Focus Germany

Solid growth, low inflation (despite ECB)

June 30, 2014

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

Above-average growth in industry in 2014. After a good start into 2014, manufacturing output in Germany looks set to grow by 4% in real terms in the full year. Even though business expectations have recently weakened somewhat, they remain in positive territory. Moreover, capacity utilisation is high at present. Germany's industrial sector is benefiting from the gradual economic recovery in western Europe. Goods exports to most western European countries were back above the pre-year level in the first quarter of 2014. Among the large sectors of German industry, automobiles will probably achieve the strongest output growth (approx. 5%) this year. We believe output growth of 3% to be possible in electrical engineering. Both mechanical engineering and chemicals had a disappointing start to the year. But if, in line with our expectations, a recovery sets in over the next few months output in these sectors can still grow by 2% and 1%, respectively, in real terms in 2014. Since 2008, the automobile industry's share in total gross value creation has expanded by more than 3 percentage points to 15.7% in 2012. All in all, German industry has become more dependent on the automobile industry but its overall success remains based on many individual sectors.

Sluggish global growth restraining inflation in Germany. Despite the good labour market situation in Germany inflation has decelerated noticeably. It ran at 1.1% in H1 2014, down from 2% in 2012 and 1.5% in 2013, so it was not much higher than in the eurozone as a whole. The trend was largely driven by the demand-related decline in global commodity prices (energy and food). The relatively strong euro, joining forces with the underutilisation of capacities in the global economy, also weighed on import prices. By contrast, core inflation has actually increased in 2014. However, this can be explained by a basis effect triggered by the government's abolition of the quarterly consultation fee charged by medical practices, and is therefore not a sign of, say, wage-driven price pressure. The outlook of a recovering global economy, a sliding euro and the introduction of a nation-wide minimum wage in Germany lead us to forecast that inflation is bottoming out. After hitting 1.1% in the current year it could pick up to 1.6% in 2015.

Economic forecasts

	Real GDP (% growth)			Consumer Prices* (% growth)			Current Account (% of GDP)			Fiscal Balance (% of GDP)		
	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Euroland	-0.4	1.1	1.5	1.4	0.7	1.2	2.4	2.4	2.3	-3.1	-2.5	-2.1
Germany	0.4	1.8	2.0	1.5	1.1	1.6	7.5	7.1	6.8	0.0	0.2	0.1
France	0.4	0.7	1.3	1.0	0.9	1.0	-1.3	-1.1	-1.1	-4.3	-3.9	-3.6
Italy	-1.9	0.3	1.3	1.3	0.5	1.1	1.0	1.6	2.0	-3.0	-2.9	-2.5
Spain	-1.2	1.0	1.8	1.5	0.2	1.0	0.8	0.5	0.5	-7.1	-5.7	-4.9
Netherlands	-0.7	0.3	1.7	2.6	0.5	1.1	10.4	11.1	10.9	-2.5	-2.9	-2.2
Belgium	0.2	1.4	1.5	1.2	0.8	1.3	-1.6	-1.0	-0.5	-2.6	-2.5	-2.4
Austria	0.3	1.4	1.8	2.1	1.6	1.6	2.7	3.4	3.6	-1.5	-2.7	-1.4
Finland	-1.3	-0.4	0.8	2.2	1.2	1.3	-1.1	-0.8	-0.5	-2.1	-2.5	-1.8
Greece	-3.9	0.5	2.2	-0.9	-1.0	0.2	0.5	1.0	1.5	-12.7	-1.5	-0.2
Portugal	-1.4	0.9	1.5	0.4	0.0	0.9	0.7	1.0	1.0	-4.9	-4.1	-3.0
Ireland	-0.3	1.8	2.3	0.5	0.4	1.1	6.6	6.5	7.0	-7.2	-4.7	-2.6
UK	1.7	3.1	2.5	2.6	1.6	1.8	-4.4	-3.7	-3.0	-5.8	-4.6	-3.4
Denmark	0.4	1.4	1.8	0.8	0.8	1.8	7.3	6.5	6.5	0.0	-1.5	-2.5
Norway	2.0	2.1	2.4	2.1	1.8	2.2	11.1	11.5	11.0	7.6	9.5	9.0
Sweden	1.6	2.4	2.8	0.0	0.1	1.6	6.5	6.3	6.0	-3.6	-1.5	-1.0
Switzerland	2.0	1.8	2.0	-0.2	0.0	0.4	13.0	12.5	12.0	0.2	0.0	0.2
Czech Republic	-0.9	2.3	2.6	1.4	0.8	2.0	-1.4	-1.5	-1.4	-1.4	-2.6	-2.5
Hungary	1.1	2.7	2.8	1.7	0.5	2.8	2.9	1.5	1.1	-2.2	-2.9	-2.7
Poland	1.6	3.3	3.7	0.9	0.9	2.3	-1.3	-2.0	-1.8	-4.4	4.3	-3.1
United States	1.9	1.9	3.5	1.5	2.0	2.3	-2.4	-2.7	-2.8	-4.0	-2.8	-2.5
Japan	1.5	1.2	1.5	0.4	2.7	1.7	0.7	0.5	1.8	-9.1	-6.8	-5.7
World	2.9	3.2	3.9	3.2	3.5	3.6						

*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

						2013				2014			
	2011	2012	2013	2014F	2015F	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F
Real GDP	3.3	0.7	0.4	1.8	2.0	0.0	0.7	0.3	0.4	0.8	0.2	0.5	0.4
Private consumption	2.3	0.8	0.9	1.3	1.6	0.3	0.7	0.3	-0.3	0.7	0.4	0.4	0.4
Gov't expenditure	1.0	1.0	0.4	0.8	0.5	0.0	-0.2	0.7	-0.3	0.4	0.2	0.2	0.2
Fixed investment	6.9	-2.1	-0.8	5.5	3.8	-1.4	1.2	1.3	0.7	3.2	0.4	1.0	0.9
Investment in M&E	5.8	-4.0	-2.4	7.0	5.1	-1.4	0.5	0.1	1.4	3.3	1.5	1.5	1.5
Construction	7.8	-1.4	-0.2	5.4	3.2	-1.5	1.7	2.1	0.2	3.6	-0.5	0.5	0.5
Inventories, pp	-0.1	-0.5	0.1	0.5	0.0	0.5	-0.4	0.2	-0.2	0.7	-0.2	0.1	0.0
Exports	8.0	3.2	0.9	4.7	6.8	-0.7	2.5	-0.1	2.5	0.2	1.4	1.2	1.5
Imports	7.4	1.4	1.5	6.5	7.2	0.2	1.5	0.8	1.3	2.2	1.5	1.5	1.8
Net exports, pp	0.7	0.9	-0.2	-0.5	0.3	-0.5	0.6	-0.5	0.7	-0.9	0.0	-0.1	-0.1
Consumer prices*	2.1	2.0	1.5	1.1	1.6	1.5	1.5	1.6	1.3	1.1	1.0	1.1	1.2
Unemployment rate, %	7.1	6.8	6.9	6.6	6.6	6.9	6.9	6.8	6.9	6.8	6.7	6.6	6.5
Industrial production	7.3	-0.4	0.0	4.2	3.0								
Budget balance, % GDP	-0.8	0.1	0.0	0.2	0.1								
Public debt, % GDP	80.0	81.0	78.4	75.2	72.0								
Balance on current account, % GDP	6.8	7.4	7.5	7.1	6.8								
Balance on current account, EUR bn	178	199	206	201	198								

*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

Above-average growth in industry in 2014

— After a good start into 2014, manufacturing output in Germany looks set to grow by 4% in real terms in the full year. Even though business expectations have recently weakened somewhat, they remain in positive territory. Moreover, capacity utilisation is high at present. Germany's industrial sector is benefiting from the gradual economic recovery in western Europe. Goods exports to most western European countries were back above the pre-year level in the first quarter of 2014.

— Among the large sectors of German industry, automobiles will probably achieve the strongest output growth (approx. 5%) this year. We believe output growth of 3% to be possible in electrical engineering. Both mechanical engineering and chemicals had a disappointing start to the year. But if, in line with our expectations, a recovery sets in over the next few months output in these sectors can still grow by 2% and 1%, respectively, in real terms in 2014.

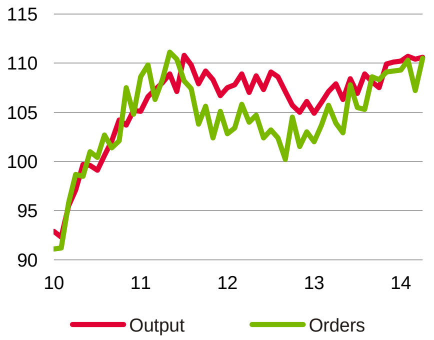
— Since 2008, the automobile industry's share in total gross value creation has expanded by more than 3 percentage points to 15.7% in 2012. All in all, German industry has become more dependent on the automobile industry but its overall success remains based on many individual sectors.

Germany's manufacturing industry had quite a good start into 2014. In the first four months of 2014 industrial production exceeded the level reached in the last four months of 2013 by a seasonally adjusted 1.5% in real terms. In a year-over-year comparison, output was even 3.7% higher between January and April. All in all, we expect domestic industrial output to grow by approximately 4% in the full year 2014. Both 2012 and 2013 had seen production declining slightly (by 1.1% and 0.1%, respectively).

We expect domestic industrial production to grow further in the remaining months of 2014. One reason for our relatively optimistic forecast is order intake. Over the last few months, orders have trended upward, although some heavy fluctuations were registered on a monthly basis; this was due primarily to high volatility of big-ticket orders. Overall, order intake has been "only" 0.5% higher in seasonally adjusted real terms in the first four months of 2014 than in the previous period. However, in a yoy comparison the increase amounts to a remarkable 5.2%. It is interesting to note that in the period from January to April 2014 domestic order intake developed more favourably on average than foreign orders. Especially orders from the euro area have not yet shown a stable uptrend lately, although their level is higher than one year earlier.

Upward trend intact 1

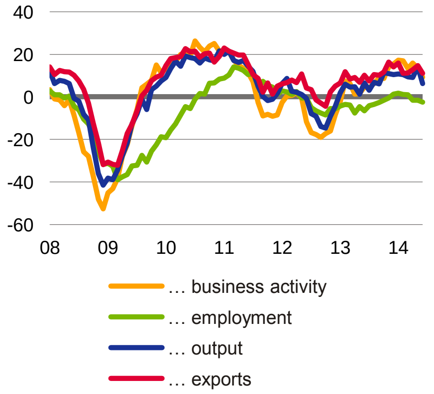
Manufacturing output and orders, real, sa, DE, 2010=100



Source: Federal Statistical Office

Positive sentiment in German manufacturing 2

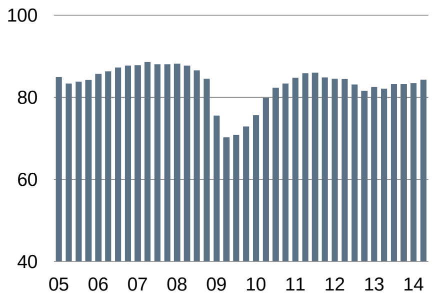
Companies' expectations regarding …, balance of positive and negative company reports



Source: ifo Institute

High capacity utilisation 3

Capacity utilisation in German industry, %



Source: ifo Institute

Sentiment indicators suggest business activity will pick up

Our forecast for industrial output is supported by various sentiment indicators. According to ifo, companies' business, production and export expectation have been stable in positive territory for a number of months – despite a (slight) decrease at the latest reading. At the same time, though, monthly fluctuations have repeatedly been reported, probably due not least to geopolitical factors such as the Ukraine conflict. They suggest that a (further) recovery in industry is not a foregone conclusion and that macroeconomic risks will remain relevant. Companies' assessment of the current situation, which has reached a high level during the last few months, has not yet been affected, however. All in all, the ifo figures paint a positive picture for the industrial sector, with companies having regarded their current situation as better than expectations since the end of 2010. During that time news regarding the euro crisis depressed sentiment, but in practice their negative effect was limited or offset by improved business with countries outside the euro area.

