



Focus Germany

Structural growth limitations

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In this issue we look at two structural aspects of the German economy which provide speed limiters for GDP growth. The first is the interplay of foreign and domestic demand with implications for the current cyclical forecast. The second is the demographic implications for German labour supply which will be the biggest bottleneck for the economy's long term growth potential.

Domestic economy – not a self-starter.

The idea that domestic demand this year and next could replace foreign demand, a frequently propagated scenario for the German economy, is questionable at least given the experience of the last twenty years. Foreign demand must ensure minimum capacity utilisation; only then can domestic demand continue to boost growth as a turbocharger. Against the backdrop of the moderate development in world trade this is unlikely to be the case in the current year. Even if net exports following stagnation this year were to make a positive contribution in 2014 – as we expect – of ¼ to ½ percentage point, this is unlikely to lead to a turbo effect given the still marginally below-average capacity utilisation of 83.2% in Q3, and especially as increases in employment in a year-on-year comparison have continued to weaken for a year. Thus, domestic demand, following an increase by around ½% this year, should rise by approximately 1% in 2014, helped by private consumption and capital spending. Not bad but by no means a turbocharged performance.

Trend growth of employment: Negative in the longer term.

The German labour market has developed extremely favourably over the past few years. Employment has increased by close to 2% on average since 2007, and the unemployment rate has dropped by nearly 50% since its high in March 2005. Over the coming decades the ageing and shrinking of the population will be a huge labour market challenge. As the baby-boom generations will start to exit the labour market in droves from 2020, the working-age population will shrink more than twice as fast as the population as a whole until 2050. Even in our most optimistic scenario, which foresees net immigration of 200,000 persons p.a. and an increase in labour force participation rates to peak international readings, the trend growth of employment will be negative from about 2030 onward. The adjustments assumed in this scenario are gigantic and are predicated on a societal and political consensus whose attainment is still very much up in the air.



Focus Germany

Economic forecasts

| | Real GDP (% growth) | | | Consumer Prices* (% growth) | | | Current Account (% of GDP) | | | Fiscal Balance (% of GDP) | | |
|----------------|------------------------|-------|-------|--------------------------------|-------|-------|-------------------------------|-------|-------|------------------------------|-------|-------|
| | 2012 | 2013F | 2014F | 2012 | 2013F | 2014F | 2012 | 2013F | 2014F | 2012 | 2013F | 2014F |
| Euroland | -0.6 | -0.6 | 1.0 | 2.5 | 1.5 | 1.5 | 1.3 | 1.6 | 1.6 | -3.7 | -3.0 | -2.5 |
| Germany | 0.7 | 0.1 | 1.5 | 2.0 | 1.6 | 1.6 | 7.0 | 7.0 | 6.9 | 0.2 | -0.3 | -0.1 |
| France | 0.0 | -0.2 | 1.1 | 2.2 | 1.1 | 1.5 | -2.2 | -2.2 | -1.9 | -4.8 | -3.9 | -3.3 |
| Italy | -2.4 | -2.0 | 0.5 | 3.3 | 1.6 | 1.5 | -0.5 | 0.6 | 0.9 | -3.0 | -3.4 | -3.0 |
| Spain | -1.4 | -1.5 | 0.5 | 2.4 | 1.6 | 1.6 | -1.1 | 0.5 | 0.3 | -10.6 | -6.2 | -5.3 |
| Netherlands | -1.3 | -0.7 | 0.8 | 2.8 | 2.6 | 1.7 | 10.1 | 8.2 | 8.0 | -4.1 | -3.8 | -3.0 |
| Belgium | -0.3 | -0.1 | 0.9 | 2.6 | 1.2 | 1.5 | -1.6 | 0.5 | 1.0 | -3.9 | -3.0 | -3.0 |
| Austria | 0.8 | 0.4 | 1.4 | 2.6 | 2.0 | 1.8 | 1.8 | 2.5 | 2.8 | -2.5 | -2.1 | -1.8 |
| Finland | -0.8 | -0.7 | 1.1 | 3.2 | 2.3 | 2.1 | -1.8 | -1.0 | -1.0 | -1.9 | -2.3 | -1.8 |
| Greece | -6.4 | -4.5 | 0.5 | 1.0 | -0.5 | -0.2 | -3.4 | -1.0 | 0.0 | -10.0 | -4.9 | -3.7 |
| Portugal | -3.2 | -2.6 | 0.5 | 2.8 | 0.6 | 1.1 | -1.8 | 0.5 | 1.5 | -6.4 | -5.7 | -4.6 |
| Ireland | 0.2 | 0.7 | 1.8 | 1.9 | 0.8 | 1.3 | 4.4 | 4.0 | 4.0 | -7.6 | -7.6 | -5.3 |
| UK | 0.2 | 1.1 | 1.8 | 2.8 | 2.7 | 2.1 | -3.8 | -2.8 | -2.4 | -5.5 | -6.5 | -6.0 |
| Denmark | -0.4 | 0.4 | 1.5 | 2.4 | 1.1 | 1.8 | 5.6 | 5.0 | 5.0 | -4.4 | -2.0 | -2.0 |
| Norway | 3.0 | 2.3 | 2.6 | 0.7 | 1.8 | 1.9 | 14.1 | 13.0 | 12.5 | 10.1 | 12.0 | 12.0 |
| Sweden | 1.1 | 1.5 | 2.0 | 0.9 | 0.2 | 1.4 | 6.9 | 7.0 | 7.0 | -0.7 | -1.0 | -0.5 |
| Switzerland | 1.0 | 1.5 | 1.5 | -0.7 | -0.4 | 0.5 | 13.6 | 13.0 | 13.0 | 0.4 | 0.3 | 0.3 |
| Czech Republic | -1.2 | 0.0 | 2.0 | 3.3 | 1.7 | 1.9 | -2.5 | -2.3 | -2.5 | -4.4 | -3.1 | -2.7 |
| Hungary | -1.7 | 0.4 | 1.1 | 5.7 | 1.9 | 2.5 | 1.7 | 1.2 | 0.5 | -2.0 | -2.7 | -2.6 |
| Poland | 1.9 | 0.8 | 2.5 | 3.7 | 1.3 | 2.2 | -3.5 | -2.3 | -3.1 | -3.9 | -3.6 | -3.3 |
| United States | 2.2 | 1.8 | 3.2 | 2.1 | 1.7 | 2.3 | -2.8 | -3.0 | -3.2 | -6.8 | -3.9 | -3.3 |
| Japan | 1.9 | 2.0 | 0.6 | 0.0 | -0.1 | 2.3 | 1.1 | 1.2 | 2.4 | -9.5 | -9.3 | -7.4 |
| World | 2.9 | 2.8 | 3.8 | 3.3 | 3.0 | 3.5 | | | | | | |

*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

| | 2010 | 2011 | 2012 | 2013F | 2014F | 2012 | | | | 2013 | | | |
|-----------------------------------|------|------|------|-------|-------|------|------|------|------|------|------|------|-----|
| | | | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2F | Q3F | Q4F |
| Real GDP | 4.2 | 3.0 | 0.7 | 0.1 | 1.5 | 0.6 | 0.2 | 0.2 | -0.7 | 0.1 | 0.5 | 0.3 | 0.3 |
| Private consumption | 0.9 | 1.7 | 0.8 | 1.0 | 1.0 | 0.4 | 0.1 | 0.1 | -0.3 | 0.8 | 0.3 | 0.4 | 0.3 |
| Gov't expenditure | 1.7 | 1.0 | 1.2 | 0.3 | 0.6 | 0.5 | -0.4 | 0.7 | 0.1 | -0.1 | 0.1 | 0.1 | 0.1 |
| Fixed investment | 5.9 | 6.2 | -2.5 | -1.7 | 3.1 | -0.9 | -1.9 | -0.4 | -1.1 | -1.5 | 1.7 | 0.4 | 0.6 |
| Investment in M&E | 10.3 | 7.0 | -4.8 | -3.2 | 4.0 | -1.1 | -3.0 | -2.2 | -2.0 | -0.6 | 0.3 | 0.5 | 1.0 |
| Construction | 3.2 | 5.8 | -1.5 | -0.2 | 2.3 | -0.6 | -1.4 | 0.5 | -0.7 | -2.1 | 3.0 | 0.3 | 0.3 |
| Inventories, pp | 0.6 | 0.2 | -0.4 | 0.0 | 0.0 | -0.2 | -0.1 | -0.3 | 0.4 | -0.1 | -0.1 | -0.1 | 0.0 |
| Exports | 13.7 | 7.8 | 3.8 | 0.7 | 6.5 | 1.2 | 3.1 | 1.4 | -2.4 | -1.8 | 2.0 | 2.0 | 2.3 |
| Imports | 11.1 | 7.4 | 2.2 | 1.1 | 6.8 | -0.2 | 2.3 | 0.6 | -1.3 | -2.1 | 2.2 | 2.3 | 2.7 |
| Net exports, pp | 1.7 | 0.6 | 0.9 | -0.1 | 0.3 | 0.7 | 0.6 | 0.4 | -0.7 | 0.1 | 0.1 | 0.0 | 0.0 |
| Consumer prices* | 1.1 | 2.1 | 2.0 | 1.6 | 1.6 | 2.1 | 1.9 | 2.0 | 2.0 | 1.5 | 1.5 | 1.6 | 1.5 |
| Unemployment rate, % | 7.7 | 7.1 | 6.8 | 6.8 | 6.6 | 6.8 | 6.8 | 6.8 | 6.9 | 6.9 | 6.8 | 6.8 | 6.8 |
| Budget balance, % GDP | -4.1 | -0.8 | 0.2 | -0.3 | -0.1 | | | | | | | | |
| Balance on current account, % GDP | 6.2 | 6.2 | 7.0 | 7.0 | 6.9 | | | | | | | | |

*Inflation data for Germany based on national definition. This can lead to discrepancies to other DB publications.
Sources: Federal Statistical Office, DB Research



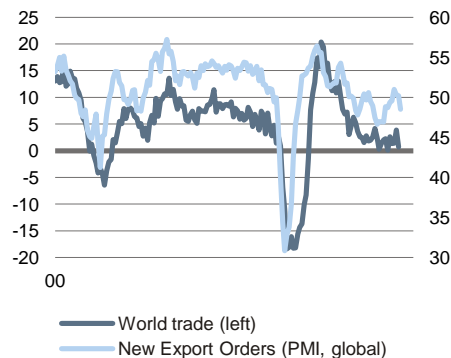
Domestic economy – not a self-starter

The German economy – Dependent on world trade

New export orders & world trade

1

yoy (left), index (right)



Sources: Markit, Dutch Central Planning Bureau

In the first half, the performance of world trade was below our expectations. This was mainly due to disappointing export figures especially in many Asian and Latin American emerging markets. In spite of this – one could also say, for this very reason – the still expected recovery of the respective economies in the second half and in 2014 will largely depend on a pick-up in export demand. However, the relevant indicators currently do not point to an imminent expansion in world trade. The real world trade index calculated on a monthly basis by the Dutch CPB rose by just below 1/2% per month in the first five months of this year, an only slight improvement compared to the second half of 2012 when world trade more or less stagnated. However, the assessments of new export orders according to purchasing managers' surveys fell in June from 50.2 to 48.5, and thus clearly below the threshold of 50, below which export orders drop month-over-month. The PMI total index for international manufacturing stagnated at 50.6, while the Composite Output Index, which also includes services, fell from 52.9 to 51.4, its lowest level since June 2012. Flash estimates available for some countries suggest a modest rebound in both the global PMI and the Composite Output Index in July.

Importance of exports for the German economy

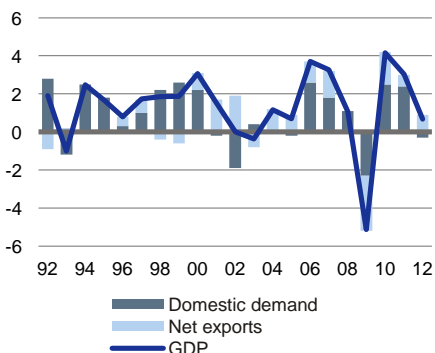
As Germany is the world's third largest exporter it is a truism that the development of the world economy and export demand are of utmost importance for the German economy. Between 2000 and 2012, the export share in GDP rose from one-third to more than half (51.6%). Net exports, i.e. the change in the difference between real exports and imports, contributed half (0.65 percentage points) to average GDP growth of 1.3% in this period. However, exports fell strongly in the second half of 2012/2013, so that despite the concomitant decline in imports, net exports led to a slowdown in GDP growth.

Domestic economy dependent on exports

Growth contributions to GDP

2

Percentage points, % yoy



Source: Federal Statistical Office

The influence of world trade on German GDP extends well beyond the export effect, though. A simple regression based on the growth of real world trade and price competitiveness delayed by 6 months (in terms of the effective exchange rate on CPI basis vis-à-vis 56 trading partners) – a common approach to explain the export development – can explain roughly two-thirds of the total GDP change.¹ The transmission paths to GDP growth are both direct and indirect. The direct effects of higher external demand are higher expansion investments in response to a rising capacity utilisation, and an increase in employment and/or an increase in work volume triggered by foreign demand which enables domestic incomes and consumption to rise. Indirectly, higher export revenues promote additional investments via the improved financial situation of companies, and a dynamic development of world trade in general has a positive effect on corporate sentiment. If one compares the rates of change forecast with the aid of the model to the actual development of GDP, the continuing underestimation between early 2006 and mid-2008 catches the eye. Especially in the years 2006 and 2007 the German economy developed much better than the

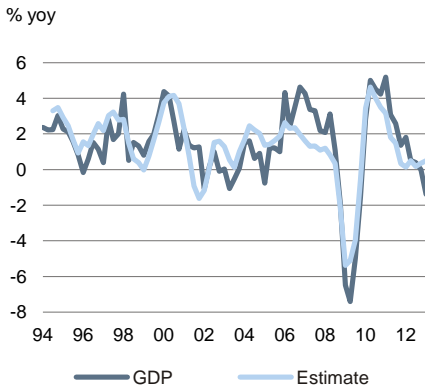
¹ The explanatory contribution has increased due to the massive gyrations of world trade and German GDP during and immediately after the collapse of the world economy in the second half of 2008/09, but is also significant in former periods.



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External influence on GDP

3



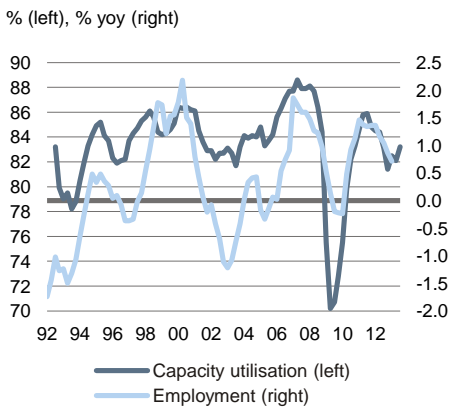
Sources: Federal Statistical Office, DB Research

external trade stimulus would lead one to believe. With a contribution of two-thirds (2.2 percentage points) to average GDP growth of 3.5% domestic demand became the most important economic driver.

