Focus Germany

German savers challenged by QE

April 30, 2015

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

Oliver Rakau
+49 69 910-31875
oliver.rakau@db.com

Editor
Stefan Schneider

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

www.dbresearch.com

DB Research Management
Ralf Hoffmann

Content Page

Investing the German household way: A little more risk. The financial situation of German households continued to improve markedly in 2014. The good income situation enabled them to make new investments to the tune of EUR 160 bn. In addition, the valuation gains on existing financial assets came to EUR 53 bn. Overall, total gross household financial assets thus increased from EUR 5 tr to EUR 5.2 tr (180% of GDP). Nothing has fundamentally changed with regard to the minimal risk appetite of German investors; risk-bearing investments still constitute less than 25% of financial assets. However, their share of new investments climbed to 11% – the highest figure since 2006 (33%). In both 2012 and 2013 cash was still being withdrawn from these asset classes. Furthermore, in 2014 EUR 20.5 bn of new debt was taken on – the largest amount since 2001. Both developments have probably been heavily influenced by the low-interest rate environment and are likely to continue in 2015 given the monetary policy outlook. Germans, however, maintained their aversion to stocks in 2014. Households' net financial assets climbed sharply again despite increased liabilities. As of end-2014 they were equivalent to 125% of GDP or 211% of disposable income. This is higher than the European average. In business cycle terms, this should bolster German consumption. In structural terms, high savings are appropriate in order to make provision for the impact of demographic change. The criticism of Germany's widening current account surpluses, which mirror high current savings – not only by households – is still likely to intensify.

From immigration to Brexit – there are good reasons to closely watch the UK election. Given the ongoing debate on Greece and the looming risk of a Grexit, the German public has hitherto failed to notice the imminent general election in the UK. However, the UK shares a wide range of common interests with Germany, especially when it comes to liberal approaches in economic policy or to institutional reforms in the EU. Another common concern is immigration. But so far in both countries the general public as well as politicians have reacted differently to the recent surge in the numbers of newcomers from abroad.

Economic forecasts

	Real GDP (% growth)			Consumer Prices* (% growth)			Current Account (% of GDP)			Fiscal Balance (% of GDP)		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Euroland	0.9	1.4	1.6	0.4	0.0	1.4	2.4	3.3	2.6	-2.5	-2.1	-1.7
Germany	1.6	2.0	1.7	0.9	0.0	1.5	7.6	8.3	8.2	0.6	0.6	0.7
France	0.4	1.1	1.6	0.6	0.1	1.1	-1.0	-0.5	-0.8	-4.4	-4.0	-3.4
Italy	-0.4	0.6	1.3	0.2	0.1	1.1	1.8	2.5	2.7	-3.0	-2.7	-2.2
Spain	1.4	2.5	2.3	-0.2	-0.6	1.5	0.1	0.7	0.5	-5.6	-4.5	-3.7
Netherlands	0.8	1.7	1.1	0.3	0.0	1.3	10.9	11.4	11.5	-2.5	-2.0	-1.9
Belgium	1.0	1.3	1.6	0.5	0.2	1.6	1.0	1.5	1.2	-3.0	-2.7	-2.2
Austria	0.3	1.2	1.8	1.5	0.7	1.7	0.7	1.2	1.5	-2.3	-1.6	-1.2
Finland	-0.1	0.8	1.4	1.2	0.1	1.3	-1.9	-1.5	-1.3	-3.4	-3.3	-2.8
Greece	0.7	0.8	3.2	-1.4	-1.6	1.0	1.0	1.5	1.2	-3.5	-0.7	-0.7
Portugal	0.9	1.6	1.6	-0.2	0.1	1.3	0.5	1.0	0.7	-5.0	-3.1	-2.5
Ireland	4.8	3.7	3.5	0.3	0.1	1.8	4.5	5.0	4.5	-4.0	-2.8	-2.5
UK	2.6	2.4	2.3	1.5	0.4	1.9	-5.3	-4.1	-2.9	-5.0	-4.0	-2.0
Denmark	1.0	1.7	1.8	0.6	1.0	1.5	6.2	6.0	6.0	-1.0	-2.5	-2.5
Norway	2.3	2.0	2.2	2.0	2.0	2.0	8.5	8.0	7.5	9.1	9.0	8.5
Sweden	2.3	2.8	2.8	-0.2	0.5	1.5	6.3	5.5	5.0	-1.9	-1.2	-0.6
Switzerland	2.0	1.0	1.0	0.0	-0.8	-0.4	8.0	8.5	8.5	0.2	0.5	0.5
Czech Republic	2.0	2.6	2.5	0.4	0.3	1.9	-1.0	-0.8	-0.6	-1.3	-2.1	-2.2
Hungary	3.6	2.7	2.4	-0.2	-0.3	2.5	3.6	3.5	3.5	-2.9	-2.7	-2.4
Poland	3.3	3.4	3.5	0.0	-0.4	1.5	-1.3	-1.3	-1.5	-3.4	-2.9	-2.7
United States	2.4	3.3	3.1	1.6	0.6	2.6	-2.6	-2.8	-3.5	-2.9	-2.6	-2.9
Japan	0.0	0.9	1.8	2.7	0.7	0.9	0.6	3.5	3.4	-5.9	-5.3	-4.4
China	7.4	7.0	6.7	2.0	1.8	2.7	3.1	3.4	3.3	-2.1	-3.0	-3.0
World	3.4	3.4	3.7	3.7	3.3	3.7						

*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

						2014				2015			
	2012	2013	2014	2015F	2016F	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F
Real GDP	0.4	0.1	1.6	2.0	1.7	0.8	-0.1	0.1	0.7	0.8	0.2	0.4	0.3
Private consumption	0.7	0.8	1.2	2.3	1.0	0.6	0.0	0.8	0.8	0.6	0.5	0.4	0.3
Gov't expenditure	1.2	0.7	1.1	1.0	0.4	0.1	0.6	0.6	0.2	0.1	0.2	0.3	0.2
Fixed investment	-0.7	-0.6	3.4	2.7	1.7	3.0	-1.7	-1.2	1.2	3.1	-2.0	1.0	0.6
Investment in M&E	-3.1	-2.4	4.3	3.9	3.5	2.0	0.6	-1.4	0.4	2.0	0.0	2.0	1.0
Construction	0.6	-0.1	3.6	3.1	1.1	4.5	-3.7	-1.5	2.1	5.0	-4.0	0.7	0.6
Inventories, pp	-1.4	0.2	-0.4	-0.3	0.1	-0.1	0.1	-0.5	-0.2	0.0	0.1	0.1	0.0
Exports	2.8	1.6	3.9	4.4	5.1	-0.4	1.0	2.0	1.3	-0.2	1.3	1.0	1.2
Imports	0.0	3.1	3.4	4.5	4.5	-0.3	1.2	1.3	1.0	0.3	1.2	1.5	1.5
Net exports, pp	1.3	-0.5	0.4	0.3	0.6	-0.1	0.0	0.4	0.2	-0.2	0.1	-0.1	-0.1
Consumer prices*	2.0	1.5	0.9	0.0	1.5	1.2	1.1	0.8	0.5	-0.3	-0.1	0.1	0.5
Unemployment rate, %	6.8	6.9	6.7	6.5	6.6	6.8	6.7	6.7	6.6	6.5	6.4	6.4	6.6
Industrial production	-0.4	0.1	1.5	1.8	1.8								
Budget balance, % GDP	0.1	0.1	0.6	0.6	0.7								
Public debt, % GDP	79.0	76.9	73.3	69.3	65.8								
Balance on current account, % GDP	6.8	6.5	7.6	8.3	8.2								
Balance on current account, EUR bn	187	182	220	250	255								