Good capacity utilisation – focus on replacement investment

Good employment situation 4

Employees in German industry, million

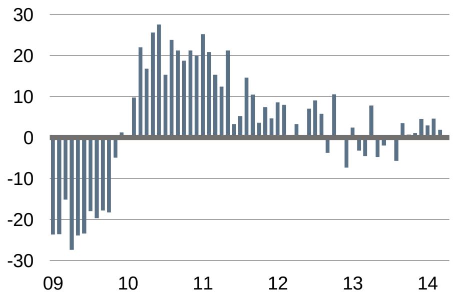
Source: Federal Statistical Office

Capacity utilisation at industrial companies has recently developed favourably. In Q2 2014 it reached its highest level in the last two years and has since exceeded its long-term average. Domestic capital goods orders – a good leading indicator for investment activity – rose by 2.7% in the first four months of 2014 compared with the last four months of 2013. Nonetheless, little replacement investment is expected over the next few months as many sectors – such as the steel industry – still suffer from excess capacities, at least at the European level. Moreover, in light of various government decisions (such as higher pensions) or high energy prices, some companies will probably show restraint when it comes to investment in Germany. As a result, employment growth in industry also looks hardly likely. This assessment is in line with the latest ifo survey, according to which industrial companies in Germany expect employment to be by and large unchanged in the near future. However, one needs to bear in mind that the number of employees in German industry currently is more than 7% higher than at its low point of spring 2010, and in a longer-term comparison is high overall.

Goods exports: Only few countries registering a decline

German goods exports mostly on the rise lately 5

% yoy



Source: Federal Statistical Office

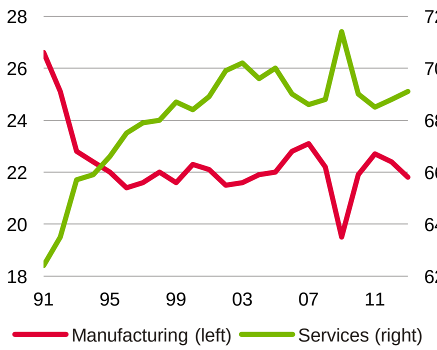
A major factor behind our upbeat industry forecast is the gradual macroeconomic recovery in western Europe. Following the contraction of euro-area GDP in 2012 and 2013, the EMU economies this year look set to grow by 1.1%. This represents relatively modest dynamics, and considerable macroeconomic risks remain. Nonetheless, this development is likely to provide Germany's industrial sector with some momentum: almost 37% of Germany's exports still go to the euro area; in 2008 this figure still stood at 43%.

A look at Germany's goods exports confirms that deliveries to most western European countries exceeded the pre-year level in the first four months of 2014 – in some cases considerably. Among the major sales markets in western Europe, only Belgium and Switzerland registered a year-over-year decline in German exports in the first quarter. Outside western Europe, exports to Russia and Turkey, in particular, were down noticeably, which is attributable i.a. to the weakening of the two national currencies versus the euro, slower overall economic momentum than in 2013 and, in the case of Russia, the Ukraine conflict.

Share of industry in gross value added could rise again in 2014

Manufacturing share down again recently 6

Share in German gross value added, %



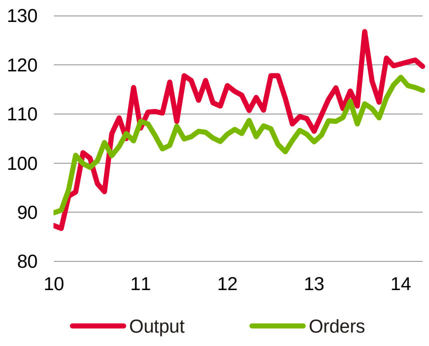
Source: Federal Statistical Office

The strong output growth in industry we anticipate will probably go hand in hand with above-average growth of gross value added in Germany's industrial sector. Hence, 2014 will likely see industry's share in overall gross value added rise again after falling for the second time in a row in 2013 (to 21.8%, the second lowest level of the past ten years). At first glance, these figures seem surprising as the domestic industrial sector has been seen as a major pillar of growth in the last few years – and rightly so – due to its innovative products and international orientation. However, the figures also show that it is relatively ambitious for highly developed economies like Germany to simply maintain a certain share in value added – let alone increase it. The latter would presuppose that industrial value added rises faster than that of any other sector for a sustained period of time. This would be a very ambitious goal, particularly given the high growth potential of individual services (e.g. the IT or health segments).

All in all, one should of course note that Germany, with a 21.8% industrial share, still comes in markedly higher than the EU average of 15.1%. Compared with

High level of output achieved 7

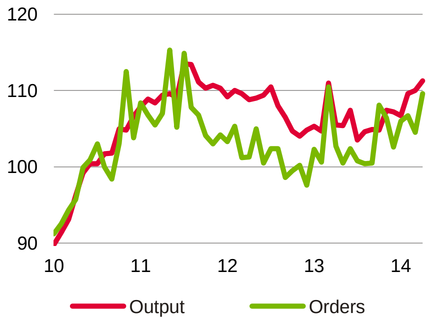
Output and orders in automobile industry, real, sa, DE, 2010=100



Source: Federal Statistical Office

Strong momentum at the start of the year 8

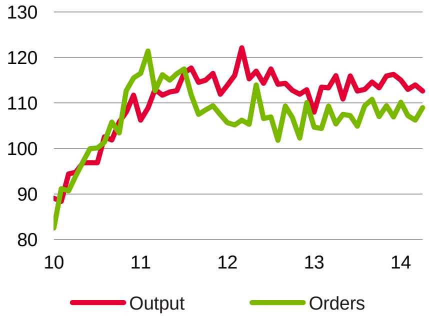
Output and orders in electrical engineering, real, sa, DE, 2010=100



Source: Federal Statistical Office

Orders prone to fluctuations 9

Output and orders in mechanical engineering, real, sa, DE, 2010=100



Source: Federal Statistical Office

France or the UK, whose industrial share has meanwhile dropped to approx. 10%, industry is highly significant in Germany anyhow.

Automobile industry registers strongest growth momentum in 2014

Of the largest industrial sectors in Germany, the automobile industry looks set to achieve the strongest output growth this year. We expect to see an increase of 5% in real terms (2013: +1.2%). In the first four months of 2014 industrial production exceeded the level reached in the last four months of 2013 by 2.4% in real terms. In a year-over-year comparison, output was even 8% higher between January and April. German carmakers are benefiting from rekindled demand from western Europe and the ongoing strength of the US and Chinese car markets. This is giving a boost to exports of cars, parts and accessories produced in Germany and more than compensates for the current drop in exports to Russia or Belgium, for instance. Thanks to higher demand, some producers from the so-called premium segment recently announced that they will either cut or cancel altogether the usual holiday shutdowns this summer. Capacity utilisation currently stands at more than 90% already and thus appreciably above the long-term average. Both the upward trend in orders and positive business expectations also suggest lively activity in the car industry for the rest of the year.

Electrical engineering also started into 2014 with considerable momentum. In the first four months of the year, domestic production was 3.1% higher in real and seasonally adjusted terms than in the last four months of 2013. For the full year we expect growth of 3% (2013: -2.1%), with the latest data even pointing to an upward revision. So far this year, support has come from exports to China and some western European countries along with an additional boost from domestic demand. Capacity utilisation recently rose for the fourth consecutive time, and business expectations have been stable in positive territory since end-2012.

Germany's metal industry (production and products), which benefits from demand from the sectors mentioned above, is on course for 4% output growth in real terms. True, order intake has been somewhat weaker lately. Sentiment indicators, by contrast, remain robust.

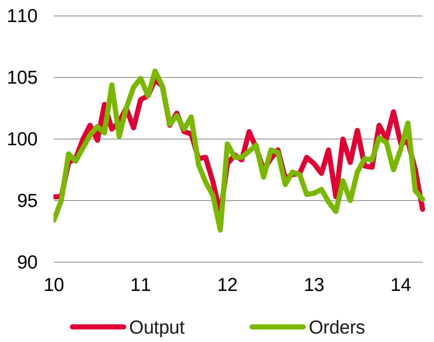
Mechanical engineering and chemicals – still a foot on the brake, but recovery expected from Q2

In mechanical engineering, the economic upswing has yet to materialise. Between January and April 2014 output was even 1.2% below the reading of the preceding four-month period (in real, seasonally adjusted terms). Even though order intake has picked up lately, the last few months have not yet shown any signs of a stable uptrend. Instead, order intake has been moving up and down steadily. Mechanical engineering is grappling with the problem that demand from major sales markets dropped at the start of the year. Exports to Russia, for instance, the fourth largest importer of German machinery in 2013, fell by 17.6% yoy in the first four months of 2014. Moreover, demand from western Europe has not yet recovered across the board. As a result, capacity utilisation has not yet risen. We expect both domestic and foreign demand and hence also production to gain momentum in the further course of 2014, so mechanical engineering output will likely expand by approx. 2% in real terms (2013: -1.6%). However, if this recovery fails to materialise in the next two to three months, we would have to revise our forecast downward.

Performance was even weaker in the German chemicals industry over the last few months. Domestic production was down 2.4% (real) in the first four months

Poor start into 2014 | 10

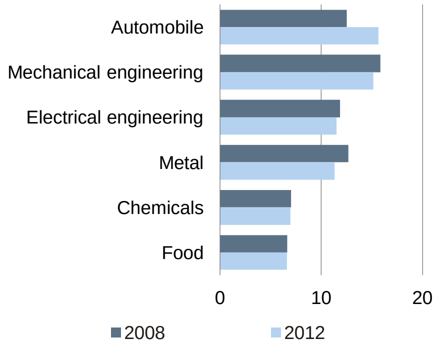
Output and orders in chemical industry, real, sa, DE, 2010=100



Source: Federal Statistical Office

Automobile industry increasingly important | 11

Share of individual sectors in total industrial gross value creation, DE, %



Source: Federal Statistical Office

of this year compared with the last four months of 2013. The export engine stuttered in this sector at the beginning of the year and domestic demand has also been moving sideways for some time. As for mechanical engineering, we also expect the chemicals industry to see orders and output recover over the coming months. But a revision of our current output forecast of +1% (2013: 0.5%) would be called for if this recovery did not occur soon.

Little change in structure of industry since the onset of the crisis

Since the end of 2008, when the global economic and financial crisis began, Germany's industrial sector has had a turbulent time: in 2009, domestic output slumped by more than 17%. This was followed by an impressive recovery in 2010 (12% output growth) and 2011 (8.5%), which formed the basis for Germany's positive macroeconomic performance in these two years, something which did not occur at all or much more moderately in other European countries. Only in 2012 and 2013 did industrial production get back to "normal" in Germany.

It is interesting to see that Germany's industrial structure hardly changed in those years despite high volatility of output. If one compares the share of the individual sectors in total gross value added of manufacturing as a whole in 2012 (no later data available) with the 2008 figure, there are only two major changes: first, the automobile industry's share rose by 3.2 percentage points. Measured in terms of gross value added, this makes it the largest industrial sector (share in manufacturing in 2012: 15.7%), while in 2008 and 2009 the largest sector was mechanical engineering. Second, the metal industry encountered the greatest losses: its share in industrial value creation fell by 1.2 pp in this period. Many other sectors registered declining shares but these were hardly significant.

As the automobile industry fared somewhat better in 2013 and will see above-average growth in 2014, it is likely to increase its share in total industrial value creation further. Hence, German industry has become more dependent on the automotive industry but its overall success remains based on many individual sectors.