Nevertheless, the catalyst for this pick-up in domestic demand clearly came from exports. In the years 2004-2006, the growth contribution of net exports was 1.1 percentage points, one of the highest in reunited Germany. At the start of 2004, capacity utilisation climbed above its long-term average and reached its all-time high of 88.6% in Q2 2007. In 2006, labour productivity (hourly basis) in the overall economy rose by 3.6%, and in export-oriented manufacturing by as much as 10%. At 1.7% in 2007, the increase in employment reached its record value of the year 2000. Especially the labour market development shows that the labour market reforms and the restructuring of companies following the bursting of the new economy bubble also contributed to the temporary improvement of the domestic economy. All in all, the development in the period 2006/2007 suggests, however, that stimuli from export demand do not have a linear impact on domestic demand. Instead, similar to a turbocharger, the economy requires a “minimum” speed for domestic demand to take off. Both capacity utilisation and the dynamics of the development are likely to play a major role.

Capacity utilisation & employment

4



Sources: ifo, Federal Statistical Office

Growth outlook dampened

The idea that domestic demand this year and next could replace foreign demand, a frequently propagated scenario for the German economy, is questionable at least given the experience of the last twenty years. Foreign demand must ensure minimum capacity utilisation; only then can domestic demand continue to boost growth as a turbocharger. Against the backdrop of the moderate development in world trade described above this is unlikely to be the case in the current year.

Even if net exports following stagnation this year were to make a positive contribution in 2014 – as we expect – of ¼ to ½ percentage point, this is unlikely to lead to a turbo effect given the still marginally below-average capacity utilisation of 83.2% in Q3, and especially as increases in employment in a year-on-year comparison have continued to weaken for a year. Thus, domestic demand, following an increase by around ½% this year, should rise by approximately 1% in 2014, helped by private consumption and capital spending. Not bad but by no means a turbocharged performance.

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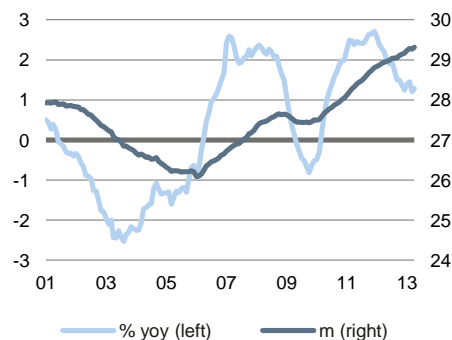


Trend growth of employment: Negative in the longer term

Employment subject to social security contributions

1

% yoy (left), m (right), sa



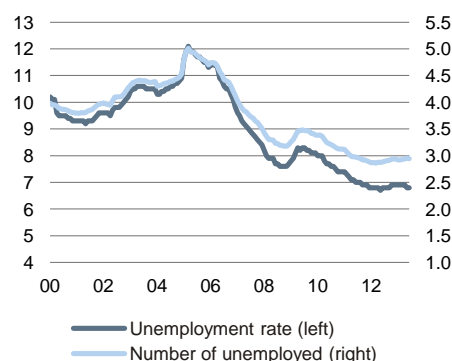
Source: Deutsche Bundesbank

- Employment has increased by close to 2% on average since 2007, and the unemployment rate has dropped by nearly 50% since its high in March 2005.
- The ageing and shrinking of the population will be a huge labour market challenge over the coming decades.
- As the baby-boom generations will start to exit the labour market in droves from 2020, the working-age population will shrink more than twice as fast as the population as a whole until 2050.
- Even in our most optimistic scenario, which foresees net immigration of 200,000 persons p.a. and an increase in labour force participation rates to peak international readings, the trend growth of employment will be negative from about 2030 onward.
- The adjustments assumed in this scenario are gigantic and are predicated on a societal and political consensus whose attainment is still very much up in the air.

Unemployment

2

% (left), m (right)



Source: Deutsche Bundesbank

The German labour market has developed extremely favourably over the past few years. Since 2004, the active population increased steadily to the peak value of about 42 million in 2012. In addition, the number of people in employment subject to social-security contributions has risen by close to 2% on average since 2007 (except for 2009²), while the ranks of the unemployed have shrunk since the high of over 5 million in March 2005 to just over 2.9 million at last reading and the unemployment rate has dropped by nearly 50% in the same period, from over 12% to 6.8%. This was driven not only by cyclical growth effects and moderate wage settlements, but also by the so-called Hartz reforms implemented between 2003 and 2005. In a recently published report, Germany's Institute for Employment Research (IAB) reaches the conclusion that the effects are of a structural and permanent nature.³ Nonetheless, the growth of employment has slowed lately for cyclical reasons. After having reached around 2% in September 2012, the increase in the first four months of 2013 came to only about 1 ¼% – this is not very surprising considering a 0.7% decline in real economic output in Q4 2012 and only very moderate GDP growth of 0.1% in Q1 2013.

The demographic challenge

If one disregards the cyclical fluctuations and looks at the trend growth of employment, the question that arises is how is employment going to develop in the coming decades in view of the demographic changes ahead, i.e. with the average age of the population continuing to escalate and the baby-boom generation retiring from the labour market? According to our calculations, the population as a whole will only decline by a bit less than 3% up to 2030,

² But employment subject to social-security contributions decreased by merely 0.1% even in 2009 in spite of the deep recession (real GDP: -5.1%), whereas in nearly all the other industrial countries the unemployment rate jumped.

³ More efficient job intermediation, more mobilisation and personal responsibility as well as greater flexibility were meant to improve the functioning of the labour market. This improvement has been materialising since 2006 in the shape of greater chances to switch from unemployment to employment. See Klinger, S., Rothe, T., Weber, E. (2013). Makroökonomische Perspektive auf die Hartz-Reformen. Die Vorteile überwiegen. IAB Kurzbericht, No. 11/2013. An IMF Working Paper suggests that the Hartz reforms are responsible for lowering the structural unemployment rate by 1.4 percentage points. See Krebs, T. & Scheffel, M. (2013). Macroeconomic evaluation of labor market reforms in Germany. IMF Working Paper 13/42.



whereas the working-age population is set to decrease by nearly 12%.⁴ To answer this question we applied a concept that was used by, among others, the Federal Reserve Bank of Kansas City⁵ in 2006 and the Federal Reserve Bank of Chicago⁶ in 2013 to analyse the trend growth of US employment.

Employment identity

Our starting point is what is referred to as the "employment identity", i.e. an identity relating employment to population, the labour force participation rate and the employment rate.

Hence:

$$(i) \quad \textit{employment} = \textit{working-age population} \\ * \textit{labour force participation rate} \\ * \textit{employment rate}$$

The working-age population is usually understood to mean persons aged from 15 to 64 years old. To reflect the legal situation in Germany, which provides for a gradual increase of the statutory retirement age from 65 to 67 between 2012 and 2030, we flexibly adjusted the ceiling of this age group for the transition period in our analysis.

The labour force participation rate captures that percentage of the working-age population which is economically active, i.e. the labour force actually available to the market. This share breaks down into employed persons and unemployed persons.

$$(ii) \quad \textit{labour force participation rate} = \textit{active population (labour force)} / \\ \textit{working-age population} * 100 \\ \textit{where} \\ \textit{active population (labour force)} = \textit{employed persons} + \textit{unemployed} \\ \textit{persons}$$

The third component of the identity, the employment rate, expresses the relationship between the active population (labour force) and the number of employed persons, and is the (percentage) share of the active population in employment.

$$(iii) \quad \textit{employment rate} = \textit{employed persons} / \textit{active population (labour force)} \\ * 100$$

Since the employment rate and the unemployment rate add up to 100, the employment rate is equal to the term 100 – unemployment rate. It is also possible, accordingly, to estimate the long-term development of the employment rate alternatively by using the unemployment rate, which is what we did in the following.

⁴ In our analysis we assumed a constant fertility rate of 1.4, a medium increase in life expectancy and net immigration of 200,000 persons from 2015.

⁵ See Clark, T.E. & Nakata, T. (2006). The Trend Growth Rate of Employment: Past, Present, and Future. Federal Reserve Bank of Kansas City. Economic Review. First Quarter.

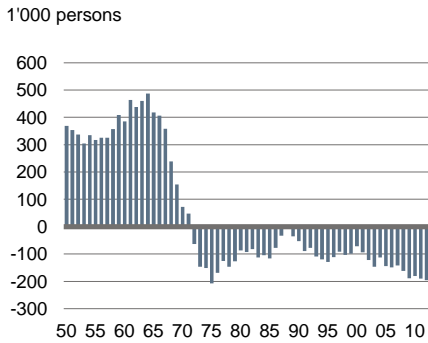
⁶ See Aaronson, D. & Brave, S. (2013). Estimating the trend in employment growth. Chicago Fed Letter 312.



Focus Germany

Difference between births and deaths

3



Source: Federal Statistical Office

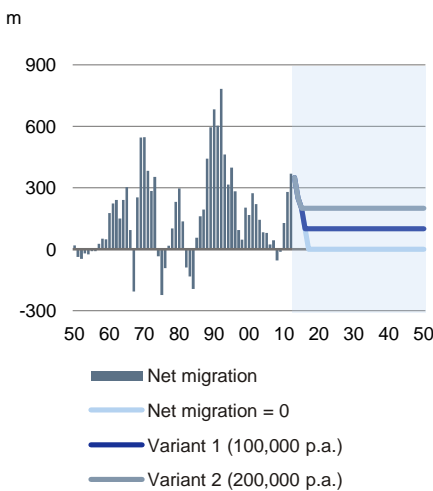
The procedure

Correspondingly, the trend growth of employment is determined by the growth of the (working-age) population, the labour force participation rate and the employment or unemployment rate. Logically, it is necessary to estimate these three components and/or their development over the long term.

Using our population model, we calculated the size of the working-age population by years of age on the basis of the data gathered in the 2011 census. In this context we assumed a constant fertility rate of 1.4 children per woman and a medium increase in life expectancy at birth of over 7 years for men and just under 7 years for women⁷ up to 2050. Unlike the natural population balance, i.e. the difference between births and deaths, the volume of immigration has fluctuated heavily over the past few decades and thus the forecast for the coming decades is fraught with considerable uncertainty. For this reason, we calculated two variants for the migration balance. Variant 1 assumes net immigration of 100,000 persons per year from 2015, and Variant 2 of 200,000 persons.

Migration scenarios

4



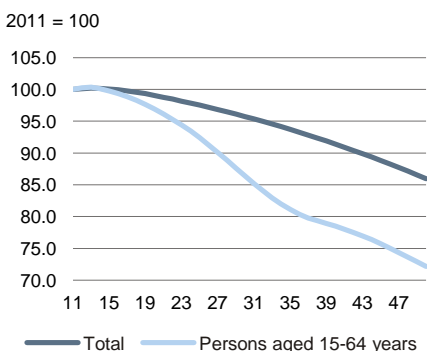
Sources: Federal Statistical Office, DB Research

We based our projections of age-specific labour force participation rates on the data of the microcensus and calculated two alternative scenarios. The first one is our “Status quo” scenario, i.e. for the coming decades we expect the age-specific labour force participation rates to remain constant; the second one is called “The best 3” scenario, in which we modelled an increase in the labour force participation rates to the average level of the three industrial countries with the highest such rates in the corresponding age group up to 2030.

For the long-term development of the employment rate we used as an alternative the unemployment rate, and to estimate the trend we used the concept of natural or structural unemployment. While this is usually derived in the form of an inflation-stable unemployment rate (NAIRU, or non-accelerating inflation rate of unemployment) from a Phillips curve, we conducted an analysis on the basis of unemployment rates according to educational attainment levels, which appeared to make more sense to us in view of the problems connected with an empirical calculation of NAIRU – over the past few years in particular.

Population projection

5



Variant 1 - Assumptions:
1) Fertility rate 1.4
2) Life expectancy until 2055:
men +7.2, women +6.6 years
3) Net immigration from 2015: 100,000 p.a.

Sources: Federal Statistical Office, DB Research

Baby boomers are dominant in development of working-age population

According to our calculations, the population is set to decrease by 4.4% from around 80.5 million at present to close to 77 million (Variant 1 with net immigration of 100,000 p.a.) or by 2.7% to just over 78 million (Variant 2 with net immigration of 200,000 p.a.). By 2050, the decline adds up to just under 10% (Variant 2) or roughly 14% (Variant 1). By contrast, the working-age population is set to shrink much more noticeably because of the baby-boom effect. In Germany, the term baby-boom generations refers to those people born into the large birth cohorts in the period from 1955 to the end of the 1960s. From about 2020 these people will start to reach retirement age and thus exit the group of 15 to 64-year-olds; their numbers will be replaced only partly owing to the smaller size of the birth cohorts that followed them. As a result, up to 2030 the number of 15 to 64-year-olds is set to shrink by 14% (Variant 1) or 12% (Variant 2), and decrease again by 16.5% and 12%, respectively, by 2050. By 2050, the number of working-age persons will thus decline by nearly 15 million (Variant 1) or 12 million (Variant 2).

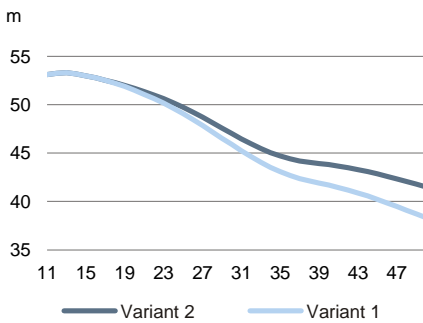
⁷ The increase roughly corresponds to the base assumption of Germany's Federal Statistical Office in its 12th coordinated population projection, which assumes increases of 7.8 years (men) and 6.8 years (women). See Federal Statistical Office (2009). Germany's population by 2060. Results of the 12th coordinated population projection.



Focus Germany

Population aged 15-64 years

6



Assumptions:
1) Fertility rate 1.4
2) Life expectancy 2055:
men +7.2, women +6.6 years
3) Net immigration from 2015:
Variant 1: 100,000 p.a.
Variant 2: 200,000 p.a.

Sources: Federal Statistical Office, DB Research

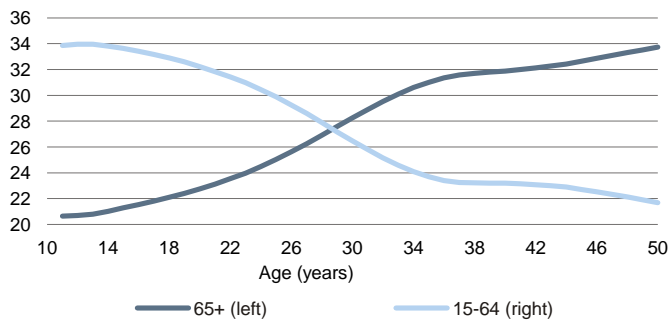
The ageing of society will cause a substantial change in the population structure, accordingly. The share of the working-age population will decline in scenario 1 by over 10 percentage points to 55.5% by 2050, while the share of the 65-plus group will increase by 13 percentage points to nearly 34%. This means that the old-age dependency ratio, i.e. the number of persons over 65 years of age in relation to those of working age (15-64), would nearly double by 2050, to over 60%.

