Focus Germany

Difficult times for German savers

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German savers: How low are returns really? The policy of low and negative interest rates has had a limited impact on the returns on household financial assets in Germany to date. The nominal total return has averaged 3.4% over the last four years (1999-2015: 3.4%) – similar to the rest of the euro area. Real returns have even trended upwards thanks to declining inflation since 2011 and have exceeded their long-term average. Robust (interest) income from investments in investment funds and insurance & pension products have had a stabilising effect. Even nominal returns on interest-bearing investments did not slip below 2% until 2015 because a large proportion of longer-dated and mostly higher-coupon investments dampened the effect of evaporating market returns, resulting in a gradual decline in the income return on interest-bearing investments. High and stable revaluation gains have also buttressed total returns over recent years. They have probably been enhanced in no small measure by the ECB's Quantitative Easing programme. They are, however, likely to offset the declining income return at best temporarily, as the long-term average revaluation return is roughly 0%. Interest income and revaluation effects are likely to be a greater burden in 2016 and 2017. The buffering effects of long-term interest-bearing investments with high coupons are likely to recede markedly as households own fewer and fewer of such assets. The income return on other assets is also likely to drop on account of the financial market environment. The scope for further significant revaluation gains is likely to be limited given already very high valuations.

Growth moderation, as consumption boost wanes. The German economy will probably not sustain its strong consumption driven H1 2016 growth momentum, which was the strongest since H1 2011. We expect growth to slow to +0.2% qoq in Q3 and to pick up in Q4 as signalled by sentiment indicators. For 2017, we expect GDP growth to almost half to 1.0% yoy. Weaker real wage growth and the fallen refugee inflow will weigh on consumption growth. The subdued outlook for exports and high number of global uncertainties will negatively impact businesses' investment. We continue to see risks to our forecast tilted to the downside.

The View from Berlin. Trade policy in Germany: What's the issue (again)? September saw trade policy turning into an issue for domestic politics. First, large-scale anti trade demonstrations took place in several German cities, leaving outside observers somewhat puzzled given the countries strong export industry. Second, the German Social Democrats held a vote on CETA which was also to define German Economics Minister Gabriel's manoeuvring room on the issue. In the end, this was viewed as success for Gabriel, who managed to broadly secure backing for the deal with some clarifications to be added. In terms of domestic politics, the vote is likely to improve his chances to stand as the party's frontrunner in the 2017 federal elections.

Economic forecasts

	Real GDP (% growth)			Consumer Prices* (% growth)			Current Account (% of GDP)			Fiscal Balance (% of GDP)		
	2015	2016F	2017F	2015	2016F	2017F	2015	2016F	2017F	2015	2016F	2017F
Euroland	2.0	1.6	1.1	0.0	0.2	1.3	3.2	2.7	2.3	-2.1	-1.8	-1.7
Germany	1.7	1.9	1.0	0.2	0.5	1.5	8.5	8.8	8.2	0.7	0.5	0.5
France	1.2	1.4	1.4	0.1	0.3	1.0	-0.2	-0.4	-0.3	-3.5	-3.1	-2.9
Italy	0.7	0.7	0.4	0.1	-0.1	0.9	2.2	2.4	2.0	-2.6	-2.5	-2.7
Spain	3.2	3.0	2.0	-0.6	-0.4	1.4	1.4	1.1	0.3	-5.1	-4.0	-3.6
Netherlands	2.0	1.8	1.5	0.2	0.1	1.1	8.7	10.5	10.2	-1.8	-1.8	-1.6
Belgium	1.4	1.3	1.0	0.6	1.8	1.8	0.0	1.0	1.0	-2.6	-2.7	-2.5
Austria	0.8	1.3	1.1	0.8	0.9	1.7	1.8	2.8	2.7	-1.2	-1.8	-1.5
Finland	0.2	0.9	1.0	-0.1	0.5	1.2	-0.4	-0.1	0.1	-2.7	-2.4	-2.3
Greece	-0.3	-0.4	1.0	-1.1	0.2	1.0	0.1	1.0	1.2	-7.2	-3.6	-1.9
Portugal	1.6	1.0	1.1	0.5	0.8	1.4	0.6	0.5	0.5	-4.4	-2.8	-2.8
Ireland	26.3	4.5	2.9	0.0	0.1	1.5	10.2	12.0	7.0	-2.3	-1.1	-1.2
UK	2.2	1.9	0.9	0.0	0.7	2.2	-5.4	-6.5	-5.5	-4.4	-3.5	-3.5
Denmark	1.0	1.0	1.7	0.5	0.4	1.3	7.0	6.5	6.5	-2.1	-2.5	-2.0
Norway	1.0	0.8	1.6	2.2	3.1	2.2	8.7	6.5	6.5	9.0	6.5	6.5
Sweden	3.9	3.2	2.4	0.0	0.9	1.5	5.2	5.0	4.5	-0.8	-0.5	-0.2
Switzerland	0.8	1.6	1.6	-1.1	-0.4	0.2	11.1	10.0	9.0	0.3	-0.5	-0.5
Czech Republic	4.3	2.6	2.7	0.3	0.7	1.6	0.9	1.1	0.5	-1.9	-1.4	-1.6
Hungary	2.9	2.2	2.5	-0.1	0.2	1.4	4.4	4.7	3.9	-2.0	-2.0	-2.7
Poland	3.6	3.3	3.5	-0.9	-0.7	1.1	-0.2	-0.5	-1.1	-2.6	-3.0	-3.0
United States	2.6	1.3	1.7	0.1	1.3	2.1	-2.4	-2.5	-2.7	-9.8	-9.8	-9.8
Japan	0.6	0.6	0.9	0.8	-0.2	0.5	3.3	3.8	3.6	-4.0	-3.9	-3.8
China	6.9	6.6	6.5	1.4	1.9	1.8	2.7	2.4	2.1	-3.4	-4.0	-4.0
World	3.2	3.0	3.4	3.4	4.3	4.6						

*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

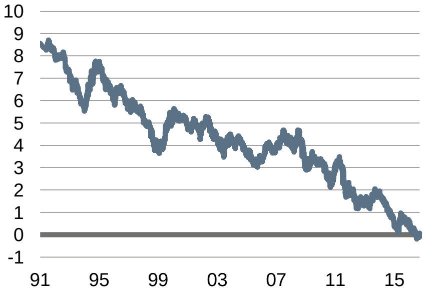
Forecasts: German GDP growth by components, % qoq, annual data % yoy

						2015				2016			
	2013	2014	2015	2016F	2017F	Q1	Q2	Q3	Q4	Q1	Q2	Q3F	Q4F
Real GDP	0.5	1.6	1.7	1.9	1.0	0.3	0.4	0.3	0.4	0.7	0.4	0.2	0.5
Private consumption	0.7	0.9	2.0	1.6	1.2	0.4	0.1	0.6	0.4	0.3	0.2	0.3	0.4
Gov't expenditure	1.2	1.2	2.8	3.9	1.7	0.4	0.7	1.3	1.2	1.3	0.6	0.8	0.8
Fixed investment	-1.1	3.4	1.7	2.7	1.2	1.7	-0.4	-0.3	1.7	1.7	-1.5	0.8	0.7
Investment in M&E	-2.1	5.5	3.7	1.9	0.0	1.9	0.5	-0.8	1.8	1.2	-2.4	1.0	0.1
Construction	-1.1	1.9	0.3	3.1	2.0	1.8	-1.3	-0.3	2.0	2.3	-1.6	0.8	1.2
Inventories, pp	0.6	-0.3	-0.5	-0.3	0.0	-0.1	-0.5	0.3	0.1	-0.3	-0.1	0.1	0.0
Exports	1.9	4.1	5.2	3.0	2.0	1.5	1.8	0.2	-0.7	1.6	1.2	0.5	0.4
Imports	3.1	4.0	5.5	3.4	2.9	2.1	0.5	1.1	0.6	1.3	-0.1	1.6	0.6
Net exports, pp	-0.5	0.4	0.3	-0.1	-0.2	-0.1	0.6	-0.5	-0.6	0.2	0.6	-0.4	-0.1
Consumer prices*	1.5	0.9	0.2	0.5	1.5	0.0	0.5	0.1	0.3	0.3	0.1	0.7	1.1
Unemployment rate, %	6.9	6.7	6.4	6.2	6.5	6.5	6.4	6.4	6.3	6.2	6.1	6.1	6.2
Industrial production	0.1	1.5	0.5	1.4									
Budget balance, % GDP	-0.1	0.3	0.7	0.5	0.5								
Public debt, % GDP	77.1	74.6	71.2	68.2	65.9								
Balance on current account, % GDP	6.5	7.3	8.5	8.8	8.2								
Balance on current account, EUR bn	190	213	256	275	265								

*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

Continuos decline towards zero yield 1

German government bonds, 10Y yield, %



Source: Bloomberg Finance LP

Total return: Our definition 2

We link several macroeconomic data sources in order to calculate the total return on financial assets of German (and European) households. We define total return as the sum of "income return" (for example interest and dividend payments on assets) and "revaluation return" (changed market prices, for example of listed shares). We set the income flows/revaluation changes against the asset portfolio of the previous year in order to obtain the return in percentage terms.

Due to data availability and high volatility we use only annual data. Unfortunately a lot of data, especially on income flows, is not available for all euro-area countries or all asset classes and there are data collection problems in some cases. We therefore do not provide the total return for every country or asset class, but choose the time series that are robust and relevant for our analysis. In the process we construct a proxy for the eurozone aggregate from a selection of euro-area countries. In addition, we ignore shareholding rights such as shares, because for most countries we cannot differentiate between dividend payments made by listed companies and payouts by firms that are not traded on the financial markets. Our results probably slightly underestimate the returns for private savers because share (dividend) yields tend to be above average. Given the small proportion constituted by shares, however, the effect is likely to be limited. A more comprehensive technical explanation as well as some remarks about the accompanying statistics-related problems can be found in the appendix. Data is largely available only up until 2014.

