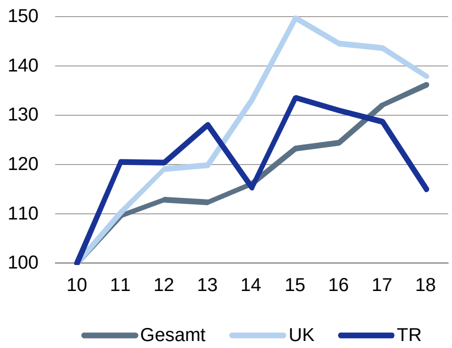
Source: Federal Statistical Office

Demand from China, the Netherlands and Italy supports German exports

German exports to China (2018: +8.1% in nominal terms) and the Netherlands (+7.8%) did quite well. China's efforts to modernise its production facilities in the framework of the "Made in China 2025" strategy left their traces and enabled German producers of capital goods to increase their exports to China significantly during the past year. Goods exports to the Netherlands were supported by strong local growth and the close economic links between the two countries. Exports to Poland (+7.3%), Italy (+7%) and the Czech Republic (+6%) also rose at an above-average clip in 2018. While exports to Poland and the Czech Republic were supported by healthy GDP growth, the increase in exports to Italy was a surprise, as the country is struggling with persistent economic and political problems. In particular, pharmaceuticals exports to Italy jumped (+65.6%). Italy's share in German overall goods exports was up from 4.8% in 2014 to recently 5.3%.

German exports to UK and Turkey decline again 3

German exports of goods by export market, 2010=100



Source: Federal Statistical Office

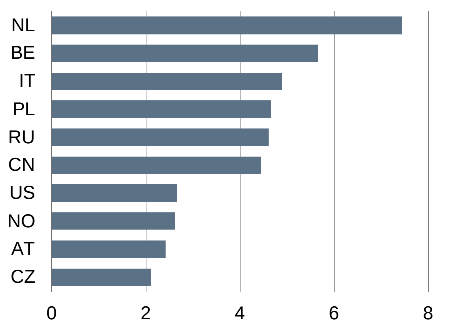
Political turmoil weighs on exports to the UK and to Turkey

German exports to the UK (2018: -4% in nominal terms) and to Turkey (-10.7%) did worst. In both cases, exports declined for the third time in a row. The persistently weak sterling exchange rate and the significant depreciation of the Turkish lira versus the euro contributed to the decrease. In addition, political uncertainties had an impact (the Brexit decision and its consequences in the case of the UK, the political tensions between the EU and Turkey and a loss of confidence after the Turkish government's attempts to intervene in monetary policy decisions in the case of Turkey). In 2018, the UK was "only" the fifth most important export market for Germany, with a share of 6.2%, down from rank 3 in 2015 (share of 7.5% in exports).

German exports to the US (+1.5%), the most important export market, and to France (-0.4%) remained largely unchanged during the past year. Overall, it is an advantage that the German export markets are diversified across numerous regions of the globe. A decline in shipments to countries suffering from economic or political problems may often be offset by higher exports to other countries.

Strong increase in German imports from the Netherlands 4

Growth of German goods imports by country, 2018, EUR bn



Source: Federal Statistical Office

Germany is also a major goods importer; imports from all major economies rose in 2018

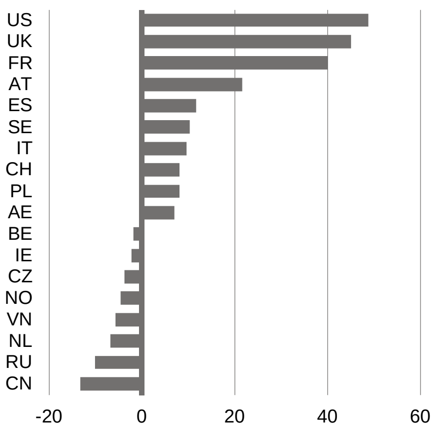
A look at goods imports in 2018 shows that Germany is not only a major export nation, but also an important importer. For example, its goods imports are 90% higher than those of France. Germany did not reduce imports from any of its major trading partners in 2018. Imports from Russia (+14.7% in nominal terms), from Poland (+9.2%), from Italy (+8.9%) and from the Netherlands (+8.2%) rose most. In the case of Poland, imports were up for the eighth time in a row. By now, the country is the sixth most important country of origin of German imports. Its share in aggregate German imports has increased from 3.3% in 2009 to 5.1% in 2018. This means that Germany buys more goods from Poland than from either Switzerland, Austria, the UK or Russia.

German goods imports from France (+1.4%) and Switzerland (+0.4%) rose by a below-average rate in 2018. Imports from China (+4.4%) and the US (+4.3%) increased moderately. For the fourth time in a row, China was the most important country of origin for imports.

Exports and autos weigh heavily on the German economy in 2019

High trade surplus with the US and with UK 5

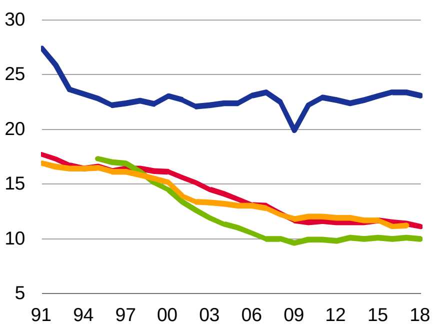
German trade balance with selected countries, 2018, EUR bn



Source: Federal Statistical Office

Industry important in Germany 6

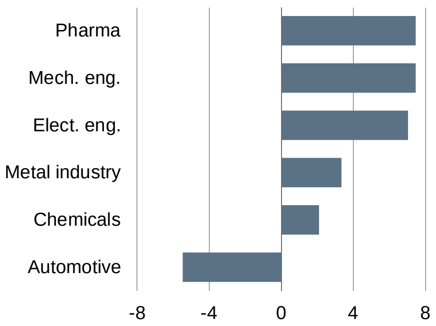
Share of manufacturing industry in total gross value added, %



Sources: Bureau of Economic Analysis, Eurostat

Pharma, mech. and elect. engineering with strong export growth in 2018 7

Growth in German goods exports by sector, 2018, EUR bn



Source: Federal Statistical Office

Relative importance of industrial sector explains particularly large surpluses versus the US, the UK and France

Germany registers particularly high trade surpluses versus three major countries. The surpluses versus the US, the UK and France amounted to EUR 49 bn, to EUR 45 bn and to roughly EUR 40 bn, respectively, in 2018. Taken together, the surpluses versus these three countries account for about 59% of the total German trade surplus. It is striking that the share of manufacturing in gross value added is low in all three countries and has more or less declined during the last few years. They obviously need to import certain industrial products. And Germany is a competitive supplier due to its strong position in the production of high-quality traditional capital goods and its efficient production processes. Thus, the trade surpluses versus these countries are largely due to millions of individual decisions by businesses and households and not caused by political competitive distortions.

Research-intensive sectors behind the rise in exports: pharmaceuticals, mechanical and electrical engineering

The pharmaceutical industry, mechanical engineering and electrical engineering were the sectors which made the biggest contributions to German export growth in 2018. These three research intensive sectors alone were behind almost 55% of the rise in goods exports (in absolute terms). Pharmaceutical exports rose by almost 10% in nominal terms or nearly EUR 7.5 bn in absolute terms. What is particularly striking is that exports to Italy jumped by almost two-thirds (see above). This more than offset the renewed dip in pharmaceuticals exports to the UK (-18.4% in 2018). In fact, the UK business of the German pharmaceuticals industry has shrunk by 42% since 2015. In that year, more than 10% of the German pharmaceuticals industry's total exports went to the UK, but in 2018, the share had declined to just below 5%. As sterling has depreciated after the Brexit referendum, German companies have seen their price competitiveness versus their British counterparts erode. British consumers can replace numerous drugs with domestic equivalents.