*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

Investing the German household way: A little more risk

— The financial situation of German households continued to improve markedly in 2014. The good income situation enabled them to make new investments to the tune of EUR 160 bn. In addition, the valuation gains on existing financial assets came to EUR 53 bn. Overall, total gross household financial assets thus increased from EUR 5 tr to EUR 5.2 tr (180% of GDP).

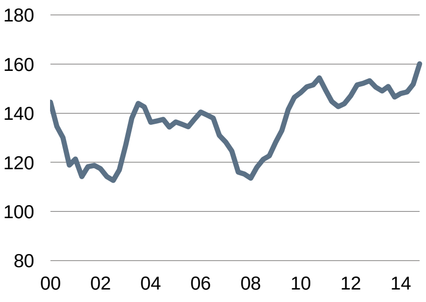
— Nothing has fundamentally changed with regard to the minimal risk appetite of German investors; risk-bearing investments still constitute less than 25% of financial assets. However, their share of new investments climbed to 11% – the highest figure since 2006 (33%). In both 2012 and 2013 cash was still being withdrawn from these asset classes. Furthermore, in 2014 EUR 20.5 bn of new debt was taken on – the largest amount since 2001. Both developments have probably been heavily influenced by the low-interest rate environment and are likely to continue in 2015 given the monetary policy outlook. Germans, however, maintained their aversion to stocks in 2014.

— Households' net financial assets climbed sharply again despite increased liabilities. As of end-2014 they were equivalent to 125% of GDP or 211% of disposable income. This is higher than the European average. In business cycle terms, this should bolster German consumption. In structural terms, high savings are appropriate in order to make provision for the impact of demographic change. The criticism of Germany's widening current account surpluses, which mirror high current savings – not only by households – is still likely to intensify.

European hopes and German savers

Household assets grew strongly at the end-2014 1

Acquisition of financial assets, 4Q-sum, EUR bn



Sources: Federal Statistical Office, Deutsche Bank

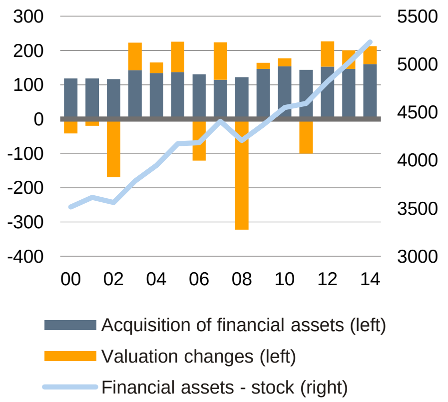
Germany is repeatedly the subject of international criticism for its economic policies and especially its high current account surpluses, which are a reflection of the high savings ratio in Germany. The opinion frequently expressed in this context is that a lower savings ratio, and thus – all things being equal – higher consumer spending, would give a major boost to Germany's European neighbours. We have criticised this very simplistic argument on various occasions and pointed out that the high savings ratio is primarily driven by demographics and that political intervention is therefore of questionable value.[1] Recently we also posed the question of whether the policy of the ECB and low interest rates might spoil Germans' appetite for saving.[2] We concluded that the interest rate level does not have a significant influence on the aggregate savings behaviour of German households, as other considerations are more important. The savings ratio is nevertheless likely to decline over the medium term, if the baby boomers start dissaving.

Given this environment the marked increase in the savings ratio in Q4 2014 from 9.2% to 9.8% was definitely not welcomed in the rest of Europe. Detailed statistics were published recently on the development of German household financial assets in Q4 2014. They showed that financial asset formation (the share of savings that flows into financial assets) reached its highest Q4 level since 1999 and climbed to a new record high for a full year in 2014. However, there are some signs that the fourth quarter in particular was an outlier because

[1] Peters, Heiko and Stefan Schneider (2013). Criticism of Germany's CA surpluses largely unfounded. Standpunkt Deutschland. December 12, 2013. Deutsche Bank Research.
[2] Schneider, Stefan (2015). Stronger growth and wages – little reaction from savers. Focus Germany. March 2, 2015. Deutsche Bank Research.

Consistently high savings prop up financial assets 2

EUR bn



Source: Deutsche Bundesbank

of surprising real income gains (oil price slump) and that ECB policy did not significantly dampen the propensity to save, but at the very least shifted investment and saving behaviour moderately towards more risky asset classes, real estate and outside Germany – a response that was certainly desired (by the ECB).

Positive asset situation further enhanced in 2014

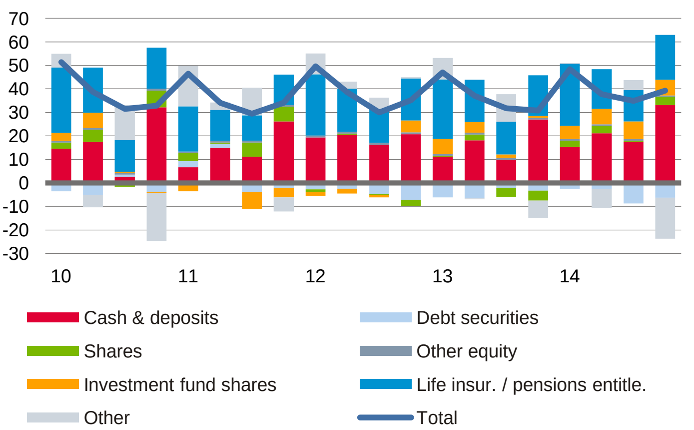
Thanks to the very robust labour market situation German households managed to further increase their savings in 2014 despite boosting their consumption substantially. Financial assets grew to EUR 5.2 tr from EUR 5.0 tr and thus to 180% of GDP from just over 178% in 2013. This was mainly due to increased financial asset formation ("saving") in the order of EUR 160 bn. It comes as little surprise that this is a new record figure in absolute terms given the continuingly quite high German savings ratio and rising incomes. However, it is also a major increase relative to disposable income from 8.7% (2013) to 9.3% (2014). The valuation gains of financial assets made a slightly smaller contribution to asset accumulation (EUR 52.6 bn) than in the preceding year (EUR 54.3 bn).