All in all, we believe that Variant 1, with a net immigration of 100,000 persons per year from 2015, is the more likely scenario. True, net immigration has clearly exceeded this level in the past two years in particular at close to 280,000 in 2011 and almost 370,000 in 2012, and is even likely to be much higher again in 2013. However, this has been largely attributable to the lifting of the limitations on labour mobility applicable to the countries of Central and Eastern Europe that joined the EU in 2004, to the deep recession on the periphery of the eurozone and to the drastic deterioration in job prospects there due to the spike in unemployment. Given a gradual economic recovery on the periphery of the eurozone and a return to normal migration levels from Central and Eastern Europe, the influx of migrants to Germany should start to decrease. From the mid-1990s to 2010 Germany posted net immigration of only slightly over 100,000 persons p.a.

Population structure

7

Age group as % of total population



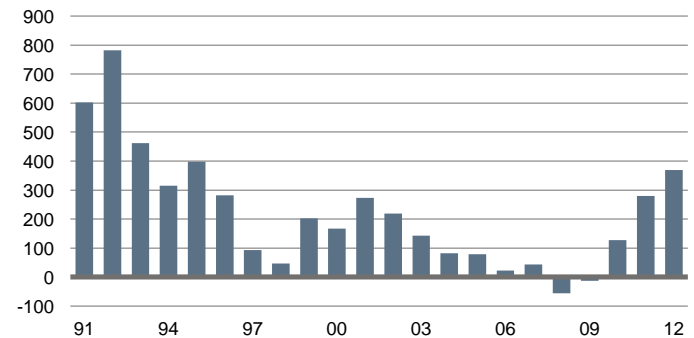
Variant 1: Net immigration from 2015: 100,000 p.a.

Sources: Federal Statistical Office, DB Research

Net migration

8

1,000 persons

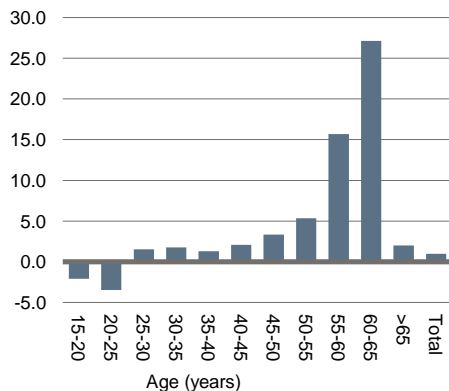


Source: Federal Statistical Office

Labour force participation rates

9

Change 1995-2011, pp



Source: Federal Statistical Office

Labour supply to shrink long term even in most optimistic scenario

While the population will shrink – depending on the variant – by close to 10% (immigration: 200,000 p.a.) or by as much as 20% (migration balance of 0 from 2017) by 2050, the development of the labour supply⁸ will hinge not only on immigration but also on how labour force participation rates will develop, i.e. the degree to which the working-age population's potential will be tapped. In the following we shall examine different scenarios of how the labour force could develop in accordance with variations in immigration and labour force participation rates, since forecast accuracy for immigration and participation rates is much lower than for natural population development. In a long-term projection of migration flows one would have to take account not only of economic performance in Germany, the countries of origin and alternative

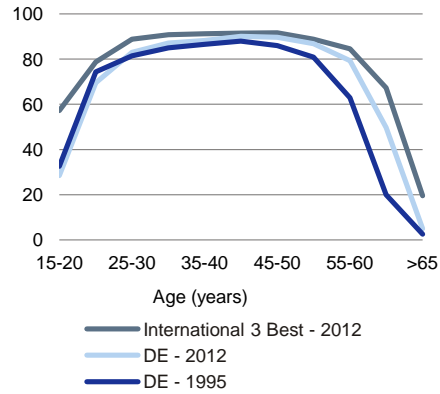
⁸ In our analysis we refrain from calculating the hidden labour reserve, i.e. persons who are neither employed nor unemployed yet would take a job if the labour market situation were different, and set the size of the labour force as being equal to the potential labour supply. According to IAB estimates there were 1.4 million persons in the hidden labour reserve in 2012 (see Fuchs, J. et al. (2013), IAB Prognose 2013: Der Arbeitsmarkt bekommt konjunkturellen Rückenwind, IAB-Kurzbericht 6/2013).



Focus Germany

Labour force participation rates by age group 10

Germany vs. average of the 3 industrial countries with the highest rates, %



Sources: OECD, Federal Statistical Office, DB Research

destination countries, but also of other socio-economic factors. The development of the labour force participation rates also hinges on numerous factors such as personal preferences and the compatibility of family and job, which are very difficult to forecast on a long-term horizon.

Since the mid-1990s there has been a general climb in the labour force participation rate. By age group, however, there were differing trends: while the participation rate of 15 to 24-year-olds fell because of the higher number of people in further education and training, that of the 25-plus group increased. The participation rate of those over 55 years of age jumped in particular. The driving factors included: structural changes following labour market reforms, greater flexibility in working time models on the company side and the Federal Employment Agency's abolition of support for early-retirement schemes at the beginning of 2010. In a comparison with the average of the three industrial countries with the highest labour force participation rates of the respective age groups, it emerges that Germany is far from exhausting its potential among the younger and older cohorts.

Age-specific labour force participation rates – The best 3, 2012, % 11

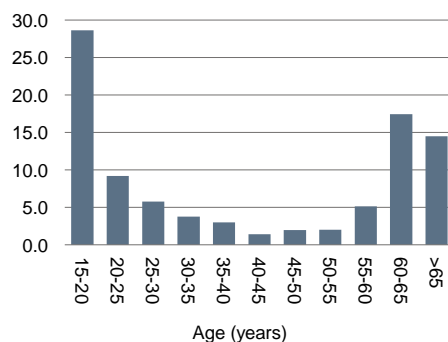
| | 15-20 | 20-25 | 25-30 | 30-35 | 35-40 | 40-45 | 45-50 | 50-55 | 55-60 | 60-65 | >65 |
|------|-------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| NL | 61.1 | AU 79.1 | CH 89.2 | PT 91.9 | SE 92.7 | SE 92.9 | SE 92.1 | SE 89.9 | SE 86.2 | NZ 70.7 | JP 19.9 |
| DK | 55.5 | CH 78.8 | PT 88.9 | CH 90.5 | PT 91.2 | AT 91.0 | FI 91.5 | CH 89.2 | CH 84.3 | SE 68.1 | NZ 19.9 |
| AU | 54.9 | NL 78.3 | NL 88.2 | SE 90.2 | AT 89.9 | FI 90.7 | CH 91.3 | FI 87.3 | DK 83.0 | NO 62.8 | NO 18.7 |
| Avg. | 57.2 | 78.8 | 88.8 | 90.8 | 91.3 | 91.5 | 91.6 | 88.8 | 84.5 | 67.2 | 19.5 |
| DE | 28.5 | 69.5 | 83.0 | 87.1 | 88.2 | 90.1 | 89.7 | 86.8 | 79.4 | 49.8 | 5.0 |

Source: OECD

For instance, the gap between Germany's 15 to 20-year-olds and the peak international values is nearly 30 percentage points, and for those aged 60 to 65 it is 17 ½ percentage points.

Labour force participation rates 12

Germany vs. average of the 3 industrial countries with the highest rates, 2012, %



Source: OECD

For persons in the prime of their earning career, however, the labour force participation rate is already relatively close to the international peaks. For the future development of the labour force participation rate we therefore differentiate between a constant rate at today's level ("Status quo" scenario) and an increase in the rate of the respective age group to the average of the three industrial countries with the highest rate ("The best 3" scenario) up to 2030. All in all, with the three different assumptions on the migration balance – 0, 100,000 and 200,000 persons per year – we thus consider six scenarios for the development of the labour force.

If only the purely demographic effect is calculated (net immigration of 0 from 2017; labour force participation rate as in the "Status quo" scenario), the labour supply shrinks by 35%, or about 15 million persons, up to 2050. However, such a slump is an unlikely prospect going forward.

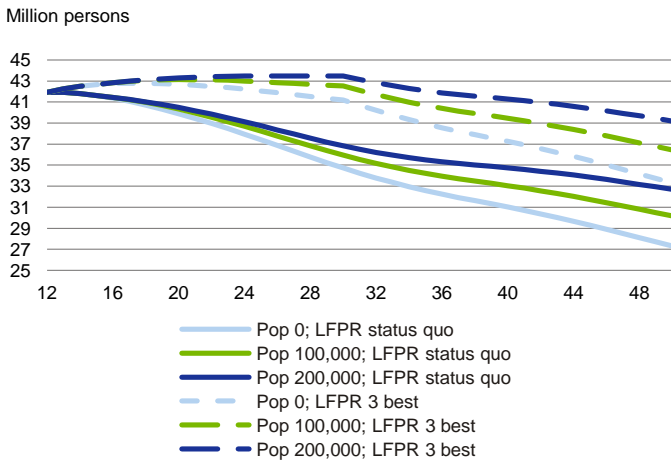
At the upper end of expectations is our most optimistic scenario with annual net immigration of 200,000 persons and increases in the labour force participation rates according to "The best 3" scenario. It sees the labour force increasing up to the beginning of the 2030s. Since the participation rate will probably cease to climb further after reaching the international peak readings and the negative demographic effect is greater than the positive immigration effect, the size of the economically active population will subsequently shrink steadily even in this scenario. In 2050 the labour force is likely to number roughly 3 million persons less than the roughly 42 million counted in 2012. The decline results from the demographic effect (-15 million persons), immigration (+5 m) and the higher labour force participation rate (+7 m).



Focus Germany

Scenarios for the development of the labour force

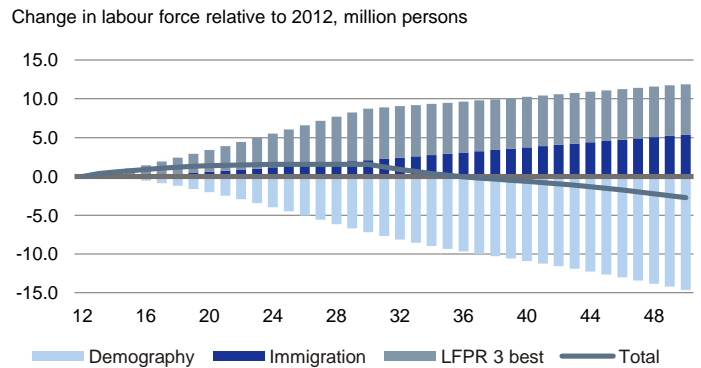
13



Sources: Federal Statistical Office, DB Research

Demographic effect dominates in the longer run even in our most optimistic scenario

14

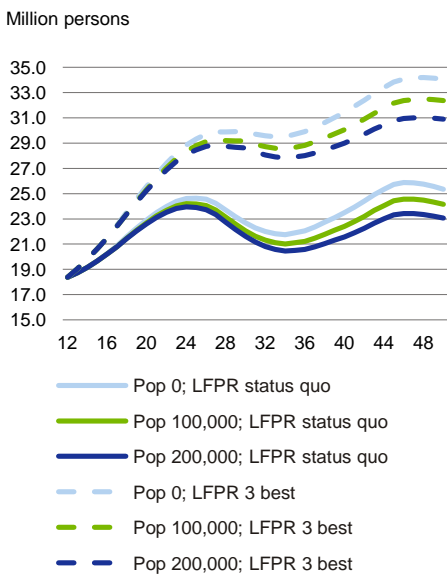


Based on our population projection with net immigration of 200,000 and an increase in the labour force participation rate to that of the 3 best up to 2030

Sources: Federal Statistical Office, DB Research

Labour force: Share of seniors (55+)

15



Sources: Federal Statistical Office, DB Research

Share of seniors in the labour supply is set to jump

The demographic shift is also altering the age structure of the labour supply. The smaller the degree of net immigration and the larger the seniors' participation in the labour force, the greater will be the seniors' share in the labour supply. The age 55-plus share in the labour force will span a range of 23% to 34% in 2050, and thus in all scenarios far outstrip the 18% posted in 2012.

The examined scenarios underscore that even on optimistic assumptions the labour supply will probably shrink in the long term and the share of seniors in it will climb noticeably.

Employment set to decline from about 2030 even on optimistic assumptions

Up to now we have only looked at the labour supply side. The question of how employment and unemployment will develop in future will hinge on their interaction with the demand for labour. There is much greater uncertainty harboured in a long-term projection of labour demand than there is in a corresponding projection of supply.⁹ Labour demand will depend mainly on how Germany's appeal develops as a place for doing business.

In the interplay with labour supply labour demand determines the natural unemployment rate. For our long-term projection we choose two scenarios for the development of the natural or structural unemployment rate, which also sets out the path of employment growth using the relationship employment rate = 100 – unemployment rate.¹⁰ In this context, we estimate the structural unemployment rate on the basis of professional or vocational qualifications. In the first scenario we assume that in future German companies will intensify their efforts to recruit staff and improve their qualifications when the labour supply starts to ebb and that this in turn will cause the unemployment rate of skilled labour to decline from about 4 ½% in 2012 to the full-employment level of 3% by the end of the 2020s. By contrast, integrating unskilled labour into the labour market is likely to remain a challenge in the face of further increasing

⁹ SVR (2009). Herausforderungen des demografischen Wandels, Expertise Mai 2011.

¹⁰ In this instance we assume that there is a corresponding degree of demand for labour.

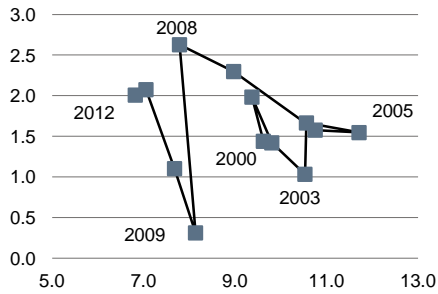


Focus Germany

Unemployment & inflation

16

x-axis: unemployment rate, %
y-axis: inflation, % yoy

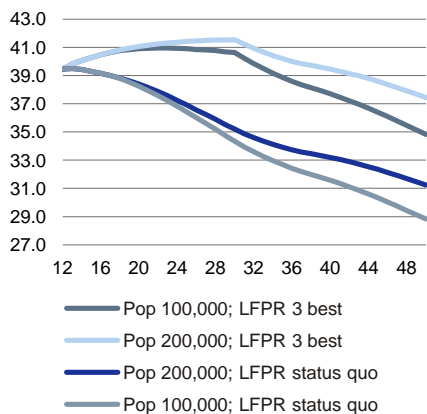


Sources: Deutsche Bundesbank, DB Research

Employment projections

17

Million persons



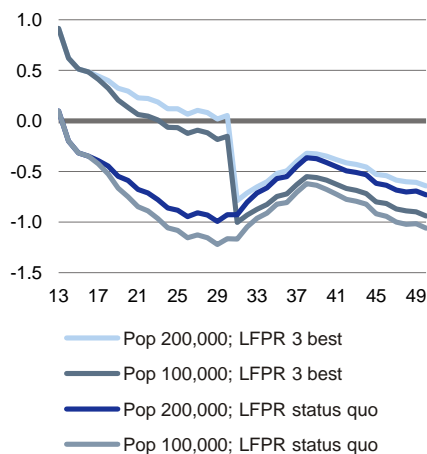
Assumption: Natural rate of unemployment decreases from 5.9% (2012) to 4.5% (2030)

Sources: Federal Statistical Office, DB Research

Trend growth of employment

18

% yoy



Assumption: Natural rate of unemployment decreases from 5.9% (2012) to 4.5% (2030)

Sources: Federal Statistical Office, DB Research

globalisation pressures and the continued action of skill biased technological change. We keep the unemployment rate of this group constant for the duration of the projection period at about 14 ½%. On these assumptions, the structural unemployment rate falls from about 6% in 2012 to 4 ½% at the end of the 2020s.¹¹

In the alternative scenario we assume that the unemployment rate remains constant at the current level of about 6%. This value is more or less equal to the NAIRU.¹² Over time, however, this may change relatively strongly if there are structural breaks. Since the labour market reforms of the mid-2000s the NAIRU has been on the decline.