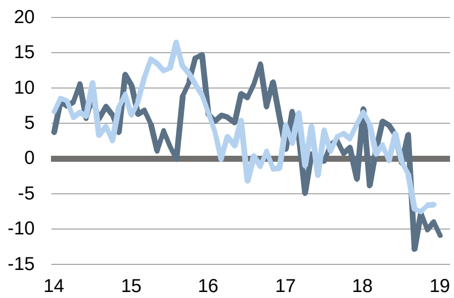
Mechanical engineering exports were up by 4% in nominal terms in 2018. In particular, exports to China rose again (+10.3%). The US business expanded as well due to strong investment and GDP growth in the US (+6.5%). Within the EU, mechanical engineering exports to Poland (+13.3%) and the Netherlands (+7.3%) rose most. In contrast, mechanical engineering exports to Turkey declined by 9% due to the country's economic problems, the depreciation of the lira and the rising interest rates.

The picture is similar for electrical engineering. Exports to China (+9.7%) and to some European countries rose strongly (examples: Czech Republic: +8.8%; Netherlands: +7.6%; Italy: +7.5%). At the same time, exports to Turkey decreased by more than 15%.

Declining auto exports due to WLTP and weak global demand for cars – tariff cuts in China had a favourable effect

The value of German car exports decreased by 2.3% in 2018. This was the first decline since 2013. One reason was the shift to the new WLTP emissions test, which meant that the production and export of a number of models were temporarily suspended because they had not yet been certified in line with the new standards. The WLTP effect also affected factories in other countries, Weak global car demand weighs on German auto exports 8

% yoy

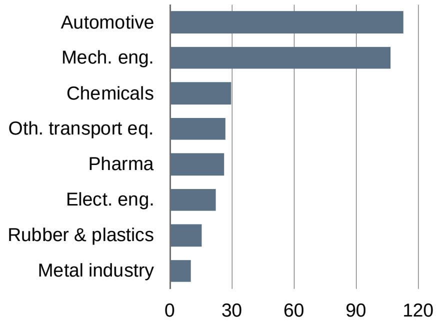


* Light vehicles

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

Automotive and mech. eng. carry large share of German trade surplus 9

German trade surplus by sector, 2018, EUR bn



Source: Federal Statistical Office

which is why exports of car parts were impacted as well. Moreover, demand for cars declined in numerous markets towards the end of 2018. This weighed on German exports, too.

German car exports to the UK (-9.9%; the third decline in a row), Italy (-7.8%) and Belgium (-7.2%) suffered most in 2018. Exports to the US declined by 5% even though German carmakers slightly expanded their market share in the US. However, much of the supply for US car demand is produced in local factories run by German carmakers. The surprisingly large increase in the value of German car exports to China (+14.6%) helped to prevent a more pronounced decline in auto exports. China reduced its tariffs on cars and car parts imported from the EU by mid-2018. This obviously helped to support car exports to the country. Nevertheless, Chinese demand for cars weakened towards the end of the year, and this effect outweighed the impact of the tariff cuts.

Trade surpluses in traditional capital goods industries, chemicals and pharmaceuticals – deficits in consumer electronics, clothes and textiles

Despite the decline in car exports, the car sector still ran the largest trade surplus in 2018; it amounted to almost EUR 113 bn. This is a decline of 5.5% versus 2017. Mechanical engineering comes second, with a trade surplus of EUR 106.6 bn (+3%). This means that the surplus in these two sectors alone is almost equivalent to the aggregate German trade surplus, which also includes energy and agricultural commodities.

Chemicals (EUR 29.5 bn), other vehicles (aircraft, ships, trains; EUR 26.9 bn) and pharmaceuticals (EUR 26.1 bn) follow at a distance. The trade surplus in electrical engineering amounts "only" to EUR 22.3 bn. While Germany exports numerous capital goods in the electrical engineering sector, it imports numerous consumer electronics and data processing equipment at the same time.

The biggest trade deficit is registered in the clothes sector (EUR 14 bn), where domestic production no longer plays a major role. Moreover, Germany imports considerably more processed crude oil products than it exports (in 2018, the deficit in the coking and mineral oil processing sector amounted to EUR 10.8 bn).

Outlook for 2019: momentum subdued until the second half of the year

World trade slowed considerably towards the end of 2018 and even shrank around the turn of the year. It is unlikely to recover quickly and decisively in the current environment; just think of the trade conflict between the US and China, Brexit or the sanctions against Russia and Iran. We expect global growth to be weaker in 2019 than in 2018. Germany, as an export oriented nation, will suffer considerably from a slowdown in world trade and from lower GDP growth in important export markets. Regional special factors, such as Brexit and its consequences, the smouldering trade conflict with the US (including looming tariffs), recession risks in Italy, the EU sanctions versus Russia or a potential flare-up of the political conflict between the EU and Turkey might further dampen the export outlook. We believe that German goods exports will stagnate or rise moderately at best during the first half of 2019. An increase by 2% in nominal terms would probably be a good result for 2019 as a whole.

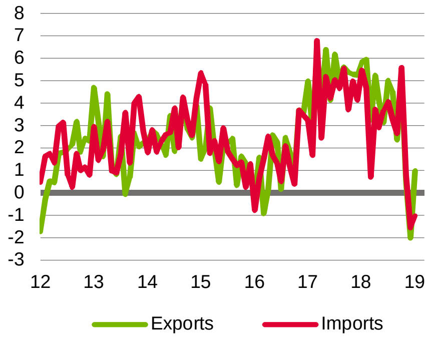
2019 will be a difficult year for capital goods exporters

Looking at the different sectors, we expect that capital goods producers will be in for a difficult year. We believe that investment activity will remain subdued in many markets during H1 2019 in particular. This will weigh on global demand for capital goods. In addition, the trade-weighted euro exchange rate is relatively strong at the moment, despite some depreciation in recent months. Major exchange rate stimulus from a significant depreciation of the euro is improbable right now.

The auto industry will additionally suffer from the fact that car demand in important markets is likely to decline slightly or stagnate at best in 2019 (US, EMU, UK) or rise only moderately (China). A pick-up is unlikely before H2 2019. Still, the statistics should benefit from the WLTP effect, which dragged down the basis for comparison in H2 2018. As a result, the yoy rate of change might become positive again in H2 2019..

World trade is slowing again 10

Real world trade of goods, % yoy



Source: CPB

World trade to remain structurally weak for now

World trade looks set to remain structurally weak in the foreseeable future. With protectionism becoming more and more popular in many countries, bilateral trade agreements appear the best option to secure free trade. Moreover, there are no signs of major steps towards more global integration, which might provide cross regional stimulus to world trade. During the first decade of the current century, for example, world trade benefited from China's joining the WTO or from the EU expansion (for more details, see the article on this topic in this issue of Focus Germany). World trade might be propped up by a quick resolution to the trade conflict and a reduction of tariffs and trade hurdles between the US and China. However, the US are still threatening to increase tariffs on car imports from the EU. As the US administration has repeatedly changed its stance on this issue, it is highly difficult to forecast future developments in this area.

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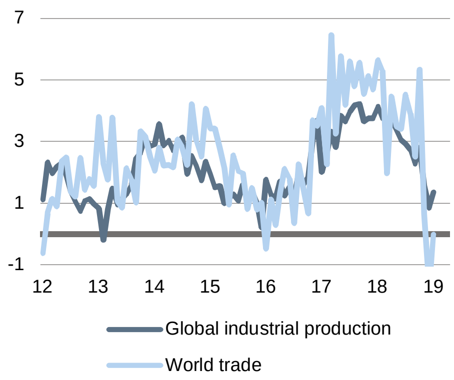
World trade and industrial production heading downwards 1

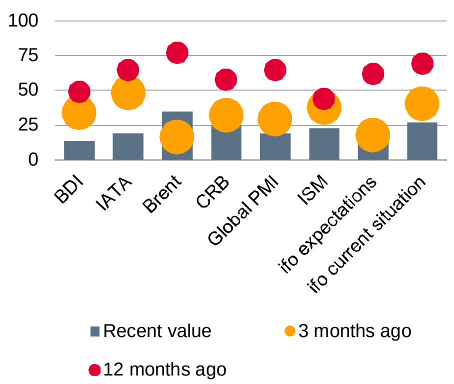
% yoy



Sources: CPB, Deutsche Bank Research

Percentiles of leading indicators for world trade 2

[0,100], %



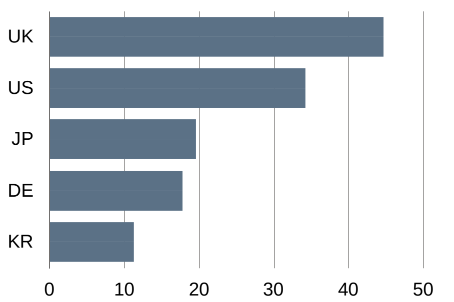
Abbreviations: BDI = Baltic Dry Index, IATA = Passengers aviation, Brent = Crude oil price, CRB = commodity prices, PMI = Purchasing Manager Indices, ISM = Institute for Supply Management (sentiment indicator US manufacturing industry)

Example: The most recent value of ifo expectations equates 14.2% of long-term average.