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

Sluggish global growth restraining inflation in Germany

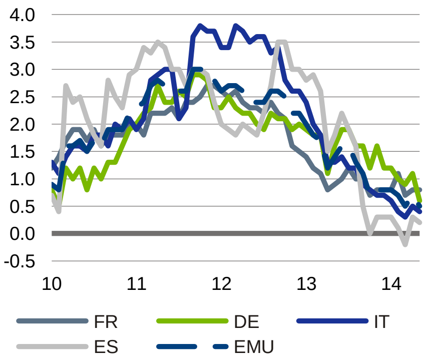
— Despite the good labour market situation in Germany inflation has decelerated noticeably. It ran at 1.1% in H1 2014, down from 2% in 2012 and 1.5% in 2013, so it was not much higher than in the eurozone as a whole.

— The trend was largely driven by the demand-related decline in global commodity prices (energy and food). The relatively strong euro, joining forces with the underutilisation of capacities in the global economy, also weighed on import prices. By contrast, core inflation has actually increased in 2014. However, this can be explained by a basis effect triggered by the government's abolition of the quarterly consultation fee charged by medical practices, and is therefore not a sign of, say, wage-driven price pressure.

— The outlook of a recovering global economy, a sliding euro and the introduction of a nation-wide minimum wage in Germany lead us to forecast that inflation is bottoming out. After hitting 1.1% in the current year it could pick up to 1.6% in 2015.

German inflation: Above EMU average but still low 1

Harmonised consumer price index, % yoy



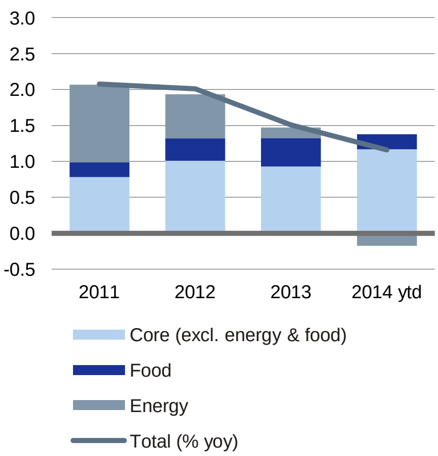
Source: Eurostat

Since May 2013, inflation has been higher in Germany than in the euro area as a whole. This is only the second lengthy period since 2007 for which this holds true. However, the pace of inflation has noticeably cooled in Germany, too. It has been fluctuating on a downward trend since early 2012 and reached 0.9% in May recovering to 1.0% in June, the lowest reading since mid-2010 when Germany was still working its way out of the crisis. The EMU average of 0.5% was exceeded only minimally, in fact, as German inflation fell to a mere 0.6% on an EU-harmonised basis in Mai. This only put Germany in the upper third of the EMU inflation rankings even though Germany is likely to generate GDP growth of 1.8% in 2014, far in excess of its potential and far outstripping most of the eurozone countries, and even despite the fact that collective wage settlements have been pretty steep at around 3% or in some case much higher thanks to the robust labour market.

As a result, German price developments have so far failed to fulfil the hopes or expectations of many analysts and politicians. The idea was that considerably higher inflation in Germany than in other European countries should help to reduce the macroeconomic imbalances that have grown over the years in the eurozone.

Energy explains most of the slowdown 2

Germany, contribution to inflation, %-points



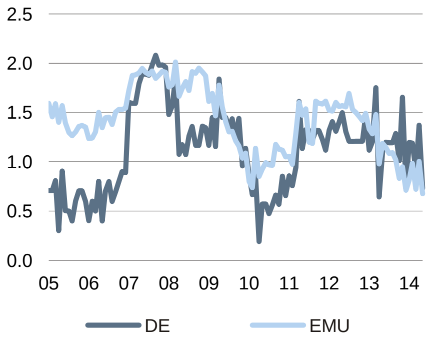
Sources: Eurostat, Deutsche Bank Research

Energy and food prices curbed inflation

In the first half of 2014 German inflation ran at 1.1% – in 2013 the rate was still 1.5%. Actually, the deceleration can be fully explained by the volatile components of food and – above all – energy, which are strongly geared to global commodity prices. Because the oil price has been pretty stable and the euro relatively strong, energy prices have been down on year-earlier levels since September, thus reining in headline inflation. In H1 2014, this curbing effect came to 0.2 of a percentage point (pp); in 2013, energy was still pushing inflation up a bit (+0.1 pp; 2012: +0.6 pp). The pace of food price increases also lost noticeable momentum in the course of 2013. Following growth rates of over 5% in mid-2013 food prices have recently been up only slightly on the year. For this reason they have added only half as much to inflation (0.2 pp) in 2014 as in 2013. Falling commodity prices had already started to throttle German inflation back in 2012 and 2013.

Volatile core inflation in Germany in H1 2014 | 3

Harmonised consumer price index, core rate (excluding energy & food), % yoy



Source: Eurostat

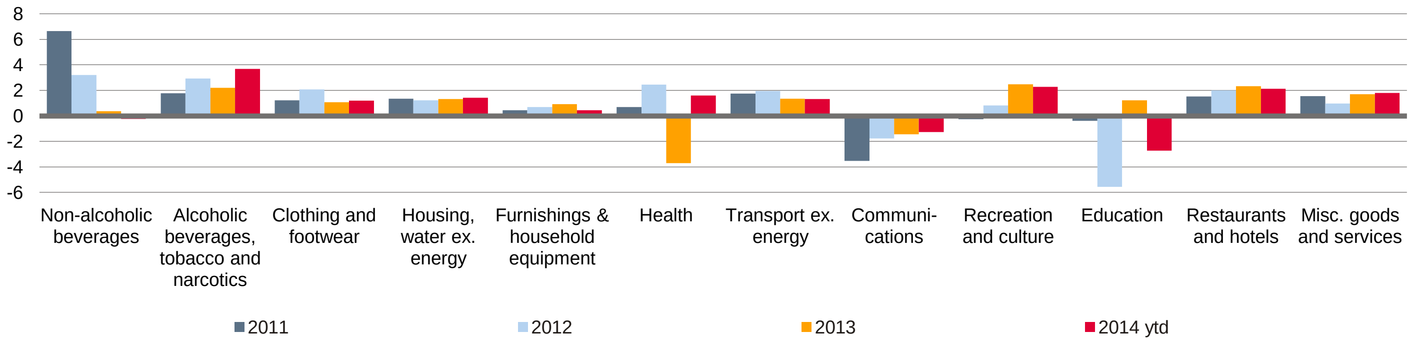
Core inflation: Highest rate since 2007, but still low

By contrast, core inflation (inflation excluding energy and food prices) started to accelerate in Germany in early 2014, and averaged 1.4% in H1 (2013: 1.2%). This is the highest reading since 2007. If we take another look at EU-harmonised inflation we see that since mid-2013 Germany's core rate has outstripped that of the eurozone (Jan-May 2014: 1.1% vs. 0.8%), which has declined sharply. However, the difference between inflation in Germany and EMU is still too small to rapidly narrow the imbalances on its own. Moreover, special and one-off effects in April in particular gave German core inflation a temporary boost. Currently, there is no sign of a broadly based (wage-driven) acceleration of core inflation on the horizon.

The chief drivers of core inflation in 2014 are the prices of healthcare (services). These prices had fallen by 3.7% on average in 2013 since at the start of that year the government abolished the quarterly consultation fee charged by medical practices. This curbing basis effect disappeared at the beginning of 2014 and so far healthcare prices have edged up 1.6% on average. This alone explains the higher core inflation rate in H1 2014. In addition, prices of package holidays caused considerable fluctuations in core inflation on a monthly basis. For example, the prices for this type of holiday increased by over 10% yoy in April since the late Easter holidays coincided with the annual reading of prices from the summer travel catalogues for some destination regions. A reversal followed in May (-3.5%) and June (+2.6%), though.

No broad-based price increases – alcohol & tobacco as well as health stand out | 4

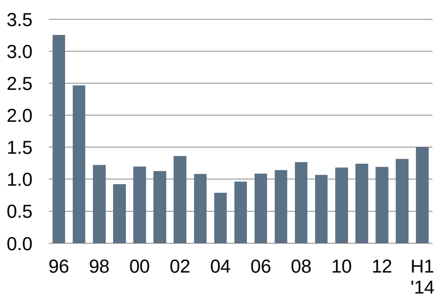
Consumer prices, components of core inflation, % yoy



Source: Federal Statistical Office

Rents: Trending up lately | 5

Rents (excluding utilities/energy), % yoy

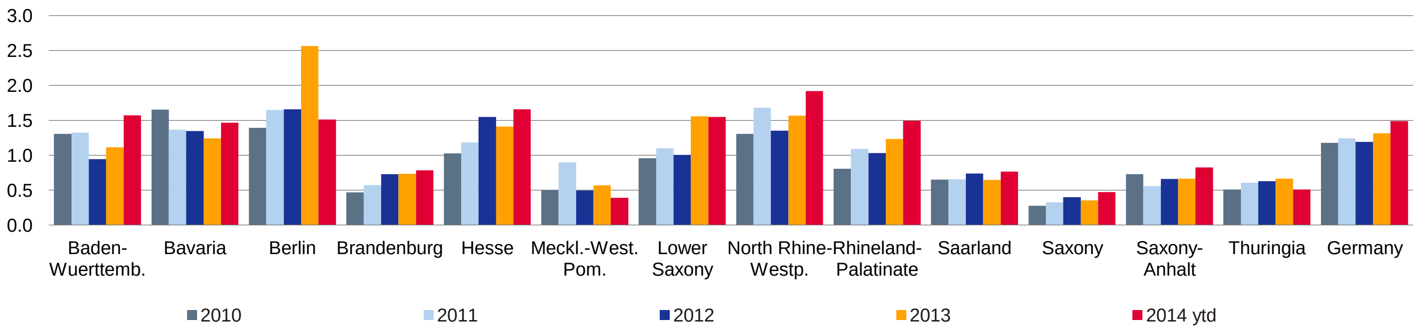


Source: Federal Statistical Office

The only other product group in core inflation that also made a slightly larger contribution to the general price upcreep in H1 (0.1 pp, Jan-May) than in 2013 was alcohol & tobacco. However, there are also definitions of core inflation which disregard these products along with food. Beer prices rose as fast as during the days of German reunification, sometimes exceeding 4%, while tobacco prices (H1: +4.6%) were driven by the higher tobacco tax (mid-2013). Both groups have only a small share in the consumer basket, though, and the price acceleration should only be temporary.

Rent increases vary significantly by region 6

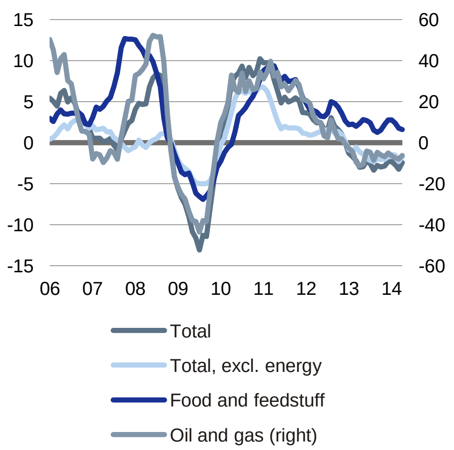
Actual rents for housing, excluding energy, % yoy



Source: Federal Statistical Office

Import prices: No turn-around 7

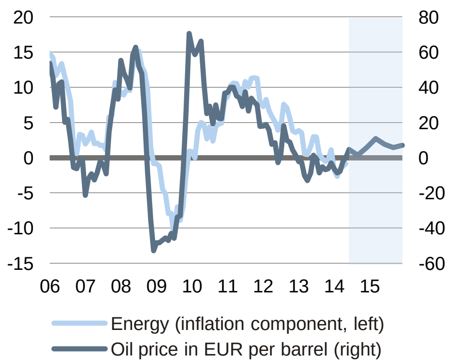
Import prices, % yoy



Source: Federal Statistical Office

Energy prices: Bottom probably reached 8

% yoy



Sources: Federal Statistical Office, Deutsche Bank, Global Insight

One frequently voiced expectation is that the increasingly noticeable rise in real estate prices in Germany over the past few years will feed through to boost rents and thus inflation. Rents (excluding household energy) are the most important single component of the German consumer price index with a weighting of 21%. Rents have in fact gradually accelerated since early 2013. In H1 2014 the average rent increase came to 1.5%. This is the highest reading since 2007, but nevertheless still pretty moderate. The acceleration of rents is also concentrated in a few German states (Länder) with prospering conurbations (e.g. Berlin, Baden-Wuerttemberg and Hesse). In predominantly rural Länder (e.g. Saarland and Saxony) the rent increases are not nearly as pronounced and have hardly accelerated at all, a picture which matches the regionally very diverse development of property prices. On average, house prices rose by 4.5% in Germany in 2013; in the 125 larger cities the reading was 6.3% and in the 7 large cities of Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart by no less than 9.0%. Not least because of Germany's tenancy laws, rents reflect past price increases only with a time lag. This means that there is indeed scope for further moderate rent increases.

