Focus Germany

Cracks in the foundation?

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Profit growth dampened by pay rises. In Germany the gross profit share rose markedly in the years preceding the crisis thanks to policy reforms and the strong medicine administered in the corporate sector. It rose from nearly 40% to as much as 46% (2007), which is a high figure by European standards. Since then German firms have seen their lead in profitability shrink considerably. This is mainly due to the rising wage share, and especially the pickup in hourly wages. The performance of individual German sectors is, however, very mixed. We regard the hitherto observed decline in profitability to a slightly above-average level as a return to normal. The wage share should continue rising and dampen profits, not least because the German labour market is in a very good state. Fundamentally speaking, this is not a macroeconomic problem. Shifts between the capital and labour factors of production are normal. Should pay rises, however, constantly and significantly exceed productivity gains, this would probably have a negative impact on the investment decision-making of corporates over the medium term.

German model – has a consensus economy reached its limit? German output growth poised to outstrip potential again in current year. Despite new government spending programmes there should be continued budget surpluses for the time being. Given the strengths of its institutional framework Germany has so far largely been able to avoid the possibility of distributional conflicts feeding through in the shape of higher government deficits and/or rising inflation. Demographic developments, not least, will probably put this resilience to the test. However, a new reform thrust is needed in view of decreasing locational advantages. It remains to be seen whether society will carry through with an update of the Agenda 2010 reforms.

The view from Berlin: Debate on a eurozone finance minister detached from reality. The president of the think tank DIW has called for the appointment of a eurozone finance minister authorised to levy taxes and issue some jointly guaranteed debt, albeit for in his view limited purposes like common unemployment insurance. However, Germany's Council of Economic Experts has strongly criticised this idea as a step towards a transfer union entailing the risk of intensified moral hazard. Anyway, the German Bundestag and other national parliaments would hardly agree to a transfer of substantial budgetary rights to Brussels.

Economic forecasts

	Real GDP (% growth)			Consumer Prices* (% growth)			Current Account (% of GDP)			Fiscal Balance (% of GDP)		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Euroland	0.9	1.4	1.6	0.4	0.3	1.4	2.1	3.0	2.3	-2.4	-2.1	-1.8
Germany	1.6	1.6	1.7	0.9	0.5	2.0	7.6	8.0	7.8	0.7	0.6	0.7
France	0.2	1.2	1.6	0.6	0.3	1.1	-0.9	-0.5	-1.0	-4.0	-3.8	-3.6
Italy	-0.4	0.7	1.5	0.2	0.2	1.2	1.9	2.5	2.9	-3.0	-2.8	-2.2
Spain	1.4	3.0	2.5	-0.2	-0.3	1.5	0.8	1.3	1.1	-5.8	-4.6	-3.6
Netherlands	0.9	1.9	1.4	0.3	0.2	1.3	10.3	11.1	11.1	-2.3	-2.0	-1.9
Belgium	1.1	1.3	1.6	0.5	0.6	1.6	1.4	2.0	1.5	-3.2	-2.7	-2.5
Austria	0.4	0.5	1.4	1.5	1.0	1.8	0.8	1.1	1.5	-2.4	-2.0	-1.9
Finland	0.0	0.2	0.9	1.2	0.1	1.4	-1.9	-1.0	-0.8	-3.2	-3.1	-2.8
Greece	0.7	-0.3	1.3	-1.4	-1.4	1.0	0.9	1.5	1.2	-3.5	-3.6	-2.9
Portugal	0.9	1.6	1.7	-0.2	0.7	1.4	0.7	0.9	1.0	-4.5	-3.1	-2.6
Ireland	4.8	3.7	3.5	0.3	0.3	1.8	3.6	5.0	4.5	-4.1	-2.4	-2.0
UK	3.0	2.5	2.3	1.5	0.5	1.6	-3.2	-4.5	-3.0	-4.3	-3.8	-2.5
Denmark	1.1	1.8	2.0	0.6	0.6	1.4	6.3	6.0	6.0	-1.0	-1.5	-2.0
Norway	2.3	1.5	1.9	2.0	2.0	2.2	9.4	7.5	7.0	9.1	7.5	7.5
Sweden	2.4	2.4	2.6	-0.2	0.3	1.5	6.8	6.5	6.0	-1.9	-1.0	-0.5
Switzerland	2.0	0.8	1.2	0.0	-1.0	-0.3	7.0	7.0	6.5	0.2	0.0	-0.5
Czech Republic	2.0	4.2	3.0	0.4	0.6	2.1	0.6	0.3	0.0	-1.9	-1.8	-1.6
Hungary	3.6	2.7	2.4	-0.2	0.4	2.7	4.0	3.1	3.3	-2.6	-2.7	-2.4
Poland	3.4	3.4	3.5	0.0	-0.7	1.4	-1.4	-1.7	-1.8	-3.2	-2.9	-2.7
United States	2.4	2.3	3.0	1.6	0.4	2.6	-2.6	-3.1	-3.6	-2.8	-2.7	-2.4
Japan	-0.1	1.1	1.8	2.7	0.9	1.0	0.5	2.9	2.7	-5.9	-5.3	-4.4
China	7.4	7.0	6.7	2.0	1.6	2.7	3.1	3.4	3.3	-2.1	-3.7	-3.0
World	3.4	3.2	3.7	3.6	3.3	3.9						