Sources: Various, Deutsche Bank Research

High share of services in total exports in UK and US 3

Share of exports of services in total exports in selected countries, 2018, %



Sources: National statistical offices, IMF, OECD

World trade to grow only by 1 ½%-2% in 2019

— World trade lost momentum during 2018 and was even down in year-on-year terms by the end of the year.

— The trade conflict between China and the US and the Brexit related uncertainties will probably keep world trade growth below the average in 2019. We expect the uncertainties to abate during the year, which is why world trade might pick up a bit during the second half of 2019. Global goods trade, as measured by the CPB, might then rise by 1.5% and global goods and services trade, as measured by the IMF, by 2%.

— As the risks decline over time, global goods trade (CPB figures) might increase by 2.5% and global goods and services trade (IMF figures) by 3% in 2020.

World trade experienced a cyclical upswing after the US presidential elections in 2016. However, the turnaround in US trade policy in 2018 effectively put a stop to this development. Global goods trade initially accelerated to a growth rate of almost 7% yoy in real terms in March 2017, i.e. the highest rate since 2011. Towards the end of 2018, the expansion slowed considerably until goods trade ultimately shrank by 1% in December 2018. At the same time, global industrial output weakened palpably. The outlook for both trade and production remains subdued for now due to the persistent trade conflict between the US and China, which may extend to Europe (threat of tariffs on cars and car parts), and due to the political risks in Europe itself (Brexit and dispute about Europe's future course). The German industry is therefore unlikely to overcome its recession in the near future. In particular, goods trade looks set to grow at a rate considerably below the average during the first half of 2019 (average for the years 2012-2018: c. 2 ½% p.a.). While January already saw a small recovery from the weak December figure (after having declined by 1% yoy, world trade was flat yoy in January), the growth underhang of 1.3 pp from 2018 obviously has a negative impact on the forecast for 2019. Unless there is a substantial recovery, the underhang may even lead to a recession in goods trade in 2019. This would be the first contraction since the financial crisis.

Low momentum during the first half of the year

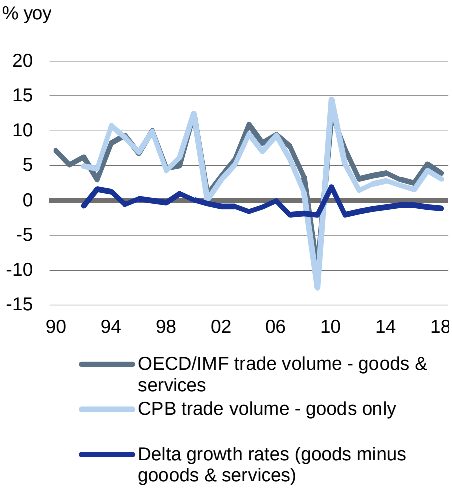
Chart 2 gives an overview of the development of important indicators for world trade during the past 12 months. Leading indicators, such as the global PMI or the expectations component of the ifo index, are weak and suggest that world trade will be sluggish during the first half of 2019. Moreover, the negotiations about the future trade relations between the US and China are highly complex, and the unresolved Brexit issue continues to weigh on the relationship between the UK and the EU. Oil prices (Brent blend) were the only indicator which palpably recovered during the past three months. However, much of the increase is probably due to better OPEC production discipline and the sanctions against Venezuela and Iran. Oil prices at least indicated that a similar dip in world trade as in 2016, when oil prices temporarily dropped below USD 30/barrel (weaker demand), has become less likely.

Stronger structural growth in services than in goods trade

While the volume of global goods trade is still larger than that of global services trade, there are close links between these two components of aggregate global trade. Demand for services in the areas of research and development, wholesale trade, logistics and numerous other corporate services is more or less dependent on demand for goods and is driven to a significant extent by manufacturing companies. Services exports have only recently started to expand at a higher rate than goods exports, possibly due to the increasing importance of digitalisation. The turnaround in US trade policy, which, at least in

Exports and autos weigh heavily on the German economy in 2019

World trade: Goods vs. goods & services 4

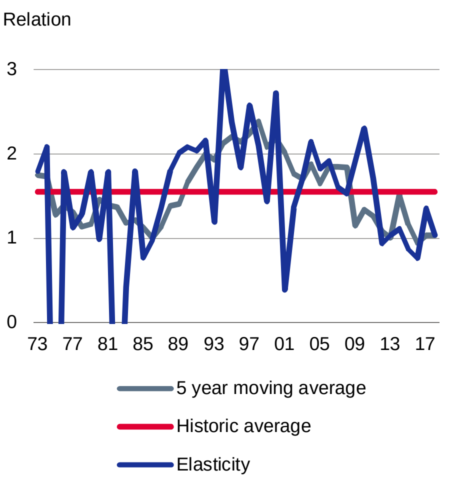


Sources: OECD, IMF, Deutsche Bank Research

World trade no outperfomer any more 5

Sources: IMF, OECD

World trade elasticity relative to global GDP growth 6



Sources: CPB, OECD, Deutsche Bank Research

2018, dampened goods trade, might intensify this trend. Moreover, traditional industrial companies increasingly rely on services related to the use and maintenance of infrastructure goods and machinery and equipment. Nevertheless, the volume of goods trade is considerably larger in absolute terms, which is why global goods trade will remain an important growth engine, both for Germany and for the world as a whole.

Germany: Volume of goods exports almost five times as large as that of services exports, but services trade is growing at a higher rate

As the industry plays an important role in the German economy, German goods exports exceeded services exports by more than 360% in 2018. In the US, where services traditionally play a larger role, goods exports exceeded services exports "only" by 93% last year. The difference is particularly small in the UK (24%), where the financial sector has a significant weight. In contrast, goods exports clearly predominate in Japan and Korea, where, as in Germany, the industrial sector is of major importance. Goods exports exceeded services exports by almost 310% and more than 680% respectively in 2018.

Between 1995 and 2018, German services exports were up by an aggregate 486% in nominal terms, whereas goods exports rose by 346%. As a result, the share of services exports in total German exports increased from 13.3% in 1995 to 17.8% in 2018. This trend looks set to continue in the coming years, particularly since the German industry is investing in production facilities abroad. In contrast, high value added services related departments (R&D, after-sales services) look set to remain in Germany.

Trade to grow only by 2% in real terms in 2019 and by 3% in 2020

The political environment and the leading indicators point to subdued world trade in 2019 and possibly beyond. From the mid-1980s until the global economic and financial crisis in 2008/09, global trade expanded at almost double the growth rate of global GDP; the elasticity was 2. Major steps towards global integration, such as the EU expansion and the introduction of the single market, the fall of the Iron Curtain, the establishment of the WTO and China's joining the WTO, helped to boost world trade. Supply chains became increasingly global, and demand for capital and consumer goods rose. However, protectionism has been on the rise and the elasticity has declined to 1 (long-term average: roughly 1.5).

And in 2019, the elasticity may even drop below 1, unless the US and China quickly agree on a liberal trade regime and considerably lower tariffs. Otherwise, the elasticity of global trade growth will probably be below the average in 2020, too. We expect global GDP to grow by 3.4% in 2019 and 3.5% in 2020, respectively (both in real terms). Global goods trade (CPB figures) looks set to increase by 1.5%, and global goods and services trade (IMF figures) by 2%. In 2020, global goods trade might expand by 2.5% and global goods and services trade by 3%. Both figures are somewhat below the forecast for global GDP growth. As inflation is low around the world, the nominal growth rates in world trade look set to be only marginally higher.

