



Chart in focus

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The intangible silver lining

Author
Robin Winkler
+49(0)69-91062178
robin.winkler@db.com

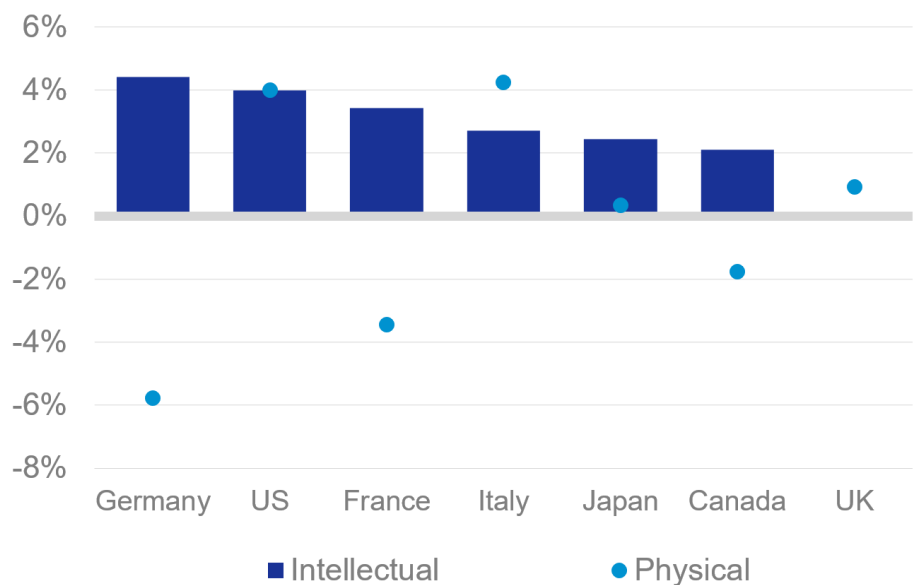
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Deutsche Bank Research Management
Robin Winkler

German growth has fallen behind other G7 economies. Most concerning, investment in physical capital has contracted more sharply than elsewhere. At the same time, however, German investment in intellectual property has grown at a higher rate than in other G7 economies. In our view, this illustrates that German companies are rapidly gearing their business models toward high-margin and high-tech activities.

Gross fixed capital formation

y/y growth rate as of 2Q 2024



Source: Deutsche Bank, Haver Analytics, OECD

A client recently asked us whether the German economy was still leading in any important respect. To their surprise, our answer was an emphatic "yes": Germany is ramping up investment in intellectual property more rapidly than any other G7 economy including the US. While tangible investment has contracted by 6% over the last year—the sharpest slump in the G7—intangible investment has increased by more than 4% over the same period (see Chart).

To be sure, intellectual property still accounts for a smaller share of German investment (22%) than in the US (36%). This also means that the US is investing twice as much of its national income in intellectual property, at





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almost 8% of GDP versus 4% in Germany. The US thus remains the powerhouse. Even the other European economies have been investing about as much of their national income in intellectual property as Germany. Yet, we find it remarkable that German businesses are ramping up their intellectual property investment at the same time as all other investment has fallen sharply and the economy has stagnated.

In our view, this extreme skew in tangible versus intangible investment dynamics is an important aspect of Germany's industrial evolution, on which we have written extensively in recent months. The sharp decline in industrial production volumes, the slump in physical investment and most recently the increase in manufacturing layoffs all paint a grim picture of "de-industrialization". At the same time, however, the stability in gross value added and the pick-up in intangible investment suggest that companies are rapidly gearing their business models toward higher-margin activities with higher intellectual property content. As our colleague recently put it, German industry is shifting "from bricks to brains".

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