*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

	2012	2013	2014	2015F	2016F	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2F	2015 Q3F	2015 Q4F
Real GDP	0.4	0.1	1.6	1.6	1.7	0.8	-0.1	0.1	0.7	0.3	0.4	0.5	0.3
Private consumption	0.7	0.8	1.1	2.1	1.0	0.8	0.0	0.7	0.7	0.6	0.3	0.4	0.3
Gov't expenditure	1.2	0.7	1.2	1.7	0.4	0.0	0.7	0.6	0.3	0.7	0.1	0.3	0.2
Fixed investment	-0.7	-0.6	3.3	2.8	2.7	3.0	-1.7	-1.2	0.8	1.5	0.0	1.5	0.8
Investment in M&E	-3.1	-2.4	4.3	3.9	3.7	2.0	0.6	-1.4	0.4	1.5	0.5	2.0	1.0
Construction	0.6	-0.1	3.4	2.7	3.1	4.5	-3.7	-1.5	1.3	1.7	-0.4	1.8	0.9
Inventories, pp	-1.4	0.2	-0.3	-0.2	0.1	-0.2	-0.1	-0.5	0.4	-0.3	0.1	0.1	0.0
Exports	2.8	1.6	3.8	4.7	5.0	0.1	1.0	1.5	1.0	0.8	1.0	1.0	1.2
Imports	0.0	3.1	3.5	5.8	4.4	0.2	0.7	0.8	1.9	1.5	0.9	1.5	1.5
Net exports, pp	1.3	-0.5	0.4	0.0	0.4	-0.1	0.2	0.4	-0.3	-0.2	0.1	-0.1	-0.1
Consumer prices*	2.0	1.5	0.9	0.5	2.0	1.2	1.1	0.8	0.5	0.0	0.4	0.5	1.4
Unemployment rate, %	6.8	6.9	6.7	6.4	6.5	6.8	6.7	6.7	6.6	6.5	6.4	6.4	6.5
Industrial production	-0.4	0.1	1.5	1.7	2.2								
Budget balance, % GDP	0.1	0.1	0.7	0.6	0.7								
Public debt, % GDP	79.3	77.1	74.7	71.8	69.2								
Balance on current account, % GDP	6.8	6.5	7.6	8.0	7.8								
Balance on current account, EUR bn	187	182	220	239	244								

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

Profit growth dampened by pay rises

— In Germany the gross profit share rose markedly in the years preceding the crisis thanks to policy reforms and the strong medicine administered in the corporate sector. It rose from nearly 40% to as much as 46% (2007), which is a high figure by European standards. Since then German firms have seen their lead in profitability shrink considerably. This is mainly due to the rising wage share, and especially the pickup in hourly wages. The performance of individual German sectors is, however, very mixed. We regard the hitherto observed decline in profitability to a slightly above-average level as a return to normal.

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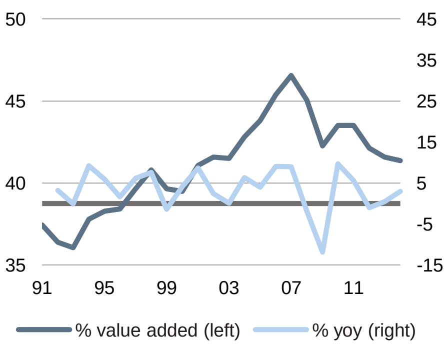
Corporate profitability on the decline since 2008

Corporate profits: No recovery post-crisis despite robust GDP growth 1

Non-financial corporations; gross operating surplus



Sources: Federal Statistical Office, Deutsche Bank Research

At the start of the 2000s Germany was being called the sick man of Europe, with unemployment on an apparently inexorable uptrend and German companies posting weak profits. Drastic measures taken by policymakers, cooperative trade unions and not least also by the companies themselves made German corporates healthy and profitable in the pre-crisis years and helped the German economy develop into its current thriving state. During this period the gross profit share[1], a frequently used corporate profitability metric in national accounts (VGR), climbed from nearly 40% (2000) to a peak of over 46% in 2007 – a high level by European standards and internationally the biggest increase.

There has been repeated international criticism that German companies have enjoyed an unfair advantage on account of the wage moderation in the pre-crisis years, which made it difficult at the very least for other European countries to adjust.[2] We consider this line of argument to have only limited merit. Leaving it aside, German wages have been trending up markedly for several years.[3] That is the main reason why the profit share initially fell sharply after 2007, recovered briefly and then stabilised at above 41% (2013/14) – the same level as at the beginning of the 2000s. In addition, there are a number of reasons why it looks as if German companies can expect to face headwinds in the coming years in any case.[4] The high profit level of the year 2007 is thus unlikely to be reached again.