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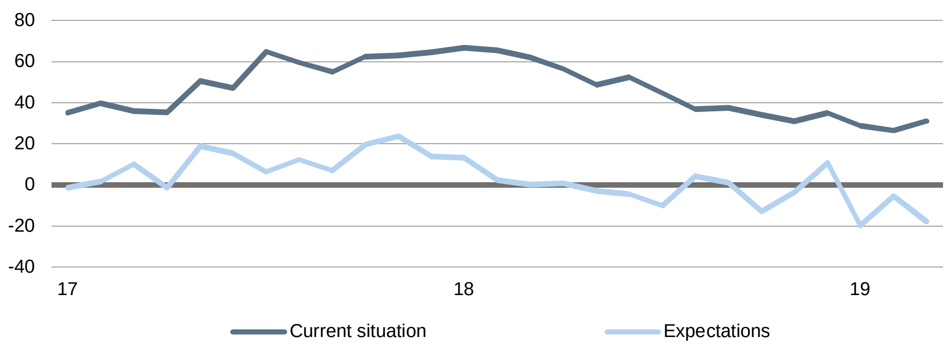
Automotive industry – Chartbook

The automotive industry is a key sector in Germany. Its performance will decide if the German industrial sector successfully comes out of the recession of H2 2018 during H1 2019. The sector is currently working towards overcoming the WLTP induced dip of H2 2018. At the same time global demand has slowed significantly. Despite a setback in January, output and domestic order intake point to a stabilisation. A more optimistic assessment of the current situation and current production activity (ifo, March data) support this view. However, the ifo business and output expectations, above all export expectations, have recently declined again.

ifo business climate 1

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

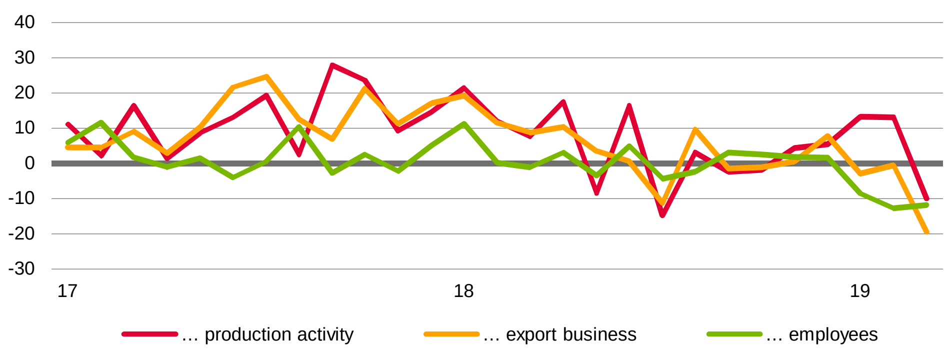


Source: ifo

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. In contrast, companies are still more optimistic about the current situation, probably due to the large order backlog. However, the latest ifo survey suggests that the order backlog could decline in the near future.

ifo expectations with regard to... 2

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

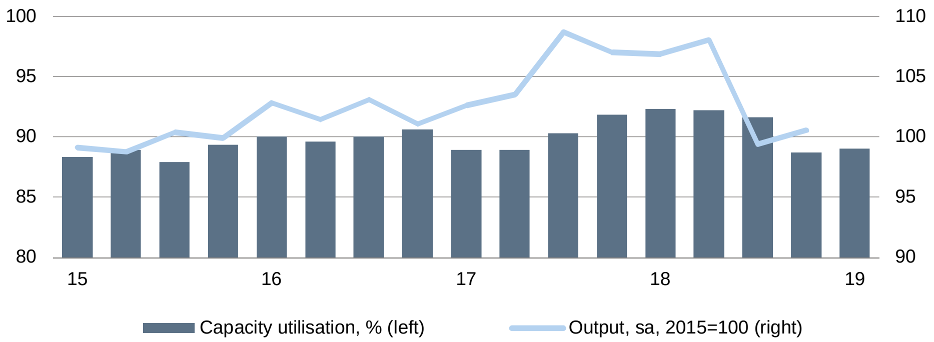


Source: ifo

Chart 2: The pessimistic expectations of the sector are reflected in the subcomponents of the ifo survey. Export expectations in particular have recently declined considerably. This did not come as a surprise, as global car demand is slowing and the environment for world trade is difficult (Brexit, threat of US tariffs). In 2019, increase in employment will come to a halt.

Output and capacity utilisation 3

Automotive industry in Germany

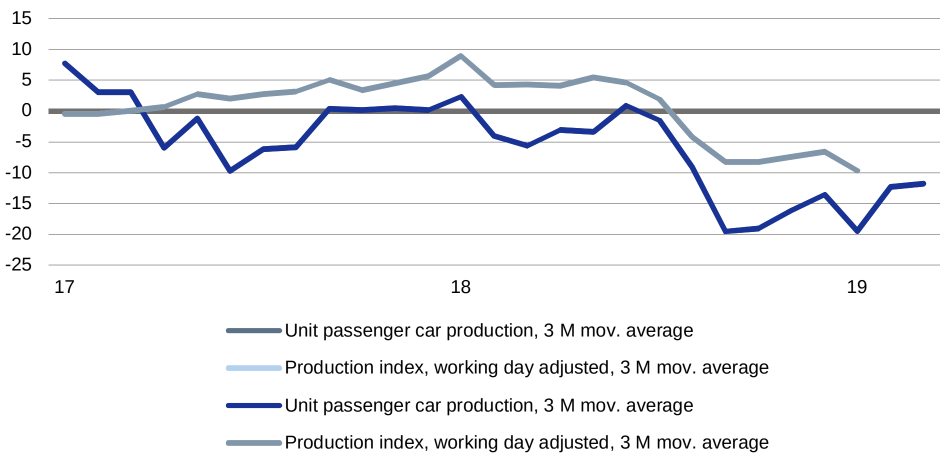


Sources: Federal Statistical Office, ifo

Chart 3: Around the turn of the year 2018/2019, capacity utilisation in the German auto industry was considerably lower than in the first three quarters of 2018, but still above the long-term average. The slight increase in capacity utilisation at the beginning of 2019 suggests that domestic production activity might pass the trough in Q1 2019. Nevertheless, the sector seems to be in for a weak Q2.

Automotive production 4

Automotive industry in Germany, % yoy

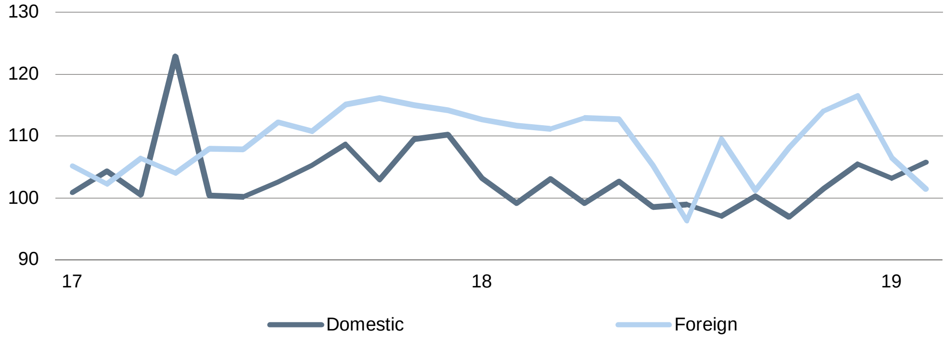


Sources: Federal Statistical Office, VDA

Chart 4: German car production (in unit terms) was considerably down in year-on-year terms in Q1 2019. March production (-14% yoy in unit terms) was particularly disappointing. The decline in the output index, which also includes qualitative criteria (such as better equipment of cars), will be smaller. Nevertheless, figures from the Federal Statistical Office show that output was down 4.3% mom in January, despite the recent strong upward revision (Feb.: +1.9% mom). 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.