Relief from import prices and still moderate wage increases

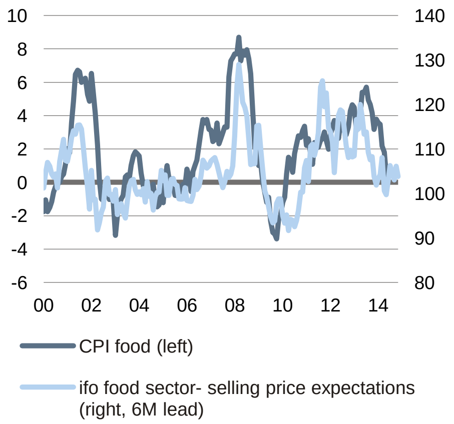
Falling import prices have also helped to keep inflation low. According to the statistical input-output accounts, imported goods constitute roughly 20% of domestic production value. German import prices declined by 2.5% in 2013. Even stripping out energy, the prices were 1.6% lower than one year previously. Furthermore, if other commodities such as metals/ores are factored out, the picture of falling import prices does not change either, which is probably due to the strong euro and the still considerable underutilisation of capacities in the global economy. This trend has continued unabated to date in 2014.

Even though wage settlements have in some cases far outstripped the 3% mark, 2014's collective hourly wage hikes are unlikely to even exceed 3%.[1] Moreover, this overstates the macroeconomic wage momentum since the employee wages not covered by collective bargaining are not climbing as quickly. Increases in gross hourly wages and salaries thus slowed appreciably in the course of 2013 (2012: +3.6%; 2013: +2.4%). According to this indicator, wage upcreep in fact nearly came to a standstill in Q1 2014 (+0.4% yoy). While this probably understates the trend, it nevertheless clearly shows that the 2014 German wage round is unlikely to generate noticeable price pressure despite the good labour market situation.

[1] See Gräf, Bernhard and Oliver Rakau (2014). So far, so good. Deutsche Bank Research. Focus Germany. May 2, 2014.

Food producer's price expectations: Low point reached 9

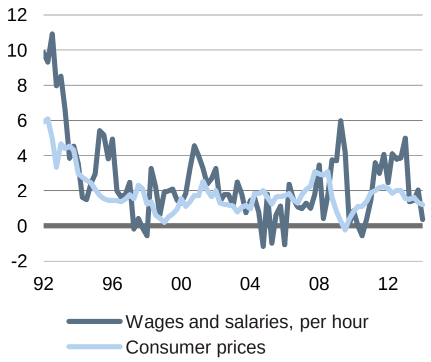
% yoy (left); 2005=100 (right)



Sources: Federal Statistical Office, ifo

Wages: So far not an inflation driver 10

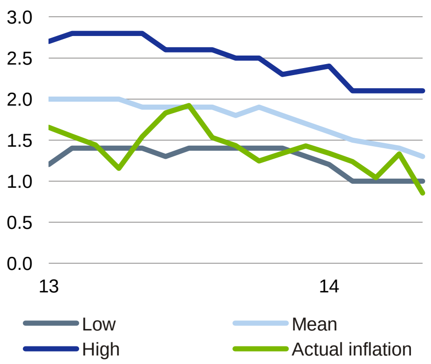
Nominal, % yoy



Source: Federal Statistical Office

Inflation forecasts stuck above actual inflation in 2014 so far 11

2014 inflation forecast for Germany, % yoy



Sources: Consensus Economics, Federal Statistical Office

Sliding EUR likely to hike commodity prices

There is much to suggest that inflation will cease to decelerate as the year progresses. However there is still no indication of any significant price surge.

Energy is likely to start boosting inflation again in H2 2014 and 2015 since the oil price has inched up lately (June 2014: roughly USD 110 per barrel; H1: roughly USD 108), and it looks set to continue its climb for a little while not least because of the tensions in Iraq. True, it should start to ease again in 2015 (just over USD 105 per barrel). However, this is more than offset in our forecast by a slide in the euro. Currently trading at just over 1.35 to the US dollar, it is likely to decline to USD 1.30 by end-2014 and no less than USD 1.15 by end-2015.

Food prices should also start to pick up a bit over the next year and a half. German food producers' price expectations have stabilised at a low level, while world market prices have recovered. In late 2013 they were still down more than 20% on the year. At last count, the reading was only about -3% yoy.

Effects of the minimum wage – the big unknown factor

The path of core inflation cannot be mapped out as clearly. While no strong surge has materialised so far in spite of the flourishing economy, the onset of nation-wide minimum wages from 2015 has raised the level of uncertainty.[2] For example, a sector-specific minimum wage was introduced in the hairdressing business back in mid-2013 and prices there have picked up noticeably (hairdressing services 2012: +1.5%; 2013: +2.6%; 2014 to date: +3.7%). Agriculture, distributive trade and services will be hit particularly hard as their share of personnel costs is relatively large and their share of low-income earners above average. German companies will presumably only be able to pass on part of their higher costs to consumers gradually, so food traders might start to focus more heavily on imported goods. This will limit the pricing power of German producers. As such, especially German producers' margins (and sales) look set to suffer. We assume that the minimum wage will additionally boost the pace of inflation by about 0.2 pp in 2015.

Inflation: Moderate acceleration to 1.6% in 2015

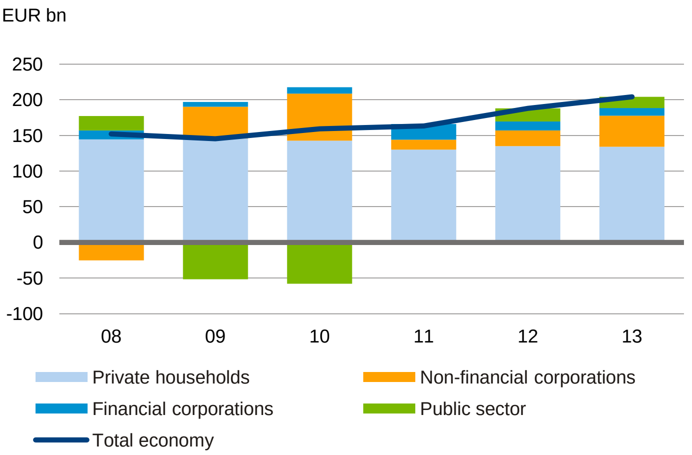
Inflation forecasts have adjusted only gradually in line with the sluggish development. According to Consensus Economics, in early 2013 forecasters expected inflation to run at between 1.2% and 2.7% in 2014, for an average of 2%. Lately, forecasts have ranged between 1.0% and 2.1%, for an average of 1.3%. We, in fact, look for an average inflation rate of 1.1% for 2014. With the ongoing recovery of the global economy, the minimum wage and a weaker euro, inflation is likely to pick up to 1.6% in 2015. The consensus for 2015 is 1.9%, with forecasts ranging between 1.0% and 2.5%. Going by our forecast, the gap to the EMU average of 1.2% would remain moderate again next year.

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

2 See Peters, Heiko (2014). Strong domestic economy to suffer from good intentions. Deutsche Bank Research. Focus Germany. June 4, 2014.

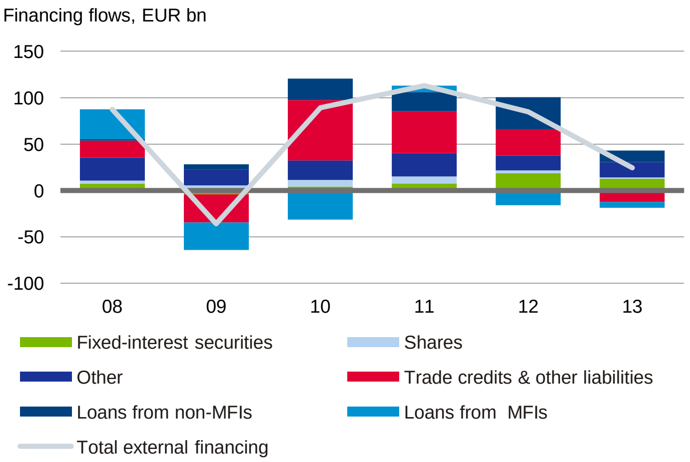
Chart of the month

Net lending of German sectors



Sources: Federal Statistical Office, Deutsche Bank Research

External financing structure of non-financial corporations



Sources: Deutsche Bundesbank, Deutsche Bank Research

Strong corporates: Little need for external financing

Despite historically-low interest rates, all sectors of the German economy are net lenders and, taken together, actually strengthened their position in 2013. The government budget remained roughly balanced, households continued to be avid savers and non-financial corporations even increased their net lending.

The latter can be attributed to strong balance sheets, robust profitability and relatively low investment expenditure that reduced the need for external financing. From a share of 30% in total financing, external financing fell to less than 10% in 2013. Investment in machinery & equipment decreased by 4% in 2012 and by nearly 2.5% in 2013. However, the little external financing that companies use has undergone notable changes. A key structural shift is the increasingly common issuance of debt at the expense of bank loans and shares. In 2012 alone, net bond issues were up 150%, with share issues down 60%. Since 2008, the fixed-income share of annual external financing grew from 8% to 52%. However, in terms of stocks, loans are still 10 times larger than bonds. Other developments include a significant temporary rise in loans from non-MFIs (e.g. internal group financing) as well as in trade credits & other liabilities (including tax claims) which, given their timing, point to a strong cyclicality.

With respect to German households, demographic challenges facing the country help explain consistent annual savings of about EUR 150 bn. Nevertheless, households are not standing idle to record-low interest rates and considerable uncertainty with regard to the sovereign debt crisis. Given rising incomes, their savings rate has recently trended downwards, which could be seen as in line with the neoclassical approach to intertemporal budget optimisation[3]. In addition, they have demonstrated a rising preference for the most liquid forms of deposits, mirroring both the declining attractiveness of long-term asset classes and strong risk aversion e.g. with regard to equity.

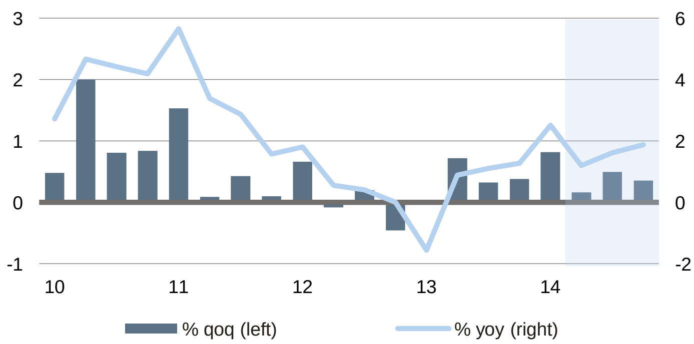
Oliver Rakau (+49 69 910-31875, oliver.rakau@db.com)
William Vickery

[3] Gräf, B. and Rakau, O. (2013). Low interest rates curbing households' propensity to save. Deutsche Bank Research. Focus Germany. October 1, 2013.