Profits: Many metrics, one message

There are many ways of measuring corporate success. The “sectoral accounts” item in the national accounts already contains heavily aggregated data from which the gross profit share, net profit share and net income share can be

[1] Operating surplus relative to gross value added.
[2] Peters, Heiko and Stefan Schneider (2013). Criticism of Germany's CA surpluses largely unfounded. Standpunkt Deutschland. Deutsche Bank Research. December 12, 2013.
[3] Rakau, Oliver (2015). Stronger growth and wages – little reaction from savers. March 2, 2015. Focus Germany. Deutsche Bank Research.
[4] Structurally slower growth in global trade, increasing localisation of production, demographic change, changed political environment, stiffer international competition. Heymann, Eric et al. (2015). German exporters facing strong headwind despite softer euro. Focus Germany. Deutsche Bank Research. March 30, 2015.

Income and saving 2

Non-financial corporations, sector accounts, 2014

		EUR bn
+	Output	3,763.8
-	Intermediate consumption	2,113.0
=	Gross value added	1,650.8
-	Compensation of employees	981.4
-	Other taxes less subsidies on production	-13.3
=	Gross operating surplus	682.7
-	Consumption of fixed capital	284.8
=	Net operating surplus	397.9
+	Property income receivable	122.8
-	Interest and rents payable*	35.0
=	Net entrepreneurial income*	485.7
-	Distributed income	335.5
-	Taxes on income and wealth payable	60.9
-	Other net transfers	13.8
=	Net saving	64.7
Profit metrics:		
	Gross operating surplus	682.7
/	Gross value added	1,650.8
=	Gross profit share (%)	41.4
	Net operating surplus	397.9
/	Net value added	1,366.0
=	Net profit share (%)	29.1
	Net entrepreneurial income	485.7
/	Net value added	1,366.0
=	Net income ratio (%)	35.6

* Estimate

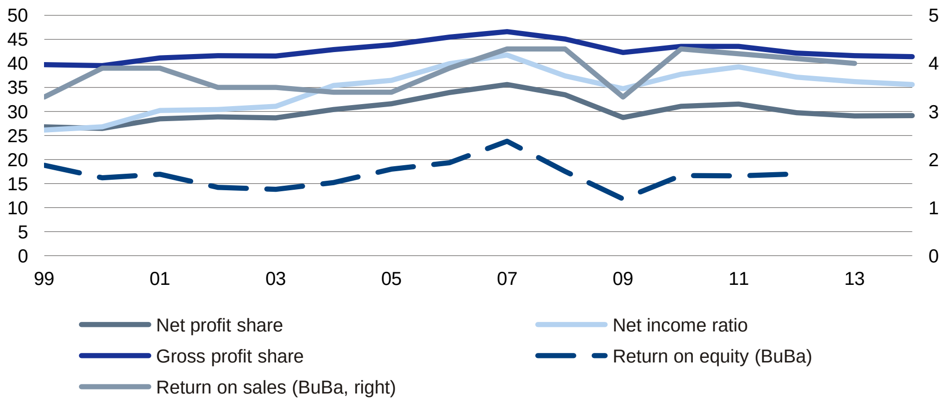
Sources: Eurostat, Deutsche Bank Research, Deutsche Bundesbank, Federal Statistical Office

calculated. For the first metric the surplus from direct entrepreneurial activity (output minus intermediate consumption and employee compensation) is set against gross value added. Consumption of fixed capital is subtracted from both variables to arrive at the net profit share. For the net income share the investment income received (e.g. from shareholdings) is added to the surplus from direct entrepreneurial activity and then the due interest income and rents payable are deducted. This data is available for all EU states in principle.

In addition, the Bundesbank provides aggregate data from the annual financial statements of German companies, which are more commonly used in public discourse than those terms found in the national accounts. These include, for example, returns on equity and sales. However, this data is only published with a long time-lag. Internationally comparable data from the national accounts is available on a quarterly basis and with a time lag of only around 2-3 months, whereas the data from the annual financial statements only becomes available after 1.5 years. Also, meaningful international comparisons cannot be made using Bundesbank data, if nothing else because of the major influence of tax and accounting laws.

Broadly similar profitability trends 3

Non-financial corporations, %



Sources: Eurostat, Deutsche Bank Research, Deutsche Bundesbank

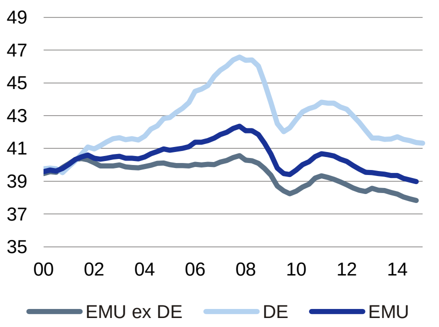
In our analysis we shall focus on the national accounts data since all the above-mentioned metrics – despite their differing levels – follow a basically similar course and have fallen back to levels from the beginning of the 2000s after reaching record highs in 2007. In the last two to three years the ratios then remained relatively stable overall. In addition, the national accounts data allow the profitability drivers to be analysed. We shall mainly focus on the gross profit share. We will also confine our analysis to the non-financial corporations, i.e., the real economy.

From an economic point of view the stated metrics focus on different things and their sizes vary considerably in some cases. For instance, a gross profit share for German companies of over 40% (2014) sounds very high compared to a return on sales of about 4%. However, the first metric is a variable from which there has been no deduction of the depreciation on the capital stock, interest payments on loans taken out or taxes to be paid. This is, however, of little significance, since all the metrics are basically subject to the same drivers and we are primarily interested in the direction and less in the absolute level.