Savings in Q4 2014 inflated by oil price slump

Did savings rise sharply despite low interest rates and higher investment in residential property? This development was probably markedly exaggerated by Q4, in which households accumulated over EUR 39 bn in new financial assets. This was the largest Q4 reading since the current statistical method started being used consistently in 1999. Savings in the other quarters of 2014 were only slightly higher than in the previous year. Currency and deposits made by far the largest contribution to the increase in Q4, to the tune of EUR 33 bn. This was the biggest-ever increase in this category, if Q4 2008 (global recession) is not taken into consideration.

Record build-up of cash position in Q4 2014 3

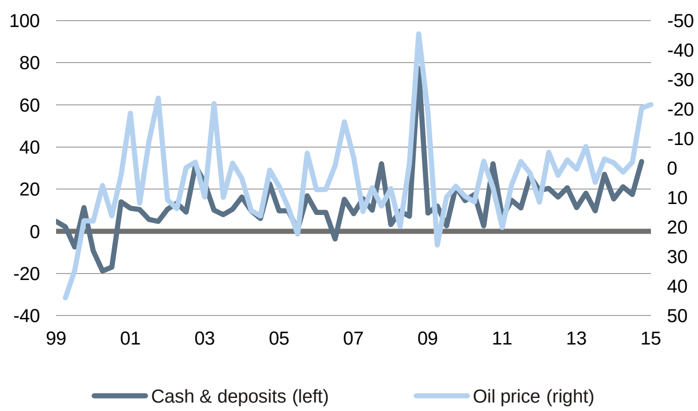
Acquisition of financial assets, EUR bn



Source: Deutsche Bundesbank

"Surprising" real income gain (oil) was saved 4

Acquisition of fin. assets, EUR bn (left); % qoq (right)



Sources: Deutsche Bundesbank, Deutsche Bank Research, ECB

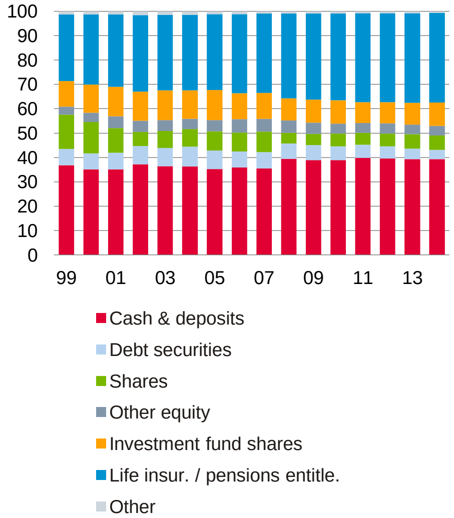
In our opinion this was heavily influenced by the slump in oil prices. Consumers may for example have waited to see whether the decline was sustained before they utilised the disposable funds for alternative consumption or a concrete investment. Alternatively there might have been unnoticed savings which then elicited a response in the following quarter. This supports our theory that the sharp (real) income increases in 2014 triggered by the oil price slump initially made an only minor contribution to the already strong consumption growth and that the effect will probably materialise during 2015. We expect real private consumption to rise by more than 2% in 2015 – one of its highest rates in recent years. Chart 4 illustrates that there is a certain correlation between oil price fluctuations and fluctuations in cash and deposit savings.

Risk appetite increasing slightly

We have repeatedly drawn attention to the low risk appetite of German investors.[3] And nothing has really changed in this respect. Risk-bearing investments, which we define as including stocks, debt securities and investment certificates, have almost constantly constituted some 23% of total financial assets over the last four years.[4] By contrast, the cash and deposits share alone came to nearly 40% in 2014. Insurance and pension entitlements, which are only indirectly risk-bearing, constitute 37%. Overall, the changes in recent years have been few and far between, with a gradual increase in investment certificates and stocks having contrasted with the hardly surprising decline in bonds.

40% of financial assets are in cash & deposits 5

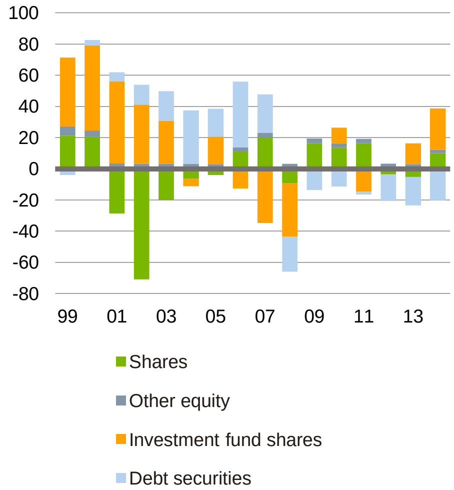
Share in financial assets, % of total stock



Source: Deutsche Bundesbank

Strong inflows into investment funds; flight from debt securities 6

Acquisition of financial assets, EUR bn



Source: Deutsche Bundesbank

Risk appetite has increased recently, but it remains low 7

Risk-bearing assets as % of new investment (total financial assets acquired)

Based on Q4 totals and comprises flows into debt securities, shares, other equity and investment fund shares

Sources: Deutsche Bundesbank, Deutsche Bank Research

If, however, instead of looking at financial asset holdings we focus on new investments made, we find that “risk appetite” is at its highest level since 2006. Nevertheless just 11% of the EUR 160 bn saved in 2014 flowed into risk-bearing assets (in 2006 the figure was 33%); in 2012/13, however, money was actually withdrawn from these asset classes. Particularly large amounts were invested in investment certificates in 2014 (EUR 26.5 bn). There was a moderate increase on the stocks side (EUR 9.9 bn). Bond holdings, by contrast, were reduced by some EUR 20 bn for the third year in a row (chart 6).

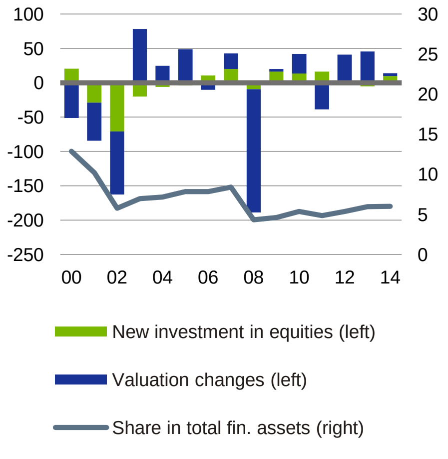
The changed interest rate environment may well have been a major factor. Yields on German 10-year bonds have for example narrowed in expectation of

[3] See Gräf, Bernhard and Oliver Rakau (2014). Growing fears of recession. Focus Germany. Sep 30, 2014. Deutsche Bank Research.