The range of the employment trend then depends on the development of the labour force and the assumptions on unemployment rates. Disregarding the scenario with a migration balance of zero, which was only considered in order to illustrate the demographic effect, the most optimistic labour force scenario (taking the participation rate from “The best 3” and a migration balance of 200,000 p.a.) indicates that employment will initially continue to climb until 2030 thanks to the higher participation rate and the easing of the unemployment rate to 4 ½%, but it will subsequently retreat again even in this scenario. In 2050, employment will be about 5%, or 2 million persons, below the level of 2012. In the scenario with a constant participation rate (“Status quo”) and an annual migration balance of 100,000 persons the employment level declines steadily, falling by around 11 million persons, or 27%, up to 2050.¹³

Conclusion: Subdued outlook

The trend growth of employment is set to turn negative in the coming decades because of demographic factors. Exactly when this happens will depend on what action will be taken – and above all on the extent of the action – to ameliorate the demographic effects. Even in our most optimistic scenario, which provides for more or less full exploitation of the potential labour pool and a net immigration of 200,000 persons per year up to 2030, the effects can only be offset as long as the measures are carried out. Subsequently, the trend will return to its underlying path. Moreover, the adjustments assumed in this scenario are gigantic. This involves Germany's catching up to the respectively leading countries as regards entry into and exit from the labour force and the employment of women and mothers. Japan, for example, has the highest labour force participation rate for persons over 65 years of age, and the actual retirement age of Japanese men was a notable 69.3 in 2011! Even though the average retirement age in Germany also rose in the past year – to a peak of 61 – much remains to be done when one looks at the adjustments required under the mapped-out scenario. Thus, the scenario builds on the assumption of a societal and political consensus for necessary measures which probably should

¹¹ The unemployment rates (ILO definition) are based on the microcensus data and deviate from the IAB's skill-specific unemployment rates (Federal Employment Agency definition) because of differences in their approaches. According to the IAB, the unemployment rate for skilled workers was 5.1% in 2011, and the rate for the unskilled 19.6%. See Weber, B., and Weber, E. (2013), *Bildung ist der beste Schutz vor Arbeitslosigkeit*, IAB-Kurzbericht 4/2013.

¹² See OECD (2013) *Economic Outlook 93, Annual Projections*; De la Serve, M-E., Lemoine, M. (2011), *Measuring the NAIRU: a complementary approach*, Banque de France Working papers 342; Kajuth, F. (2010), *NAIRU estimates for Germany: new evidence on the inflation-unemployment trade-off*, Deutsche Bundesbank, Discussion Paper 19/2010; Fitzenberger et al. (2008), *The Phillips Curve and NAIRU Revisited: New Estimates for Germany*, *Jahrbücher für Nationalökonomie und Statistik*, 228 (5+6), pp. 465-496.

¹³ For the alternative scenario with a constant unemployment rate, the employment estimate for 2050 – depending on which labour force scenario is chosen – ranges between 380,000 and roughly 490,000 persons below the employment projections given in Chart 16. Since the trend does not fundamentally differ over time in qualitative terms, no representation was considered necessary.



not be simply taken for granted, as evidenced by the ongoing debate about the statutory retirement age being raised from 65 to 67 in the next three decades. True, there is a chance that the unemployment rate will decline on a longer-term horizon. However, there are limits (to the downside) and thus also on employment (to the upside), because given the increasing international competition and the unbroken effect of skill biased technical change, the unemployment rate for the low-skilled, especially those without any vocational certification, is unlikely to decline much at all.

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

Scenario results

| Variation | Population | | Labour force | | | | Employment | | | |
|------------------------|-----------------|----------|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | Net immigration | | Age-specific labour force participation rates | | | | Natural unemployment rate | | | |
| | 100,000 p.a. | | "Status quo" ^c | "The best 3" ^d | "Status quo" ^c | "The best 3" ^d | Scenario 1 ^f | Scenario 2 ^g | "Status quo" ^c | "The best 3" ^d |
| | Total | Age: 15+ | Labour force participation rate, % | | | | "Status quo" ^c | "The best 3" ^d | "Status quo" ^c | "The best 3" ^d |
| Variant 1 ^a | | m | m | m | m | m | m | m | m | |
| 2012 | 80.4 | 69.9 | 41.9 | 41.9 | 60.0 | 60.0 | 39.5 | 39.5 | 39.5 | 39.5 |
| 2015 | 80.4 | 70.1 | 41.6 | 42.7 | 59.4 | 60.9 | 39.3 | 40.3 | 39.3 | 40.2 |
| 2020 | 79.6 | 69.6 | 40.3 | 43.1 | 58.0 | 62.0 | 38.2 | 40.9 | 38.0 | 40.7 |
| 2025 | 78.3 | 68.7 | 38.2 | 42.9 | 55.7 | 62.5 | 36.4 | 40.9 | 36.1 | 40.5 |
| 2030 | 76.9 | 67.6 | 35.9 | 42.5 | 53.2 | 62.9 | 34.3 | 40.6 | 33.9 | 40.1 |
| 2035 | 75.3 | 66.4 | 34.2 | 40.7 | 51.5 | 61.2 | 32.7 | 38.9 | 32.3 | 38.4 |
| 2040 | 73.4 | 65.1 | 33.1 | 39.5 | 50.8 | 60.6 | 31.6 | 37.7 | 31.2 | 37.2 |
| 2045 | 71.3 | 63.5 | 31.7 | 38.1 | 50.0 | 60.0 | 30.3 | 36.4 | 29.9 | 35.9 |
| 2050 | 69.1 | 61.6 | 30.2 | 36.4 | 49.0 | 59.1 | 28.8 | 34.8 | 28.4 | 34.4 |

| Variation | Population | | Labour force | | | | Employment | | | |
|-----------|------------------------|----------|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 200,000 p.a. | | "Status quo" ^c | "The best 3" ^d | "Status quo" ^c | "The best 3" ^d | Scenario 1 ^f | Scenario 2 ^g | "Status quo" ^c | "The best 3" ^d |
| | Total | Age: 15+ | Labour force participation rate, % ^e | | | | "Status quo" ^c | "The best 3" ^d | "Status quo" ^c | "The best 3" ^d |
| | Variant 2 ^b | | m | m | m | m | m | m | m | m |
| 2012 | 80.4 | 69.9 | 41.9 | 41.9 | 60.0 | 60.0 | 39.5 | 39.5 | 39.5 | 39.5 |
| 2015 | 80.4 | 70.1 | 41.6 | 42.7 | 59.4 | 60.9 | 39.3 | 40.3 | 39.3 | 40.2 |
| 2020 | 79.8 | 69.8 | 40.5 | 43.3 | 58.0 | 62.0 | 38.4 | 41.1 | 38.2 | 40.8 |
| 2025 | 79.1 | 69.3 | 38.7 | 43.5 | 55.9 | 62.7 | 36.9 | 41.4 | 36.5 | 41.0 |
| 2030 | 78.3 | 68.8 | 36.8 | 43.5 | 53.6 | 63.3 | 35.2 | 41.5 | 34.7 | 41.0 |
| 2035 | 77.3 | 68.1 | 35.5 | 42.1 | 52.2 | 61.8 | 33.9 | 40.2 | 33.5 | 39.7 |
| 2040 | 76.1 | 67.3 | 34.7 | 41.3 | 51.7 | 61.4 | 33.2 | 39.4 | 32.8 | 38.9 |
| 2045 | 74.7 | 66.3 | 33.9 | 40.4 | 51.1 | 61.0 | 32.3 | 38.6 | 31.9 | 38.1 |
| 2050 | 73.1 | 65.0 | 32.7 | 39.2 | 50.3 | 60.3 | 31.2 | 37.4 | 30.8 | 37.0 |

Assumptions for population projections: fertility rate 1.4; medium increase in life expectancy

a) Net immigration 100,000 p.a.

b) Net immigration 200,000 p.a.

c) Constant age-specific labour force participation rates

d) Age-specific labour force participation rates increase to the average of the 3 industrial countries with the highest rates

e) As % of persons aged 15+

f) Natural unemployment rate declines from almost 6% to 4.5% in 2030

g) Constant natural unemployment rate

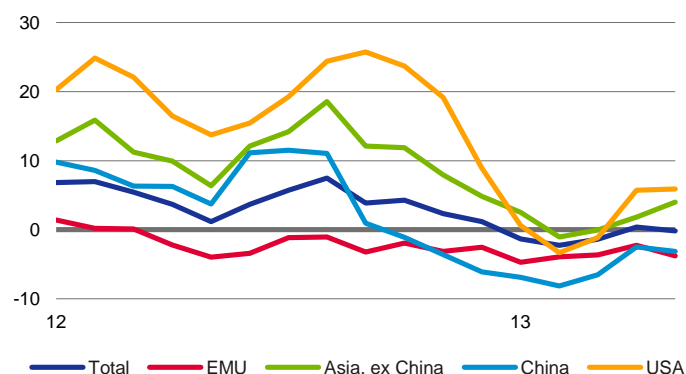
Sources: Federal Statistical Office, DB Research



Chart of the month

Exports to the US (and to a lesser extent to Asia) seem to be regaining some momentum

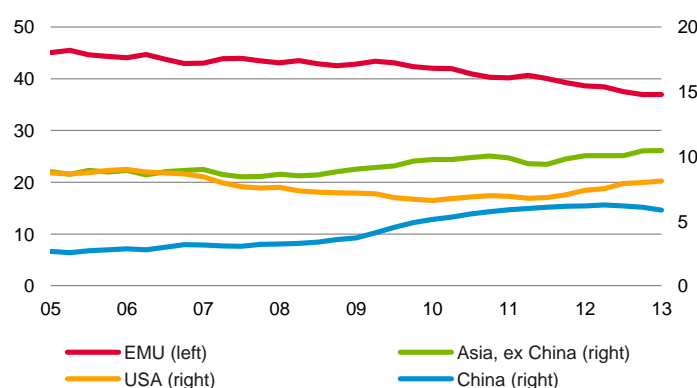
German merchandise exports, % yoy, 3M moving average



Sources: Deutsche Bundesbank, DB Research

US export share is recovering, while the Chinese share could have peaked

Share in German merchandise exports by region/country, %, 3Q mov. avg.



Sources: Deutsche Bundesbank, DB Research

Does Uncle Sam want more German goods?

The 2013 GDP growth forecast for Germany – as for most other countries – is predicated on a recovery of world trade in the second half of the year. Even though ifo export expectations, for instance, point to a tentative recovery, little evidence of it is visible either in total German merchandise exports to date or foreign order intake where the trend has been flat in recent months. Though the export growth rate fluctuated very noticeably in recent months, on a moving average exports were nearly unchanged in May in a year-on-year comparison.

For several regions, at least, German exports are showing slight indications of a more positive trend. For example, exports to the United States have recovered significantly from the negative growth rates of early 2013, and were up by close to 6% on the year in April and May (smoothed). To a somewhat lesser degree this also holds for exports to Asia (excluding China), while exports to China have shrunk at least more slowly of late in year-on-year terms. Exports to the EMU area continue to fall at roughly the same pace as before.

The somewhat more positive trend in exports to Asia and the US of the last three months should still be viewed with circumspection though, since: 1) monthly fluctuations are pronounced and generally need to be interpreted with caution. This holds in particular for the German exports to the US where the impressive rebound in the yoy-rate is at least in part a combination of two very strong months (mom exports rose by 4.4% in March and 3.8% in April, but fell again by 3% in May) and a basis effect; 2) in May there was still no pick-up in total exports despite better exports to US and Asia; 3) export orders are trending down according to the purchasing manager survey (PMI), in contrast to the somewhat positive ifo index; 4) Deutsche Bank recently reduced its growth forecast for China slightly; and 5) as exports to the US have increased (from the automotive sector in particular), pretty high hopes are being pinned on their contribution to growth. While we believe that US GDP growth is set to accelerate in the second half of the year, the first half proved somewhat disappointing and the debate over when the Fed may start to taper quantitative easing could also leave its imprint. Furthermore, US imports in H1 actually fell somewhat suggesting that the better German exports to the US were due to specific German (possibly one-off) factors rather than generally higher US demand. In



total, while we expect German export growth to pick up in H2 it is likely to remain dampened especially given the domestic demand weakness in EMU.

German export growth was decisively shaped by the destinations of the US and Asia in 2012. In that year, close to 70% of Germany's 3.4% export growth was attributable to those regions; this was their largest contribution in the past 10 years by far.¹⁴ The chart on the left shows, however, that this was mainly due to the increase in the first half of the year. In H2, the growth of exports to the US in particular decelerated from over 20% (yoy) and turned slightly negative. As demand from the EMU partner countries has been falling constantly, this slammed the brakes on Germany's export performance. The discussed acceleration in exports to the US and Asia should again make these regions the main drivers of German export growth in 2013.

Given the differing dynamics between the regions their shares in German exports have also shifted. Thanks to the economic recovery in the US the share of exports to the US seems to be returning to above 8% again, after having declined to below 7% in 2009. By contrast, the growth in the share of exports to China has probably come to a standstill. During the past few (crisis) years this share increased to just over 6%, but recently (Q1 2013) it has slipped below this level again. Part of the reason might be that China's GDP growth has eased and the Chinese government now attaches less importance to investment-driven growth. This could weigh on German engineering exports, for example. Nonetheless, the growing significance of Asia for German exporters is probably not in jeopardy. If exports to China are stripped out, the share of exports to Asia has gradually increased since 2008, and at last reading was at 10%. The cumulative increase in the three regions is set against an even larger decrease in the EMU share. Since early 2008 the latter has declined from over 43% to 38% most recently, since many EMU countries are in the throes of recession.

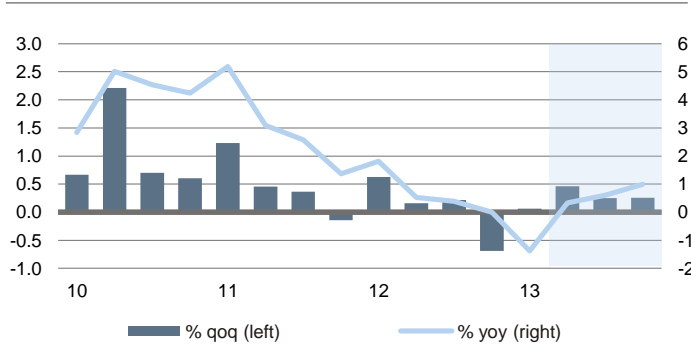
Oliver Rakau (+49 69 910-31875, oliver.rakau@db.com)

¹⁴ See also: Germany's 2012 export growth hinges on a few sectors and regions. Talking Point. November 27, 2012.