International comparison: Normalisation

German profitability: Closing in on EMU average again 4

Gross profit share, %, 4Q mov. avg.



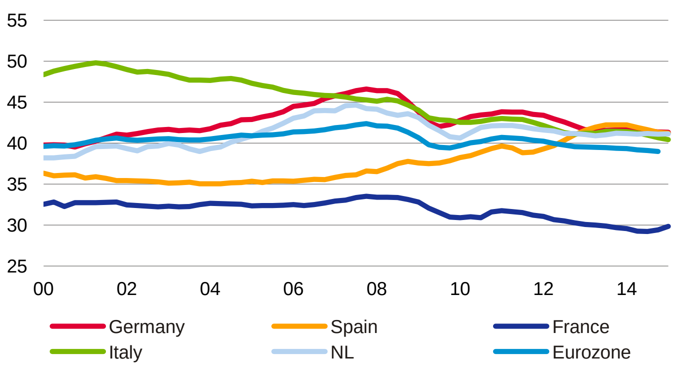
Sources: Eurostat, Deutsche Bank Research

The decline in German profitability as measured by the gross profit share since 2008 is put into context when an international comparison is made. The sharp rise in Germany before the crisis has opened up a significant gap compared to the EMU average. The decline since 2008 has merely narrowed the gap as profitability in the rest of the eurozone has also decreased. The shares of the major eurozone nations Germany, Italy, Spain and the Netherlands have differed very little of late, whereas there was a very stark contrast between the way they developed before and during the crisis. In Italy profitability fell constantly between 2001 and 2013. In Spain, by contrast, it remained roughly constant until 2007 and then rose gradually to the current level. France has lost even more ground since the beginning of the crisis and managed a profit share of only 30% in 2014 compared with 40% in the other countries.

Although the profit shares are calculated on the basis of the same definition, their comparability may be limited. Greece, for instance, has the highest gross profit share in the eurozone (2014: 59%; eurozone average: 39%). One important factor in this may be the share of self-employed people, which at 32% in Greece is twice as high as the eurozone average. The remuneration drawn by the self-employed is not deducted as employee compensation and is therefore included in the profit. The same also applies to Italy to a lesser degree (self-employed share: 26%). Another eurozone country with a high profit share is Ireland (55.7%). One contributory factor in this case is probably that Ireland is the European head office location for a high proportion of foreign companies who bundle some of their profits there. In general, another factor could be a high proportion of illegal employment. The profit used here is based on the sales/production figures after deducting intermediate consumption and the (officially paid) employee compensation.

German profitability: Falling, but still slightly above average 5

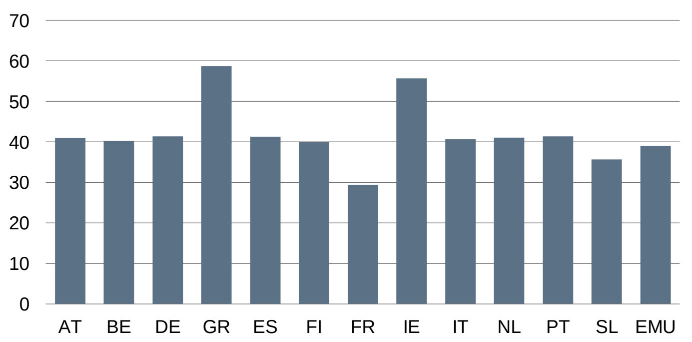
Gross profit share, %, 4Q mov. avg.



Source: Eurostat

Profit share: Few outliers 6

Gross profit share, 2014, %

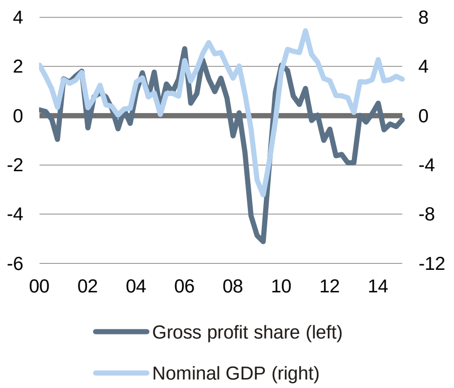


Source: Eurostat

However, the data shows there is no clear correlation between the profit share and self-employed share or between the profit share and estimates of the proportion of illegal employment. Overall, we find that Germany's profit share – despite having fallen since 2008 – is still slightly higher than the average. The decrease is thus to be regarded as more of a return to normal. Furthermore, chart 1 shows that on a historical comparison since 1991 the profitability achieved of late is also still above average.

Profits are procyclical 7

pp, yoy (left); % yoy (right)



Sources: Federal Statistical Office, Eurostat

Permanent or temporary? Cyclical or structural?

Profits are basically procyclical. This means that they have a strong positive correlation with economic activity. Since 2000 the correlation between nominal GDP growth and the change in the gross earnings share has been around 70% for example. The reasons for this are obvious: when revenues improve during an upturn, this initially boost only profits. Not until the labour market subsequently becomes tight do wages then rise. Earnings growth is thus particularly dynamic in the early phase of the upturn. Moreover, during an upturn, the utilisation of company capacities increases, which enables better fixed cost distribution.