[4] Every investment carries a risk. The selected asset classes do, however, carry a greater direct risk and there is no contractually agreed rate of return – in contrast to many insurance policies, for example.

Germans remained equity-skeptics in 2014 8

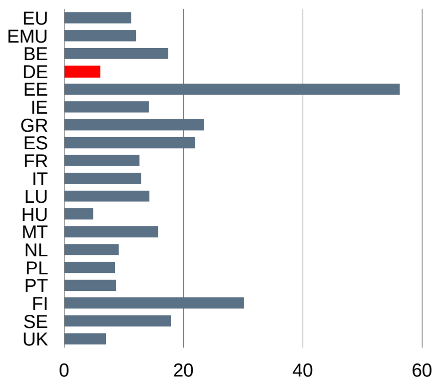
Shares; EUR bn (left); % (right)



Sources: Deutsche Bundesbank, Deutsche Bank Research

Germans' equity-enthusiasm limited 9

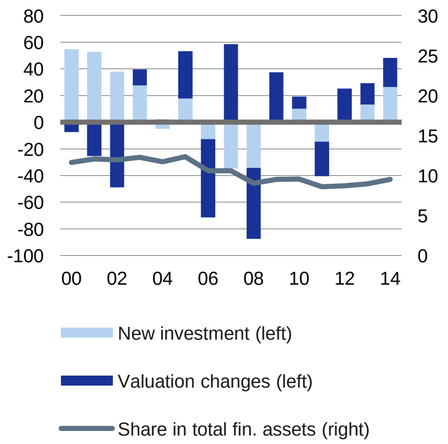
Shares, % of total financial assets, 2013



Sources: Eurostat, Deutsche Bank Research

Investment funds: Large inflows and large positive valuation changes 10

Investment funds, EUR bn (left); % (right)



Sources: Deutsche Bundesbank, Deutsche Bank Research

further monetary policy initiatives from the ECB (e.g. QE) from an already historically low level of around 2% at the beginning of 2014 to just a good 0.5% at the end of the year. The picture of a sharply declining interest rate level prevails across all maturities and asset classes. The incentives to switch from government bonds into equities, other types of bonds or funds has existed for quite some time already, but the current interest rate level will probably intensify this momentum further. Also, there are probably increasing volumes of government bonds due to mature which at the time they were issued still offered a high coupon. A renewed investment in this asset class will probably hold little appeal at present.

Germans still not fans of stocks

Germans are known as being averse to stocks. This did not change in 2014 either. Although in contrast to the two preceding years there was a net increase in investments in stocks, the inflows of EUR 6 bn just sufficed to offset the disinvestment that occurred in 2012/13. Moreover, the valuation gains – of some EUR 4 bn – were much smaller than in both the preceding years (in excess of EUR 40 bn). As in the previous year, stocks thus constituted just 6% of total financial assets – one of the lowest ratios in Europe and still a long way below the pre-crisis record of 8.4% in 2007 (2008: 4.3%).

Despite the favourable environment for stocks the Germans will probably not be among the stock enthusiasts in 2015 either. As things currently stand, the valuation gains are likely to be much more positive in 2015 thanks to the sharp rise not only in the Dax. The ECB's monetary policy decisions have been priced in rapidly and the Dax is currently about 20% higher than at the end of 2014. With Deutsche Bank forecasting that the Dax will end the year at 11,500 points the remaining upside potential is, however, limited given the current situation. On the other hand, the dividend yield is still markedly higher than that of many asset classes (with a higher price risk). Overall, there is still upside potential also given the alternatives. It is, however, a long way to the European average of 12%, which given the risk aversion of German investors and rising median age will probably not be approached.

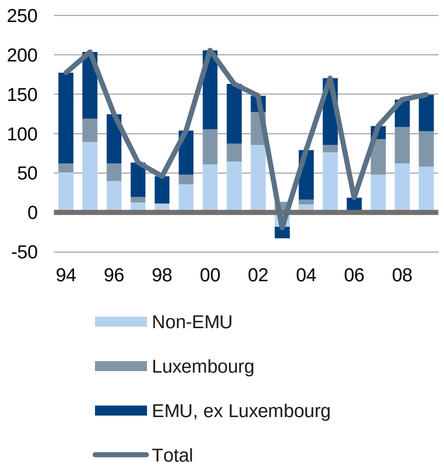
Investment funds gaining popularity with investors

Investment certificates (or investment funds) have pulled slightly ahead of stocks of late. Their share of total financial assets rose in 2014 from 9% to 9.5%. One contributory factor was that last year EUR 16.5 bn of new funds were invested in this asset class – the highest inflow since 2003 and significantly higher than in the previous year (EUR 9 bn). At the same time valuation gains of EUR 21.7 bn materialised – the third year in a row of hefty valuation gains. Presumably the investing households regard funds as less risky than stocks while offering a higher return than many asset classes.

Bundesbank statistics on household financial assets do not break down the investment funds category. Alternative sources of data such as the BVI and the Bundesbank funds statistics only contain information about funds based in Germany; this means that foreign investors' assets in “German” funds are included. They can nevertheless serve as a guide. The share of all funds under management in Germany comprised by pure equity funds has risen appreciably of late according to the BVI. It is a similar story with mixed funds. This was not only due to valuation gains, but also rising inflows. We also interpret this as a sign of a certain willingness to accept more risk given the low interest rate environment. In contrast, pure bond funds lost share.

Large flows into Luxembourg 11

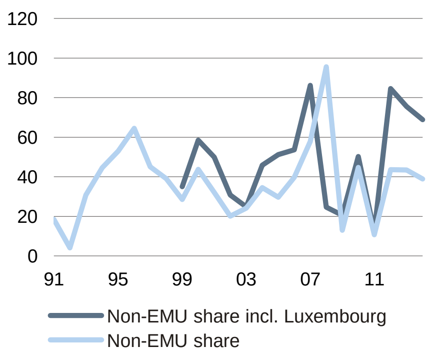
German portfolio investment abroad, EUR bn



Sources: Deutsche Bank Research, Deutsche Bundesbank

Share of portfolio investment going outside of EMU increasing 12

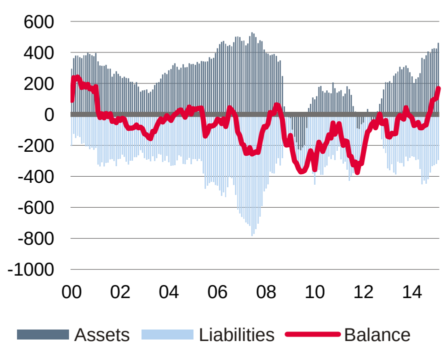
German portfolio investment abroad, share of non-EMU flows, %