New orders, sa 5

Automotive industry in Germany, 2015=100

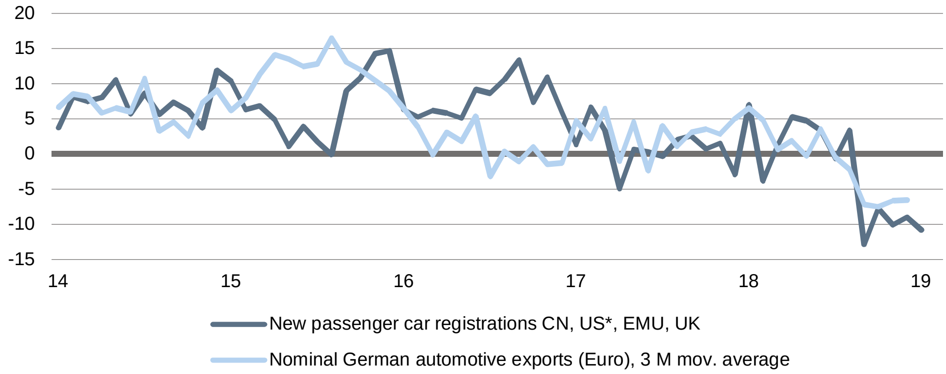


Source: Federal Statistical Office

Chart 5: Domestic order intake has been relatively encouraging during the last few months. However, foreign orders registered two heavy declines in a row of late (Jan.: -8.6% mom; Feb.: -4.8% mom). German new passenger car registrations trended sideways at a high level in Q1 2019. Export orders look set to pick up again from H2.

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 weighed on auto exports. On average, exports are likely to decline in year-on-year terms during H1 2019.

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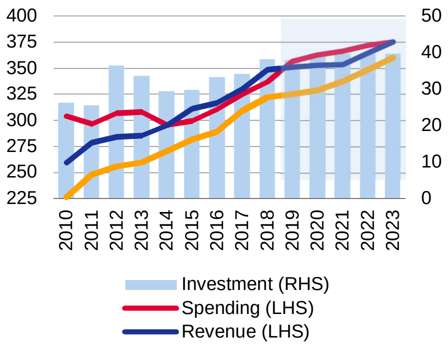
Public finances: No stimulus package!

Financial plan until 2023: Federal spending to exceed revenues 1

Federal gov't budget (core budget), EUR bn

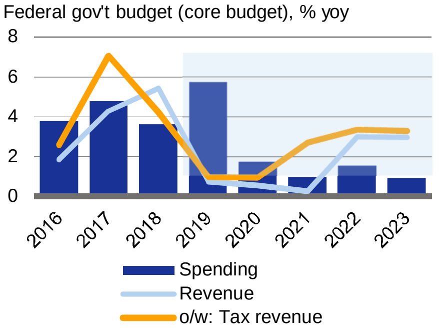


Expenditure: Excluding installments to reserves.
Revenue: Excluding withdrawels from reserves.

Sources: Federal Ministry of Finance, Deutsche Bank Research

Tax revenue growth is slowing considerably in 2019/20 2

Federal gov't budget (core budget), % yoy

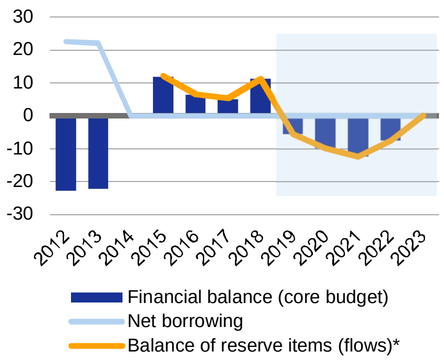


Expenditure: Excluding installments to reserves.
Revenue: Excluding withdrawels from reserves.

Sources: Federal Ministry of Finance, Deutsche Bank Research

The federal gov't is planning with persistent deficits at least until 2022 3

EUR bn



* only refugee reserves fund

Sources: Federal Ministry of Finance, Deutsche Bank

Groko sticks to "black zero" amid fiscal loosening. Despite soft patch: Grand coalition opts against taking on new debt

Germany's federal cabinet has decided to hold on to its policy of taking on no new debt (net borrowing of zero), even though tax revenue growth looks set to slow sharply in future. In times of an economic downturn, the "black zero", which is enshrined in the coalition treaty, puts stricter limitations on fiscal policy than the constitutionally-anchored debt rule. According to the former, cyclically-induced financial gaps have to be closed by means of savings, if a deficit is on the cards. The legally binding "debt brake", on the other hand, is aimed at structural net borrowing and hence allows the budget to deteriorate, should economic activity falter[1]. Adhering to the "black zero" until 2023, however, hinges on the complete depletion of the "reserve fund for refugees", as weak growth and the expansionary spending plans agreed in the coalition treaty are likely to lead to large fiscal deficits in the 2019-22 period – although the ECB again pushed out the timing of rate hikes and public interest payments will probably decline further. The envisaged priority measures, which weigh on revenues via moderate tax reliefs (e.g. cold progression allowances) and on expenditures via massive additional spending (particularly for social purposes) are rearing their heads.

„Black zero“ cannot be maintained without recourse to former credit authorisations

Thanks to a "budgetary trick", the federal government can adhere to the "black zero", despite fiscal loosening and rising budget deficits. Courtesy of the unused credit authorisations that were accrued in the preceding fiscal years for the refugee crisis, it still has around EUR 35.2 billion (ca 1% of GDP) at its disposal. Under the financial plan, this "reserve fund for refugees" should have been exploited by 2022.

Owing to these extra funds, the federal government can pro forma – i.e. from the budgetary point of view – stick to the "black zero" and claim that it will not take on new debt. De facto, however, the depletion of the reserve fund for refugees pushes up debt. From a transparency and stability perspective, the fact that a structural – i.e. permanent – deterioration of the federal budget is financed by means of temporary reserves is alarming, as we ourselves have already criticised in the past (see Focus Germany of 4 October 2018).

Again: Does Germany need stimulus measures?

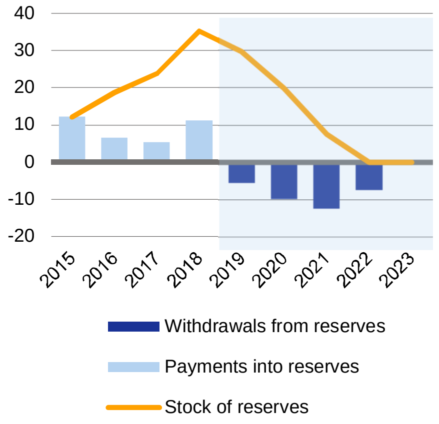
Against the backdrop of the recently intensifying discussion about the need of public measures to stimulate the weakening German economy, the debt brake, which has always raised criticism among left-wing economists and politicians, is now also under fire from some more conservative-minded observers (drag on investment).

[1] The debt brake refers to structural net borrowing, i.e. net borrowing adjusted for cyclical effects and one-off or special factors. Under the debt brake, the maximum permissible amount of net structural borrowing is 0.35% of GDP generated in the year prior to budgeting. The rule explicitly allows a deterioration in the cyclical budget position in times of economic downswings and lets automatic stabilisers play their part.

Exports and autos weigh heavily on the German economy in 2019

Government plans to fully deploy the refugee reserves fund by 2022 4

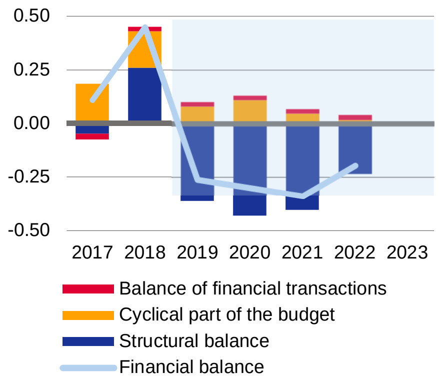
EUR bn



Sources: Federal Ministry of Finance, Deutsche Bank Research

Federal gov't budget (core budget plus relevant extra-budgetary units) in 2019/20 5

% of GDP



Calculations are based on the budget law for 2019, the benchmark figures for the 2020 federal budget and the financial plan to 2023, the federal fiscal report 2019 and output gap estimates by the MoF.