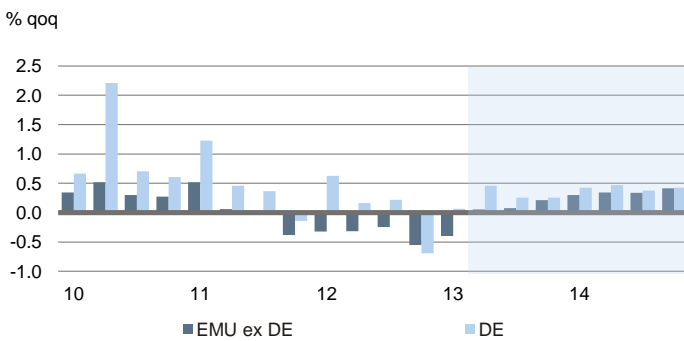
Chartbook: Business cycle (1)

Real GDP growth



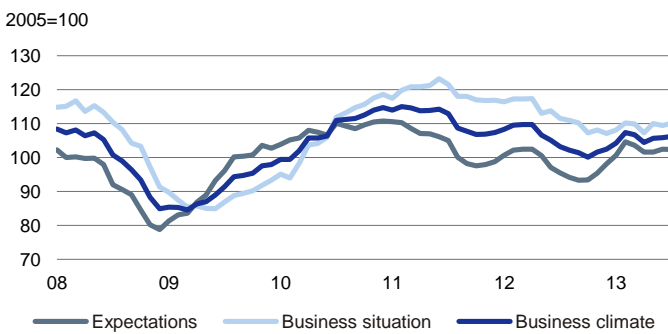
Sources: Federal Statistical Office, DB Research

GDP growth: DE vs EMU



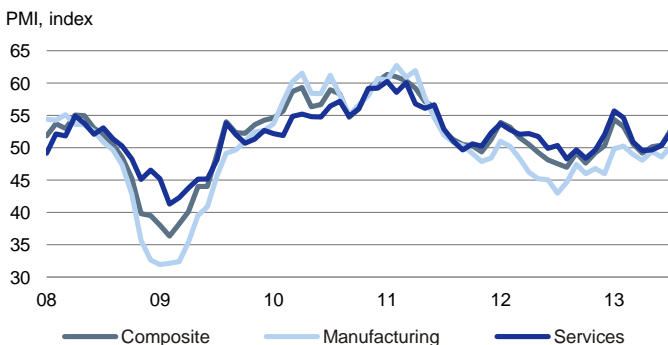
Source: Eurostat

Ifo index - total economy



Source: ifo

Purchasing Manager Index



Source: Markit

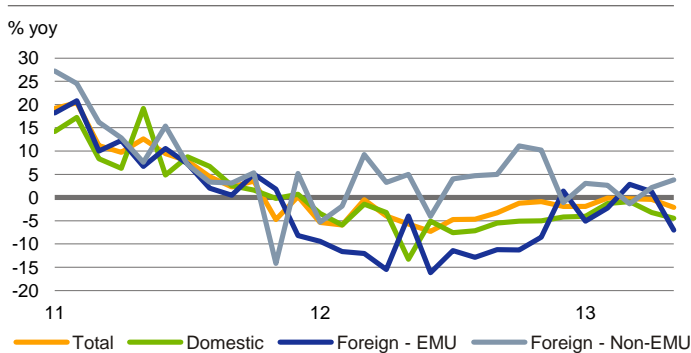
- In Q1 GDP expanded by a lower than expected 0.1% qoq. Still, following -0.7% in Q4 this should have marked the trough. After strong GDP growth in Q2 driven by a weather related catch-up effect growth should follow its trend line in H2. Due to the statistical underhang our GDP forecast for 2013 is only +0.1%.
- The negative yoy rate in Q1 was due to a working day effect and hence overstates the weakness.
- Economic growth in 2013 is likely to be supported by consumption. Net exports and investment in machinery & equipment will subtract from growth.
- Considering the remaining adjustment needs in several EMU countries the EMU economy should remain in recession in H1 2013 and set out on a very low growth trajectory thereafter.
- Despite the recovery in H2 EMU GDP should decline by 0.6% in 2013 compared to -0.5% last year. *The risks to this forecast have become more evenly distributed recently.*
- The ifo index rose moderately in July – the third increase in a row. While the assessment of the current situation improved, expectations saw a miniscule decline. This marks a good start into Q3. At their current level expectations point to around 0.5% qoq GDP growth in Q3.
- The marked increase in the ifo's retail index compensated for the small fall of the construction index. However, the two sub-indices are clearly above their long-term averages, which points to robust domestic demand growth. At the same time the manufacturing ifo was unchanged at a level slightly above its historic average, which is a reflection of weak global trade.
- The composite PMI rose markedly in July narrowing the gap to the ifo index, which had been somewhat more optimistic than the PMI lately. However, it has not regained the high levels seen in January/February.
- The manufacturing PMI moved back into expansionary territory in July (50.3 vs. 48.6 prev.). New orders improved (50.6), too. However, export orders continued to decrease albeit at a slower pace (48.3 vs. 47.0).
- The services PMI rose even more strongly than the manufacturing index (52.5 vs. 50.4 prev.) with marked improvements in the new business, expectations and employment sub-components, but also in input prices.



Focus Germany

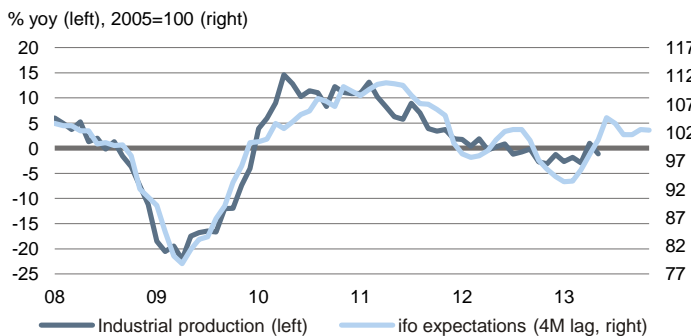
Chartbook: Business cycle (2)

New manufacturing orders



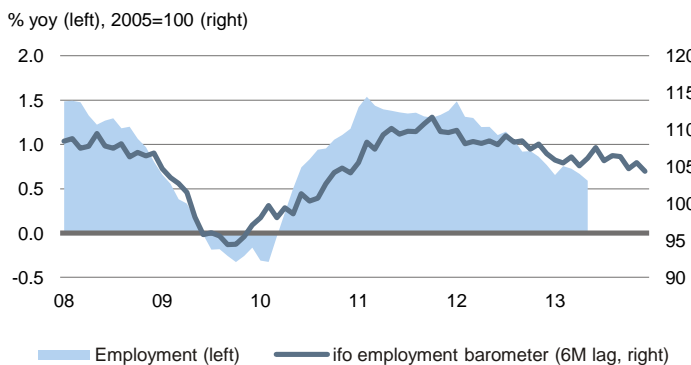
Source: Federal Statistical Office

Industrial production and ifo expectations

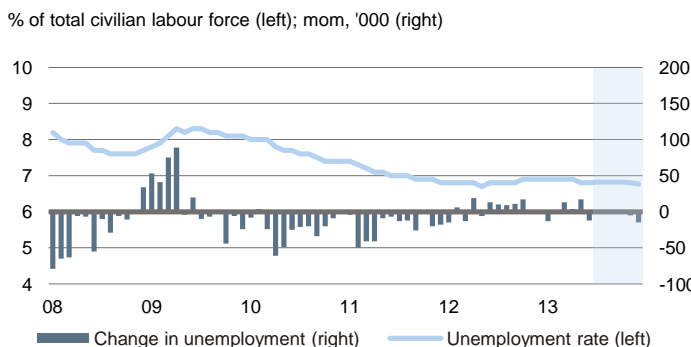


Sources: ifo, Federal Statistical Office

Employment and ifo employment barometer



Unemployment



Sources: Federal Employment Agency, DB Research

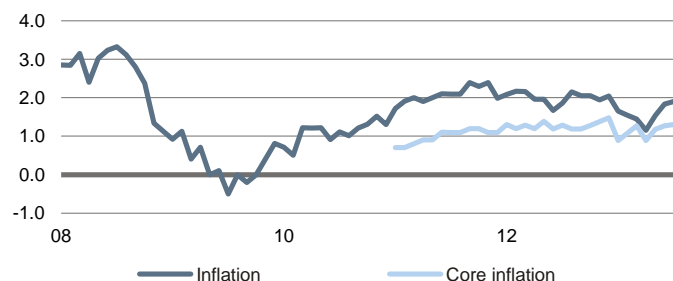
- The order intake in 2013 so far does not point to a strong recovery of the industry over the course of the year. After already declining strongly in April (-2.2% mom) orders fell again by 1.3% mom in May, thereby largely reversing the order increases of the previous months. Compared to the previous year the order level remained negative in May.
- Data has been strongly influenced by big-ticket orders and business surveys (ifo, PMI) point to further moderate order increases. However, surveys have painted a too rosy picture lately. Therefore, we only expect a shallow recovery in orders going forward.
- Industrial production fell by 1.0% mom in May. However, production rose strongly in the months before. The 2.0% plus in April was markedly influenced by a weather related bounce-back in construction (+8.3%). In addition, May data was likely influenced by negative bridging day effects.
- In Q2 industry should contribute strongly to overall GDP growth. Based on data from April and May this is largely due to rising output of investment goods (Q2 to date: +4.6% qoq), while consumer goods (+0.1%) and intermediate goods (+0.7%) should contribute only modestly.
- The weak economic development in the winter half (GDP growth Q4 -0.7% qoq; Q1 +0.1% qoq) currently weighs on the labour market since it is lagging economic activity.
- While employment grew by 1.2% yoy in May 2012, there was only an increase of 0.6% in May 2013. The level of employees subject to social security payments is up 1.3% yoy.
- Given the small mom-increases employment continues to mark record highs (41.8 m).
- In June the number of unemployed persons fell by 12k after having increased by 11k on average in the previous three months. Despite the small increase over the past months the unemployment rate stood at 6.8% in May and June compared to 6.9% before. The decline was due to the annual update of the labour force (the basis of the rate) resulting in an increase of 580k on a year ago.
- Leading indicators improved in July, but still more or less point to a sideways trend in the coming months. We expect the labour market to improve in autumn 2013. Still, the unemployment rate should increase slightly to 6.9% in 2013 after 6.8% in 2012.



Chartbook: Business cycle (3)

Inflation rate and core inflation rate

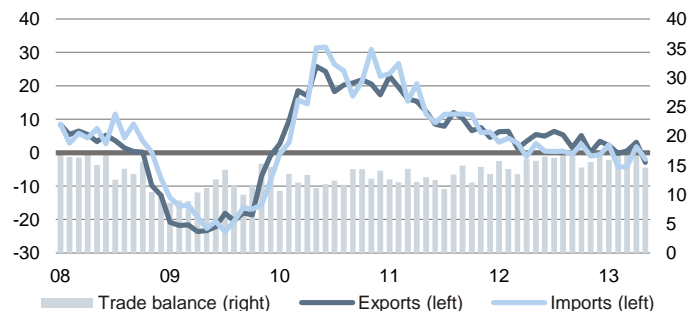
% yoy (core inflation only available since 2011 due to alteration in statistical collection)



Source: Federal Statistical Office

Merchandise trade

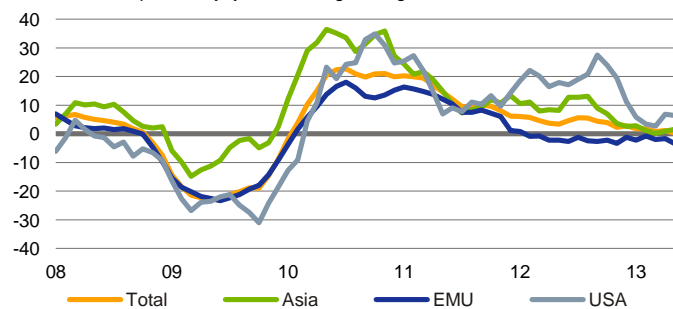
% yoy (left), EUR bn (right)



Source: Deutsche Bundesbank

German merchandise exports by destination

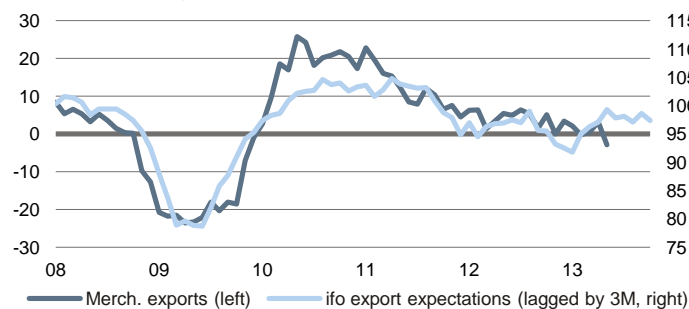
Merchandise exports, % yoy, 3M moving average



Source: Deutsche Bundesbank

Exports & ifo export expectations

% yoy (left), index (right)



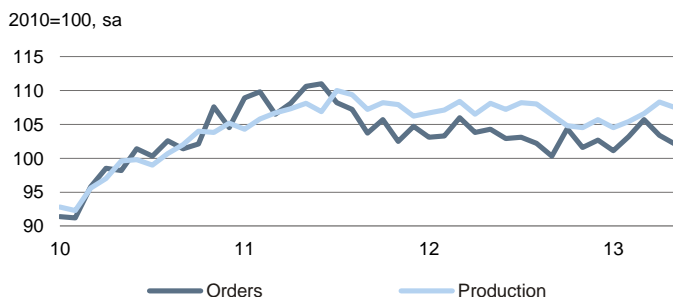
Sources: Deutsche Bundesbank, ifo

- Inflation rose to 1.9% yoy in July from 1.8% in June (April: 1.2%). The increase in July came on back of food inflation picking up further from 5.4% to 5.7%. That increase was due to a base effect, though, as food prices actually fell slightly in July compared to June. Contrary to that core inflation (excl. energy and food) remained low at 1.3% yoy in July according to our calculation.
- Given the moderate GDP growth and the stabilisation of oil prices, consumer price inflation will probably be muted over the coming month. We expect an average inflation rate of 1.4% yoy in 2013. However, despite the reversal of the base effect food price present an upside risks due to unstable weather conditions and floodings.
- The trade balance surplus shrank strongly in May from EUR 17.5 bn to EUR 14.1 bn. This is the lowest level since December 2011. Exports fell markedly in May (-2.4% mom), while imports rose for the third month running (+1.6%).
- Compared to the previous year exports (-4.8%) and imports (-2.6%) were substantially higher which was in part due to bridging day effects. In the period from Jan. to May exports stagnated (-0.3% yoy), while imports were down 1.7% due to lower energy imports. The difference is partly due to the fall in import prices (Jan/May: -2.2% yoy) combined with nearly stable export prices.
- German exports moved broadly sideways lately as exports to Asia (especially China) and the US slowed strongly since mid-2012 and, therefore, could not compensate the persistent declines in exports to the EMU anymore. At the current juncture there are tentative signs that exports to the US and Asia are picking up again, while exports to EMU continue to decline.
- Since the onset of the euro crisis EMU's share in German exports has dropped by almost 10 percentage points to around 37% (Asia 16% and the US 8%), as the crisis economies have reduced their imports from Germany significantly since 2008 (2012 – Spain: -36%; Italy: -10%; Portugal: -24%).
- While moderating in July after a decent increase in June ifo export expectations remained above their Q2 average. This points to a modest acceleration of exports over the coming months. However, the new export component of the German and global PMI (< 50) do not herald a strong rebound in global trade.
- In the coming months import growth might be slightly higher than export growth due to the stabilisation of commodity prices, the end of destocking, the high level of employment and increases in real income.
- The growth contribution from net exports was just above zero in Q1, but is still likely to turn negative in 2013.