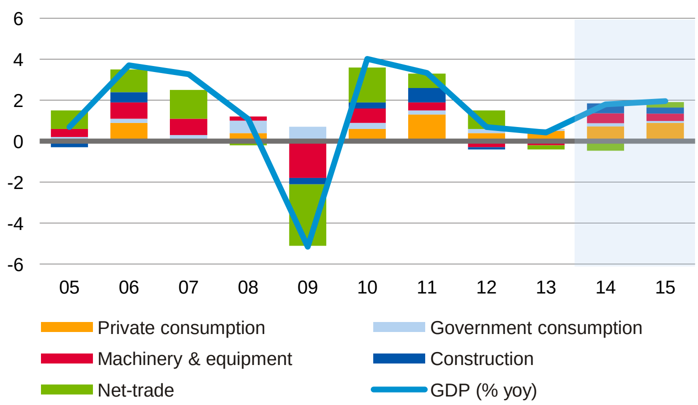
Chartbook – Total economy

- The German economy started strongly into 2014. At 0.8% qoq GDP growth was the highest since Q1 2011. Due to the mild winter that benefitted construction investment (+3.6% qoq) the rate overstated the underlying momentum which should be about 0.4% qoq – the average of the last five quarters. Strong growth is partly related to high net immigration to Germany from Eastern Europe and increasingly from peripheral countries.
- Only the domestic economy (+1.7%-p.) contributed to Q1 GDP growth, especially private consumption and construction (each 0.4%-p.). In contrast, net exports were a drag on growth (-0.9%-p.) due to weak exports. This is the opposite growth composition from last quarter when only exports supported growth. Over the last five quarters, however, the current strength of domestic demand is obvious. It contributed on average 0.5%-p. while net exports were a small drag on average (-0.1%-p.).
- In Q2 there should be some payback for GDP growth (+0.2% qoq) as construction investment normalises. This was already heralded by the strong decline of construction spending in March and April. Despite the downtrend in sentiment over the last few months their levels still suggest robust (domestically driven) growth. In June the ifo index fell (mostly due to lower expectations in the manufacturing sector) to the lowest level in 6 months. In contrast, the ifos of the more domestically oriented sectors (e.g. construction) broadly recovered. The services PMI fell in June, but only to its high April level. The manufacturing PMI stayed at about its May level, but is generally lower than the services index.
- Thanks to average quarterly growth rates of 0.4% qoq, GDP should expand by 1.8% in 2014. Domestic demand should be the major growth pillar, just like in 2013. Private consumption (+1.3% yoy) should provide impetus thanks to the positive labour market dynamic. Construction spending and investment in machinery & equipment should grow at a healthy pace, in part thanks to strong Q1 rates. Net exports are set to be a drag on overall growth as strongly rising imports more than make up for only moderately improving exports.

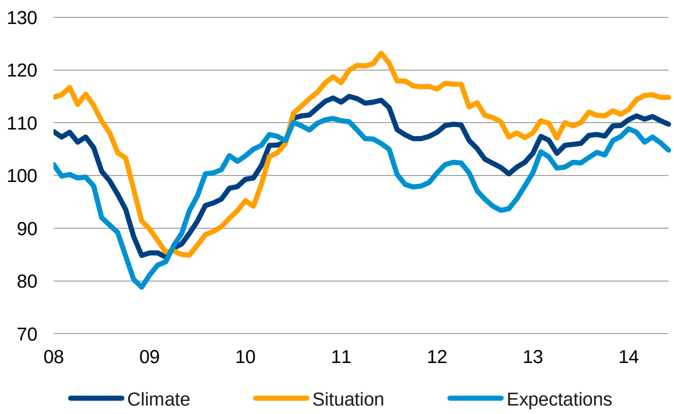
Real GDP growth



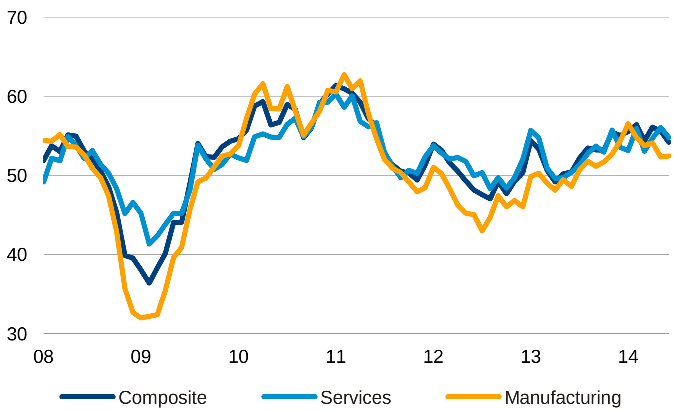
Contribution to real GDP growth (%-points)



ifo index - total economy (2005=100)



Purchasing manager index



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

Chartbook – Foreign trade

— Foreign trade was weak in 2013. Goods exports fell 0.2% and imports by a good 1%. Around mid-2013 the trough was reached and a moderate recovery started. Due to the still lacklustre world trade (March +1.8% yoy) foreign trade has lost some momentum again lately. In April German exports were up 2.0% yoy (3M moving average). The slowdown is overstated, though, due to a very weak March. Thanks to strong domestic demand imports were up 4.1% yoy. In March 2014 German exports were up 3.1% yoy (3M mov. avg.) and imports by 4.5%. Imports have risen more strongly than exports lately. The trade balance rose strongly in April from EUR 15 bn to EUR 17.7 bn. The highest since November.

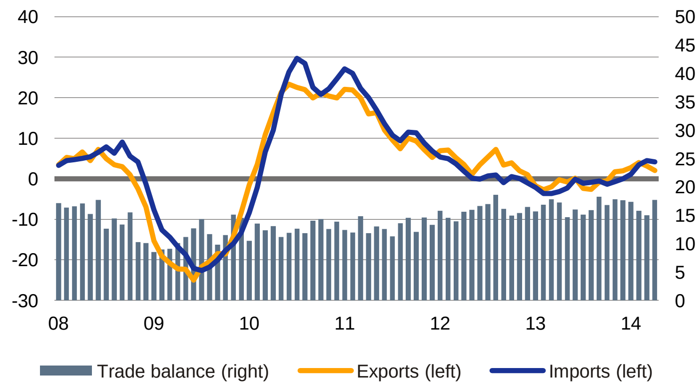
— The loss in momentum is especially obvious in German exports to EMU (Jan +3% yoy, April +2%, 3M moving average) with their share of nearly 40%. Exports to Asia have slowed, too, but the pace remained robust (Jan +4.6%; April +3.5%). Growth of exports to the US stayed high (6.3% vs. 6.2% in January).

— It is foremost the recovery in automobile exports (Apr.: +4.5% yoy) that drives the moderate increase in exports. Especially as the European car market is experiencing pent-up demand after years of restraint domestic demand. By contrast, the other German export engine, mechanical engineering, was stuttering (-1.6% yoy). Foreign demand in the metal industry (-6.2% yoy) remained weak.

— Leading indicators paint a mixed picture for exports. Ifo export expectations and PMI new export orders currently point to muted export demand growth at best. Still, we expect an accelerating global economy over the course of the year thanks to an US economy that leaves its weak Q1 behind, gradually accelerating Chinese growth and a continuation of the weak and fragile EMU recovery.

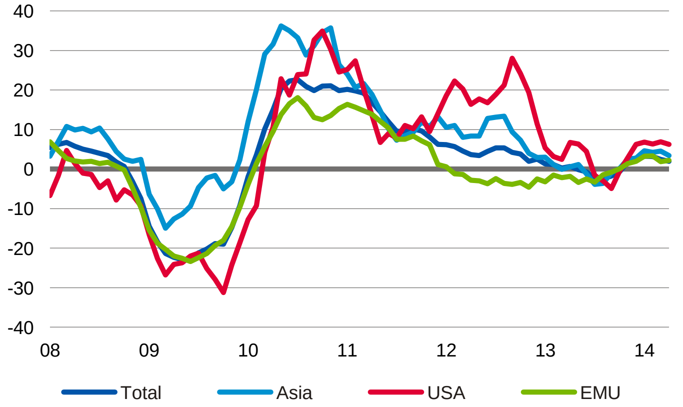
Merchandise trade

% yoy, 3M mov. avg. (left); EUR, bn (right)



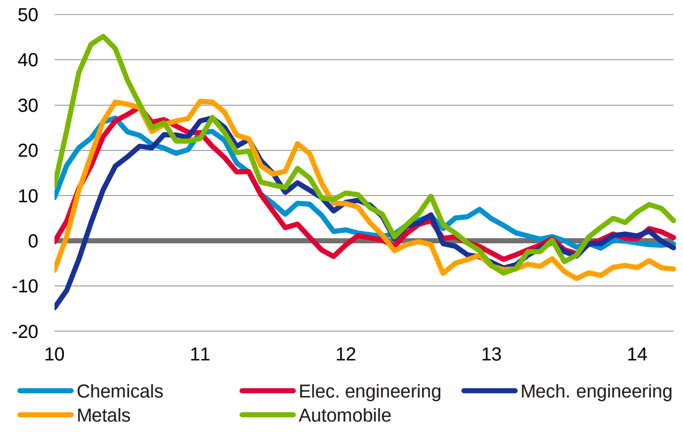
German exports by region

% yoy, 3M mov. avg.



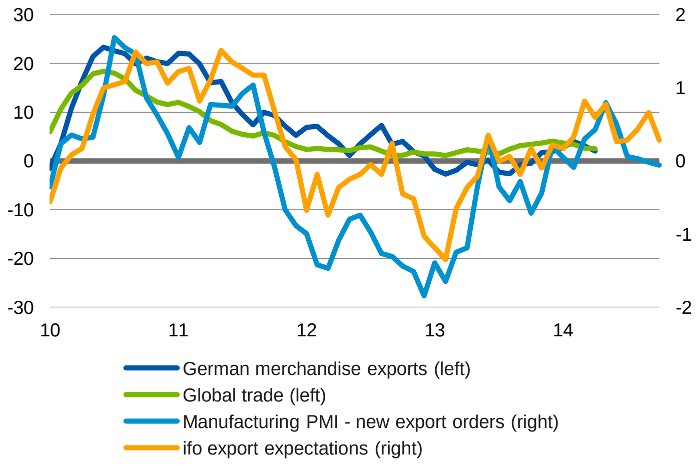
Exports by sector

% yoy, 3M mov. avg.



Exports and early indicators

% yoy, 3M mov. avg. (left); Standardized values (right, 4M lead)



Sources: Federal Statistical Office, Markit, ifo, Deutsche Bank Research, CPB

Chartbook – Industry

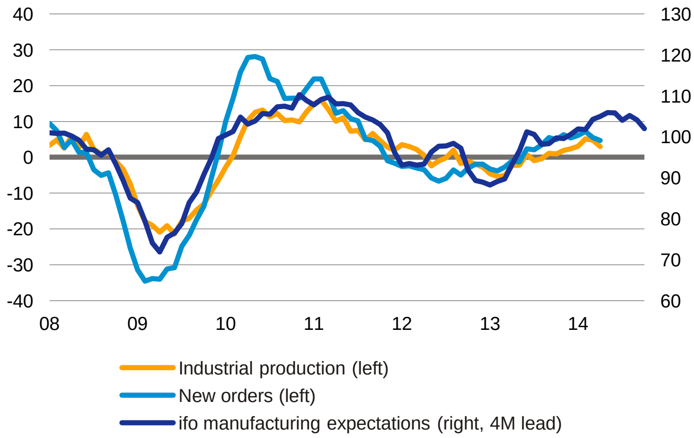
— The German industry increasingly benefits from the recovery of the global economy over the course of 2013. Like exports the industrial sector slowed lately. However, industrial production and new orders were still up by 3.0% yoy and 4.7% yoy (3M moving average) in April. Production was dampened by the normalizing construction output (that had benefitted from the mild winter) and a base effect.