Sources: Federal Ministry of Finance, Deutsche Bank Research

According to the narrative of the advocates of public stimulus measures, Germany's public finances are in good shape – in contrast to those of most other European countries. Consequently, the doubtlessly existing scope for anti-cyclical fiscal measures would only have to be exploited[2]. With German debt yields likely to remain at extraordinarily low levels in the foreseeable future, undershooting growth rates by a wide margin, taking on new public debt is not only unproblematic, but may even pay off, provided it is invested in growth-promoting expenditures (education, infrastructure)[3].

No – nor will there be a "grand" stimulus package!

As we have previously argued, taking measures to stimulate the economy would not make sense. It is our opinion that a "grand" stimulus package is not imperative in the current stage of the economic cycle - particularly because fiscal reins have already been loosened substantially by the German government. Given the high utilisation of production capacities in the construction sector, any additional boost to public investment (e.g. in transport infrastructure) would – in part, at least – simply drive up prices (see Focus Germany of February 2019). Moreover, further increases in social expenditure are unlikely to provide a sustainable lift to GDP growth, but would hamper growth. With its pledge to maintain a "black zero", the German government has now opted against a "grand" stimulus package – despite criticism from some SPD members[4]. Recently, Finance Minister Scholz again underlined that the government is prepared to save in order to maintain the "black zero"[5].

Looser reins, despite "black zero"

Although the finance minister reiterated his determination to save (for more details on the respective volumes see also Focus Germany of March 2019), the German government has loosened on trend fiscal reins already since 2015. In 2019 alone, the structural federal government balance is likely to deteriorate by over EUR 20 billion or half a percentage point of GDP, according to our estimates based on the output gap estimates by the Federal Ministry of Finance. At the general government level (which includes the federal government, the federal states, the local authorities and the social security system), the surplus ought to melt from 1.7% of GDP in 2018 to "just" 0.8% in 2019 and 0.5% in 2020, largely led by a contraction in the structural surplus[6]. Latest calculations in the spring assessment of the German economic research institutes[7] indicate that the fiscal impulse provided by the general government could support the economy noticeably over the next two years, amounting to EUR 23 bn in 2019 (0.7% of GDP) and EUR 14 bn in 2020 (0.3%).

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[2] According to data of the Bundesbank, general government debt fell to EUR 2.063 trillion by year-end 2018, which pushed the debt ratio down to 60.9% of GDP, close to the Maastricht limit of 60% (by comparison: 64.5% in 2017). The fiscal surplus widened for the fourth year in a row, up to EUR 58 billion (1.7% of GDP), which marks the highest level since German reunification.

[3] If the interest rate/growth differential is negative, the government may run a primary deficit (before interest payments) without necessarily risking a higher debt ratio. Provided the primary deficit is lower than the product of growth/interest rate differential and general government debt ratio, the ratio (in % of GDP) nonetheless declines.

[4] The Spiegel recently reported that the SPD parliamentary group allegedly revolted against the zero (see issue No 13 of 23/03/2019). According to the press release, some SPD representatives are also calling for a reform of the debt brake to allow higher government investment.

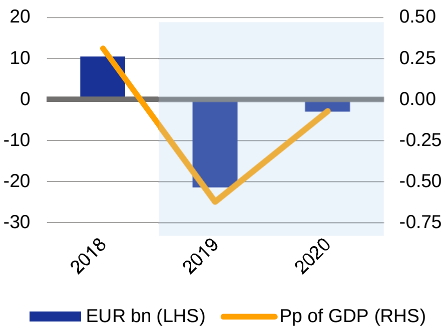
[5] In an interview with the Frankfurter Allgemeine Zeitung (on 27 March 2019), Scholz said that stable finances provide the best basis to counteract a new crisis with every possible effort, arguing that we live in times when we have to hold on to our money.

[6] According to our forecast, the structural surplus (in light of a nearly closed output gap) looks set to shrink from 1.4% of GDP in 2018 to 0.9% in 2019 and 0.5% in 2020.

[7] See Joint Economic Diagnosis (Gemeinschaftsdiagnose) 1/2019 as of 4 April 2019.

Federal budget 2019/20: Looser reins, despite "black zero" 6

Change in the structural financial balance of the federal government*, % yoy



* adjusted for cyclical and one off / temporary effects. Core budget including relevant extra-budgetary units.

Sources: Federal Ministry of Finance, Deutsche Bank Research

Accommodative fiscal path is not a reaction to slowing growth, but a result of already-adopted measures

The government's looser fiscal stance can largely be traced to the already adopted priority measures in the coalition treaty (e.g. children's allowance for parents who buy or build a home, increase in pensions for mothers, cold progression allowances or investment in digital infrastructure). In addition to the above expansionary measures, automatic stabilisers help to smooth fluctuations in the business cycle – although this effect should be minor, given the still robust labour market. Whilst tax reliefs (such as the swift complete supersession of the solidarity surcharge) would make sense from a structural perspective to further incentives and growth potential, they are not necessary in this stage of the cycle. With the fiscal priorities of the grand coalition partners coming to light, formulaic compromises as in the past should no longer be possible, given the lack of fiscal scope – unless the economy nose-dives with GDP contracting visibly and leaving deep marks on the labour market, which would eventually lead to the official burial of the black zero.

We believe that the federal government were only to implement a sizeable fiscal stimulus package if GDP were to shrink considerably. In this case, such a package would likely consist of a bundle of measures[8]. This is at least what experience from the fiscal reaction in 2009/10 to the great financial and economic crisis tells. At that time, the government reacted only hesitantly to the crisis but ultimately counteracted the downturn with a large fiscal package. Overall, a fiscal stimulus package of a total EUR 85 bn (or 3.3% of 2010 GDP) distributed over two years was successful in preventing an even deeper recession, according to the German Council of Economic Experts.

Europe should not rest on overdone hopes for a sizeable German fiscal package (it were to come only in case of a large crisis) but also assess any potential positive spill-over effects from such a programme on the rest of the euro zone countries realistically. In an analysis from 2012, the IMF concluded that the maximum impact of a two-year 1% of GDP fiscal stimulus in Germany would lift GDP growth in the rest of the euro zone by just 0.2%, and only if stimulus was concentrated in public investment (something that is not realistic given the capacity utilisation levels in the German construction sector).

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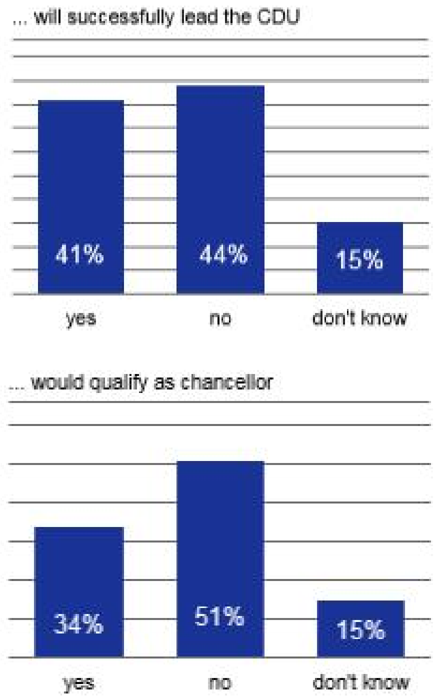
[8] The government provided substantial tax relief (e.g. by lowering the marginal income tax rate and increasing the tax exemption limit), which amounted to more than EUR 8 bn in 2009 and EUR 10 bn in 2010. Moreover, spending was raised considerably. Infrastructure spending increased by EUR 19 bn over two years. Corporates were supported by temporary tax law changes such as the re-introduction of a declining allowance for depreciation in 2009/10. In order to stimulate private consumption the government introduced a car-scrapping programme for 2009, which amounted to EUR 5 bn (or 0.2% of 2019 GDP). In addition, the government subsidized corporates by paying "Kurzarbeitergeld" (money for employees working less hours). The amount spent on "Kurzarbeitergeld" increased from EUR 0.4 bn in 2008 to almost EUR 4 bn in 2009. In this context, corporates were exempted from paying social security contributions if employees were working less for more than six months or benefitting from qualifications measures. Starting in 2010, the government also lowered the contribution rate for the unemployment insurance scheme significantly to 2.8% from 6.5% of compensation in order to lower non-wage labour costs. For more see IMF Article IV Reports (March 2010 and July 2011) as well as the assessment of the German Council of Economic Experts for 2009/10.