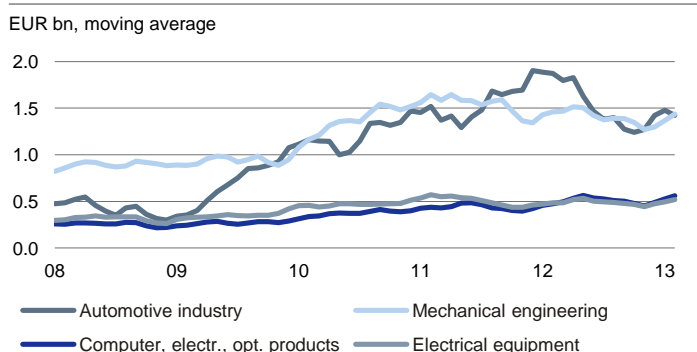
Chartbook: Sectors

Manufacturing: Output and order intake



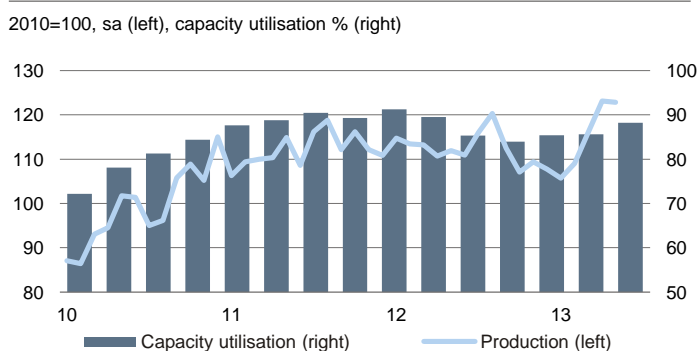
Source: Federal Statistical Office

German exports to China by sector



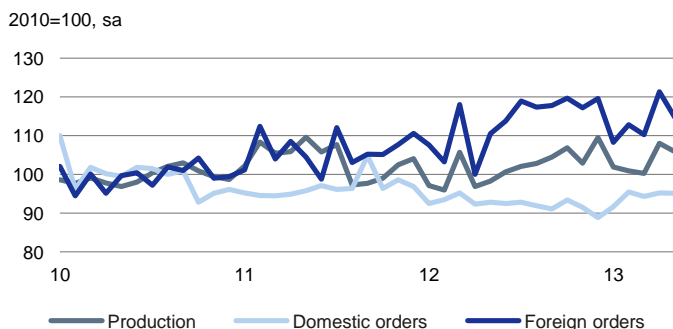
Source: Federal Statistical Office

Car industry: Production and capacity utilisation



Sources: Federal Statistical Office, ifo

Pharmaceutical industry: Production and order intake



Source: Federal Statistical Office

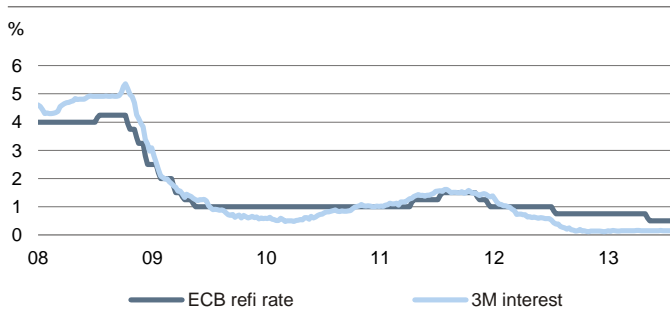
- Industrial production in Germany was 2.2% higher in March-May 2013 compared to the average level of Dec. 2012-Feb. 2013. In the same period, order intake exceeded the level of the previous three months by 1.4%. However, orders have decreased two times in a row of late.
- German industry should benefit primarily from non-European demand the rest of 2013. Orders from the EMU have declined again recently.
- *We revised our forecast for industrial production in 2013 from stagnation to +1% (2012: -1%) due to strong automotive production.*
- China, an important export market for German companies, showed some weaknesses in 2012. Accordingly, German automotive and mechanical engineering industry had to accept a significant decline in their exports to China.
- Since the beginning of 2013, however, exports of these sectors to China have recovered again – despite mixed messages from the Chinese economy. Exports to China will thus support domestic production in 2013. This holds also for exports of the automotive and the mechanical engineering industry to the US which have risen since the beginning of 2013.
- In May 2013, German automotive industry maintained the high production level of the previous month. Real output was 12.3% higher in March-May 2013 compared to the average level of the three preceding months.
- *Due to this unexpected strong upswing – mainly driven by exports and the commercial vehicles segment – we revised upwards our production forecast significantly from -2% to +4%.*
- Business expectations remain just above the zero line. Capacity utilisation has increased for the third time in a row in Q3 2013.
- The German pharmaceutical industry has been growing mainly due to foreign demand during the last few years. The domestic market has shown a weaker development due to stricter regulation.
- Since the beginning of 2013, domestic orders have improved (Jan.-May 2013 vs. Aug.-Dec. 2012: +3.3%). Foreign orders have increased, too, after a drop in the first months of 2013 (April/May vs. Feb./March 2013: +5.8%).
- All in all, we expect output in the pharmaceutical industry to increase by only 0.5% in full year 2013 due to the difficult environment in Germany.



Focus Germany

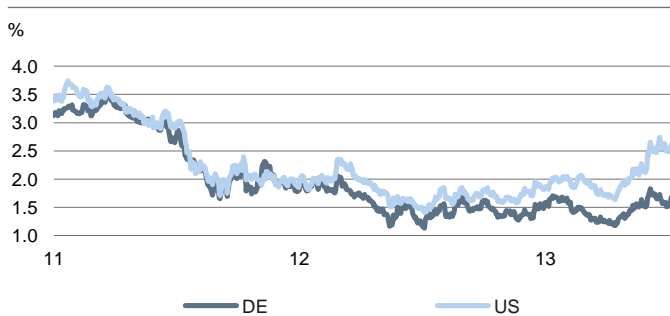
Chartbook: Financial markets (1)

EMU: Refi rate & 3M Interest



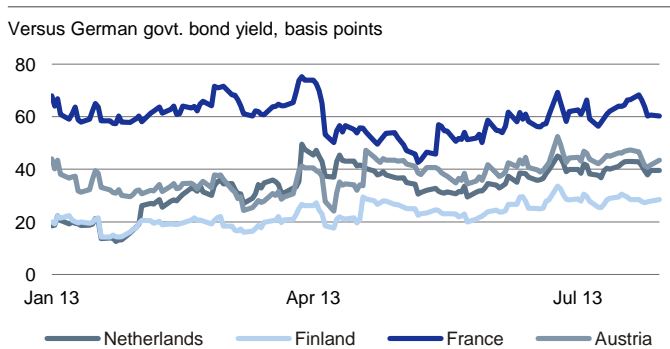
Sources: ECB, Global Insight

US and German government bonds: 10Y yields



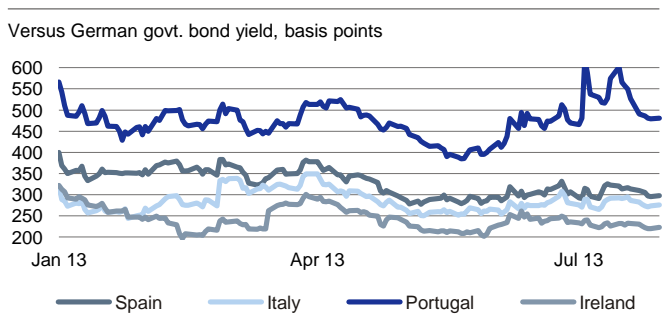
Source: Global Insight

EMU: Bond yield spreads



Source: Global Insight

EMU: Bond yield spreads



Source: Global Insight

- According to ECB president Draghi there were calls for further key interest rates cuts at the ECB meeting on July 4th. However, some “Northern countries” opposed it. Following similar measures by the Fed and BoE the ECB attempts to affect the yield curve by highlighting that the interest rates will remain on the current or lower level for an extended time period (forward guidance).
- Based on EURIBOR contracts the market expects 3mth to rise to 0.5% by end 2014 and to around 0.9% by end 2015. However, this had already been expected prior to Draghi’s forward guidance.

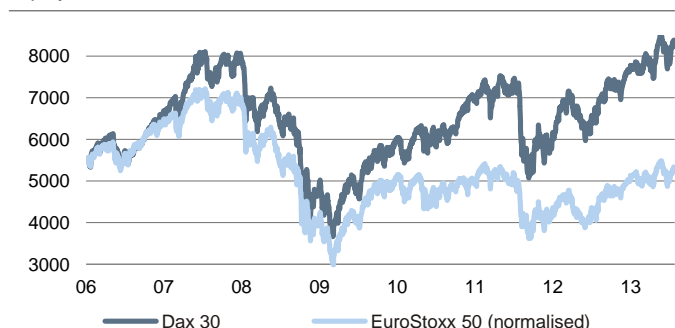
- Hints by Chairman Bernanke that the Fed might start slowing down its monthly purchases of USD 85 bn of treasuries and MBS in the coming months (“tapering”) and that it might stop the program altogether by mid-2014 increased the market volatility. Partly contradictory signals from the minutes of the Fed meetings and recent comments by Bernanke further increased the volatility. 10y treasury yields have risen from 1.6% at the beginning of May to 2.6% recently.
- German bund yields have also been pulled higher by the US sell off. Since early May yields increased from 1.2% to 1.7. The US/German yield spread more than doubled to around 100 bp.
- Triggered by the Fed’s tapering debate the global interest rate cycle seem to have turned. Yields of European countries climbed because of political uncertainty in Portugal, Greece, Italy and Spain.
- Since the beginning of May yields of the EMU core countries have increased by 50 to 60 bp. Compared to Germany the spread of France increased by about 10 bp and remained roughly constant in Austria, Finland and the Netherlands.

- 10y yields for Italy, Spain and Ireland have increased in the range between 30 bp (Ireland) and 55 bp (Spain) since early May, causing spreads over German bunds to widen for Italy (8 bp) and Spain (10 bp).
- Temporarily Portugal was hardest hit due to the political crisis. The spread increased by almost 150 bp between the beginning of May and mid-July. Since then the political situation calmed down and the spread fell by 120 bp.



Chartbook: Financial markets (2)

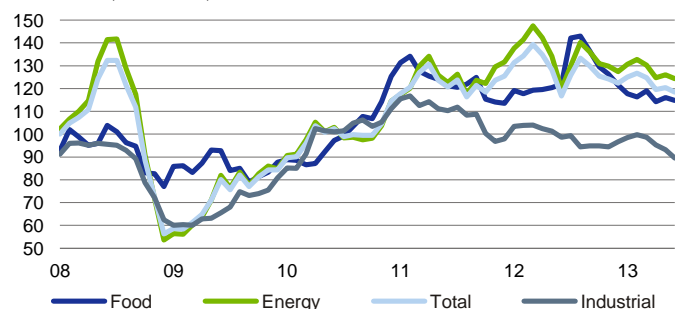
Equity indices



Sources: Global Insight, DB Research

Raw material prices

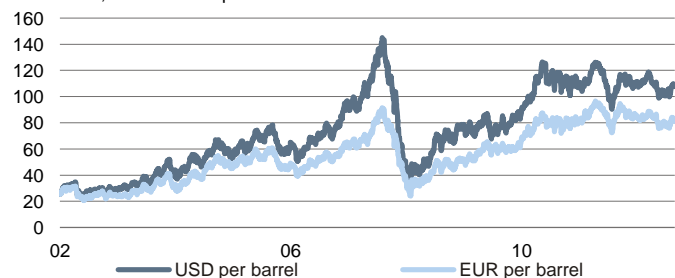
HWWI index, 2010=100, based on EUR



Source: HWWI

Oil price

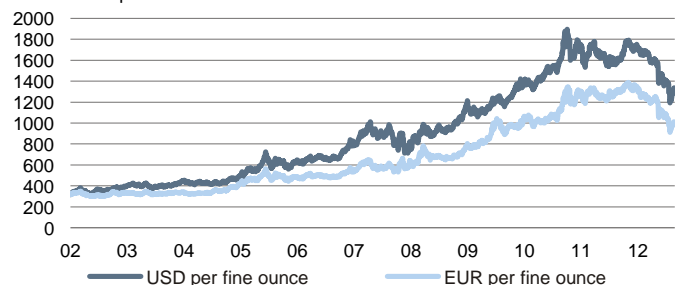
Brent Blend, USD or EUR per barrel



Sources: Global Insight, Reuters, DB Research

Gold price

USD or EUR per fine ounce



Sources: Global Insight, Reuters, DB Research

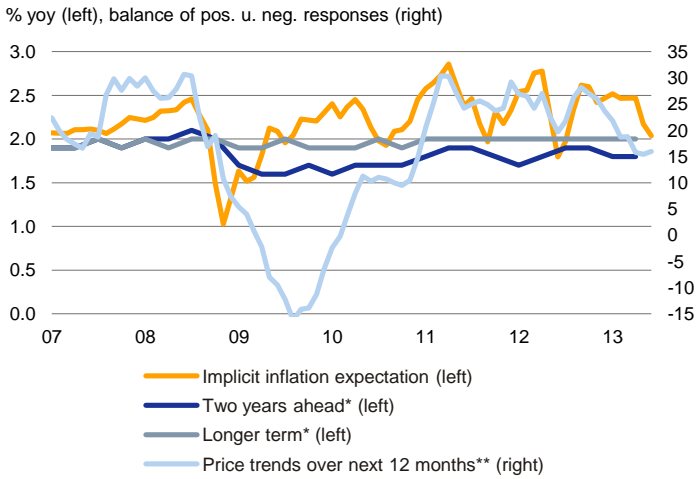
- Currently, the DAX stands at around 8,300 points. The DAX is holding up well lately, not least because of a lack of investment alternatives in the German sovereign bond market due to partly negative real interest rates. The difference between dividend and bond yields is currently at a high level.
- Currently the Q2 reporting season is in full swing showing that Europe remains below historic averages on the EPS and sales level. Initial data for the German Q2 reporting season were mixed (Sales +; EPS -; 27 companies). DAX-heavyweights disappointed. By contrast, US reporting meets consensus expectations and Asia surprises positively.
- Our equity strategists have a 2013 year-end target of 8000 for the DAX and 315 for the Stoxx600.
- Raw material prices have dropped strongly until the start of July given concerns about Chinese growth and the debate about Fed tapering, based on the perceived link between QE and inflows into commodities. Since we expect China and the global economy to pick up somewhat in H2 raw material prices could see a modest increase again.
- Since their peak last August food prices have dropped by almost 1/3. Although the decline has slowed during 2014 they are still around 20% lower than a year ago. Base effects will cause even bigger yoy declines in July and August. However, the food price component of the CPI increased in several EMU countries recently.
- In H2 2013 oil demand should increase in H2 2013 thanks to the recovery of the global economy. Additionally, supply-side factors (e.g. geopolitical risks, Iran) provide some upside risks.
- Due to the strong increase of oil supply thanks to the expansion of production of shale oil in the US our commodities analysts expect an oil price of USD 107 per barrel Brent in Q4 2013. Currently, the oil price amounts to about USD 100 per barrel Brent.
- Currently, the gold price stands at around USD 1,300 per fine ounce or more than 30% below the peak value of 2012 (Oct, 4, 2012; USD 1792 per fine ounce). This collapse has been triggered by the announcement of the Fed to taper off QE3 in the course of 2013, the increase of real interest rates, a stronger USD and abating concerns about inflation.
- Our commodities analysts expect the gold price to amount to USD 1,300 per fine ounce at Q4 2013. Nevertheless, the gold price is expected to decline yoy (eop) by the fastest pace since 1997.