German savers: How low are returns really?

— The policy of low and negative interest rates has had a limited impact on the returns on household financial assets in Germany to date. The nominal total return has averaged 3.4% over the last four years (1999-2015: 3.4%) – similar to the rest of the euro area. Real returns have even trended upwards thanks to declining inflation since 2011 and have exceeded their long-term average.

— Robust (interest) income from investments in investment funds and insurance & pension products have had a stabilising effect. Even nominal returns on interest-bearing investments did not slip below 2% until 2015 because a large proportion of longer-dated and mostly higher-coupon investments dampened the effect of evaporating market returns, resulting in a gradual decline in the income return on interest-bearing investments.

— High and stable revaluation gains have also buttressed total returns over recent years. They have probably been enhanced in no small measure by the ECB's Quantitative Easing programme. They are, however, likely to offset the declining income return at best temporarily, as the long-term average revaluation return is roughly 0%.

— Interest income and revaluation effects are likely to be a greater burden in 2016 and 2017. The buffering effects of long-term interest-bearing investments with high coupons are likely to recede markedly as households own fewer and fewer of such assets. The income return on other assets is also likely to drop on account of the financial market environment. The scope for further significant revaluation gains is likely to be limited given already very high valuations. Furthermore, rising energy prices will probably stoke inflation and prompt sharp declines in the real total return. In 2017 this could even become negative (again).

German savers & ECB monetary policy: Not (completely) powerless

"German savers being crushed by low interest rates." "Draghi destroying private pensions." Finding such headlines in the German media is easy given that German government bond yields have been stuck in negative territory for around one-third of 2016.

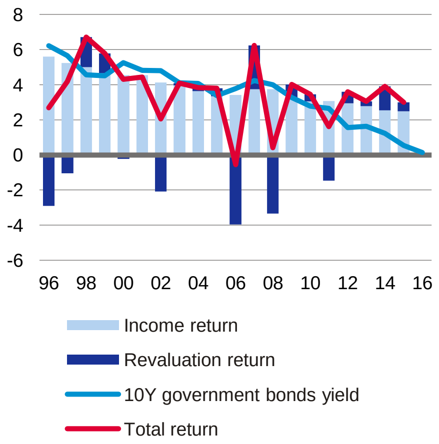
Interest-bearing investments are, however, not the only way to invest savings. In Focus Germany[1] we have shown that, contrary to widely held opinion, German savers already invest slightly larger amounts of money in risky and thus mostly also higher-yielding assets compared to their European peers. The proportion of new investment allocated to risk-bearing assets has risen markedly of late, which is presumably also partly a reaction to the zero interest rates on bank deposits and other interest-bearing financial products. Furthermore, the Bundesbank has shown that real returns are not unusually low on account of low inflation.[2] Below, we update the Bundesbank analysis based on a different data source, expand it to include a European comparison and venture to offer an outlook for 2016/17.

[1] Rakau, Oliver (2016). Focus Germany: Low returns, political discontent – Germans explore riskier options. Deutsche Bank Research. September 2, 2016.
[2] Monthly Report, October 2015. Deutsche Bundesbank.

German total returns defying zero interest rates – to date

Government bond yields only one piece of the puzzle 3

Germany, %, based on financial assets excl. equity and real estate



Sources: Deutsche Bank Research, Bloomberg Finance LP, Eurostat

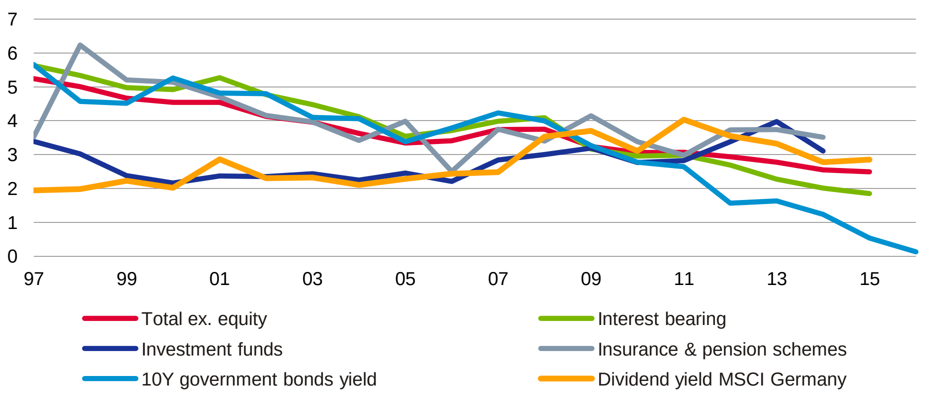
The broadest (statistically robust) definition of total return constitutes asset income and revaluation gains on financial assets excluding shareholding rights and rental income (for a definition see box 2 and the appendix). Some detailed data is missing concerning shareholding rights (such as shares), while we do not include rental income since real estate is by definition not a financial asset and there are no up-to-date valuations.

According to this definition, German financial assets yielded a total return of 3% last year. This comprised an income return of 2.5% and a revaluation return of 0.5%. Total return has declined compared with 2014 (3.9%) largely due to lower revaluation returns. In 2015, by contrast, there was hardly any change in income return (chart 3).

Overall, total return remained largely constant thanks to significant revaluation gains in the last four years and corresponded to the long-term average (3.4%). Revaluation gains were probably due in no small measure to monetary policy. Over the long term, however, the total return has been trending downward – on account of the interest-rate-driven decline in income return. Total return was still around 6% when the euro was launched. It fell to an average of 3.8% during the period 1999-2007. In the period since 1996 which we have analysed there has generally been a strong correlation between income return and the yield on 10-year German government bonds. Only since 2012 has a divergence set in, with government bond yields having fallen much faster (chart 4).

Asset income: Falling interest rates partially offset 4

Income return, %



Sources: Deutsche Bank Research, Eurostat

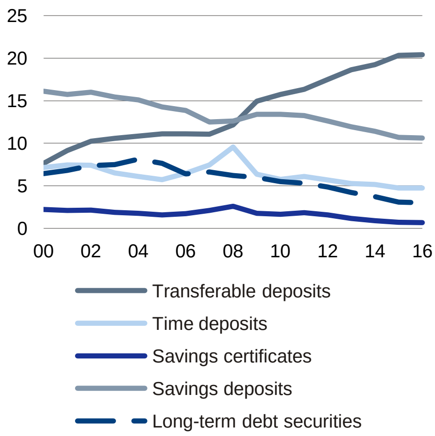
German assets: More than just government bonds

Asset income/income return has been stabilised over the last few years thanks to high returns from investment funds and income from insurance and pension products (3-4%, see chart 4). For 2015, data is not yet available for all the components of income return, but the trend is likely to have continued. Share dividends are not included in our calculation; however, based on the dividend yield (2015 MSCI EMU: approx. 3%) income from listed shares is likely to have also provided support.

Even with interest-bearing investments (e.g. bank deposits, bonds) German savers were still achieving returns of nearly 2% in 2015, although the yield on German 10-year bonds was just 0.5%. The interest income of German households benefited from government bonds making up less than 8% of all (directly) held bonds and 0.3% of total financial assets (2013).

Falling interest rates: Shrinking cushion from longer dated deposits 5

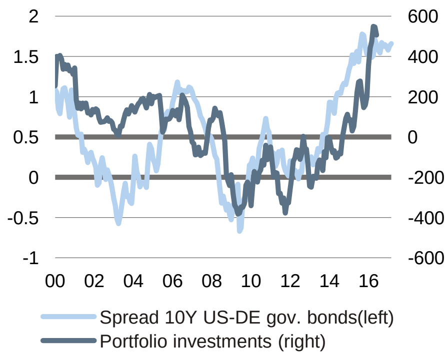
Share in total financial assets, %



Sources: Deutsche Bundesbank, Deutsche Bank Research

Low interest rates drive investor money abroad 6

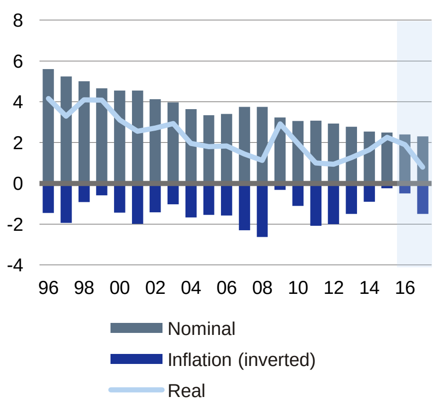
%-p., moved fwd. 6M (left); balance of EMU portfolio flows, EUR bn, 12M total (right)



Sources: Deutsche Bank Research, Bloomberg Finance LP, Haver

Falling inflation has supported savers to date 7

Income return, %, based on financial assets ex. equity



Assumption: Nominal income return falling by 0.1pp in 2016 & 2017. Inflation rising to 0.5% and 1.5%.

Sources: Eurostat, Deutsche Bank Research

Zero interest rates: No lasting escape …

The buffer that non-interest-bearing and long-term and higher-coupon investments have formed is increasingly likely to have been used up:

— The share of longer-dated deposits and debt securities has fallen significantly as a proportion of total financial assets over the last few years (chart 5). The share of time and savings deposits as well as savings certificates dropped from 22% in 2007 to 16% at last count. At the same time, the share of transferable deposits rose. The expiry of longer-dated investments with high coupons and a general search for security and flexibility probably contributed to this. A lack of data about the breakdown of the maturities makes it impossible to provide a more precise forecast of how long this buffer will maintain its effect.