— The ifo index and the PMIs for the manufacturing sector have weakened over the last few months and point to a slowdown in German industry towards the end of 2014.

— Of the largest industrial sectors the automobile industry should achieve the highest growth rate in 2014. We expect an increase of 5% in real terms. The essential driver behind this is the recovering car demand in Western Europe, where German manufactures have a market share of about 50%. In mechanical engineering, we see a production increase of 2%. The sector should benefit from foreign demand and the increasing inclination of domestic companies to invest. However, Q1 2014 was quite weak. Domestic production in the electrical engineering industry could grow 3%. For the metal industry we even expect a 4% increase. The chemical sector could see growth of 1%. Q1 results in the chemical industry disappointed; however, we assume a moderate recovery of orders and production in the course of 2014. The food industry – a very stable sector as it is – could see production stagnating in 2014. All told, the manufacturing output should expand by about 4% in real terms in 2014 (after -0.1% in 2013).

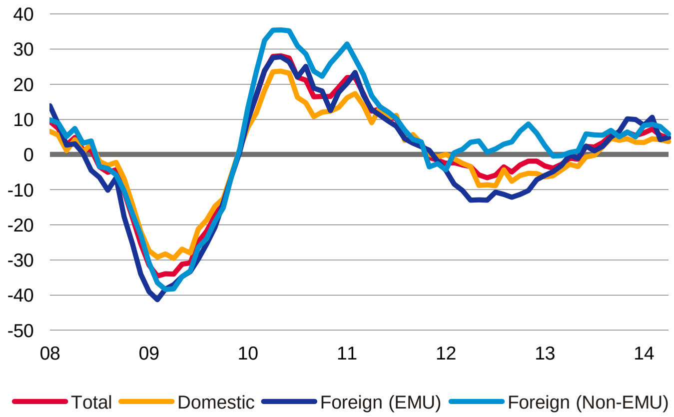
Industrial production, new orders & ifo expectations

% yoy, 3M mov. avg. (left); index (right)

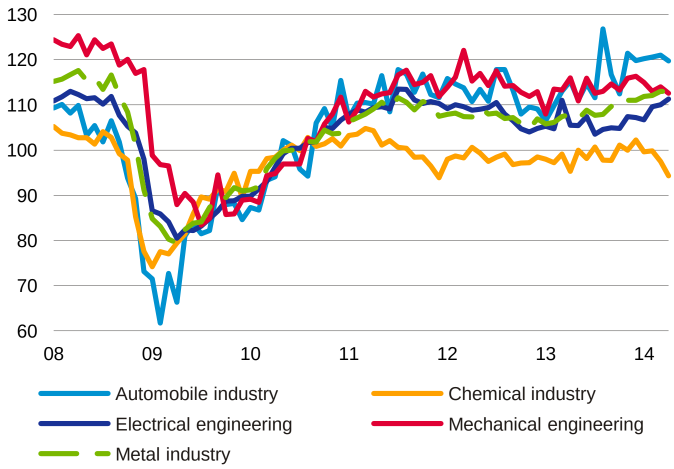


New manufacturing orders by region

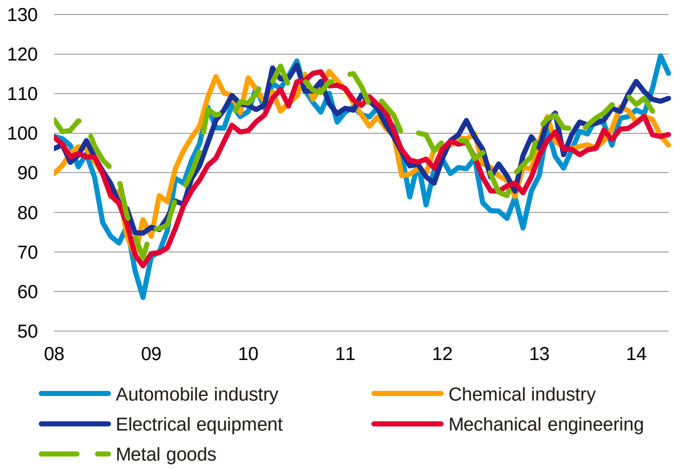
% yoy, 3M mov. avg.



Production of largest industrial sectors (2010=100, sa)



ifo business expectations of the largest industrial sectors (2005=100)



Sources: Federal Statistical Office, ifo

Chartbook – Domestic economy

— The cyclical recovery since spring 2013 has translated into upward momentum on the labour market towards the end of 2013. In May the labour market disappointed due to the unexpected increase of the number of unemployed (+24,000). This was, however, caused by the spring rebound taking place in March and April thanks to the extremely favourable weather and the sub-par relief from labour market policies. The number of unemployed fell by 4 ths. mom on average over the last three months and stands markedly below its previous year's level. The employment build-up also improved (3M mov. avg.: +40 ths. mom; +0.9% yoy). Mainly due to immigration employment gains exceed unemployment decreases. Leading indicators suggest that the positive trend should continue in the next few months. The unemployment rate should fall to 6.6% in 2014 after 6.9% in 2013.

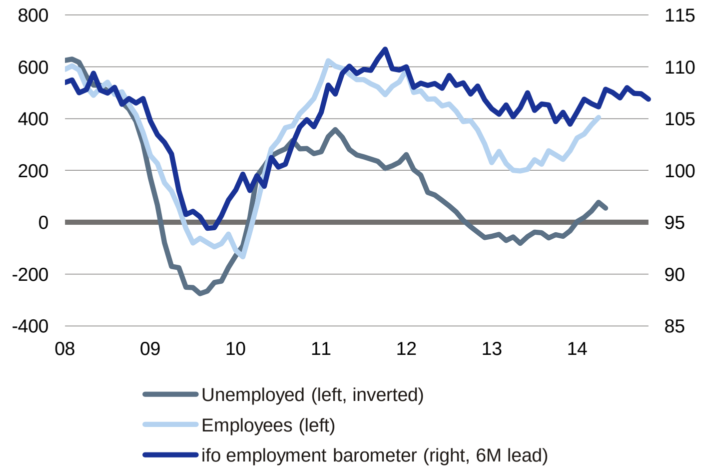
— Retail sales were up by 1.5% yoy (3M mov. avg.) in May and continued their moderate and volatile upward trend. The record level of the Gfk consumer climate (highest since December 2006) and EC consumer confidence (highest since mid-2011) as well as the positive labour market suggest a modestly increasing trend of retail sales.

— After weakness in 2013 investment in M&E and construction spending should pick up again this year. Investment in M&E was strong in Q1. However, domestic investment goods orders and capacity utilization currently do not point to a further strong acceleration in the remainder of 2014. Still M&E should rise by 7% in 2014 (2013: -2.4%).

— The construction sector benefits from high net immigration and rising disposable income propelling housing demand. Construction activity (Apr.: +4.5% yoy, 3M mov. avg.) and orders (+12.7%) are markedly higher than last year despite weakening in April. Construction spending could grow by a good 5% in real terms in 2014 (2013: -0.2%).

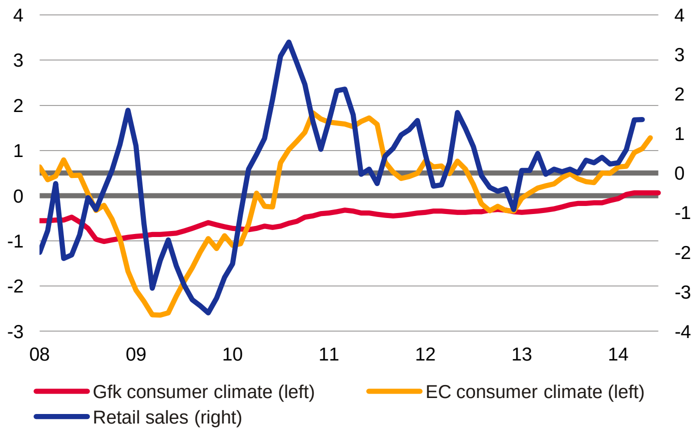
Unemployment barometer, employment and unemployment

'000 yoy (left); index (right)



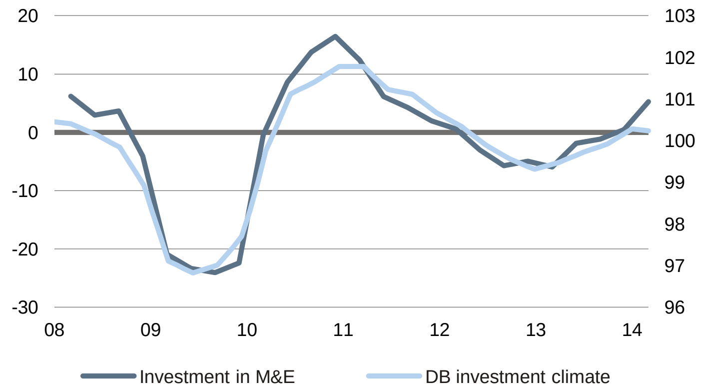
Retail sales and consumer confidence

Normalized data (left), % yoy, 3M mov. avg. (right)



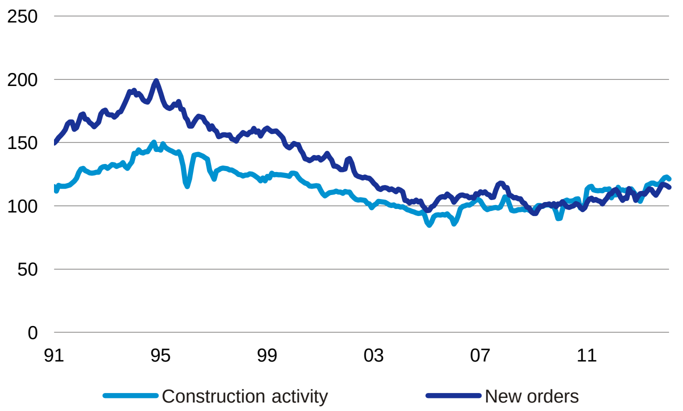
Investment in machinery & equipment and DB investment climate

% yoy (left); index normalized to 100 (right)



Construction activity and new orders

2010=100, 3M mov. avg.