Focus Germany

Chartbook: Financial markets (3)

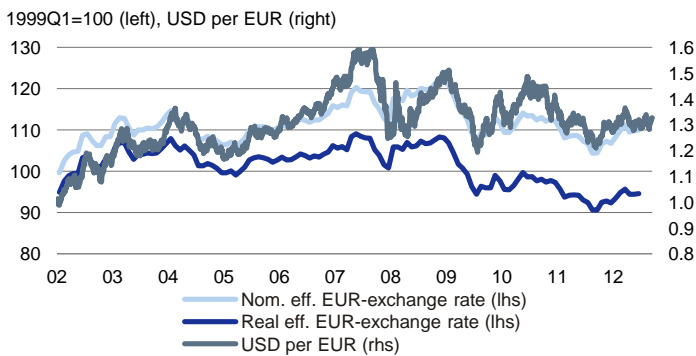
Inflation expectations Eurozone



* ECB Survey of Professional Forecasters, ** EC Consumer Survey

Sources: ECB, EU Commission, Bloomberg

Exchange rate development for the EUR



Sources: ECB, Reuters

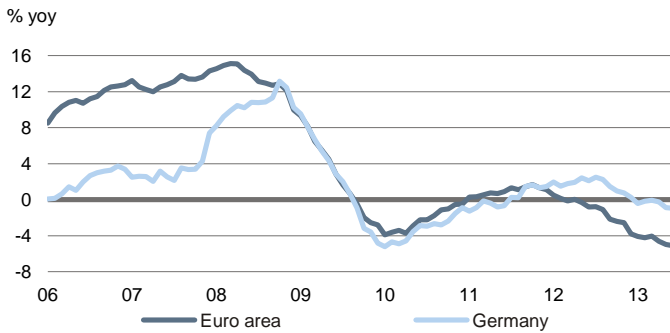
- Contrary to lingering inflation concerns in the general public the private forecasters of the ECB survey expect no increase of the EMU inflation rate. The expected inflation rate in 2 years and in 5 years has remained stable at 1.8% and 2.0%, respectively.
- The implied inflation rate for the next 10 years – calculated as the difference between the yield of 10Y German government bonds and the yield of inflation-protected bonds – hovers between 2 and 2 ½% since the beginning of 2011.
- However, the “implicit inflation expectation” may be biased. On the one hand the current real interest rates close to zero earned on an inflation protected bond is hard to reconcile with economic considerations. On the other hand nominal bond yields are depressed by massive purchases of several major central banks and still persistent flight to quality.
- After peaking at 1.37 in February EUR/USD has moved in a narrow 1.28-1.34 range during Q2. Recently, the partly contradictory comments by the Fed led to a relative volatile sideways movement.
- The USD should strengthen in H2 2013 due to the higher growth rate of the US economy of around 3% and Fed tapering later this year. According to our FX strategists the USD will probably appreciate to EUR/USD 1.23 end-Q4 (1.26 end-Q3). They see the current strength of the USD as the beginning of a multiyear uptrend and forecast that the USD will reach parity to the EUR by 2017.



Focus Germany

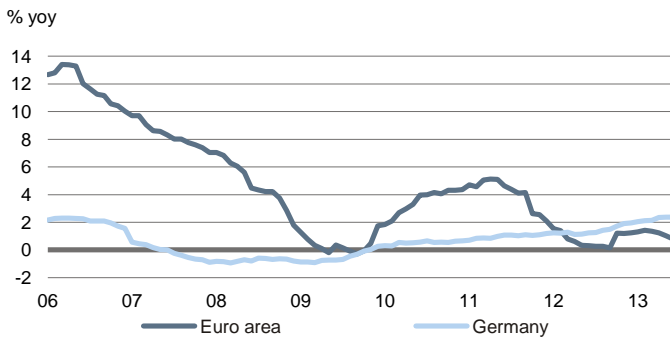
Chartbook: Financial markets (4)

Loans to companies



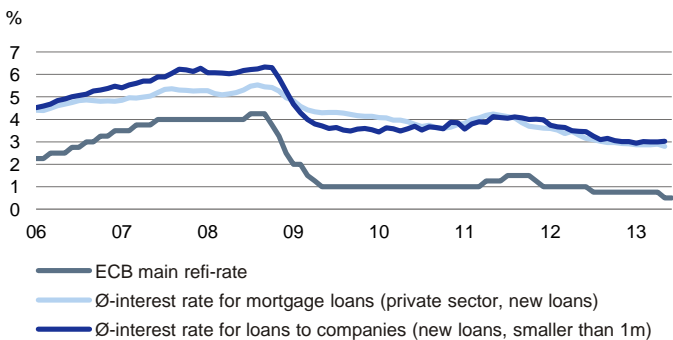
Sources: ECB, DB Research

Mortgage volumes



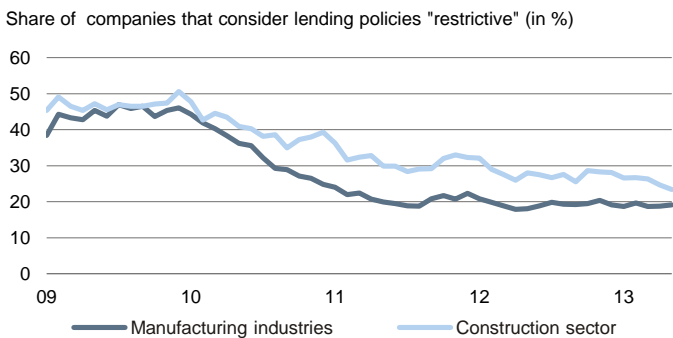
Sources: ECB, DB Research

Interest rates



Sources: ECB, Bundesbank

Lending standards



Source: ifo

- Growth in lending to German corporates has remained restrained in June (-0.9% yoy, EUR -8.6 bn).
- While the rate of reduction remains clearly below the euro area average, the slowdown in investment activity takes its toll on lending volumes. In addition, borrowings are partly substituted by corporate bond issuance.
- Contraction of corporate lending in the euro area continues at accelerated pace (-5.1% yoy in June) – mainly reflecting the bleak macroeconomic situation and ongoing deleveraging process in countries strongly affected by the crisis.

- June showed again solid growth in mortgage lending for Germany (+2.4% yoy, EUR +23.3 bn). Increases throughout Q2 consistently at pre-crisis levels but did not show further pronounced acceleration.
- Low interest rates coupled with stable income and labour market conditions bolster property demand by households.
- German mortgage growth is clearly above the euro area average (0.8% yoy in June).

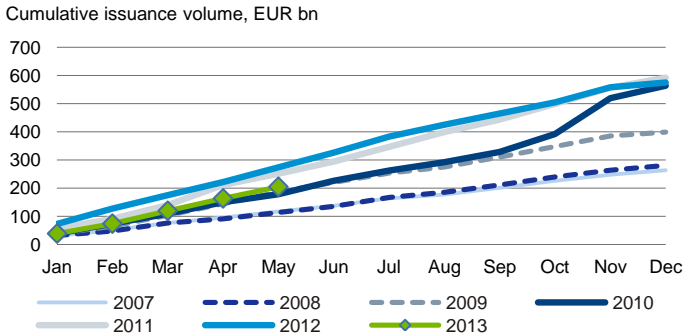
- Interest rates for mortgages and loans to corporates have remained at historic lows: 2.8% for mortgage loans in May and 3% for loans to companies.
- The generally low interest rate environment has allowed banks to refinance themselves at relatively low cost, which they partly pass on to clients.

- Corporates on average saw no problem with credit supply.
- The share of corporates from manufacturing industries that consider lending policies restrictive remains at very low levels in June (-1.2 ppt compared to previous months). Similarly, the share of construction companies taking a sceptical view on lending policies is at an historic low (-0.2 ppt).



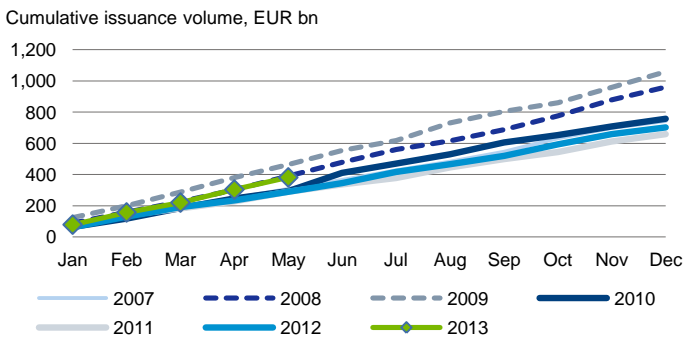
Chartbook: Financial markets (5)

Gross issuance of public debt securities



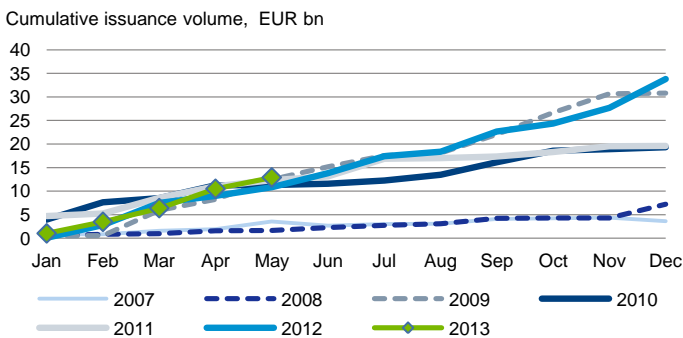
Sources: Bundesbank, DB Research

Gross bank debt issuance



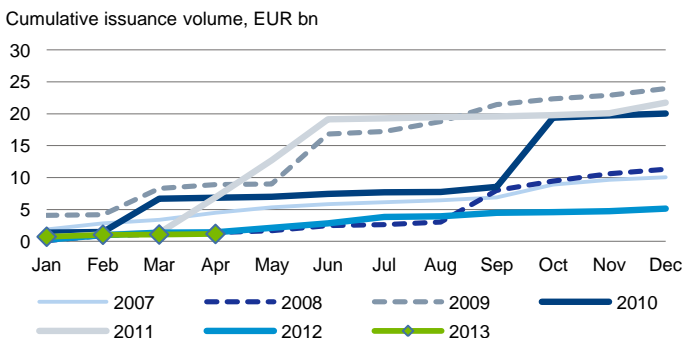
Sources: Bundesbank, DB Research

Gross non-bank corporate debt issuance



Sources: Bundesbank, DB Research

Gross equity issuance



Sources: Bundesbank, DB Research

- Issuance of debt securities by German public sector has remained subdued compared to the previous two years. Germany's Länder and the federal government issued around EUR 41 bn in May 2013.
- The figures lagged last two year's pace, amounting to EUR 204 bn in the first five months of 2013.
- German public sector still enjoys the safe haven effect.

- The strong bank bond issuance activity in 2013 persists in May with EUR 78 bn issuance volume.
- Issuance of bank debt securities picked up strongly in the first five months of 2013 by reaching EUR 382 bn, the highest cumulative amount since 2009.
- The fact that, bank bond yields dropped to the lowest levels since 2008 helped banks to raise funds at debt capital markets by improving their capital structure and liquidity.

- Corporations continued to tap the bond markets with EUR 2.4 bn issuance volume in May.
- Cumulative issuance activity in 2013 totalled around EUR 13 bn marking the highest issuance observed in the first five months to date.
- Pulling down the financing costs for corporations, search for yield in ultra-low interest rate environment seem to bring back the corporate bond issuance to the long term average of the last four years.

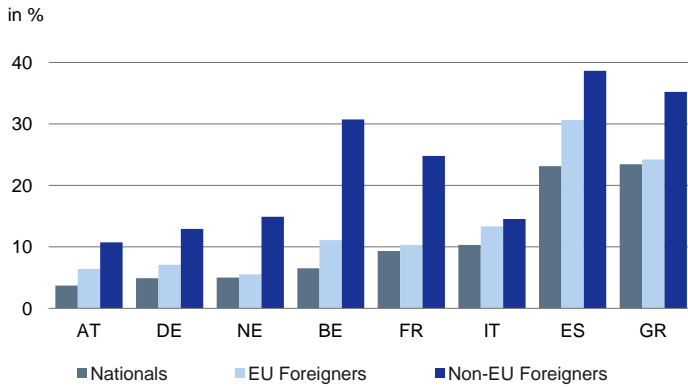
- Slight increase in issuance activity in April, with a value of EUR 93 m compared to the pre-year value of 66 m.
- Up to date amount raised by companies from equity capital markets remained contracted and was the lowest four-month total since 2006 with EUR 1.2 bn.