— Nor will investment funds and (pension) insurance schemes be able to permanently avoid the low interest rate environment, even though they will presumably react more slowly than interest-bearing investments. Their longer-dated investments will also gradually reach maturity, but professional investors are likely to continue switching to alternative investments – in many cases in foreign markets – such as bonds with higher default risk ("high yield bonds") but which also offer higher returns than European corporate or government bonds, for example. This strategy is called the hunt for yield. For example, the current significant interest rate spread between Germany and the US induces corresponding capital flows into US investments (chart 6). There are, however, limits to this development, in both regulatory terms and with regard to risk appetite. Also, investment funds and (pension) insurance products constitute a share of total financial assets roughly equal to that of interest-bearing investments and cash, which limits the influence on the total return.

— Our equity strategists expect the Dax and the European share index Stoxx 600 to deliver declining earnings in 2016 and moderately positive returns in 2017, which should limit the dividend contribution to total return.

… but low inflation …

Another important factor that has softened the impact of falling (nominal) returns on German savers to date is low inflation. Real income return actually rose from its low of 0.9% in 2012 to 2.3% by 2015, as at the same time inflation fell to nearly zero largely because of the collapse in oil prices (chart 7).

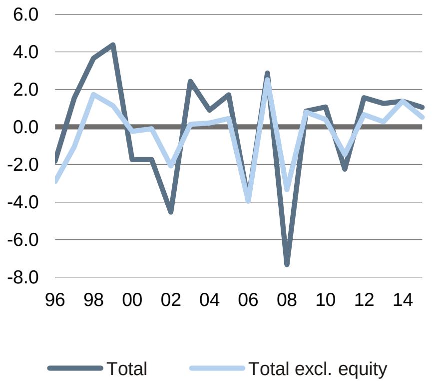
We expect, however, a double blast of headwinds for real asset income in 2016 and 2017 – from rising inflation and further declines in fixed income yields. Real income returns should therefore probably fall to 0.8% by 2017 – the lowest level in the period we have observed.

... and revaluation gains have prevented worse

As mentioned at the beginning, quite clear and consistent revaluation gains in the last four years have offset the downtrend in income return and thereby kept the total return relatively stable (chart 3). The stability of revaluation gains during our analysis period is unusual. This is particularly the case if – contrary to our income return calculations performed to date – equity is included (chart 8), which is possible as data is available on the revaluation gains for shares. This is important primarily as equity market fluctuations are the biggest driver by far of revaluation returns on household financial assets, although they make up only a small proportion of total assets (7% of total financial assets excluding other shareholding rights; chart 25). This is due to the very much greater volatility of stock revaluation gains. Measured by the standard deviation of revaluation returns this is more than 20 times as high as for debt securities and still nearly three times as high as for investment fund shares (1996-2015).

Long phase of strong revaluation gains 8

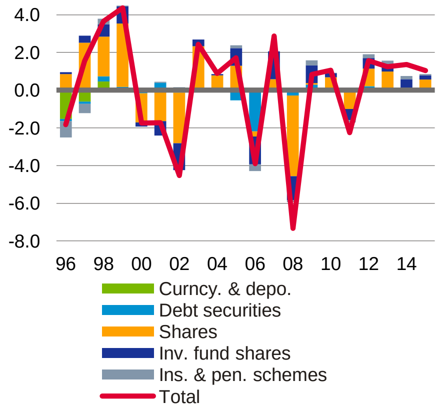
Revaluation return, %, financial assets



Sources: Deutsche Bank Research, Eurostat

Share prices are main driver of revaluation changes 9

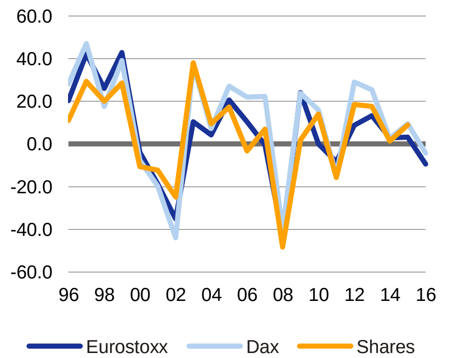
Revaluation return, %, total fin. assets excl. other equity, but incl. listed & unlisted shares



Sources: Deutsche Bank Research, Eurostat

Equity markets: Another headwind for total returns in 2016 10

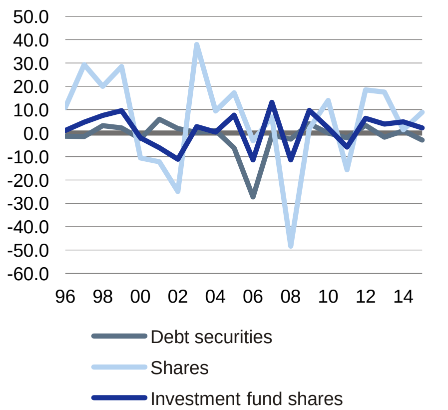
Index level, % yoy eop, 2016 ytd & revaluation return, %



Sources: Deutsche Bank Research, Eurostat, Bloomberg Finance LP

Share prices: Very volatile 11

Revaluation returns, %



Sources: Deutsche Bank Research, Eurostat

Revaluation gains in the current year are presumably likely to dampen the total return by several tenths of a percent. Based on the current stock market movements the revaluation return for shares is likely to turn out negative; both the Dax and the Eurostoxx show a strong correlation – averaging nearly 90% – with the revaluation changes (chart 10). Given the strong correlation between the revaluation changes of stocks and of investment funds (>70%) there is much to suggest that they are also weighing on the total return. For the other much less volatile components we assume that the revaluation changes are at the average level for the last five years.

The nominal total return on German household financial assets is likely to drop to below 2% in 2016 due to declining income and revaluation returns. In 2017 the revaluation return on shares might manage to pick up again somewhat, however, as we expect only small revaluation gains there is a risk that the real total return could turn out to be negative due to rising inflation.

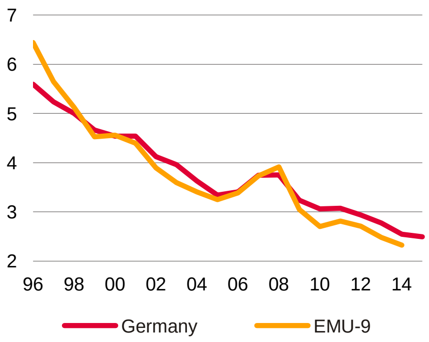
European comparison: Above-average income return ...

Overall, there is insufficient data for a comparison with the eurozone. In addition, the data we used for the eurozone as a whole is only available from 2004. We therefore calculate an approximation based on nine countries (partly on six countries, see appendix). This covers around 85% of the financial assets in the eurozone. The approximation tallies almost perfectly with the aggregate from 2004.

Given that European financial markets are very highly integrated it comes as little surprise that the charts 12-15 show that nominal returns for Germany and the EMU-9 follow very similar patterns despite their differing levels.

Germany above EMU income return 12

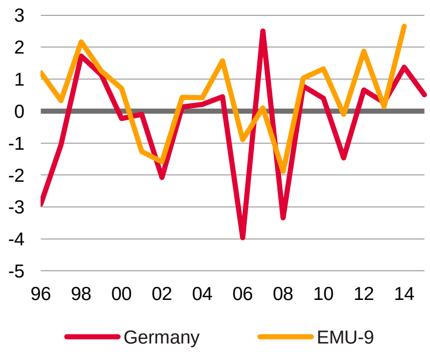
Income return on financial assets ex. equity, %



Sources: Eurostat, Deutsche Bank Research

Sub-par revaluation gains in Germany 13

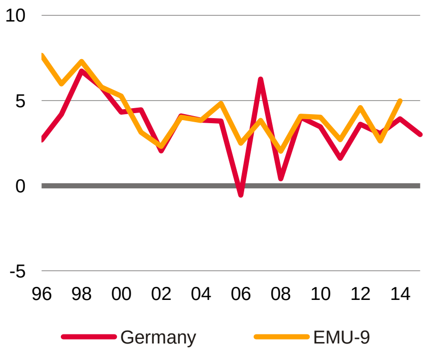
Revaluation changes, fin. assets ex. equity, %



Sources: Eurostat, Deutsche Bank Research

German total return slightly below EMU 14

Total return, fin. assets ex. equity, %



Sources: Eurostat, Deutsche Bank Research

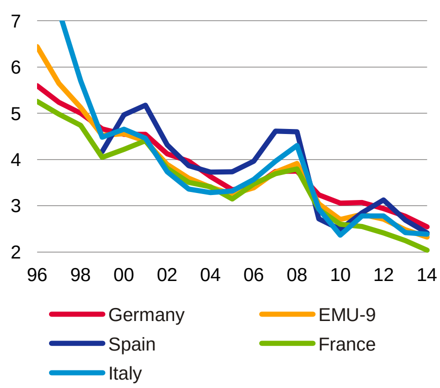
The income return for German savers has been consistently slightly above or equal to the EMU-9 average since the start of the 2000s (average for 1999-2014: 3.6% p.a. compared with 3.4%). Only prior to 1999 did households in the other countries score better than their German counterparts given the interest rate convergence process that was taking place.

The picture of above-average German returns applies across all asset classes (chart 17). The lead for investment fund shares and insurance and pension schemes is particularly large. However, one-off disbursements on commencement of retirement at a higher average age in Germany might overstate this. The conclusion that German savers at least do not receive below-average income returns nevertheless continues to apply overall.

On account of a lack of data the income return does not contain any dividends. Under the assumption that savers' dividend income is heavily correlated with the domestic stock market (home bias) it would be below average in Germany even though its weight within total return is quite small.