The view from Berlin

More grandstanding

The CDU party chair AKK … 1



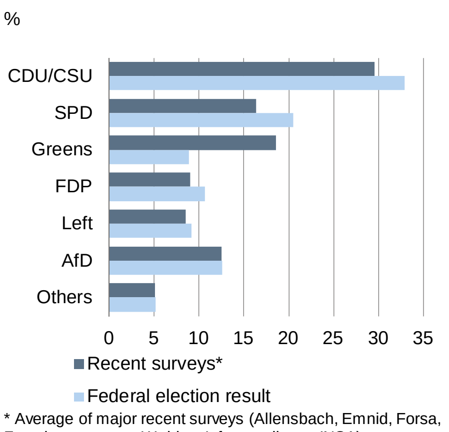
Source: ZDF Politbarometer, March 2019

While the Groko finally carries out its coalition treaty, the coalition partners are desperate to sharpen their profile. The SPD is returning to its traditional focus on social policy projects such as a basic pension – regardless of the related financing – and distances itself from the agenda 2010. The European elections provide a good opportunity to lay out ideas and initiative – not too many of them being new – without creating too much tension in the grand coalition at home. Still, polls do not reward these efforts with the SPD trailing at around 16-18%. Internal debate about the future course of the SPD will increase further should the EP elections yield a weak result or – even more important for the SPD – should the parallel state election in Bremen, an SPD stronghold, be lost to the CDU which cannot be ruled out according to the latest polls (infratest).

What's good for the goose is good for the gander. About four months after the election of Annegret Kramp-Karrenbauer (AKK) as new leader of the CDU, changes in the party's agenda setting as well as the positioning of AKK herself can be observed. Corporate taxation and the reduction of the tax burden in general, i.e. the full abolishment of the solidarity surcharge, is a frequently raised topic. The tone in migration policy and on societal issues has turned more conservative, preparedness to challenge the AfD head-on is rising.

Chancellor Merkel seems prepared to open up more room to allow AKK raising her profile on a broader policy agenda. That has become particularly apparent when AKK – not Merkel - responded to Macron's rallying manifest for a “European Renaissance” in early March. Even though he addressed it to “all citizens of Europe” in the run-up to the European elections, France's political class was hoping for a clear response by the German government. But Chancellor Merkel remained largely silent on yet another attempt by the French president to organize a broader debate on the future of the EU. AKK offered her own vision – “Getting Europe right” – for an EU plagued by internal divisions and external threats. Her ideas, however, largely sounded like more of the same than a leap forward in shaping Europe's future.

Major political parties' popularity & result of the last federal election 2



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

Source: Wahlrecht.de April 2019

In the public opinion, the change at the helm of the CDU seems to have been more to the benefit of the party than to AKK so far. The CDU/CSU was able to stabilize close to 30% acc. to the polls (see chart) which might be attributed to a sharpened conservative profile stipulated by the new CDU chair. But still a majority of surveyed people do not expect AKK to be able to lead the CDU into a brighter future (see chart). The tight result probably continues to reflect the split in the party back when CDU delegates made the choice between AKK and Merz. Apparently, AKK has not (yet) been able to convince her critics. More so: A clear majority of 51% vs. 34% do not see AKK as qualifying for the heir of Chancellor Merkel. However, people tend to grow with their tasks and to succeed as a long standing chancellor is never easy. Back in autumn 2005, shortly before the federal election that brought Merkel into office, only 39% expected her to become a good chancellor (Allensbach). Today, still, 71% (ZDF Politbarometer) would like to see Merkel stay until the end of her fourth term in 2021. The same surprisingly high share of those surveyed expects the Groko to make it through the term which fits with our conviction that the German electorate favours political stability over internal party bickering. On an aggregate level, polls indicate that the Groko is slowly edging towards an arithmetic majority again, possibly reducing the risk of a break-up in the course of the year or as a consequence of the midterm review in autumn.

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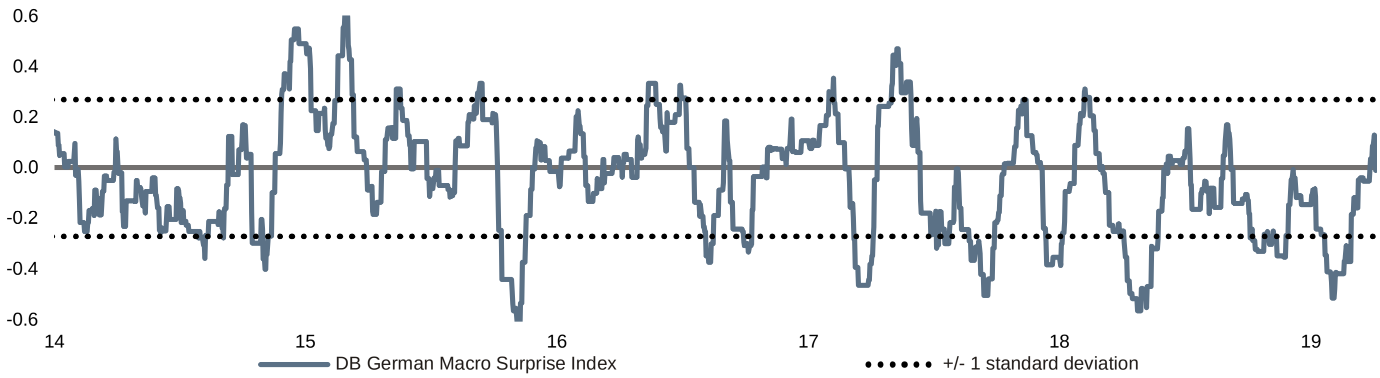
DB German Macro Surprise Index

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
GRUECHNG Index	Unemployment Change (000's mom)	2 2019	01/03/2019	-20.0	-5.0	15.0	0.0	0.7
MPMIDEMA Index	Markit Manufacturing PMI	2 2019	01/03/2019	47.6	47.6	0.0	0.0	0.5
MPMIDESA Index	Markit Services PMI	2 2019	05/03/2019	55.3	55.1	0.2	0.3	0.7
GRIORTMM Index	Factory Orders (% mom)	1 2019	08/03/2019	-2.1	0.5	-2.6	-1.3	0.1
GRBTEXMM Index	Exports (% mom)	1 2019	11/03/2019	0.1	-0.5	0.6	0.3	0.6
GRBTIMMM Index	Imports (% mom)	1 2019	11/03/2019	1.4	-0.1	1.5	0.6	0.8
GRCAEU Index	Current Account Balance (EUR bn)	1 2019	11/03/2019	18.3	18.0	0.3	-0.2	0.4
GRTBALE Index	Trade Balance (EUR bn)	1 2019	11/03/2019	14.6	15.2	-0.6	-0.4	0.4
GRIPIMOM Index	Industrial production (% mom)	1 2019	11/03/2019	0.0	0.5	-0.5	-0.3	0.3
GRCP20YY Index	CPI (% yoy)	2 2019	14/03/2019	1.5	1.6	-0.1	-0.2	0.3
GRZECURR Index	ZEW Survey Current Situation	3 2019	19/03/2019	11.1	13.0	-1.9	-0.4	0.3
GRZEWI Index	ZEW Survey Expectations	3 2019	19/03/2019	-3.6	-11.0	7.4	1.0	0.8
GRCP20YY Index	CPI (% yoy)	3 2019	28/03/2019	1.3	1.3	0.0	0.4	0.4
GRUECHNG Index	Unemployment Change (000's mom)	3 2019	29/03/2019	-7.0	-10.0	-3.0	-0.3	0.3
GRIMP95Y Index	Import Price Index (% yoy)	2 2019	29/03/2019	1.6	1.7	-0.1	0.3	0.6
GRFRIAMM Index	Retail Sales (% mom)	2 2019	29/03/2019	0.9	-1.0	1.9	1.7	1.0
MPMIDEMA Index	Markit Manufacturing PMI	3 2019	01/04/2019	44.1	44.7	-0.6	-0.7	0.1
MPMIDESA Index	Markit Services PMI	3 2019	03/04/2019	55.4	54.9	0.5	0.6	0.8
GRIORTMM Index	Factory Orders (% mom)	2 2019	04/04/2019	-4.2	0.3	-4.5	-2.2	0.0
GRIPIMOM Index	Industrial production (% mom)	2 2019	05/04/2019	0.7	0.5	0.2	0.3	0.6

Sources: Bloomberg Finance LP, Deutsche Bank Research

Updated by 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.