Focus Germany

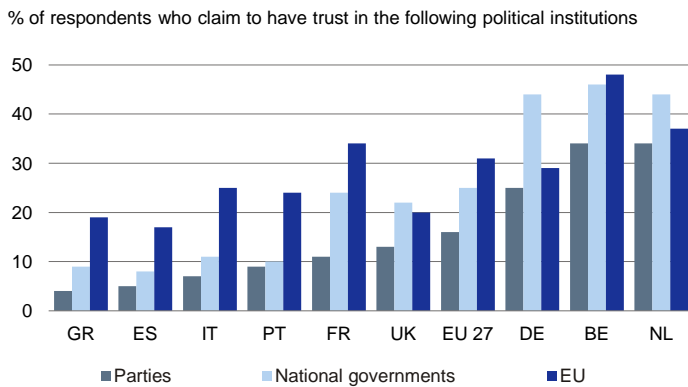
Chartbook: Economic policy

Unemployment in euro area countries by citizenship



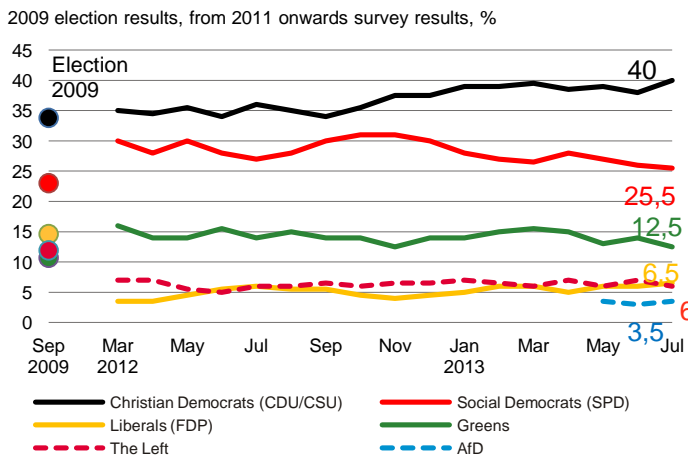
Source: Eurostat

Low levels of trust in political institutions



Source: Eurobarometer

Deutscher Bundestag, if elections were held tomorrow



Source: IFD Allensbach

- The euro area periphery continues to struggle with high unemployment. However, the overall unemployment rate obscures the fact that certain sub-groups are more affected than others. This is not only the case for young workers, but also for foreign-born persons.
- In most countries the unemployment rates of nationals and EU-citizens are very similar. In contrast, as the average education level of non-EU citizens is usually lower, their labour market chances are worse. In Greece, Spain, but also in Belgium, more than 30% of the non-EU foreigners are currently unemployed. Due to more favourable labour market conditions, the corresponding figures for Germany and Austria are only 12.9% and 10.7%, respectively.
- The latest Eurobarometer shows that the citizens of the European crisis countries have very little trust in their political systems and their political institutions. On the other end of the scale are the Benelux countries.
- In the GIPS countries, less than 10% of the respondents claim to trust political parties and their national government. While confidence in the EU is clearly higher than in national institutions, the absolute level is also low.
- Apart from the traditionally EU-sceptical Britons, also the respondents in Germany and the Netherlands report to trust more in their own governments than in the EU.
- According to recent polls, the governing CDU/FDP coalition increased the lead over the SPD and the Greens. Together, CDU/CSU and FDP would currently receive 46.5% of the votes, which might suffice for an absolute majority in the Bundestag.
- The CDU remains far ahead of the Social Democrats. Chancellor Angela Merkel is still clearly more popular than her SPD challenger Peer Steinbrück.
- The AfD, which was founded in March and whose main topic is the reorganisation of the eurozone, remains below the 5% hurdle.



Focus Germany

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

| Date | Event | Remarks |
|-----------|---|---|
| 1 Aug | Meeting of the ECB Council, press conference | Review of the monetary policy stance. |
| 1 Sep | TV debate between Chancellor Merkel (CDU) and Peer Steinbrück (SPD) | Peak of the election campaigns that focus on (1) social issues, (2) NSA and (3) euro crisis. Last direct confrontation of the two chancellor candidates before elections. |
| 3 Sep | 1st reading of the draft 2014 federal budget in the Bundestag | The draft 2014 budget envisages expenditures totalling EUR 295.4 bn. (2013: EUR 310 bn including 8 bn allocated to the Flood Relief Fund). New borrowing in 2014 will fall to EUR 6.2 bn (2013: EUR 25.1 bn). |
| 5 Sep | Meeting of the ECB Council, press conference | Review of the monetary policy stance. |
| 5/6 Sep | G20 summit Saint Petersburg | Priorities of Russia's presidency: growth and job creation through investment and effective regulation among others. This includes public debt sustainability and financial market regulation. |
| 13/14 Sep | Informal ECOFIN meeting in Lithuania | |
| 15 Sep | State election in Bavaria | Horst Seehofer will most likely remain prime minister, but whether the CSU will reach a majority on its own in the state parliament is still questionable. |
| 22 Sep | State election in Hesse | Even a possible change of the state government (CDU/FDP) would not have a major impact on the majority in the Bundesrat (upper house). |
| 22 Sep | Federal election | See chart 'Deutscher Bundestag ...' in the chartbook Economic policy for results of recent surveys. |
| 2 Oct | Meeting of the ECB Council and press conference in Paris | Review of the monetary policy stance. |
| 11-13 Oct | Annual meetings of the World Bank and the IMF | Discussion on the outlook for the global economy and developments in financial markets. |
| 14/15 Oct | Eurogroup/ECOFIN meeting | Review of reform progress; preparation of the European Council. |
| 24/25 Oct | European Council in Brussels | EU leaders' summit on social policies. Furthermore, debates on competitiveness, employment and growth in the EU. |

Source: DB Research

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Focus Germany

Germany: Data calendar

| Date | Time | Data | Reporting period | DB forecast | Last value |
|-------------|-------|--|------------------|-------------|-------------|
| 6 Aug 2013 | 12:00 | New orders manufacturing (Index, sa), pch mom | June | 1.5 | -1.3 |
| 7 Aug 2013 | 12:00 | Industrial production (Index, sa), pch mom | June | 0.7 | -1.0 |
| 8 Aug 2013 | 8:00 | Trade balance (EUR bn, sa) | June | 15.1 | 14.6 |
| 8 Aug 2013 | 8:00 | Merchandise exports (EUR bn, sa), pch mom (yoy) | June | -1.9 (-3.9) | -2.0 (-2.9) |
| 8 Aug 2013 | 8:00 | Merchandise imports (EUR bn, sa), pch mom (yoy) | June | -3.0 (-3.0) | 1.4 (-2.0) |
| 14 Aug 2013 | 8:00 | Real GDP (Index, sa), % qoq | Q2 2013 | 0.5 | 0.1 |
| 22 Aug 2013 | 9:30 | Manufacturing PMI (Flash) | Aug | 50.5 | 50.3 |
| 22 Aug 2013 | 9:30 | Services PMI (Flash) | Aug | 53.0 | 52.5 |
| 27 Aug 2013 | 10:30 | ifo business climate (Index, sa) | Aug | 106.5 | 106.2 |
| 29 Aug 2013 | 14:00 | Consumer prices preliminary (Index, sa), pch mom (yoy) | Aug | 0.3 (1.8) | 0.5 (1.9) |
| 30 Aug 2013 | 8:00 | Import prices (Index, sa) pch mom (yoy) | July | 0.4 (-2.5) | -0.8 (-2.2) |

Sources: DB Research, Federal Statistical Office, Federal Employment Agency, ifo, Markt

Financial forecasts

| | US | JP | EMU | GB | CH | SE | DK | NO | PL | HU | CZ |
|-----------------------------|-------|------|------|------|------|------|------|------|------|------|------|
| Key interest rate, % | | | | | | | | | | | |
| Current | 0.100 | 0.10 | 0.50 | 0.50 | 0.00 | 1.00 | 0.20 | 1.50 | 2.50 | 4.00 | 0.05 |
| Sep 13 | 0.100 | 0.08 | 0.50 | 0.51 | 0.00 | 1.00 | 0.10 | 1.50 | 2.50 | 3.50 | 0.05 |
| Dec 13 | 0.100 | 0.08 | 0.50 | 0.51 | 0.00 | 1.00 | 0.10 | 1.50 | 2.50 | 3.50 | 0.05 |
| Jun 14 | 0.100 | 0.08 | 0.50 | 0.60 | 0.00 | 1.00 | 0.10 | 1.50 | 2.50 | 3.50 | 0.05 |

3M interest rates, %

| | | | | |
|---------|------|------|------|------|
| Current | 0.27 | 0.23 | 0.23 | 0.51 |
| Sep 13 | 0.35 | 0.30 | 0.50 | 0.51 |
| Dec 13 | 0.35 | 0.30 | 0.50 | 0.51 |
| Jun 14 | 0.35 | 0.30 | 0.50 | 0.60 |

10J government bonds yields

| | Yields, % | | | | Spreads vs. EMU, pp | | | |
|---------|-----------|------|------|------|---------------------|------|------|------|
| Current | 2.65 | 0.80 | 1.53 | 2.33 | -0.61 | 0.55 | 0.15 | 1.00 |
| Sep 13 | 2.50 | 0.90 | 1.55 | 2.25 | -0.70 | 0.25 | 0.25 | 0.65 |
| Dec 13 | 2.50 | 1.00 | 1.75 | 2.50 | -0.65 | 0.20 | 0.30 | 0.70 |
| Jun 14 | 3.00 | 0.80 | 2.00 | 2.80 | -0.65 | 0.20 | 0.30 | 0.75 |

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 | 1.32 | 97.80 | 0.86 | 1.53 | 1.23 | 8.59 | 7.46 | 7.86 | 4.23 | 297.88 | 25.91 |
| Sep 13 | 1.26 | 102.00 | 0.86 | 1.61 | 1.25 | 8.45 | 7.46 | 7.35 | 4.13 | 284.90 | 25.41 |
| Dec 13 | 1.20 | 110.00 | 0.85 | 1.56 | 1.25 | 8.25 | 7.46 | 7.25 | 4.00 | 279.30 | 25.20 |
| Jun 14 | 1.18 | 113.00 | 0.84 | 1.49 | 1.24 | 8.00 | 7.46 | 7.15 | 4.00 | 275.10 | 24.85 |

Sources: Bloomberg, Deutsche Bank

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Focus Germany

German data monitor

| | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Feb 2013 | Mar 2013 | Apr 2013 | May 2013 | Jun 2013 | Jul 2013 |
|------------------------------------|------------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Business surveys and output | | | | | | | | | | | |
| Aggregate | | | | | | | | | | | |
| Ifo business climate | 102.3 | 101.4 | 106.1 | 105.3 | | 107.4 | 106.7 | 104.4 | 105.7 | 105.9 | 106.2 |
| Ifo business expectations | 94.3 | 95.6 | 103.0 | 101.9 | | 104.6 | 103.6 | 101.6 | 101.6 | 102.5 | 102.4 |
| PMI composite | 47.9 | 49.1 | 52.8 | 49.9 | | 53.3 | 50.6 | 49.2 | 50.2 | 50.4 | 52.8 |
| Industry | | | | | | | | | | | |
| Ifo manufacturing | 96.4 | 95.1 | 101.1 | 100.5 | | 102.4 | 101.9 | 99.3 | 100.7 | 101.5 | 101.5 |
| PMI manufacturing | 45.0 | 46.3 | 49.7 | 48.7 | | 50.3 | 49.0 | 48.1 | 49.4 | 48.6 | 50.3 |
| Headline IP (% pop) | 0.2 | -2.6 | 0.0 | | | 0.6 | 1.1 | 2.0 | -1.0 | | |
| Orders (% pop) | -1.7 | 1.0 | 0.4 | | | 2.1 | 2.4 | -2.2 | -1.3 | | |
| Capacity Utilisation | 83.6 | 82.1 | 83.2 | 82.7 | 83.6 | | | | | | |
| Construction | | | | | | | | | | | |
| Output (% pop) | 0.5 | -2.3 | -6.6 | | | -0.3 | -5.8 | 15.7 | -1.7 | | |
| Orders (% pop) | -1.2 | 2.2 | 2.4 | | | 4.2 | -5.4 | 0.7 | 0.5 | | |
| Ifo construction | 118.0 | 117.7 | 125.7 | 123.8 | | 127.1 | 127.2 | 124.5 | 123.5 | 123.4 | 122.0 |
| Services | | | | | | | | | | | |
| PMI services | 49.4 | 50.0 | 53.8 | 49.9 | | 54.7 | 50.9 | 49.6 | 49.7 | 50.4 | 52.5 |
| Consumer demand | | | | | | | | | | | |
| EC consumer survey | -7.9 | -10.0 | -6.5 | -4.2 | | -6.4 | -5.4 | -4.9 | -4.5 | -3.2 | |
| Retail sales (% pop) | -0.7 | -0.6 | 1.9 | 0.3 | | -0.5 | -0.2 | 0.3 | 0.7 | | |
| New car reg. (% yoy) | -7.0 | -6.2 | -10.5 | -3.7 | | -10.5 | -17.1 | 3.8 | -9.9 | -4.7 | |
| Foreign sector | | | | | | | | | | | |
| Foreign orders (% pop) | -1.0 | 2.2 | -1.0 | | | 2.0 | 2.8 | -1.4 | -0.7 | | |
| Exports (% pop) | 1.1 | -2.0 | 0.4 | | | -1.2 | 0.5 | 1.4 | -2.0 | | |
| Imports (% pop) | 0.3 | -0.9 | -1.0 | | | -3.4 | 1.0 | 1.2 | 1.4 | | |
| Net trade (sa EUR bn) | 50.6 | 47.1 | 50.5 | | | 17.4 | 17.1 | 17.5 | 14.6 | | |
| Labour market | | | | | | | | | | | |
| Unemployment rate (%) | 6.8 | 6.9 | 6.9 | 6.8 | | 6.9 | 6.9 | 6.9 | 6.8 | 6.8 | |
| Change in unemployment (k) | 26.3 | 28.7 | -8.7 | 19.7 | | -1.0 | 13.0 | 4.0 | 17.0 | -12.0 | |
| Employment (% yoy) | 1.0 | 0.9 | 0.7 | | | 0.8 | 0.7 | 0.7 | 0.6 | | |
| Ifo employment barometer | 105.9 | 106.3 | 106.2 | 104.9 | | 106.5 | 106.4 | 104.7 | 105.5 | 104.4 | |
| Prices, wages and costs | | | | | | | | | | | |
| Prices | | | | | | | | | | | |
| Harmonised CPI (% yoy) | 2.1 | 2.0 | 1.8 | 1.5 | | 1.8 | 1.8 | 1.1 | 1.6 | 1.9 | |
| Core HICP (% yoy) | 1.2 | 1.3 | 1.4 | 1.0 | | 1.2 | 1.8 | 0.6 | 1.1 | 1.2 | |
| Harmonised PPI (% yoy) | 1.4 | 1.5 | 1.1 | 0.3 | | 1.2 | 0.4 | 0.1 | 0.2 | 0.6 | |
| Commodities, ex. Energy (% yoy) | -4.5 | 0.7 | -3.5 | -7.0 | | -3.2 | -3.7 | -6.2 | -6.7 | -8.2 | |
| Oil price (USD) | 109.7 | 110.1 | 112.6 | 102.5 | | 116.3 | 108.4 | 102.0 | 102.6 | 103.0 | |
| Inflation expectations | | | | | | | | | | | |
| EC household survey | 27.0 | 31.2 | 26.6 | 22.5 | | 26.5 | 25.6 | 25.4 | 21.6 | 20.6 | |
| EC industrial survey | 0.8 | 2.9 | 3.7 | -0.6 | | 3.2 | 2.5 | -0.4 | -1.8 | 0.5 | |
| Unit labour cost (% yoy) | | | | | | | | | | | |
| Unit labour cost | 3.3 | 3.2 | 4.1 | | | | | | | | |
| Compensation | 2.5 | 2.8 | 2.4 | | | | | | | | |
| Hourly labour costs | 3.5 | 3.8 | 4.3 | | | | | | | | |
| Money (% yoy) | | | | | | | | | | | |
| M3 | 6.9 | 6.0 | 5.3 | 4.2 | | 5.8 | 5.3 | 5.7 | 4.6 | 4.2 | |
| M3 trend (3m cma) | | | | | | 5.8 | 5.6 | 5.2 | 4.8 | | |
| Credit - private | 0.6 | -0.4 | -0.2 | | | -0.2 | -0.2 | -0.2 | -0.1 | | |
| Credit - public | 10.4 | 13.5 | -18.7 | | | -13.0 | -18.7 | -13.2 | -23.1 | | |

% pop = % change this period over previous period.

Sources: Deutsche Bundesbank, European Commission, Eurostat, Federal Employment Agency, German Federal Statistical Office, HWWI, ifo, Markit



Focus Germany

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