Germany not hit harder than others 15

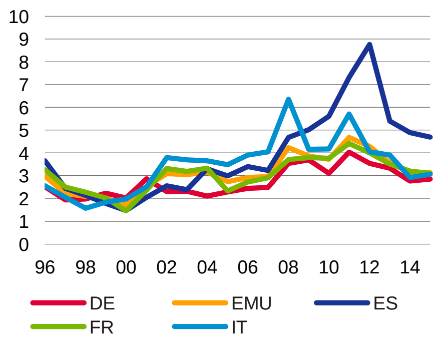
Income return, fin. assets ex. equity, %



Sources: Eurostat, Deutsche Bank Research

Below-average dividend yield of German equity index 16

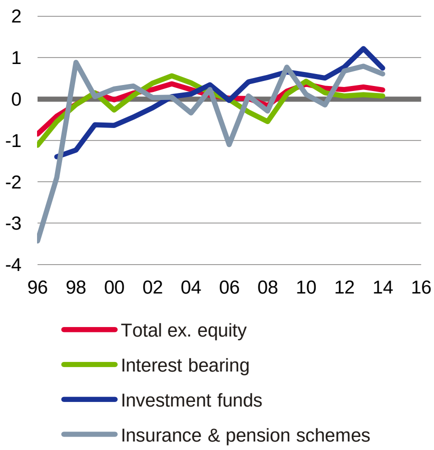
Dividend yield, %, local MSCI equity index



Source: Datastream

German income return above average across all asset classes 17

Income return differential, DE to EMU proxy, pp



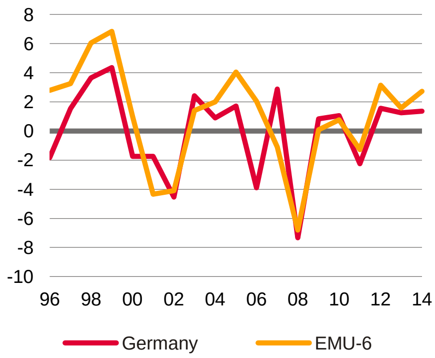
Sources: Deutsche Bank Research, Eurostat

… but poor revaluation return

The most striking aspect in a European comparison is that the revaluation gains of German households – in recent years in particular – have been noticeably below average, resulting in the fact that the total return on German financial assets has also been slightly below average of late (charts 13-14). The total return generated by German retail investors' financial assets averaged 3.4% (EMU-9: 3.8%) from 1999 to 2014, with the revaluation return at -0.2% (and +0.4% for the EMU-9). Even if shares are factored into the revaluation return, the picture stays the same and German revaluation returns remain below average. In the past four years in particular, the revaluation gains in the rest of the euro area consistently outstripped those in Germany (chart 18).

German revaluation return consistently below average since 2012 18

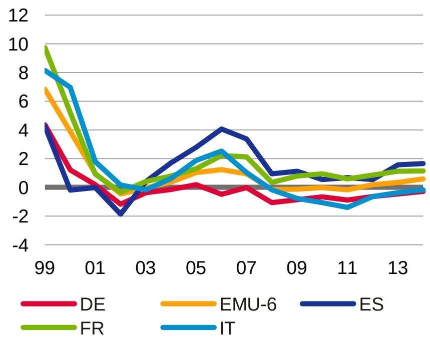
Revaluation return, %, financial assets ex. equity, incl. listed shares



Sources: Deutsche Bank Research, Eurostat

German revaluation changes with fewer swings 19

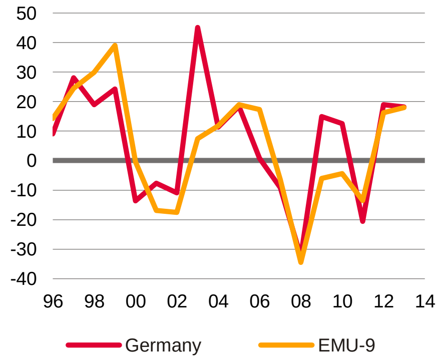
Revaluation return, cumulated from 1999 to ..., % p.a., fin. assets ex. equity, inc. listed shares



Sources: Deutsche Bank Research, Eurostat

German and EMU share revaluation gains closely aligned 20

Revaluation return, %, shares

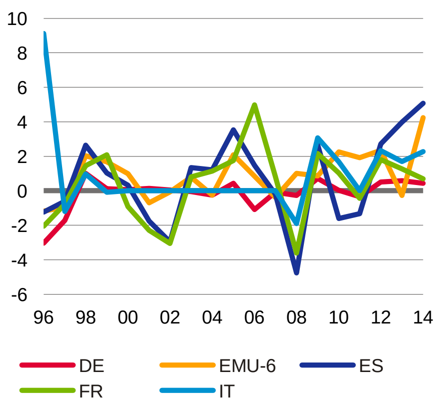


Sources: Deutsche Bank Research, Eurostat

The robustness of these data must be questioned, however. For example, the percentage revaluation gains for shares, which usually account for the lion's share of the fluctuations in the revaluation return, were nearly identical in Germany and the EMU-9 from 2012 to 2014 (chart 20). The same was true of investment funds. The main reason that German investors trail far behind their counterparts is insurance and pension schemes (chart 21), which account for almost 40% of their financial assets. While revaluations remained virtually unchanged in Germany during the entire period, they were markedly positive in the other large EMU countries over the past few years and fluctuated much more noticeably across the entire period.

Massive revaluation gains in EMU 21

Revaluation return, %, insurance/pension schemes



Sources: Deutsche Bank Research, Eurostat

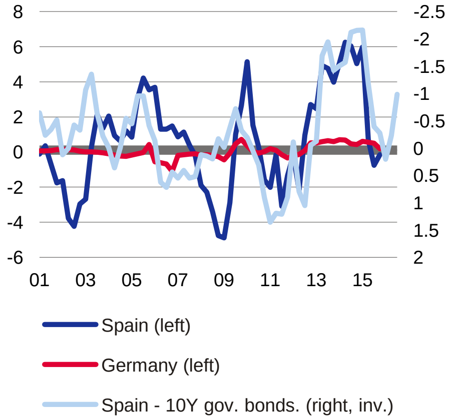
Two factors were probably jointly responsible for this:

— Legal/regulatory/statistical: The minimal revaluation changes for German assets in this class are probably not due to a lack of price fluctuations affecting the assets held by the financial service providers mentioned above. We suspect that conservative accounting/valuation practices and/or legal restrictions in Germany, or perhaps also differing approaches on the part of the statistical authorities, play a role here. This is underpinned by the fact that Germany's spread to the EMU average decreases if the other receivables are factored in. These include, for example, the accrued interest bonuses for insurance policies as well as other residuals. There is much greater fluctuation in this component in Germany than in the rest of EMU. This is likely to mean that the actual difference in the returns is considerably smaller.

— ECB monetary policy: This is probably one of the most important reasons – most recently in the shape of the QE programme in particular – for the huge

ECB policy and Spanish revaluation gains 22

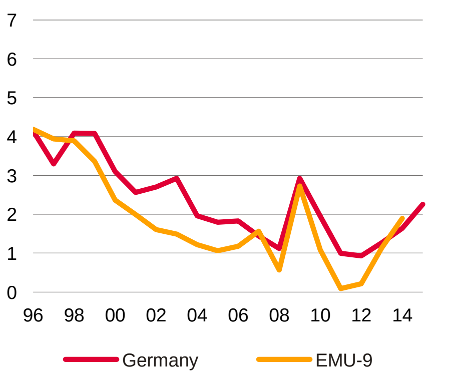
Revaluation return of ins./pens. schemes
% (left); yield, %-points, yoy (right, inv.)



Sources: Eurostat, Deutsche Bank Research, Bloomberg Finance LP

German real income return well above average 23

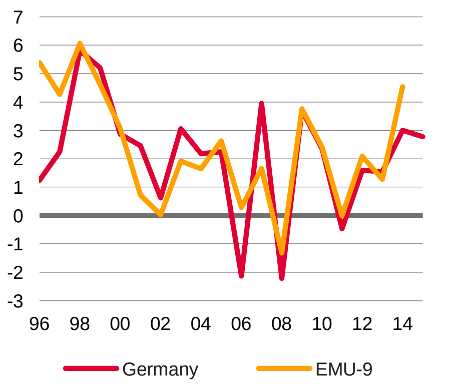
Real income return, fin. assets ex. equity, %



Sources: Eurostat, Deutsche Bank Research

DE vs. EMU: Real total return on par 24

Real total return, fin. assets ex. equity, %



Sources: Eurostat, Deutsche Bank Research

decline in the government bond yields of many EMU member states. Falling yields mean increases in the value of the bonds. Since insurance and pension schemes are in many cases already holders of (domestic government) bonds for regulatory reasons, the yield declines have driven robust revaluation gains, above all in Spain (chart 22). To a lesser extent, this also applies to France and Italy.

Scarcely any differences in real terms

Actually, the crucial variable for households ought to be the real return on their financial assets. If the inflation rates in the respective countries are subtracted from the previously discussed nominal yields, it emerges that the German income return noticeably exceeded the EMU mean during almost the entire period under review because of below-average inflation (chart 23). From 1999 to 2014, the income return averaged around 2.1% in Germany and 1.5% in EMU. It was not until 2014 that the EMU mean exceeded the Germany reading for the first time, because inflation had decelerated in the rest of the eurozone even faster than in Germany. This was likely the case again in 2015. The complete set of data is not yet available for that year.

Furthermore, if the total return is calculated in real terms, the slightly surprising result is that the values in Germany (1.9%) and the EMU-9 (1.8%) are nearly identical (France: 2.1%; Spain: 1.5%; Italy: 1.2%). These data are again based on a calculation excluding equity. As we discussed, however, this should not significantly alter the results. Throughout the entire financial crisis, total returns were nearly identical in real terms. It was not until 2014, because of noticeably falling yields and inflation rates in the peripheral countries, that the curves started to diverge. The opposite picture was to be seen in the early to mid-2000s, when very clearly below-average inflation in Germany supported real returns.