Given these facts and Germany's quite robust growth in recent years the question that arises is why the profit share has fallen nevertheless. As chart 7 shows, there was quite a close correlation between the two time series until 2006/07, with nominal GDP growth displaying roughly twice the amplitude. Also during the subsequent phase the trend was basically similar, but a level shift took place: not only was the amplitude of GDP growth roughly twice as high; average GDP growth was also some three percentage points higher. This suggests that the lower profit share is not only a shorter-term cyclical phenomenon, but that a structural shift occurred.

Stronger pay and employment growth have dampened German profitability of late

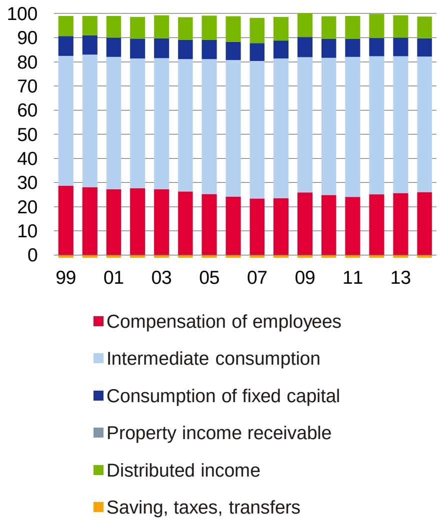
There are many determinants of profitability in the corporate sector. Essentially these are the costs (wages and interest) of the factors of production (labour and capital) and the efficiency with which these are deployed (productivity). The costs of intermediate goods from abroad or from other domestic sectors and the state (e.g. taxes) are additional factors.

If production is broken down into its different cost factors (see also table at the start of this report), we find that the biggest swing occurred in the employee compensation share. Between 1999 and 2007 this fell by more than five percentage points (from 28.7% to 23.4%). Since then it has risen again by nearly three percentage points. The change during the first phase was presumably due in large part to the shift in the production structure. The intermediate consumption share increased by more than 3 percentage points during the first phase and has fallen only slightly since 2007 (by 1 pp) – a sign of offshoring and the usage of intermediate inputs from other sectors.

In the second phase, by contrast, the renewed increase in the labour cost share appears to have crimped earnings: the operating surplus rose from 18.3% (in 1999) to 20% (in 2007) and dropped back down to 18.1% in 2014. It is striking that the labour cost share only began to rise when hourly wage growth recovered from its weak phase at the beginning/middle of the 2000s. Since 2008 wage growth has made a bigger contribution to income growth than employment growth. This is consistent with economic logic. While increasing demand for labour (hours worked) should not have any influence on the profit share on account of higher output growth, when hourly wages are rising a reaction by the wage share is certainly to be expected.

Changes in labour compensation decisive 8

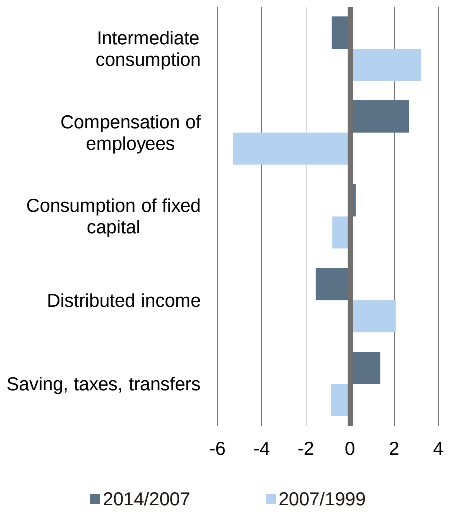
Share in output, %



Sources: Eurostat, Deutsche Bank Research

Rising compensation of employees reduces earnings 9

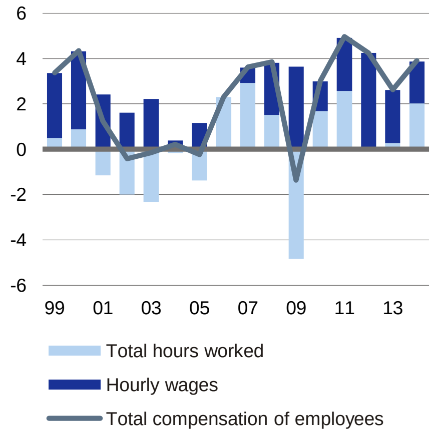
Share in output, change in pp



Sources: Deutsche Bank Research, Eurostat

Wages add to compensation growth again from 2007 10

% yoy



Data is a proxy for non-financial corporations. Total economy excluding sector K, L and O-Q.

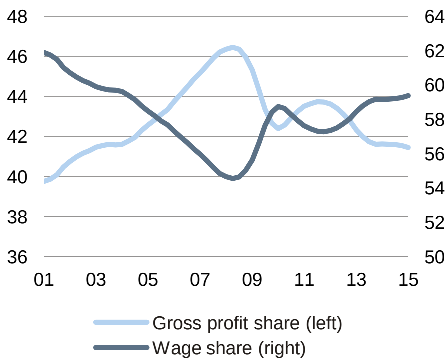
Sources: Deutsche Bank Research, Eurostat

The marked expansion of international value chains has probably contributed to the increased deployment of intermediates, which enabled the leveraging of economies of scale and price advantages.[5] For instance, the intermediate goods share of world trade rose from over 50% at the start of the 2000s to nearly 60% ten years later. In addition, within the German corporate sector the outsourcing of activities to external service providers has probably boosted the intermediates share of total output. At the same time earnings should have risen thanks to the productivity gains generated by outsourcing.