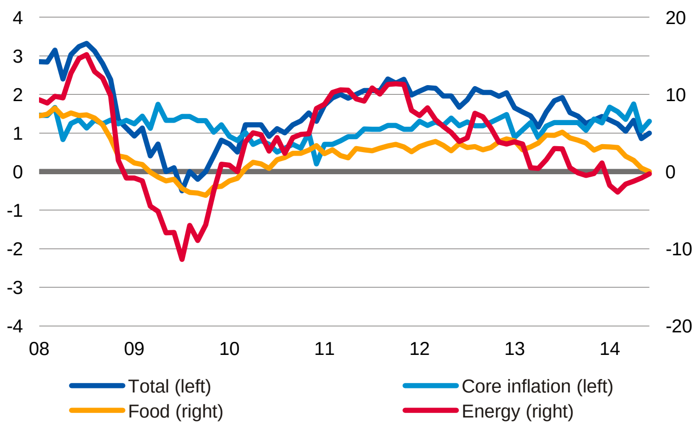


Sources: Federal Statistical Office, Deutsche Bank Research, Gfk, EU Commission, ifo

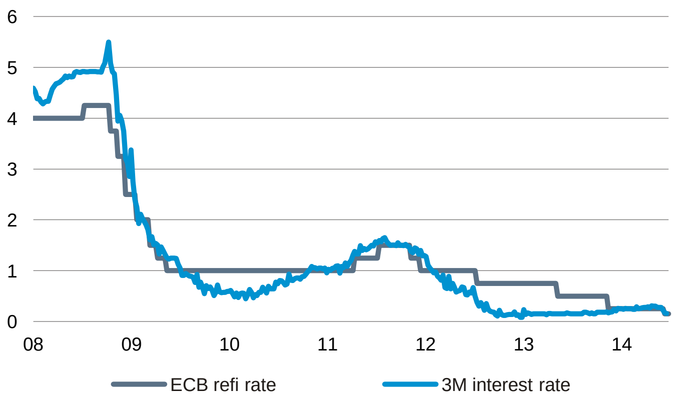
Chartbook – Financial markets

- Inflation crept up again in June (1.0% yoy) after it had fallen strongly in May (0.9% vs. 1.3% prev.). These movements were strongly influenced by fluctuations in prices for package holidays that left their mark in core inflation. Core inflation probably rose to 1.3%. Food and energy inflation showed divergent price developments over the last few months. Energy inflation become increasingly less negative (June: -0.3%) as the oil price rose somewhat and the EUR did not appreciate further. In contrast, food inflation fell further and stood at only 0% in June. We expect inflation to average 1.1% in 2014.
- The ECB decided a broad based package of easing measures. The refi rate was lowered to 0.15% and the deposite rate to -0.1% – the first negative rate ever. In addition, the full allotment was prolonged, the sterilisation of the SMP program stopped, preparations for a private bond purchase program (ABS) intensified and a targeted LTRO announced. This is supposed to secure banks' access to liquidity for the foreseeable future, keep short-term interest rates low and stimulate lending. While the package is big, we do not believe that it will provide a decisive boost. Thus, a private asset purchase program is expected in H1 2015.
- Since the start of 2014 10Y US treasury yields fell from 3% to 2.6% recently. This was caused by uncertainty about the strength of the underlying economic recovery, the dampened inflation environment and dovish Fed-comments. Despite some signs of rising inflation Fed chief Yellen remained cautious with remarks on the Fed's first rate hike. Given diverging interest rates and growth expectations for EMU and the US, the yield spread between 10Y US treasuries and German Bunds has widened further to a good 1pp as of late. In contrast, an improved economic outlook and continued policy accommodation have lowered the peripheral's spread vs. Germany to below 1.5% (mid-2013: around 3pp).
- Inflation expectations have slowed further. This is true for implicit market based expectations as well as for expectations of professional forecaster surveyed by the ECB. This supports the ECB's decisions on its easing package.

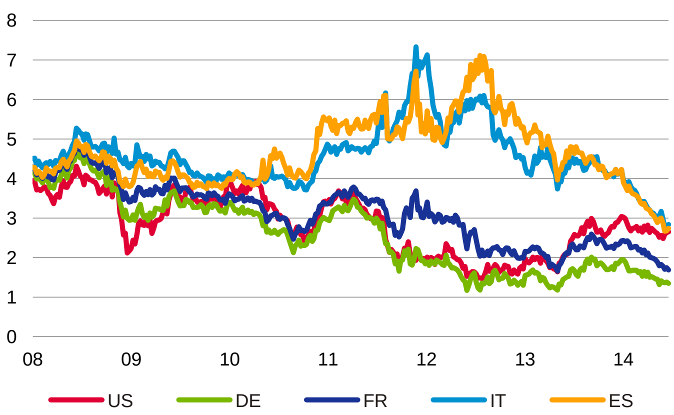
Consumer prices (% yoy)



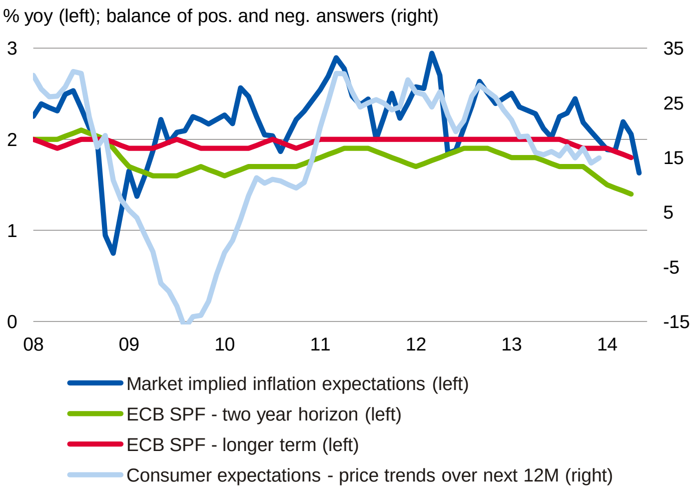
EMU: Refi rate & 3M interest rate (%)



10Y government bond yields (%)



Inflation expectations euro area

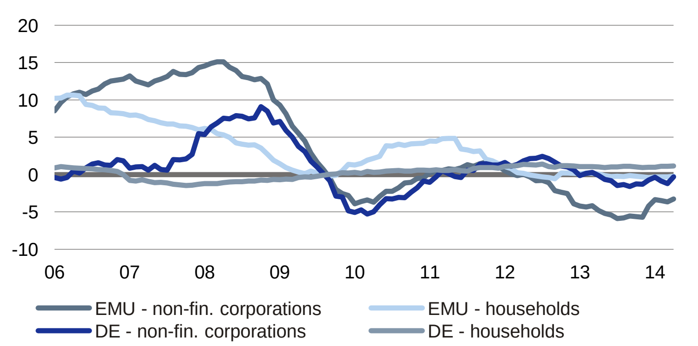


Sources: Federal Statistical Office, ECB, EU Commission, Global Insight, Reuters, Deutsche Bank Research

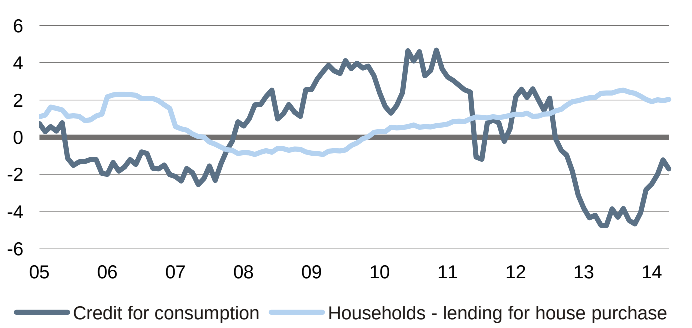
Chartbook – Lending

- Lending to corporates remained weak in 2013 with the declines being more pronounced in the Eurozone than in Germany. While reductions in Germany reflect a mix of modest investment activity and firms' use of alternative means of financing, the drop in the Eurozone is to a large extent the result of ongoing deleveraging processes. During Q1 2014 the downward movement slowed somewhat, most recently April records -3.3% yoy for the Eurozone. In Germany, Q1 proved rather disappointing but most recent figures show some stabilization (April -0.3% yoy; compared to March: -1.2%).
- Households in the Eurozone also continue deleveraging weighing on new borrowing (-0.2% yoy). By contrast, lending to households in Germany continues to rise (April: +1.1%), which is rather modest given the backdrop of strong consumer confidence and record low interest rates.
- The moderate credit growth in Germany is solely driven by mortgage lending. April (+2% yoy) is unchanged from last month's developments. Given the robust downward trend in mortgage rates (April 2.7%), credit growth remains rather modest, which partly reflects portfolio shifts by households and local supply shortages. Consumer credit remained restrained (April -1.7% yoy) also reflecting rising income situation for many households reducing the need to finance consumption via credit.
- With benchmark rates remaining historically low, favourable interest rates for German companies persist. Interest rates for corporate credit decreased some 5 bps to 2.95% in April.
- Credit constraints hit new historic lows in May. Only 17.4% of companies from industry and trade currently see credit constraints (April: 18.2%). Similarly, construction companies report very favourable conditions. Only 22% note credit constraints, also a historic low.

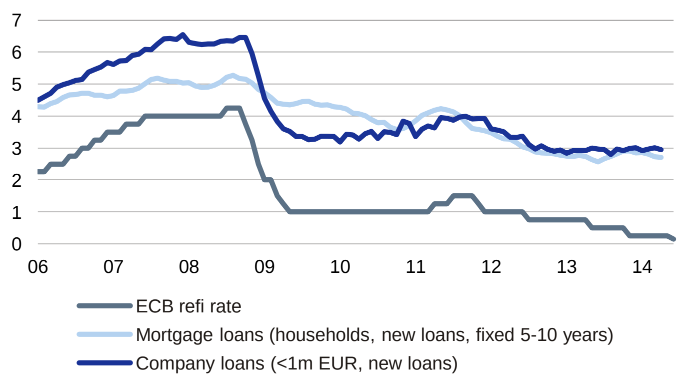
Lending to the private sector (% yoy)



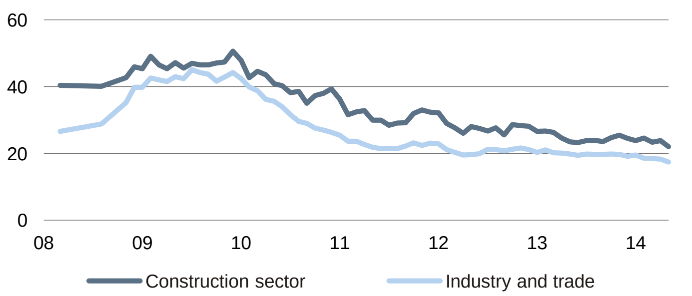
Loans to households (% yoy)



Interest rates (%)



Companies' view on access to credit



Credit constraints: Percentage of companies reporting restrictive access to credit. Higher values indicate more restrictive access to credit from companies' perspective.

Sources: ECB, ifo, Deutsche Bank Research

Chartbook – Public finances

— In 2013, Germany was the only eurozone country – apart from Luxembourg – without a budget deficit. But the federal and Länder governments (in total) still report deficits. The general budget only edged into the black thanks to the municipalities and social-security surpluses. Budgets for 2014 and 2015 are also projected to close with small surpluses.

— The German public debt ratio stood at 78.4% of GDP at the end of 2013. The positive development was partly attributable to growing revenues, but also to the fact that the bad banks continue to run down their portfolios.

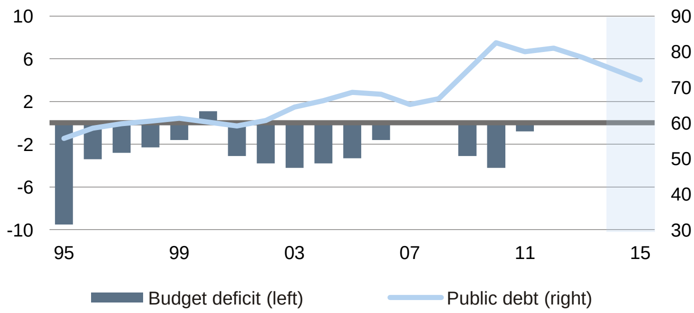
— General government debt is set to decline further during the next few years. The reduction of the bad bank portfolios alone will cut the debt by 0.5% of GDP p.a.; moderate economic growth will also help lower the debt-to-GDP ratio.

— Total tax revenues were down nearly 7% yoy in May, with the slowdown particularly due to some components of income tax and some excise taxes. There are several reasons for this development. Inter alia, a decision of the Hamburg fiscal court caused a (provisional) reimbursement of nuclear fuel tax to the energy companies. Special effects in connection with the final withholding tax on dividends (payment dates for dividends of DAX-listed companies) and the motor vehicle tax (reform of tax administration) must be added.

— All in all, though, total tax revenues continue to grow. Cumulated from January to May revenues are still up 1.5% on the same period last year (compared to 3.4% in April). On the basis of a 12 months moving average the increase was in fact still well above 2%. The strong growth of VAT has slowed (mainly due to the slowdown of import VAT). Wage tax (main component of income tax) revenue is still growing at a solid pace and remains (cumulated from January to May) 6% higher than in the year-earlier period. Therefore, from today's perspective we do not consider May to show a trend reversal and continue to expect tax revenues to increase by a good 3% for the full year, especially since the usually very high generating months of June, September and December are still to come.