Mario Draghi and the Bundesbank are right, but …

The image of the over-cautious German saver who is completely at the mercy of falling yields cannot be confirmed in a European comparison – at least as things stand today. In our last issue of Focus Germany, we showed that German savers are tending to display a slightly above-average risk appetite in their new investments, and thus have already been following Mr Draghi's investment advice for a long time.[3] In this context, the nominal total return achieved by German households is lower than the EMU average, but thanks to low German inflation the real total returns in Germany and EMU have only differed insignificantly ever since the eurozone came into existence.

However, this is hardly reason to believe it is wrong to warn against the consequences of zero and negative interest rate policy. Even if the medium and long-term risks to financial stability are disregarded and the consequences for households' returns are viewed in isolation, the strong side-effects can be seen. Given plausible assumptions for the path of inflation and above all for the yield development of interest-bearing assets, the total return is likely to fall noticeably in the current year and could even slip into negative territory in real terms as early as 2017.

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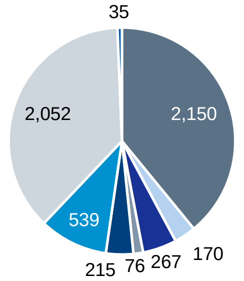
[3] http://www.ecb.europa.eu/press/inter/date/2016/html/sp160428.en.html

German financial wealth dominated by non-risk-bearing assets 25

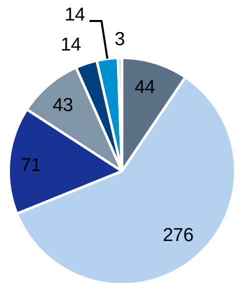
Financial assets, private households, EUR bn, Q1 2016



Source: Deutsche Bundesbank

Bulk of property income on equity in corporations 26

Property income, EUR bn, 2014



Source: Eurostat

Appendix: Calculating total return

To determine the total return on German and European households' financial assets, we link several statistics from the sector accounts within the framework of Eurostat's European system of accounts:

— The "financial balance sheet" provides information about the stock of financial assets in a country's different institutional sectors (e.g. non-financial corporations, financial corporations, households and general government). We use the data applicable to households. The financial assets of the sectors can be broken down roughly into cash & deposits, debt securities, loans, share ownership rights such as shares, investment fund shares, insurance and pension schemes as well as financial derivatives and other receivables. The statistics do not include direct real estate ownership, even though this often accounts for the bulk of households' assets. By contrast, real estate assets held indirectly – e.g. via real estate funds – are included.

— The "financial transactions" provide information about financial flows, that is, how much money was newly invested in the various asset classes or withdrawn from them. This is one component of changes in financial assets.

— The second component is revaluation changes. These are a part of total return, as we define it. Investments such as listed shares are generally entered in the financial balance sheet at current market prices; this means that equity market fluctuations lead to changes in wealth. While Eurostat keeps its own statistics on revaluations, not all countries (Germany, for instance) provide these data. Therefore, we approximate the revaluation changes for all countries analysed by taking the change in stocks net of transactions. Changes in the financial balance sheet that are not triggered by transactions or market price fluctuations include, for example, classification-related realignments, which we must disregard because of a lack of data. For instance, our calculations show huge valuation losses in 2006 on German households' investments in debt securities. However, these were caused by re-classifications of assets. Barring this measure, there would not have been a loss. Therefore, individual annual values and "outliers" should not be overrated in the revaluation changes we calculated, especially since they should balance themselves out in the aggregate.

— The second part of total return consists of the income flows generated by the financial assets. These data are to be found in the "non-financial transactions" that are also contained in the sector accounts. These include, for example, interest income, payout distributions (dividends), withdrawals from income, capital gains from insurance policies, pension schemes and investment fund units. With property income, too, there are in some cases sizeable problems with the data:

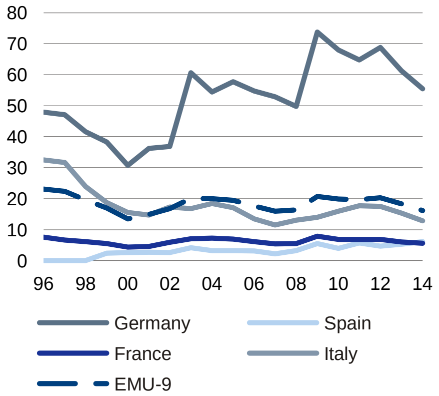
  ○ Interest income is not itemised according to its source, so this means it cannot be apportioned according to deposits, loans or debt securities. For this reason, we calculate a new financial asset item called "interest-bearing investments".

  ○ Dividends and withdrawals (from income) are itemised for listed and unlisted shares and for other equity in only a few countries. We are mainly interested in the dividends from listed shares, since these are fungible in the financial market and are a constituent part of risk-bearing assets, which we defined in the last issue of Focus Germany.[4] These data are not available for

[4] Rakau, Oliver (2016). Focus Germany: Low returns, political discontent – Germans explore riskier options. September 2, 2016. Deutsche Bank Research.

Extremely high income return on equity assets in Germany 27

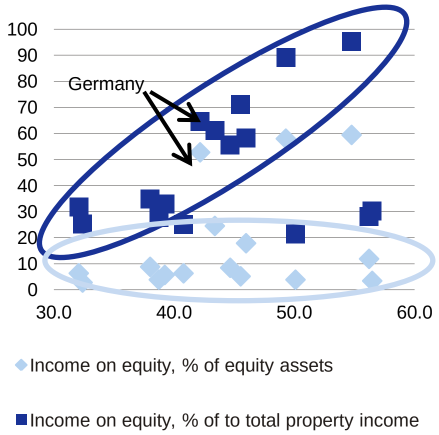
Dividends & withdrawals from income, % of equity



Sources: Eurostat, Deutsche Bank Research

Are German equity assets mis-valued? 28

Average 1995-2014; X-axis: Gross profit share of non-fin. corporations, %



Sources: Eurostat, Deutsche Bank Research

Germany. Analysing the equity aggregate is unlikely to be very helpful: other equity, e.g. shareholdings in small companies, is to be valued functionally like shares, since an owner makes equity capital available for investment; however, this is not traded on the markets, meaning that there are no market prices. Furthermore, there would probably be substantial problems to define market prices for other equity. Note that dividends and withdrawals from income equalled over 50% of the stock of equity assets in Germany since 1996 on average, thus implying a 50% return. Other large EU countries also show substantial "income returns" (Italy: 18%; France: 6%; Austria: 24%), but these are not excessive. However, if the dividends and withdrawals are set against total property income and if it is taken into consideration that German companies are generally highly profitable, Germany is not an outlier in this context. Nonetheless, conservative valuations of the German assets held in equities or else other statistics-related problems probably play a role here. Because of these data problems, we disregard equity in the aggregated income return.

— The total return is equal to the sum of the two parts of total return. In this context, we set the revaluation gains and income flows separately against the asset holdings at the end of the previous period. Given the data problems discussed above, we do not provide the total return for every country and asset class, but instead choose the time series that are suitably robust and relevant for our analysis. One of the biggest hurdles is the lack of aggregated data for the euro area as a whole. Therefore, we calculate a proxy for the euro area, in most cases on the basis of nine countries that show respective data availability (EMU-9: Belgium, Germany, Greece, Finland, France, Italy, the Netherlands, Portugal and Slovakia; EMU-6: Belgium, Germany, France, Italy, the Netherlands and Portugal).

— We use annual data, since only few of the detailed income flows are published on a quarterly basis and these are extremely volatile. To date, the full data for 2015 have only been published for selected countries. Consistent historical Eurostat data are only available for an adequate number of countries from 1995. Therefore, we have to confine our return analysis to the period 1996 to 2014.

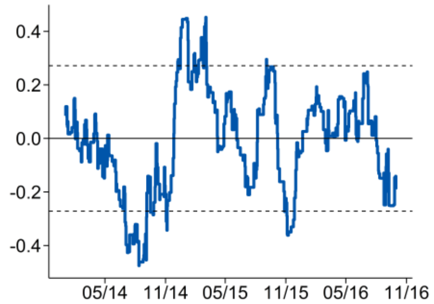
Growth moderation, as consumption boost wanes

— The German economy will probably not sustain its strong consumption driven H1 2016 growth momentum, which was the strongest since H1 2011. We expect growth to slow to +0.2% qoq in Q3 and to pick up in Q4 as signalled by sentiment indicators.

— For 2017, we expect GDP growth to almost half to 1.0% yoy. Weaker real wage growth and the fallen refugee inflow will weigh on consumption growth. The subdued outlook for exports and high number of global uncertainties will negatively impact businesses' investment. We continue to see risks to our forecast tilted to the downside.

DB German Macro Surprise Index 1

Avg. of last 20 z-scores of data surprises & +/- 1 std. deviation (dashed lines)



Sources: Bloomberg Finance LP, Deutsche Bank Research

Strongest H1 2016 GDP growth since H1 2011, but slowing momentum

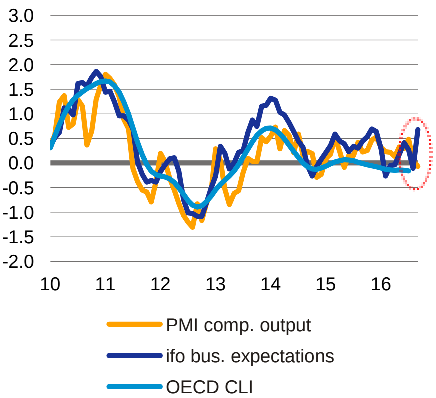
In H1 the German economy showed the strongest momentum since 2011 (avg. +0.6% qoq). Consumption was by far the most important contributor. Due to higher refugee-related spending the contribution of government consumption even surpassed that of private consumption. Construction investments also showed a solid expansion, but investments in machinery & equipment remained weak. Net exports' contribution was also relatively strong. This was, however, especially due to a slight fall of imports in Q2 as rising prices pushed down real oil imports. Export growth slowed from Q1 to Q2. Destocking was a drag. We expect that the German economy will not sustain the strong H1 momentum.