Both were, however, structural upheavals whose effects should largely have petered out in the meantime. Wage developments are more relevant for current profitability growth. We therefore analyse the wage share (employee compensation relative to gross value added), which is imputed from the effect of intermediates. Since adding gross wages to profits gives us national income, they are inversely correlated. This fact allows us to analyse profitability/wage growth at a more highly disaggregated sector level. Data on the gross profit share in this detailed breakdown is not readily available.

Rising compensation weighs on profits 11

%, 4Q mov. avg.



Sources: Eurostat, Deutsche Bank Research

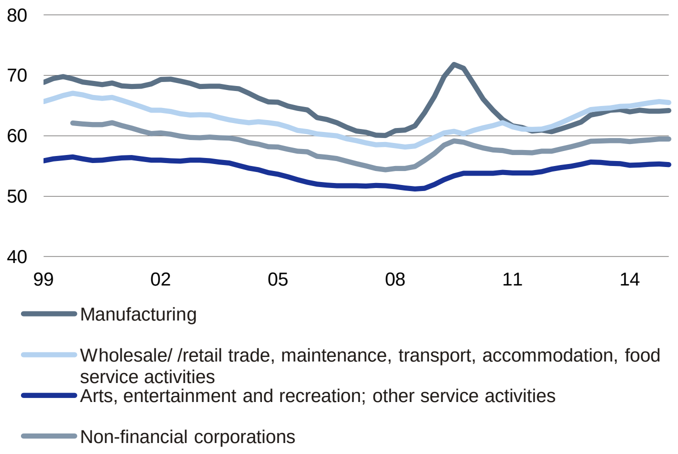
Wage shares: Differences between sectoral tendencies

There is quite some variation between the wage share development of the individual sectors. Of the seven sectors which should belong to the non-financial corporations category the development is basically similar in (i) manufacturing, (ii) trade, maintenance, transport, accommodation, food service, and (iii) arts, entertainment, recreation, and other services. These sectors account for nearly 70% of the workers in non-financial corporations and thus dominate the growth in the overall wage share described above. The wage share level does vary heavily, as the sectors have differing levels of labour intensity.

[5] Peters, Heiko (2013). Structural improvements support exceptional position. Focus Germany. July 1, 2013.

Sectoral developments ... 12

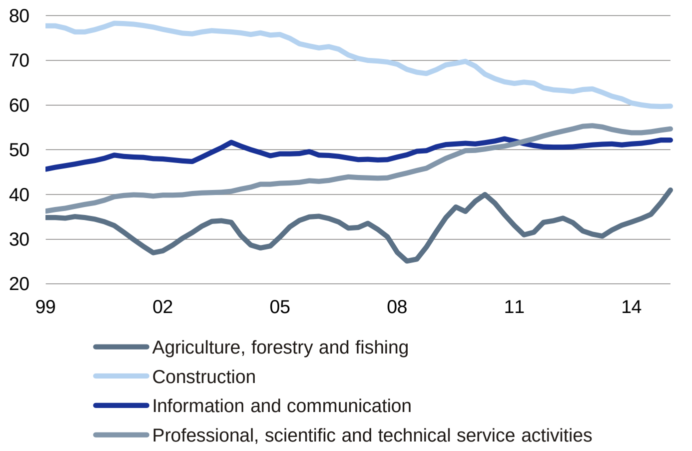
Wage share (compensation relative to gross value added), %, 4Q mov. avg.



Sources: Eurostat, Deutsche Bank Research

...vary considerably 13

Wage share (compensation relative to gross value added), %, 4Q mov. avg.



Sources: Eurostat, Deutsche Bank Research

By contrast, the wage share in the (iv) construction sector has declined gradually but significantly since the early 2000s until recently. This suggests a strong uptrend in the profit share, which Bundesbank data on company annual financial statements also confirm.[6] In Sector (v) information and communication as well as in (vi) corporate services the wage share pursued a gradual uptrend. In (vii) agricultural sector the wage share fluctuated compared to the other sectors significantly but overall stayed at roughly the same level. Only very recently did the wage share rise markedly and clearly.

German wage growth putting slightly bigger squeeze on profits

Given our wage growth expectations[7] the profit share of German non-financial corporations is likely to continue declining in 2015 and presumably also in 2016. According to our forecast collective wages in both years are set to rise by 2 ½ - 3% and hours worked by 0.4%. Wages are benefitting from low unemployment and the robust growth in Germany. In addition, labour income in 2015 should receive an additional boost from the introduction of the minimum wage at the beginning of the year. All in all, employee remuneration could rise by more than 4% in 2015. This will weigh on the corporate cost base.