Exports and autos weigh heavily on the German economy in 2019

Germany: Data calendar

Date	Time	Data	Reporting period	DB forecast	Last value
8 Apr 2019	8:00	Trade balance (EUR bn, sa)	February	18.3	18.6
8 Apr 2019	8:00	Merchandise exports (% mom, sa)	February	-0.2	0.1
8 Apr 2019	8:00	Merchandise imports (% mom, sa)	February	0.1	1.4
23 Apr 2019	9:30	Manufacturing PMI (Flash)	April	45.5	44.1
23 Apr 2019	9:30	Services PMI (Flash)	April	55.2	55.4
24 Apr 2019	10:00	ifo business climate (Index, sa)	April	100.0	99.6
30 Apr 2019	9:55	Unemployment rate (%, sa)	April	4.9	4.9
30 Apr 2019	14:00	Consumer prices preliminary (% yoy, nsa)	April	1.4	1.4
2 May 2019	8:00	Retail sales (% mom, sa)*	March	0.2	0.9
7 May 2019	8:00	New orders manufacturing (% mom, sa)	March	2.0	-4.2
8 May 2019	8:00	Industrial production (% mom, sa)	March	0.0	-0.2

*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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German data monitor

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Oct 2018	Nov 2018	Dec 2018	Jan 2019	Feb 2019	Mar 2019
Business surveys and output											
Aggregate											
Ifo business climate	104.1	102.6	103.3	102.1	99.3	102.9	102.3	101.1	99.5	98.7	99.6
Ifo business expectations	100.8	98.8	100.0	98.6	94.8	99.7	98.8	97.3	94.8	94.0	95.6
Industry											
Ifo manufacturing	107.9	105.2	104.6	101.7	97.8	102.6	101.9	100.6	98.9	97.8	96.7
Headline IP (% pop)	0.1	0.3	-1.6	-1.1		-0.5	-1.5	1.0	-0.4	-0.2	
Orders (% pop)	-1.8	-1.3	-1.0	0.5		0.1	-0.7	1.0	-2.1	-4.2	
Capacity Utilisation	88.2	87.8	87.8	87.1	86.3						
Construction											
Output (% pop)	1.3	5.8	-0.1	-1.0		-2.0	-0.9	-1.4	-1.0	13.4	
Orders (% pop)	0.7	-5.2	0.7	11.3		0.4	6.1	13.2			
Ifo construction	110.4	111.6	116.5	116.8	111.3	118.0	116.3	116.1	111.6	110.6	111.8
Consumer demand											
EC consumer survey	0.7	-1.1	-1.5	-1.5	-2.2	-1.1	-1.1	-2.3	-2.3	-2.2	-2.0
Retail sales (% pop)	-0.7	1.8	-0.6	0.6		0.7	1.6	-3.0	2.8	0.9	
New car reg. (% yoy)	4.0	1.9	1.2	-8.1	0.2	-7.4	-9.9	-6.7	-1.4	2.7	-0.5
Foreign sector											
Foreign orders (% pop)	-1.4	-1.1	-2.2	0.9		2.6	-3.2	1.5	-2.6	-6.0	
Exports (% pop)	-0.4	1.0	-0.2	0.9		0.7	-0.1	1.6	0.1	-1.3	
Imports (% pop)	0.5	2.1	2.3	-0.1		0.9	-1.3	0.6	1.4	-1.6	
Net trade (sa EUR bn)	61.9	59.6	52.7	56.1		17.6	18.7	19.9	18.6	18.7	
Labour market											
Unemployment rate (%)	5.4	5.2	5.2	5.0	5.0	5.1	5.0	5.0	5.0	5.0	4.9
Change in unemployment (k)	-67.7	-39.3	-36.3	-45.0	-34.3	-11.0	-16.0	-14.0	-4.0	-20.0	-7.0
Employment (% yoy)	1.4	1.3	1.2	1.1		1.2	1.1	1.1	1.1	1.1	
Ifo employment barometer	104.9	103.9	104.8	104.2	102.5	104.8	103.7	104.1	103.0	102.9	101.6
Prices, wages and costs											
Prices											
Harmonised CPI (% yoy)	1.5	2.0	2.2	2.2	1.6	2.6	2.2	1.7	1.7	1.7	1.4
Core HICP (% yoy)	1.4	1.3	1.4	1.4	1.5	1.8	1.1	1.2	1.8	1.6	1.0
Harmonised PPI (% yoy)	2.0	2.6									
Commodities, ex. Energy (% yoy)	-12.4	2.6	-0.5	-0.3	1.5	1.5	-0.1	-2.2	-2.3	2.9	3.7
Crude oil, Brent (USD/bbl)	66.9	74.5	75.1	68.0		81.0	64.7	56.5	59.4	64.0	66.1
Inflation expectations											
EC household survey	16.4	17.3	21.4	21.5	19.0	21.5	21.2	21.9	20.1	19.1	17.7
EC industrial survey	15.0	13.8	15.8	17.6	14.4	14.4	17.3	21.1	18.9	13.0	11.4
Unit labour cost (% yoy)											
Unit labour cost	2.5	1.7	3.4	2.7							
Compensation	2.8	2.9	3.5	2.8							
Hourly labour costs	3.5	1.6	3.0	2.0							
Money (% yoy)											
M3	3.4	3.6	4.1	4.5		4.5	4.4	4.5	4.0	4.4	
M3 trend (3m cma)						3.8	4.0	4.3	4.5	4.3	4.3
Credit - private	4.3	4.3	4.3	3.9		4.1	3.8	3.9	3.7	0.0	
Credit - public	-20.0	-7.0	-2.7	-6.3		-6.7	-6.4	-6.3	-9.0		

% 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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Financial Forecasts

Key interest rate, %	US	JP	EMU	GB	CH	SE	DK	NO	PL	HU	CZ
Current	2.375	-0.10	0.00	0.75	-0.75	-0.25	0.05	1.00	1.50	0.17	1.75
Jun 19	2.375	-0.10	0.00	0.75	-0.75	-0.25	0.05	1.00	1.50	0.35	2.00
Sep 19	2.375	-0.10	0.00	1.00	-0.75	-0.25	0.05	1.00	1.50	0.25	2.00
Dec 19	2.375	-0.10	0.00	1.00	-0.50	0.00	0.20	1.25	1.50	0.25	2.00

3M interest rates, %	US	JP	EMU	GB
Current	2.60	0.05	-0.31	0.83
Jun 19	2.63	0.05	-0.33	1.00
Sep 19	2.63	0.05	-0.30	1.13
Dec 19	2.73	0.05	-0.30	1.13

10Y government bonds yields, %	US	JP	EMU	GB
Current	2.50	-0.04	-0.01	1.09
Jun 19	2.45	0.05	0.20	1.65
Sep 19	2.40	0.05	0.35	1.70
Dec 19	2.40	0.05	0.40	1.73

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	111.77	0.85	1.32	1.12	10.40	7.46	9.63	4.29	319.81	25.70
Jun 19	1.16	110.00	0.84	1.38	1.13	10.60		9.70	4.35	318.00	25.60
Sep 19	1.18	107.50	0.83	1.42	1.14	10.70		9.65	4.35	320.00	25.45
Dec 19	1.20	105.00	0.82	1.46	1.15	10.80	7.46	9.60	4.35	322.00	25.30

Sources: Bloomberg Finance LP, Deutsche Bank Research

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