Solid sentiment = easing immediate Brexit-fears?

The composite PMI and ifo expectations are both pointing to a +0.4% qoq GDP growth in Q3, which points to an upside risk to our forecast (DBe: +0.2%; Consensus: +0.3%). However, monthly hard indicators with a better forecasting track-record indicate subdued growth in Q3 and we still expect some technical payback for the terms-of-trade related rise in net exports in Q2. Regarding Q4 GDP growth the message of sentiment indicators is rather divergent and a reversal of the last two quarters. At their September levels ifo expectations point to a growth pick-up to 0.7% qoq, while the composite PMI suggests hardly any pick up compared to Q3 (0.3% qoq). We are in the middle (DBe: +0.5% qoq). Mainly because of the strong H1 performance, we expect 2016 GDP growth at 1.9%. The fiscal situation remains solid with a budget surplus of +0.5% in 2016 driven mainly by buoyant tax revenues and further declining interest rate expenditures.

Leading indicators send mixed signals 2

Germany; standardised values



Sources: Markit, ifo , OECD, Deutsche Bank Research

High number of political uncertainties challenge for 2017 German outlook

For 2017, we expect GDP growth to almost half to 1.0% yoy. The weaker real wage growth and an expected moderate recovery of oil prices will likely weigh on consumption growth. The subdued outlook for exports and the high number of global uncertainties (esp. Brexit, upcoming elections and geopolitical crises) negatively impact businesses' investment plans, see for example the weakness of domestic orders of capital goods. Equipment investments could more or less stagnate. Construction investments, however, should remain solid given the ongoing high excess demand, but are limited by capacity bottlenecks and increased regulatory hurdles. Note that the predicted average quarterly GDP growth rate of about 0.35% qoq in 2017 remains sound given the unfavourable demographic trend and the potentially lower growth rate of government spending caused by a slowing refugee inflow. Due to ongoing uncertainties about external demand we see risks to our forecast tilted to the downside. Germany's export dependency is high in international comparison (exports as % of GDP: Germany: 46% vs. OECD 28%).

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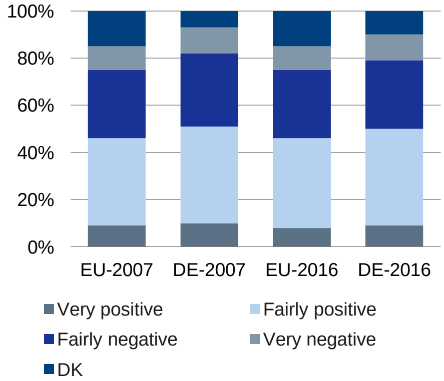
The View from Berlin

Trade policy in Germany: What's the issue (again)?

Not necessarily anti-globalisation ... 1

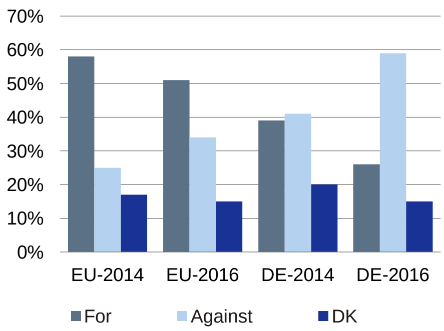
How do you judge globalisation? Respondents in percent



Sources: Eurobarometer (July), Deutsche Bank Research

... but Germans are no fans of TTIP 2

"Are you for or against a trade and investment agreement between the EU and the US?"



Source: Eurobarometer , Deutsche Bank Research

September saw trade policy turning into an issue for domestic politics. Given Germany's strong export industry, outside observers may have been somewhat puzzled by large-scale anti-trade demonstrations taking place in seven German cities on September 17th. In particular, protests are against CETA – the free trade agreement with Canada already negotiated and planned to be signed in October – and TTIP which the EU is still negotiating with the US. Beyond protests, the two trade agreements have become an issue for German mainstream politics and for the SPD in particular. While German Economic Minister Gabriel ultimately managed to secure intra-party support for CETA, TTIP remains a thorny issue and German politicians have send very mixed signals lately.

From Montreal to Wolfsburg

The two free trade agreements are particularly an issue for the German Social Democrats (SPD) and German Economics Minister Gabriel finds himself in a catch-22 situation. Many SPD voters are somewhat sceptical when it comes to free trade as well as CETA and TTIP in particular. As party leader Sigmar Gabriel has to take account for this, all the more because he would like to be the party's front-runner in the 2017 federal elections. At the same time, in his role as vice chancellor and economics minister he is expected to support trade agreements that are beneficial to the German economy and German companies as well as be a reliable partner in the Grand Coalition with the German Christian Democrats (CDU, traditionally more pro-free trade) and at the European level.

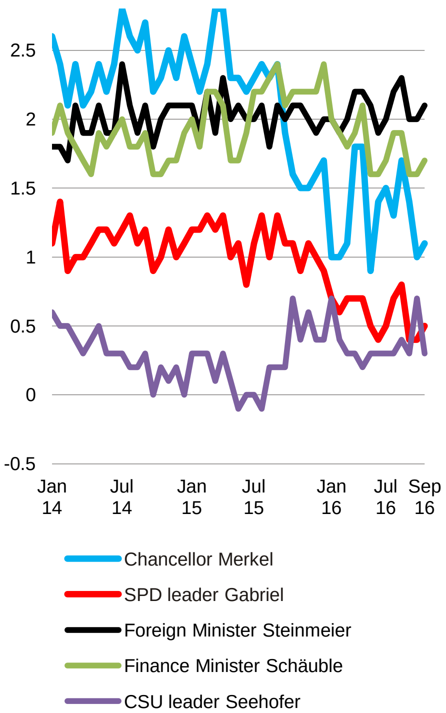
The official line is that the German government supports both CETA and TTIP. While there has been conflicting messaging from Gabriel – in August he claimed that TTIP negotiations have "de facto failed" – he tried to delink CETA and TTIP in the German public debate and to shore up support for the deal with Canada. To this end, he met with Canadian Prime Minister Trudeau on Sept 15th. This might seem a somewhat unusual step – given that the European Commission negotiates trade deals for its members and that negotiations had officially concluded in 2014 – but needs to be read against the backdrop of the German domestic debate and Sigmar Gabriel's particular situation. Trudeau and Gabriel emphasized commitment to common principles emphasizing points that are of concern to the social democrats in particular (high levels of consumer and worker protection, protection for public services, transparent process for investment dispute resolution) and both stressed that there can be (further) additional binding declarations to the agreement. [5]This was an important signal and achievement for Sigmar Gabriel who faced an inner party vote on CETA a couple of days later.

The Party convention that took place in Wolfsburg on Sept 19th – one day after the public protests – was to define the SPD's stance on CETA. A main motion by SPD party executives had asked for clarifications and changes to the agreement. Having CETA rejected by its own party would have made it difficult for Sigmar Gabriel going forward – both with regards to its nomination as party front-runner and at the European level where signature of CETA is envisaged for end October. In the end, he did secure agreement among SPD party delegates which broadly lend support to the deal with some clarifications to be

[5] Similarly, European Trade Commissioner Malmström and Canadian Trade Minister Chrystia Freeland have promised to allay the concerns through joint declarations.

Major politicians' approval ratings 3

Approval rating for the respective politician on a scale from -5 to +5



Source: Forschungsgruppe Wahlen, ZDF Politbarometer

added.[6] However, the party convention concluded that it is possible to do this (and should be done) as part of the upcoming parliamentary discussion and ratification procedures and through joint declarations.

The favourable stance taken by the party convention was widely interpreted as a success for Gabriel. It was far from certain that he would get the backing but he managed to make the case for the agreement and pointing out his role in seeking improvements. The convention might also prove a political win for the SPD who can credit itself going forward that it at least takes up concerns about trade agreements, allows for more discussion, and possibility to influence its minister. At the same time, party delegates at the convention may not be representative of the arguably more critical party basis and the SPD has to walk a tightrope by taking unease with trade deals of its (potential) voters seriously while not coming across as advocating for “draw-bridges up” economic policies. Compared to the US, trade policy certainly hasn’t been a topic for German federal elections but the wider debate about globalization and how Germany in particular can address the challenges that come with it may well feature in the 2017 campaign.

What next?

The party convention may have been a blessing for Gabriel but in terms of the follow-up procedures to implement CETA it was but one step. At the European level, the Council still has to agree in October. The agreement is planned to be signed officially end of next month at the EU-Canada summit. The signing however is not binding for national parliaments and the European Parliament. Also, the SPD’s Austrian sister party SPÖ, which held a vote on CETA, too, rejected the agreement placing Austrian party leader Christian Kern (in a grand coalition with the conservative ÖVP) in the situation Gabriel was lucky to avoid.

Given that the final approval procedures could easily take a couple of years with 38 national and regional parliaments across the EU taking part, the possibility of “provisional application” has been suggested. One option could be that parts of the agreement might come into force in early 2017 after its approval by a majority of countries in the European Council and in the European Parliament. The trickiest parts – notably investor protection – could be split off for ratification. The SPD convention’s vote would basically allow for the possibility of provisional application – provided that investor protection is excluded – but whether this is going to happen will certainly not depend on the position taken by the SPD in Wolfsburg.