Sources: Deutsche Bundesbank, Deutsche Bank Research

EMU: Net outflow of over EUR 160 bn in last 12 months 13

Capital account, portf. flows, EUR bn, 12M sum



Sources: ECB, Deutsche Bank Research

Interest rates increasingly driving savings into countries outside the euro area…

In our opinion the low interest rate environment is steadily pushing investors into riskier asset classes. However, investors not only have the choice between asset classes but also between different countries. We assume that the interest rate level in the eurozone will be well below that of comparable developed economies given the differing monetary policies of the major central banks for the foreseeable future[5], which would buttress a reallocation of investments outside the eurozone. This can either be a conscious decision by private investors or the result of the investment decisions of fund managers who manage the monies of private investors. The data described to date, however, only allow conclusions to be drawn about asset classes but not the countries in which German households invest. We, therefore, scrutinise the capital account. Although it does not report transactions by households as a separate item the capital account should nevertheless allow conclusions to be drawn, since all investors face similar challenges.

At first glance there are still no clear signs of a “flight from the euro”. The share of portfolio investments[6] by German investors that flowed into the non-euro area was 39%, and thus below the 43% recorded in the two preceding years and not markedly higher than in the years 2000-2007 (35%). However, this probably understates actual developments. A major share of investments within the eurozone flow into Luxembourg.[7] Last year they amounted to EUR 46.5 bn of the total 91.2 bn of portfolio investments in the eurozone. The money probably goes into investment funds issued in Luxembourg. These funds, in turn, probably invest a substantial share of these monies outside the eurozone. Were the investments in Luxembourg to be placed in full outside the eurozone, the share would rise to 76% – one of the highest readings in the available time series. It is statistically more sound to look at eurozone portfolio investments overall, where the the investment conditions can be assumed to be similar. This clearly shows a sizeable outflow of portfolio investments (chart 13) that is highly correlated with the EUR/USD exchange rate. Our currency strategists regard the demographically driven high German savings combined with the reduction in high foreign debt of some southern European countries as one of the main drivers of the expected EUR weakness, alongside the interest rate factor.[8] They see the EUR/USD exchange rate at parity at the end of 2015 and then a further depreciation in both subsequent years. Despite the not completely clear evidence for Germany we regard the arguments in favour of increased investment outside the eurozone to be plausible.

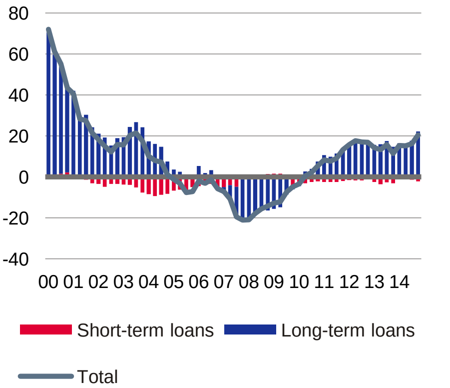
… and boost lending demand for real estate …

The data on the financial assets of German households also show that low interest rates are again generating greater incentives to borrow. Especially acquiring real estate has probably driven this development. Last year new debt amounted to EUR 20.5 bn, the highest figure since 2001. Borrowing picked up particularly at the end of the year, with more new debt being taken on in H2 than in every one of the ten preceding full years. Long-term loans above all were taken up (EUR 22.2 bn), which primarily served to finance real estate. Not least the ongoing decline in mortgage rates is likely to have been a factor. The

5 Hooper, Peter et al. (2015). Strong dollar: Winners and losers. World Outlook March 29, 2015. Deutsche Bank Research.
6 Portfolio investments comprise stocks, investment funds and bonds.
7 According to the Bundesbank: “Regionale Zuordnung beim Erwerb ausländischer Wertpapiere durch Inländer nach dem Land des Schuldners (Emittenten)”.
8 Saravelos, George and Robin Winkler (2014). Euroglut Revisited: The German saver. Special Report. December 9, 2014. Deutsche Bank – Global Markets Research.

Loan take-up accelerate end-2014 14

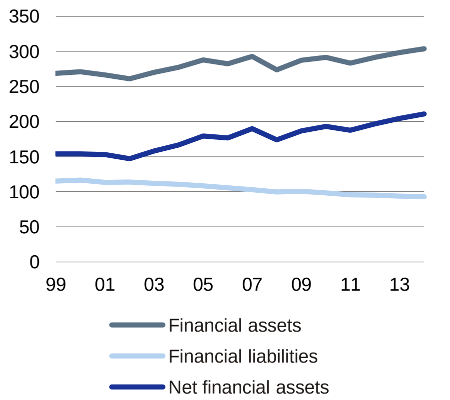
Loan take-up, EUR bn, 4Q sum



Sources: Deutsche Bundesbank, Deutsche Bank Research

Net financial assets grew strongly 15

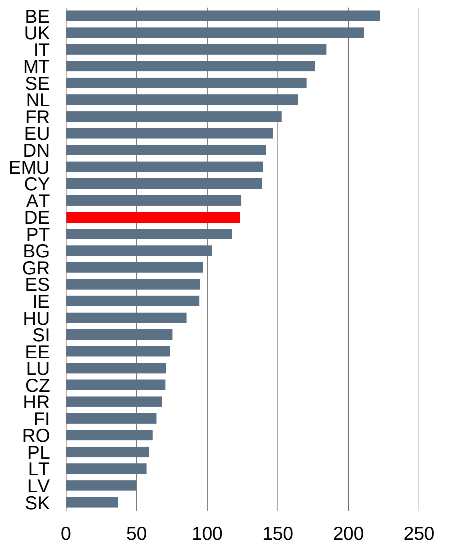
% disposable income



Sources: Federal Statistical Office, Deutsche Bundesbank, Deutsche Bank Research

Net financial assets: Germany above average 16

Net financial assets, % GDP, 2013



Sources: Eurostat, Deutsche Bank Research

average mortgage rates for a 5-10-year term and fixed for more than 10 years have fallen to below 2% of late. Short-term loans were further reduced in 2014 (by EUR 2.2 bn).

The potential for a sustained increase in debt clearly exists. German property prices are still cheap despite the sharp increases in recent years by historical, international and income situation standards (albeit with massive regional and individual differences). Furthermore, they are set to remain inexpensive over the medium term. The potential is however limited by Germany's demography. Older households that constitute an increasing share of the overall population have few incentives to purchase real estate apart from wanting to bequeath.

In addition, the borrowing has to be put into context. Firstly, its purpose is to create material assets. Secondly, debt relative to GDP and disposable income fell further in 2014. While household debt still exceeded 115% of disposable income at the beginning of the 2000s, this ratio has fallen steadily since then and amounted to 93% in 2014. By European standards this is a below-average debt ratio (2013: EMU 66% of GDP; DE 56%).