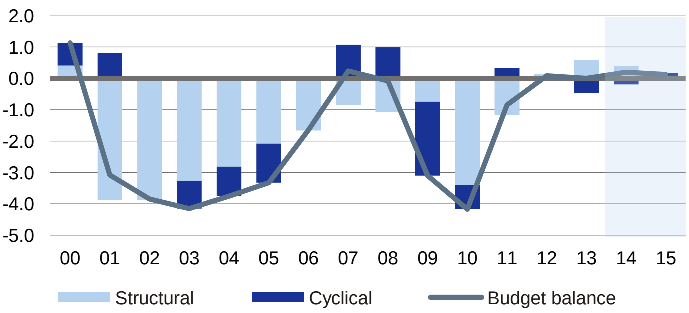
Public debt and public deficit

As % of GDP



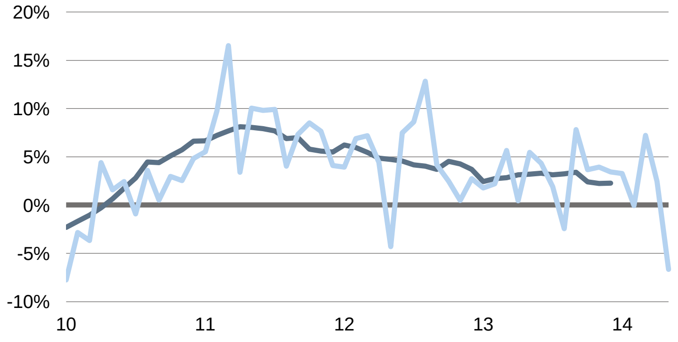
Budget balance

General Government, % of GDP



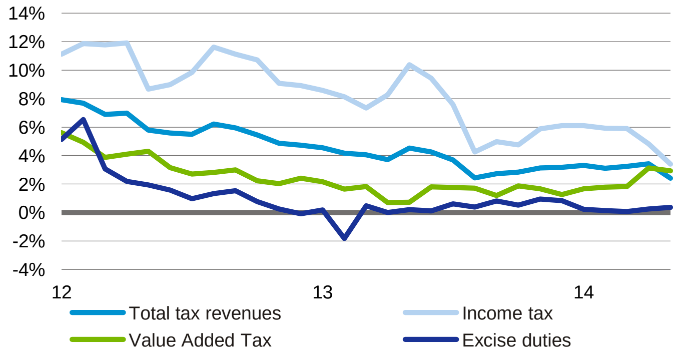
Tax revenues

Monthly data, yoy and yoy 12 months moving average



Development of important taxes

Change yoy, 12 months moving average



Sources: Deutsche Bank Research, European Commission, Bundesbank

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

Date	Event	Remarks
1 July	Brussels	Italy takes over Presidency of the EU Council from Greece.
3 July	Meeting of the ECB Council, press conference	Review of the monetary policy stance.
7/8 July	Eurogroup and ECOFIN, Brussels	Financial and macroeconomic stability developments in the euro area; Greece adjustment programme; Banking Union; reforms aimed at reducing the high tax wedge on labour.
7 Aug	Meeting of the ECB Council, press conference	Review of the monetary policy stance.
4 Sep	Meeting of the ECB Council, press conference	Review of the monetary policy stance.
11/12 Sep	Meeting of the ASEM Finance Ministers, Milan	Finance Ministers from 52 European and Asian states will debate on economic relations and prepare the ASEM summit on 16/17 Oct.
12/13 Sep	Eurogroup and informal ECOFIN, Milan	Stability developments in the euro area; economic outlook for 2014-2015; Greece and Cyprus adjustment programmes - 5th review; Banking Union.
20/21 Sep	Meeting of the G20 Finance Ministers and Central Bank Governors, Cairns/Australia	Debates on fiscal and monetary policy (measures to boost investment, trade and employment), on financial regulation (e.g. shadow banking), and tax (tax avoidance and tax transparency).

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
1 Jul 2014	10:00	Unemployment rate (%, sa)	June	6.7	6.7
4 Jul 2014	8:00	New orders manufacturing (Index, sa), pch mom	May	-0.5	3.1
7 Jul 2014	8:00	Industrial production (Index, sa), pch mom	May	0.2	0.2
8 Jul 2014	8:00	Trade balance (EUR bn, sa)	May	15.0	17.6
8 Jul 2014	8:00	Merchandise exports (EUR bn, sa), pch mom (yoy)	May	-1.7 (2.8)	2.9 (2.3)
8 Jul 2014	8:00	Merchandise imports (EUR bn, sa), pch mom (yoy)	May	1.2 (2.8)	0.2 (2.5)
24 Jul 2014	9:30	Manufacturing PMI (Flash)	July	52.4	52.4
24 Jul 2014	9:30	Services PMI (Flash)	July	55.0	54.8
25 Jul 2014	10:30	ifo business climate (Index, sa)	July	109.5	109.7
30 Jul 2014	14:00	Consumer prices preliminary (Index, sa), pch mom (yoy)	July	0.6 (1.1)	0.3 (1.0)
29 Jul 2014	8:00	Import prices (Index, sa) pch mom (yoy)	June	0.0 (-1.5)	0.0 (-2.1)
31 Jul 2014	8:00	Retail sales (Index, sa), pch mom	June	0.8	-0.6
14 Aug 2014	8:00	Real GDP (Index, sa), % qoq	Q2 2014	0.2	0.8

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	0.125	0.10	0.15	0.50	0.00	0.75	0.20	1.50	2.50	2.30	0.05
Sep 14	0.125	0.10	0.15	0.50	0.00	0.50	0.20	1.50	2.50	2.30	0.05
Dec 14	0.125	0.10	0.15	0.75	0.00	0.50	0.20	1.50	2.50	2.30	0.05
Jun 15	0.500	0.10	0.15	1.00	0.00	0.75	0.20	1.50	2.50	2.50	0.05
3M interest rates, %											
Current	0.23	0.21	0.21	0.55							
Sep 14	0.35	0.20	0.20	0.55							
Dec 14	0.35	0.20	0.20	0.80							
Jun 15	0.75	0.20	0.25	1.10							
10Y government bonds yields, %											
Current	2.52	0.56	1.21	2.64	0.73	1.70	1.64	2.50			
Sep 14	2.65	0.70	1.50	2.90	0.85	1.90	1.85	2.65			
Dec 14	2.80	0.70	1.75	3.00	1.15	2.10	2.05	2.80			
Jun 15	3.00	0.80	1.90	3.20	1.35	2.20	2.10	3.15			
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	1.36	101.51	0.80	1.70	1.22	9.19	7.46	8.37	4.15	308.59	27.46
Sep 14	1.33	109.00	0.82	1.62	1.26	8.70	7.46	8.35	4.08	306.00	27.00
Dec 14	1.30	112.00	0.79	1.65	1.27	8.58	7.46	8.28	4.00	305.00	27.00
Jun 15	1.22	116.00	0.76	1.61	1.27	8.35	7.46	8.00	3.95	304.00	27.00

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

	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Jan 2014	Feb 2014	Mar 2014	Apr 2014	May 2014	Jun 2014
Business surveys and output											
Aggregate											
Ifo business climate	105.3	107.2	108.8	110.9	110.4	110.6	111.3	110.7	111.2	110.4	109.7
Ifo business expectations	101.8	103.4	106.0	107.8	106.1	108.9	108.2	106.3	107.3	106.2	104.8
PMI composite	49.9	52.9	54.5	55.4	55.3	55.5	56.4	54.3	56.1	55.6	54.2
Industry											
Ifo manufacturing	100.4	102.7	104.5	106.9	106.6	106.3	107.3	107.0	107.5	106.9	105.3
PMI manufacturing	48.7	51.2	52.9	55.0	52.9	56.5	54.8	53.7	54.1	52.3	52.4
Headline IP (% pop)	1.6	0.6	0.6	1.2		0.5	0.5	-0.6	0.2		
Orders (% pop)	1.0	1.5	2.3	0.1		0.1	0.9	-2.8	3.1		
Capacity Utilisation	82.1	83.2	83.2	83.4	84.3						
Construction											
Output (% pop)	12.2	1.4	0.0	4.3		1.9	1.6	-1.9	-3.9		
Orders (% pop)	1.6	-1.1	3.4	1.8		4.4	-3.6	-2.6	3.5		
Ifo construction	123.7	120.4	121.2	122.6	120.5	124.2	123.1	120.6	120.6	120.3	120.5
Services											
PMI services	49.9	52.6	54.1	54.0	55.2	53.1	55.9	53.0	54.7	56.0	54.8
Consumer demand											
EC consumer survey	-4.2	-3.2	-2.8	0.3	4.3	-0.8	-0.7	2.3	3.1	5.5	4.3
Retail sales (% pop)	0.1	-0.2	-0.4	1.8		1.9	0.6	0.6	-1.5	-0.6	
New car reg. (% yoy)	-3.7	-1.4	1.6	2.8		-2.0	4.3	5.4	-3.6	5.2	
Foreign sector											
Foreign orders (% pop)	2.8	0.6	3.9	-1.3		-1.3	0.7	-4.5	5.5		
Exports (% pop)	0.3	0.3	1.6	0.3		2.3	-1.3	-1.8	2.9		
Imports (% pop)	1.4	-0.3	0.6	2.2		3.2	0.4	-1.1	0.2		
Net trade (sa EUR bn)	48.0	49.3	52.3	48.1		17.3	15.8	15.0	17.6		
Labour market											
Unemployment rate (%)	6.9	6.8	6.9	6.8		6.8	6.8	6.7	6.7	6.7	
Change in unemployment (k)	19.7	-4.7	14.3	-45.7		-26.0	-12.0	-11.0	-25.0	24.0	
Employment (% yoy)	0.5	0.6	0.6	0.8		0.8	0.8	0.9	1.0		
Ifo employment barometer	104.9	106.3	107.2	107.5	106.8	107.0	108.0	107.4	107.4	106.9	106.1
Prices, wages and costs											
Prices											
Harmonised CPI (% yoy)	1.5	1.7	1.3	1.0	0.9	1.2	1.0	0.9	1.1	0.6	1.0
Core HICP (% yoy)	1.0	1.2	1.1	1.1		1.2	1.2	0.9	1.4	0.7	
Harmonised PPI (% yoy)	-0.1	-0.3	-0.7	-1.0		-1.1	-0.9	-0.9	-0.9	-0.8	
Commodities, ex. Energy (% yoy)	-7.0	-12.2	-10.4	-11.1		-11.0	-11.0	-11.3	-5.8	-5.4	
Oil price (USD)	102.5	110.4	109.3	108.2		108.3	108.9	107.5	107.7	109.6	
Inflation expectations											
EC household survey	22.5	26.2	25.5	22.0	16.9	24.0	22.0	19.9	18.0	18.1	14.6
EC industrial survey	-0.6	2.8	6.1	5.6	2.3	7.8	4.8	4.1	2.5	1.9	2.6
Unit labour cost (% yoy)											
Unit labour cost	1.4	1.2	1.2	0.5							
Compensation	1.7	2.0	2.0	2.5							
Hourly labour costs	1.1	1.2	1.9	0.3							
Money (% yoy)											
M3	3.8	2.5	2.7	3.5		3.1	3.9	3.5	3.7		
M3 trend (3m cma)						3.2	3.5	3.7	3.6		
Credit - private	1.3	-4.0	-3.1	-3.6		-3.8	-3.9	-3.6	-3.4		
Credit - public	-22.4	-17.7	-17.1	-1.5		-5.8	-5.8	-1.5	-8.4		

% 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.

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