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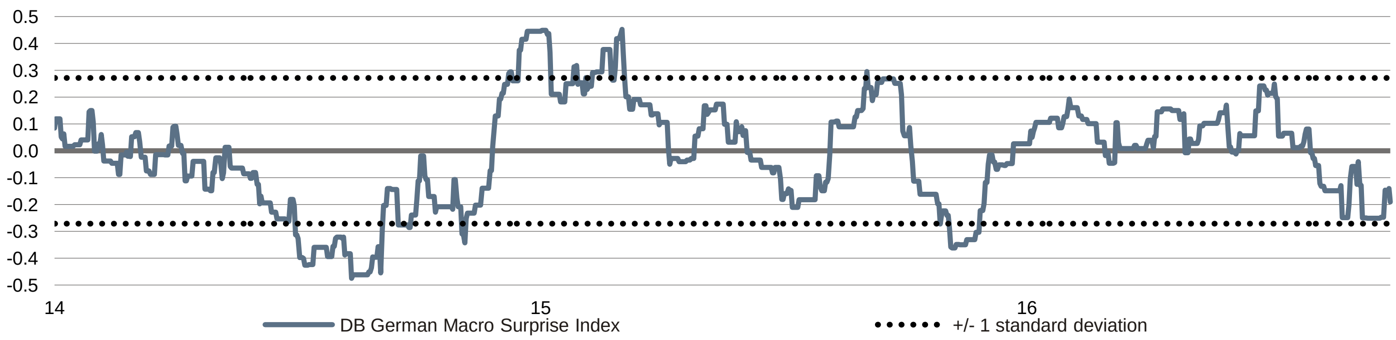
[6] The convention calls for clarifications on investor protection, independence of judges of the new investment Court, a sanctioning mechanism to ensure protection of workers‘ rights, protection of public services including the possibility to put local communities back in charge for provision of public services.

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.[7]

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
GRGDPPGQ Index	GDP (% qoq)	6 2016	24.08.16	0.4	0.4	0.0	-0.1	0.3
GRIFPBUS Index	IFO Business Climate	8 2016	25.08.16	106.3	108.5	-2.2	-1.8	0.0
GRIMP95Y Index	Import Price Index (% yoy)	7 2016	30.08.16	-3.8	-4.0	0.2	0.5	0.8
GRUECHNG Index	Unemployment Change (000's mom)	8 2016	31.08.16	-6.0	-4.0	2.0	-0.1	0.5
GRFRIAMM Index	Retail Sales (% mom)	7 2016	31.08.16	0.5	0.5	0.0	0.3	0.6
MPMIDEMA Index	Markit Manufacturing PMI	8 2016	01.09.16	53.6	53.6	0.0	0.0	0.4
MPMIDESA Index	Markit Services PMI	8 2016	05.09.16	51.7	53.3	-1.6	-1.7	0.0
GRIORTMM Index	Factory Orders (% mom)	7 2016	06.09.16	0.2	0.5	-0.3	-0.2	0.4
GRIPIMOM Index	Industrial production (% mom)	7 2016	07.09.16	-1.5	0.1	-1.6	-1.3	0.1
GRCAEU Index	Current Account Balance (EUR bn)	7 2016	09.09.16	18.6	24.5	-5.9	-2.1	0.0
GRCP20YY Index	CPI (% yoy)	8 2016	13.09.16	0.4	0.4	0.0	0.2	0.3
GRZECURR Index	ZEW Survey Current Situation	9 2016	13.09.16	55.1	56.0	-0.9	-0.2	0.4
GRZEWI Index	ZEW Survey Expectations	9 2016	13.09.16	0.5	2.5	-2.0	-0.2	0.4
MPMIDESA Index	Markit Services PMI	9 2016	23.09.16	50.6	50.6	0.0	0.0	0.5
MPMIDEMA Index	Markit Manufacturing PMI	9 2016	23.09.16	54.3	54.3	0.0	0.0	0.4
GRIFPBUS Index	IFO Business Climate	9 2016	26.09.16	109.5	106.3	3.2	2.3	1.0
GRIMP95Y Index	Import Price Index (% yoy)	8 2016	27.09.16	-2.6	-2.5	-0.1	0.3	0.6
GRCP20YY Index	CPI (% yoy)	9 2016	29.09.16	0.7	0.6	0.1	0.8	0.8
GRUECHNG Index	Unemployment Change (000's mom)	9 2016	29.09.16	1.0	-5.0	-6.0	-0.4	0.3
GRFRIAMM Index	Retail Sales (% mom)	8 2016	30.09.16	-0.4	-0.2	-0.2	0.1	0.5

Sources: Bloomberg Finance LP, Deutsche Bank Research

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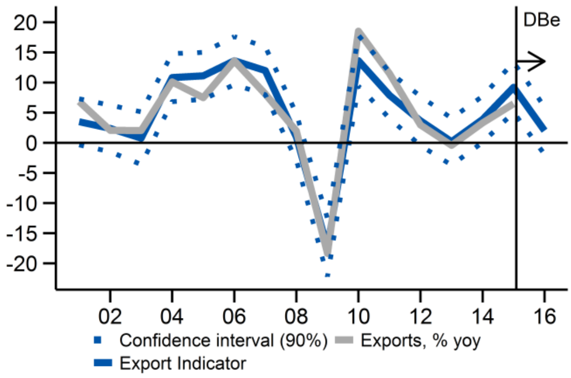
[7] See for details Focus Germany. August 4, 2014.

Export Indicator 2016: demand impact remains weak – price impact turns negative

The Export Indicator identifies the effects on German exports of changes in global demand on the one hand, and currency movements on the other (price impact).[8]

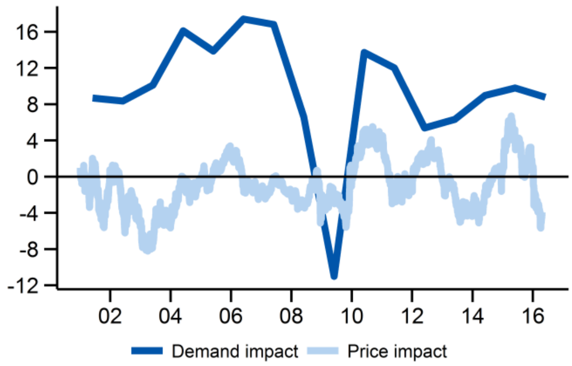
Export Indicator points to weaker export growth in 2016

% yoy



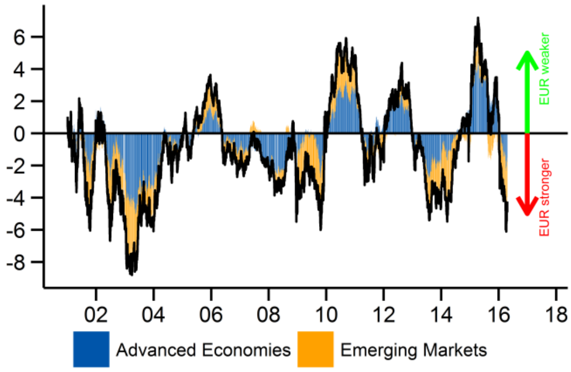
Demand and price impact weaker in 2016

% yoy



Price impact turns distinctly negative in 2016

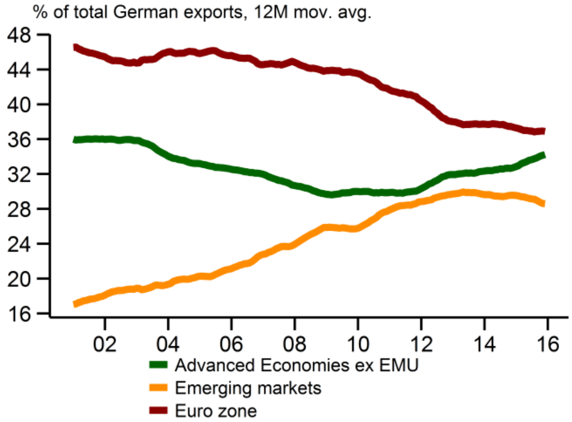
% yoy



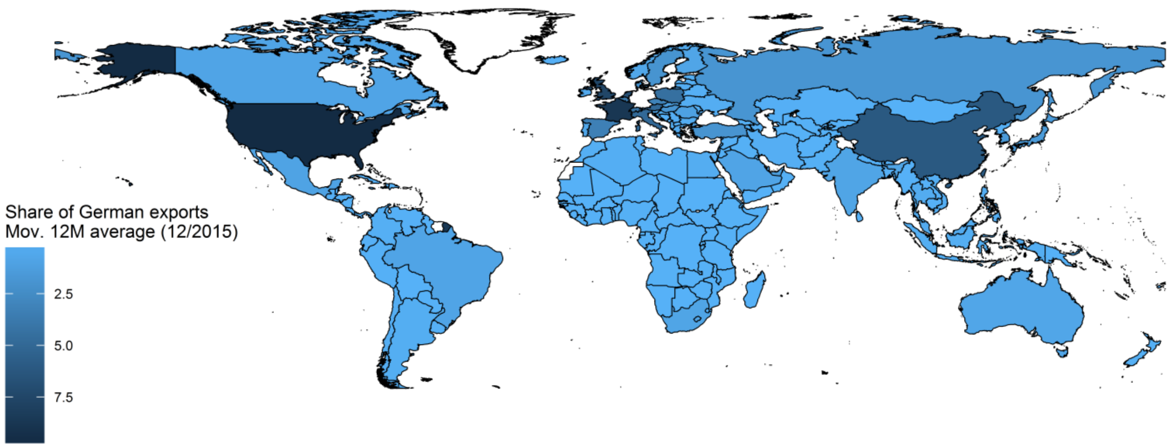
Weighed EUR yoy change using German export destination shares

Importance of Non-EMU advanced economies strongly up

% of total German exports, 12M mov. avg.