At the same time, value creation in the corporate sector is unlikely to be sufficient to offset the increase in costs given that GDP growth is robust but not markedly higher than potential, productivity growth is low and prices are developing very modestly. We assume that unit labour costs will rise by about 3%. The profit share could thus fall slightly again in 2015 towards 41% from 41.4% (2014).

Slowing profit growth curbs investment activity

Fundamentally, the wage and profit shares are a sign of how entrepreneurial value added is divided between labour and capital. Adjustment processes

[6] Overall, the wage shares for the individual sectors display quite a good inverse correlation with the sector profit shares that are calculated by the Bundesbank. The correlation is particularly robust for the sectors with the most workers.

[7] Rakau, Oliver (2015). Stronger growth and wages – little reaction from savers. Focus Germany. March 2, 2015.

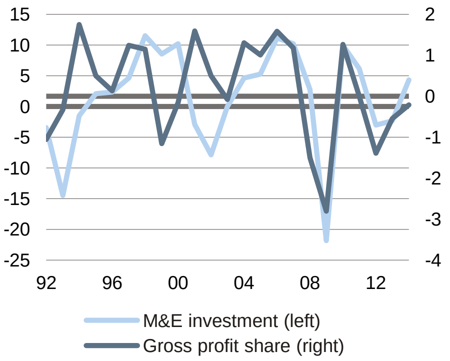
lasting several years, as shown by the German data, are nothing unusual per se. They are mainly due to the business cycle. Moreover, they reflect shifts in the labour/capital intensity of the production process. Bargaining power in wage negotiations also plays a part.

In Germany's case, the pronounced increase – in relation to the rest of EMU – in the profit share up to 2007 was probably driven in addition by two major factors: in the course of drastic economic measures in the early to mid-2000s, employees' bargaining power decreased as labour market reforms and high unemployment started to bite. Wage moderation was necessary in order to create the prerequisites for company investment and the strong boost to employment of the past few years. The internationalisation of German industry was likely a further driver. In the manufacturing sector, the decline in the wage share, and thus presumably the increase in the profit share, was particularly noticeable. The efficiency gains derived from international value chains and booming world trade could have benefited the investors in particular.

This laid the foundation for the robust increase in employment of the past few years. The low unemployment and many companies' comfortable business situation helped to restore some bargaining clout to the employee side, which resulted in a catch-up phase in wage trends. After the wage share hit bottom in 2004/05 it picked up gradually despite the intervening crisis. Since 2010, effective wages have risen by an average of 2.5% p.a. compared with only 1.2% p.a. between 2000 and 2008. In fact, negotiated wages reached their highest growth rate of the past 20 years in 2014, at 3.2%.

Weak profits weigh on investment 14

% yoy (left); pp, yoy (right)



Source: Federal Statistical Office

In this respect, the profit downturn of the past few years is, first of all, a return to normal. Nonetheless, German profitability continues to outstrip the level in the rest of EMU.

As we already discussed in detail at an earlier juncture, we believe the shortage of labour combined with the currently robust state of the German labour market could increasingly generate wage pressure in the coming years. This will probably prevent the profit share from approaching its former highs over the next few years. It is more likely to come under further pressure, too, as demographic change will take a heavier toll in the medium term.

Despite the very simplified relationship between the profit share and investment in machinery and equipment, the adjacent chart still shows there is a clear correlation between a falling profit share and a decline in such investment. Given rather subdued global demand, very small price increases and robust wage growth, the prospective profit trend is unlikely to trigger any major incentive to invest.

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German model – has a consensus economy reached its limit?

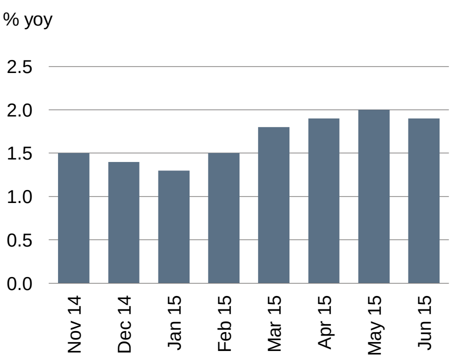
— German output growth poised to outstrip potential again in current year. Despite new government spending programmes there should be continued budget surpluses for the time being.

— Given the strengths of its institutional framework Germany has so far largely been able to avoid the possibility of distributional conflicts feeding through in the shape of higher government deficits and/or rising inflation.

— Demographic developments, not least, will probably put this resilience to the test. However, a new reform thrust is needed in view of decreasing locational advantages. It remains to be seen whether society will carry through with an update of the Agenda 2010 reforms.

Everything's awesome, isn't it?