… net assets continuing to rise nevertheless

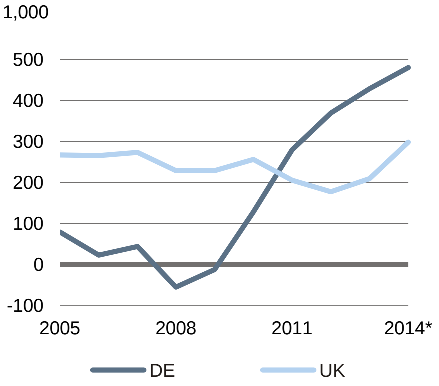
On account of the continuingly sizeable accumulation of financial assets and the booked valuation gains the net financial assets have risen further despite a small increase in debt. Relative to disposable income it climbed to nearly 211%. In the early 2000s the figure was over 150% of disposable income. On this measure, too, German households do somewhat better than the average of their European counterparts.

From a cyclical point of view the extremely comfortable asset situation of German households supports our expectation that private consumption will be given a big boost in 2015. In contrast to the situation in many southern European countries rising incomes can largely be consumed. We expect the German savings ratio to fall slightly. From a structural point of view the further improvement in the asset situation is encouraging given the demographic challenges that lie ahead.

Oliver Rakau (+49 69 910-31875, oliver.rakau@db.com)

The View from Berlin

Net migration in DE and the UK — 1

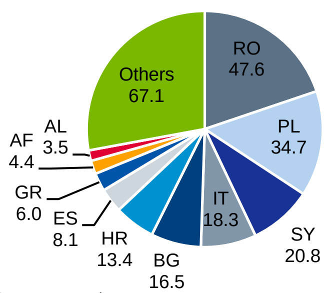


* 2014 DE: estimates; UK: year ending September

Sources: Destatis, ONS, Deutsche Bank Research

DE: Net migration by country of origin — 2

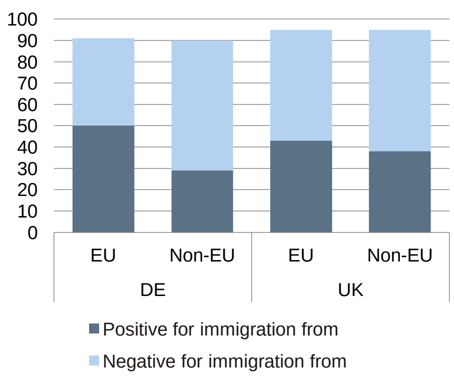
H1 2014, in 1,000 total 240.4



Source: Destatis

Different attitudes towards immigration in DE and the UK — 3

Public opinion on immigration, share of respondents as %



Source: Eurobarometer 82, Nov. 2014

From immigration to Brexit – there are good reasons to closely watch the UK election

Given the ongoing debate on Greece and the looming risk of a Grexit, the German public has hitherto failed to notice a major imminent event, namely the general election in the UK on May 7. However, the election outcome is likely to have a strong impact on Europe as well as on German politics – although, for the time being a Brexit is not a real issue.

From a European policy point of view the most important questions are whether a referendum on the country's EU membership will be held in the UK and what the objectives and the timing of such a vote would be. Prime Minister David Cameron has stated that if he is re-elected an EU referendum will be conducted by the end of 2017. Meanwhile, he has added that it might take place as soon as the necessary preceding negotiations with the EU on the requested better membership conditions for Britain are completed. In this context, the results for the right-wing UKIP will also be relevant. This party, which could become the third-largest political force in the next parliament besides the Conservatives and the Labour Party, has made an early-stage referendum a condition for supporting a potential minority government. Labour's position on an in/out-referendum appears to be less clear.

The German government will pay close attention to whether the British electorate votes for parties demanding re-arrangements of the relations between the UK and the EU. Berlin knows the UK's importance as a partner with a wide range of common interests, especially when it comes to liberal approaches in economic policy or to institutional reforms in the EU. Like the UK government, the German government also advocates consistent implementation of the European Single Market including the services sector, i.e. strict transposition of the EU Services Directive into national law. Both partners are committed to concluding TTIP and other trade negotiations successfully. And both governments argue for more efficient regulations at the EU level. However, the German government shows less understanding for British demands for reduced contributions to the EU budget or for divergent financial market regulations.

At present, a very emotional common concern is immigration, given the recent surge in the numbers of newcomers from abroad. In Germany immigration increased by 20% yoy in H1 2014, and for the full year net migration is expected to have reached about 0.5 m, i.e. 0.6% of the total population, with the majority being EU citizens. The UK authorities registered similar figures, namely an increase of 18% in immigration and a rise of no less than 42% in net migration to nearly 0.3 m, i.e. 0.47% of total population, in the year ending September 2014. While the figures are similar, the general public as well as politicians have reacted differently in both countries. In the UK immigration from outside the EU as well as from other EU countries evokes negative feelings among the majority of the population. In Germany, by contrast, positive feelings predominate – at least regarding immigration from other EU Member States.

In line with these sentiments, in the UK many politicians seem to be willing to impose restrictions on immigration. Chancellor Merkel, however, has stood up for the principle of free movement within the EU. But sections of her government, especially the CSU, also agree with British demands for tighter controls on these immigrants' access to social assistance and other state benefits.

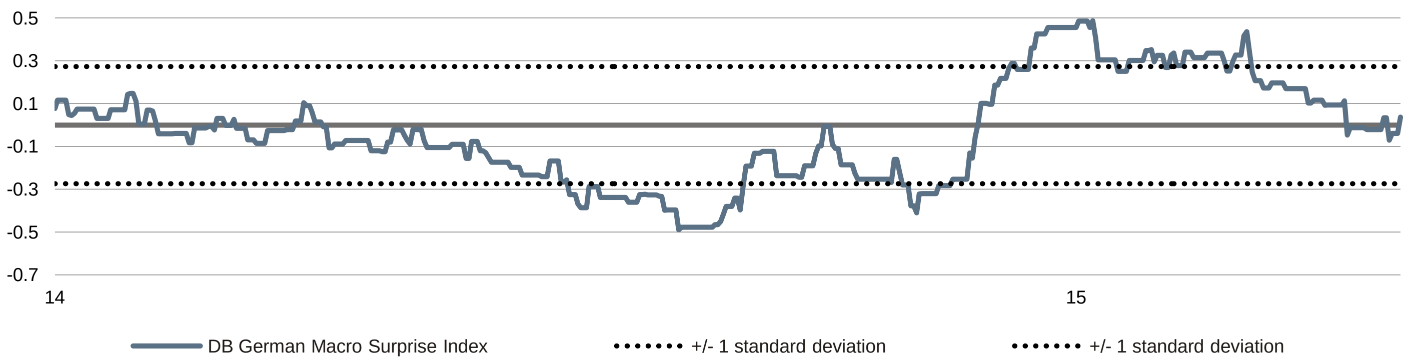
Barbara Böttcher (+49 69 910-31787, barbara.boettcher@db.com)