German exports focus on Europe, the USA and China



Sources: Eurostat - Comext, Deutsche Bank Research

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8 See for details Focus Germany, March 3, 2016.

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

Date	Event	Remarks
10-11 Oct	Eurogroup and ECOFIN, Luxembourg	Financial & macroeconomic stability developments in the euro area, thematic discussion on growth and jobs: Health- and long-term care.
20 Oct	ECB Governing Council meeting, press conference	Review of the monetary policy stance. It seems that the ECB is focusing on operational decisions and which current policy tool is best placed to preserve the current accommodative stance. We think that in December the ECB will choose QE extension and avoid further deposit rate cuts.
20-21 Oct	European Council, Brussels	Debates on migration, esp. the progress in the EU's migration policy approach, and on trade issues – the future of the EU's trade policy; external relations, esp. relations with Russia.
7-8 Nov	Eurogroup and ECOFIN, Brussels	Debates on the economic situation – Commission's 2016 autumn forecast, discussion of inflation developments, Greece – state of play, Spain and Cyprus post-programme surveillance – 6th respectively 1st review, Banking Union.
5-6 Dec	Eurogroup and ECOFIN, Brussels	Financial and macroeconomic stability developments in the euro area, including monitoring of individual Member States, Greece – state of play.
5-7 Dec	CDU Party Convention, Essen	Debate on the party's programme for the imminent campaign for the federal election in September 2017. It is expected, that Chancellor Merkel will announce, whether she will run again as the CDU/CSU's top candidate.
8 Dec	ECB Governing Council meeting, press conference	We think that the ECB will choose QE extension and avoid further deposit rate cuts.
15-16 Dec	European Council, Brussels	Poss. migration crisis - state of the implementation of the EU-Turkey Agreement, outcome of the British EU referendum - intentions of the British government, digitisation.

Source: Deutsche Bank Research

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Germany: Data calendar

Date	Time	Data	Reporting period	DB forecast	Last value
6 Oct 2016	8:00	New orders manufacturing (Index, sa), pch mom	August	1.1	0.2
7 Oct 2016	8:00	Industrial production (Index, sa), pch mom	August	1.7	-1.5
10 Oct 2016	8:00	Trade balance (EUR bn, sa)	August	17.7	19.4
10 Oct 2016	8:00	Merchandise exports (EUR bn, sa), pch mom (yoy)	August	-3.8 (-4.2)	-2.6 (-5.1)
10 Oct 2016	8:00	Merchandise imports (EUR bn, sa), pch mom (yoy)	August	-2.6 (-3.4)	-0.7 (-3.2)
24 Oct 2016	9:30	Manufacturing PMI (Flash)	October	54.0	54.3
24 Oct 2016	9:30	Services PMI (Flash)	October	51.5	50.6
25 Oct 2016	10:30	ifo business climate (Index, sa)	October	109.0	109.5
28 Oct 2016	14:00	Consumer prices preliminary (Index, sa), pch mom (yoy)	October	0.2 (0.8)	0.1 (0.7)
28 Oct 2016	8:00	Import prices (Index, sa) pch mom (yoy)	September	-0.2 (-2.1)	-0.2 (-2.6)
31 Oct 2016	8:00	Retail sales (Index, sa), pch mom	September	0.3	-0.4
2 Nov 2016	10:00	Unemployment rate (%, sa)	October	6.1	6.1
15 Nov 2016	8:00	Real GDP (Index, sa), % qoq	Q3 2016	0.2	0.4

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

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Financial forecasts

	US	JP	EMU	GB	CH	SE	DK	NO	PL	HU	CZ
Key interest rate, %											
Current	0.375	-0.10	0.00	0.25	-0.75	-0.50	0.05	0.50	1.50	0.90	0.05
Dec 16	0.625	-0.20	0.00	0.10	-0.75	-0.50	0.05	0.25	1.50	0.90	0.05
Mar 17	0.625	-0.20	0.00	0.10	-0.75	-0.50	0.05	0.25	1.50	0.90	0.05
Dec 17	1.125	-0.20	0.00	0.10			0.25		1.50	0.90	0.05
3M interest rates, %											
Current	0.84	0.06	-0.31	0.38							
Dec 16	0.88	0.05	-0.30	0.26							
Mar 17	0.88	0.05	-0.30	0.26							
Dec 17	1.38	0.05	-0.25	0.15							
10J government bonds yields, %											
Current	1.56	-0.08	-0.12	0.72							
Dec 16	1.75	-0.10	0.00	0.85							
Mar 17	2.00	-0.10	0.10	0.90							
Dec 17	2.00	-0.10	0.30	1.30							
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	101.40	0.86	1.30	1.09	9.62	7.45	9.04	4.30	308.65	27.02
Dec 16	1.05	94.00	0.84	1.25	1.10	9.25	7.46	9.00	4.30	315.00	27.10
Mar 17	1.03	94.00	0.84	1.23	1.11	9.13	7.46	8.96	4.28	316.25	27.10
Dec 17	0.95	94.00	0.83	1.15	1.14	8.75	7.46	8.84	4.20	320.00	25.50

Sources: Bloomberg Finance LP, Deutsche Bank

German data monitor

	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Apr 2016	May 2016	Jun 2016	Jul 2016	Aug 2016	Sep 2016
Business surveys and output											
Aggregate											
Ifo business climate	108.3	108.6	106.8	107.7	108.0	106.7	107.8	108.7	108.3	106.3	109.5
Ifo business expectations	102.7	104.2	100.6	101.7	102.3	100.5	101.7	103.0	102.2	100.1	104.5
Industry											
Ifo manufacturing	103.0	103.2	100.7	101.8	102.4	100.9	101.5	102.9	102.4	100.8	104.1
Headline IP (% pop)	-0.2	-0.4	1.8	-0.9		0.4	-0.9	1.1	-1.5		
Orders (% pop)	-2.0	0.6	0.8	-0.5		-1.9	0.1	-0.3	0.2		
Capacity Utilisation	84.3	84.4	85.1	84.4	84.7						
Construction											
Output (% pop)	-0.6	3.5	1.4	-5.3		-3.7	0.3	0.7	0.3		
Orders (% pop)	0.9	10.0	6.3	-0.1		-0.5	3.6	-1.8	-4.6		
Ifo construction	121.3	123.3	122.6	124.5	126.8	123.1	124.9	125.6	126.0	126.1	128.3
Consumer demand											
EC consumer survey	-0.3	-4.4	-6.1	-3.2	-2.5	-4.8	-3.2	-1.6	-2.1	-2.5	-2.9
Retail sales (% pop)	0.5	0.4	0.6	-0.3		-0.1	0.8	0.0	0.5	-0.4	
New car reg. (% yoy)	6.1	5.7	4.5	9.4		8.4	11.9	8.3	-3.9	8.3	
Foreign sector											
Foreign orders (% pop)	-3.7	0.2	2.1	-1.4		-4.3	1.9	-1.1	2.5		
Exports (% pop)	-0.7	-0.7	0.3	0.6		-0.2	-1.3	0.2	-2.6		
Imports (% pop)	0.8	-1.0	-0.2	-1.3		-0.1	-0.1	1.1	-0.7		
Net trade (sa EUR bn)	60.6	60.8	62.0	66.8		23.3	22.1	21.4	19.4		
Labour market											
Unemployment rate (%)	6.4	6.3	6.2	6.1	6.1	6.2	6.1	6.1	6.1	6.1	6.1
Change in unemployment (k)	-2.3	-26.0	-40.0	-29.0	-16.3	-16.0	-10.0	-5.0	-6.0	-6.0	1.0
Employment (% yoy)	0.9	1.1	1.2	1.2		1.2	1.2	1.2	1.2	1.2	
Ifo employment barometer	108.1	109.7	108.4	108.2	109.0	108.3	108.3	108.0	108.1	108.6	110.1
Prices, wages and costs											
Prices											
Harmonised CPI (% yoy)	0.0	0.2	0.1	0.0		-0.3	0.0	0.2	0.4	0.3	
Core HICP (% yoy)	1.0	1.2	1.1	1.0		0.7	1.1	1.2	1.3	1.0	
Harmonised PPI (% yoy)	-1.7	-2.3	-2.8	-2.6		-3.1	-2.7	-2.2	-2.0	-1.6	
Commodities, ex. Energy (% yoy)	-8.7	-12.6	-14.6	-6.5		-8.5	-6.9	-3.9	0.2	4.1	
Oil price (USD)	51.3	44.8	35.1	46.9		43.2	47.7	49.9	46.6	47.1	
Inflation expectations											
EC household survey	4.9	4.0	5.3	3.6	6.2	3.0	1.9	5.9	4.9	7.2	6.4
EC industrial survey	0.8	1.5	-2.4	1.7	3.0	-0.5	2.4	3.2	4.8	1.6	2.7
Unit labour cost (% yoy)											
Unit labour cost	1.5	1.7	2.0	0.3							
Compensation	2.4	2.4	2.5	1.9							
Hourly labour costs	2.6	1.9	3.3	0.1							
Money (% yoy)											
M3	8.2	9.2	7.8	7.2		7.1	7.2	7.2	7.4	7.2	
M3 trend (3m cma)						7.3	7.2	7.2	7.3		
Credit - private	2.5	2.7	2.0	2.7		2.5	2.7	2.7	2.0		
Credit - public	11.1	11.7	-9.1	9.7		-5.0	1.4	9.7	9.1		

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

Focus Germany

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

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