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.[9]

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
GRCAEU Index	Current Account Balance (EUR bn)	1 2015	09.03.15	15.9	16.5	-0.6	-0.6	0.3
GRCP20YY Index	CPI (% yoy)	2 2015	12.03.15	0.1	0.1	0.0	0.3	0.3
GRZECURR Index	ZEW Survey Current Situation	3 2015	17.03.15	55.1	52.0	3.1	0.3	0.7
GRZEWI Index	ZEW Survey Expectations	3 2015	17.03.15	54.8	59.4	-4.6	-0.5	0.3
GRIFPBUS Index	IFO Business Climate	3 2015	25.03.15	107.9	107.3	0.6	0.3	0.6
GRIMP95Y Index	Import Price Index (% yoy)	2 2015	27.03.15	-3.0	-3.9	0.9	1.0	1.0
GRFRIAMM Index	Retail Sales (% mom)	2 2015	31.03.15	-0.1	-0.7	0.6	0.7	0.8
GRUECHNG Index	Unemployment Change (000's mom)	3 2015	31.03.15	-14.0	-12.0	2.0	-0.1	0.5
MPMIDEMA Index	Markit Manufacturing PMI	3 2015	01.04.15	52.8	52.4	0.4	0.4	0.8
MPMIDESA Index	Markit Services PMI	3 2015	07.04.15	55.4	55.3	0.1	0.2	0.6
GRIORTMM Index	Factory Orders (% mom)	2 2015	08.04.15	-0.9	1.5	-2.4	-1.1	0.1
GRIPIMOM Index	Industrial production (% mom)	2 2015	09.04.15	0.2	0.1	0.1	0.1	0.6
GRCAEU Index	Current Account Balance (EUR bn)	2 2015	09.04.15	16.6	17.5	-0.9	-0.6	0.2
GRCP20YY Index	CPI (% yoy)	3 2015	15.04.15	0.3	0.3	0.0	0.3	0.3
GRZECURR Index	ZEW Survey Current Situation	4 2015	21.04.15	70.2	56.5	13.7	1.8	1.0
GRZEWI Index	ZEW Survey Expectations	4 2015	21.04.15	53.3	55.3	-2.0	-0.2	0.4
MPMIDEMA Index	Markit Manufacturing PMI	4 2015	23.04.15	51.9	53.0	-1.1	-1.1	0.1
MPMIDESA Index	Markit Services PMI	4 2015	23.04.15	54.4	55.5	-1.1	-1.1	0.1
GRIFPBUS Index	IFO Business Climate	4 2015	24.04.15	108.6	108.4	0.2	0.0	0.5
GRIMP95Y Index	Import Price Index (% yoy)	3 2015	27.04.15	-1.4	-2.0	0.6	0.8	0.9

Sources: Bloomberg Finance LP, Deutsche Bank Research

Heiko Peters (+49 69 910-21548, heiko.peters@db.com)

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

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

Date	Event	Remarks
5 to 7 May	Working Group on Tax Revenue Forecasting, Saarbruecken	Given the federal government's increased GDP forecast, estimates on tax revenues in 2015 (so far EUR 660 bn for all levels of government) and the following years are likely to be increased markedly, too.
10 May	State election in Bremen	According to press reports the red-green coalition government is likely to gain a clear majority again.
11 to 12 May	Eurogroup and ECOFIN meeting, Brussels	Economic situation in the euro area – Commission spring forecast, inflation and exchange rate developments, discussion on growth and jobs – implementation of euro area recommendations, among others.
27 May	G7 Finance Ministers and Central Bank Governors Meeting, Dresden	International financial markets architecture, strengthening of international trade, possibly situation in the Ukraine.
3 June	ECB Governing Council meeting, press conference	The Council is fully committed to the plan to purchase EUR 60 bn of securities per month until September 2016 and possibly beyond.
16 June	European Court of Justice (ECJ), Luxembourg	ECJ judges over the ECB's OMT programme. In principle, the judgment will be binding for the German Constitutional Court (GCC) and its future judgment on pending constitutional complaints against OMT. The ECJ will most likely hold that OMT complies with the European Treaties. However, it remains to be seen whether the German Court will thoroughly follow the ECJ's judgment. Even if OMT was limited in scope the ECB will be able to calm sovereign bond markets with QE action.
18 to 19 June	Eurogroup and ECOFIN meeting, Brussels	Among others European semester – discussion on SCPs and euro area specific recommendations, Greece, Eurogroup work programme for H2 2012.
25 to 26 June	European Council meeting, Brussels	Debate on the nature and structure of the euro area on the basis of the Four Presidents' Report, and on the EU's strategy for foreign and security policy and possibly on the situation in Greece.

Source: Deutsche Bank Research

Dieter Bräuninger (+49 69 910-31708, dieter.braeuninger@db.com)
Nicolaus Heinen (+49 69 910-31713, nicolaus.heinen@db.com)

Germany: Data calendar

Date	Time	Data	Reporting period	DB forecast	Last value
7 May 2015	8:00	New orders manufacturing (Index, sa), pch mom	March	2.0	-0.9
8 May 2015	8:00	Industrial production (Index, sa), pch mom	March	0.4	0.2
8 May 2015	8:00	Trade balance (EUR bn, sa)	March	-	20.0
8 May 2015	8:00	Merchandise exports (EUR bn, sa), pch mom (yoy)	March	- -	1.4 (5.0)
8 May 2015	8:00	Merchandise imports (EUR bn, sa), pch mom (yoy)	March	- -	1.3 (0.9)
13 May 2015	8:00	Real GDP (Index, sa), % qoq	Q1 2015	0.8	0.7
21 May 2015	9:30	Manufacturing PMI (Flash)	May	51.9	51.9
22 May 2015	9:30	Services PMI (Flash)	May	54.4	54.4
22 May 2015	10:30	ifo business climate (Index, sa)	May	108.2 (0.0)	108.6 (0.0)
29 May 2015	8:00	Import prices (Index, sa) pch mom (yoy)	April	- -	1.0 (-1.4)
1 Jun 2015	14:00	Consumer prices preliminary (Index, sa), pch mom (yoy)	May	-	0.5

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

Heiko Peters (+49 69 910-21548, heiko.peters@db.com)
Oliver Rakau (+49 69 910-31875, oliver.rakau@db.com)

Financial forecasts

	US	JP	EMU	GB	CH	SE	DK	NO	PL	HU	CZ
Key interest rate, %											
Current	0.120	0.10	0.05	0.50	-1.25	-0.25	0.05	1.25	1.50	1.95	0.05
Jun 15	0.125	0.10	0.05	0.50	-0.75	-0.25	0.05	1.25	1.50	1.85	0.05
Sep 15	0.500	0.10	0.05	0.50	-0.75	-0.25	0.05	1.25	1.50	1.85	0.05
Dec 15	0.750	0.10	0.05	0.50	-0.75	-0.25	0.05	1.25	1.50	1.85	0.05
3M interest rates, %											
Current	0.35	0.15	0.02	0.57							
Jun 15	0.75	0.15	0.00	0.59							
Sep 15	1.30	0.15	0.00	0.59							
Dec 15	1.35	0.15	-0.10	0.60							
10Y government bonds yields, %											
Current	2.00	0.33	0.22	1.58							
Jun 15	2.50	0.50	0.30	1.60							
Sep 15	-	0.55	0.40	1.80							
Dec 15	2.65	0.60	0.40	2.00							
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	1.09	119.30	0.74	0.67	1.05	9.26	7.47	8.60	4.07	299.65	27.38
Jun 15	1.04	121.00	0.71	1.47	1.07	9.00	7.46	9.00	4.08	310.50	27.50
Sep 15	1.02	123.00	0.71	1.43	1.09	9.00	7.46	9.00	4.03	311.00	27.50
Dec 15	1.00	125.00	0.74	1.36	1.10	8.90	7.46	8.90	4.08	315.00	27.50

Sources: Bloomberg, Deutsche Bank

Heiko Peters (+49 69 910-21548, heiko.peters@db.com)
Oliver Rakau (+49 69 910-31875, oliver.rakau@db.com)

German data monitor

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Nov 2014	Dec 2014	Jan 2015	Feb 2015	Mar 2015	Apr 2015
Business surveys and output											
Aggregate											
Ifo business climate	110.8	110.0	106.7	104.6	107.2	104.7	105.5	106.8	106.8	107.9	108.6
Ifo business expectations	107.4	105.5	101.9	100.3	102.8	100.3	101.3	102.0	102.5	103.9	103.5
PMI composite	55.4	55.2	54.5	52.5	54.2	51.7	52.0	53.5	53.8	55.4	54.2
Industry											
Ifo manufacturing	106.9	106.2	102.8	99.8	102.8	99.6	101.1	102.2	102.3	103.8	104.6
Headline IP (% pop)	1.0	-1.0	-0.2	0.7		0.1	1.0	-0.4	0.2		
Orders (% pop)	0.5	-1.1	1.3	1.3		-2.2	3.3	-2.6	-0.9		
Capacity Utilisation	84.0	84.0	83.8	84.1	84.5						
Construction											
Output (% pop)	5.7	-4.7	-0.1	1.3		0.7	1.2	2.0	-3.4		
Orders (% pop)	0.8	-4.5	-2.4	-0.1		0.3	1.0	9.8	-1.6		
Ifo construction	122.8	119.8	120.4	120.4	118.8	120.7	119.6	119.3	119.2	117.9	119.4
Consumer demand											
EC consumer survey	0.3	4.3	1.0	-1.2	1.0	-1.6	-1.4	0.0	-0.1	3.2	3.3
Retail sales (% pop)	1.5	0.0	0.0	1.7	0.8	0.9	0.8	0.9	-0.1	-2.3	
New car reg. (% yoy)	2.8	-0.3	4.1	2.7	6.4	-1.8	6.7	2.6	6.6	9.0	
Foreign sector											
Foreign orders (% pop)	-0.5	-1.0	3.4	0.9		-0.7	3.0	-3.2	-1.6		
Exports (% pop)	0.5	0.5	2.4	1.4		-1.5	2.8	-2.1	1.4		
Imports (% pop)	1.6	-0.9	0.6	0.5		1.1	-0.7	-0.2	1.3		
Net trade (sa EUR bn)	48.6	52.2	57.5	60.3		18.3	21.5	19.7	20.0		
Labour market											
Unemployment rate (%)	6.8	6.7	6.7	6.6	6.5	6.6	6.5	6.5	6.5	6.4	
Change in unemployment (k)	-40.7	-19.0	1.0	-38.0	-50.3	-15.0	-26.0	-10.0	-20.0	-14.0	
Employment (% yoy)	0.7	0.9	0.8	0.9	0.7	0.9	0.9	0.8	0.6	0.6	
Ifo employment barometer	107.6	106.8	106.5	106.3	107.7	105.2	106.7	108.1	106.9	108.1	108.1
Prices, wages and costs											
Prices											
Harmonised CPI (% yoy)	1.0	0.9	0.8	0.4	-0.2	0.5	0.1	-0.5	-0.1	0.1	0.3
Core HICP (% yoy)	1.1	1.1	1.2	1.1	0.9	0.9	1.2	0.8	1.0	0.9	
Harmonised PPI (% yoy)	-1.0	-0.8	-0.8	-1.2	-2.0	-0.9	-1.7	-2.2	-2.1	-1.7	
Commodities, ex. Energy (% yoy)	-11.1	-4.9	-1.8	0.9	2.3	1.7	0.1	2.3	1.4	3.4	
Oil price (USD)	108.2	109.7	102.0	76.4		78.8	63.1	49.7	58.9		
Inflation expectations											
EC household survey	22.0	16.9	13.4	8.6	0.5	8.5	6.2	0.5	-0.7	1.7	2.1
EC industrial survey	5.6	2.3	4.2	2.1	-0.4	3.2	-1.5	-1.2	-0.1	0.1	0.4
Unit labour cost (% yoy)											
Unit labour cost	0.8	2.0	2.0	1.7							
Compensation	2.8	2.5	2.5	2.3							
Hourly labour costs	0.8	2.3	2.1	1.6							
Money (% yoy)											
M3	3.8	4.5	4.7	4.7	7.1	5.1	4.7	5.9	6.3	7.1	
M3 trend (3m cma)						4.6	5.2	5.6	6.4		
Credit - private	-3.6	-3.5	1.4	1.7		1.5	1.7	2.1	2.5		
Credit - public	-1.5	9.7	5.9	12.6		3.6	12.6	19.0	15.5		

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

Deutsche Bank
Research

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.

Our publications can be accessed, free of charge, on our website www.dbresearch.com You can also register there to receive our publications regularly by E-mail.

Ordering address for the print version:
Deutsche Bank Research
Marketing
60262 Frankfurt am Main
Fax: +49 69 910-31877
E-mail: marketing.dbr@db.com

Available faster by E-mail:
marketing.dbr@db.com

Printed by: HST Offsetdruck Schadt & Tetzlaff GbR, Dieburg

Print: ISSN 1612-314X / Internet/E-mail: ISSN 1612-3158