German 2015 GDP: Consensus forecast 1

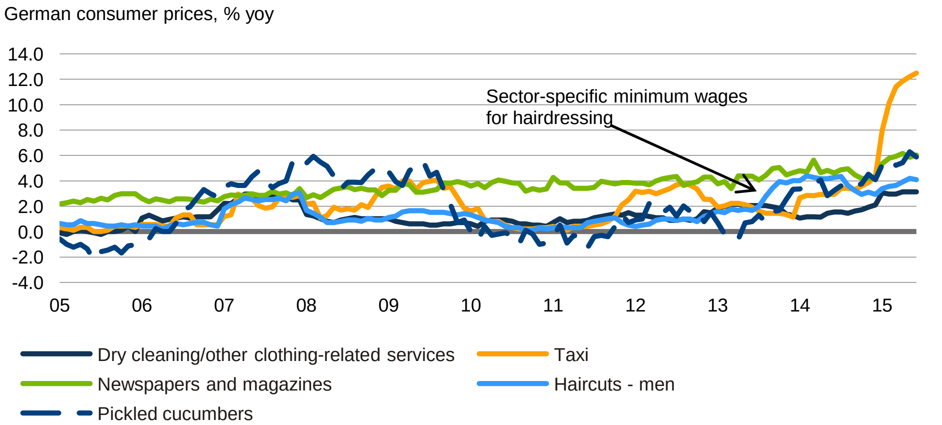


Source: Consensus

The German economy is basking in the sunshine. Output growth was much stronger than anticipated in the final quarter of last year. Even though the 2015 data has been on the weaker side so far, consensus expectations for growth have climbed up to about 2% for this year and the next. Corporate sentiment has also continued to improve over the past few months. More importantly, the steady rise in consumer confidence is finally being reflected in higher spending. All of which means that Germany's finance minister, if he so desired, could significantly increase government spending without adding to the federal debt until 2019.

But what about all those dire warnings about over-generous social policies enacted as part of the new grand coalition government? The minimum wage, of course, was predicted to be a grave policy error by many. And lowering the retirement age to 63 was supposed to cripple the economy. Yet the results so far suggest a negligible economic impact from both these policies. According to the Federal Employment Agency, the minimum wage does not appear to have had any significant impact on employment figures. Although the number of low-paying "mini-jobs" has declined markedly, some of these may have even been converted into regular jobs that are subject to social security contributions. There has been a marked increase in such jobs in the distributive trade, for example.

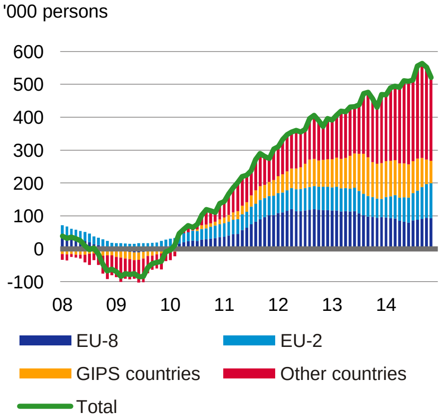
The minimum wage at work 2



Source: Federal Statistical Office

Given only isolated price effects from the minimum wage increase, this leads some to suggest that the new social policies may actually prove beneficial to the economy. If only a few workers lose their job because of the minimum wage, and the 250,000-plus vacancies created by those new early retirees are filled, Germany might enjoy an additional increase in income that would further boost consumption and the economy.

Net immigration topped 500,000 in 2014 3



Sources: Federal Statistical Office, Deutsche Bank Research

Before getting too excited it is important to take the cost side of the economy into account. For example, if the minimum wage has not led to higher prices for the goods and services concerned, it stands to reason that corporate profit margins are being squeezed. This could have negative consequences for investment and job creation. Similarly, lowering the retirement age to 63 years should also weigh on company earnings, especially as the experienced and skilled workers tend to take up the offer of earlier retirement. There is a growing burden on pensions to consider too. And even if a new employee is successfully hired, a valuable source of company knowledge has been lost and productivity suffers.

Negative effects with a time lag

So why are these negative aspects not visible in the data so far? First, time lags are probably a factor. Second, they are currently being offset by a whole range of exceptional effects. Real income gains due to the fall in oil prices, the boost to exporters provided by the weaker euro, the ultra-expansionary policy of the ECB as well as the current immigration boom in the German labour market may be masking the potentially negative impact of misguided economic policies.

Worryingly, there are growing signs that this illusory success is provoking the coalition to indulge in introducing yet more generous social policies. This poses a real risk that over time Germany could end up relinquishing the benefits of painful structural improvements made during the previous decade. The problem is these dire consequences will not become apparent until the temporary and exceptional tailwinds slow down or reverse direction.

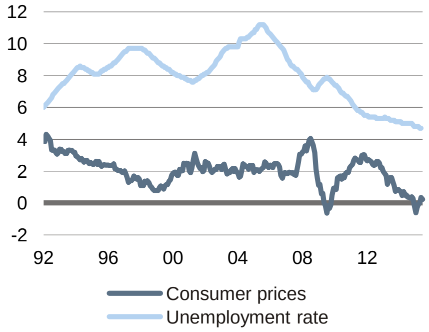
Will Germany manage an update of Agenda 2010?

Given the likelihood that this misleadingly positive economic picture could persist, necessary additional reforms may be put off for years. The consequences of delay may be non-trivial. The reform measures implemented under Chancellor Schröder's Agenda 2010 were pretty straightforward: more flexibility in the labour market, including the creation of a low-wage segment, combined with fiscal consolidation including social security. However, while these were initiated in a more favourable global growth environment prior to the financial crisis, the economic climate today is very different. With structurally slower world trade, stronger demographic headwinds and most importantly the increasingly critical perception of liberal reforms in parts of German society and politics, key pillars of the next reform agenda are far less clear.

On the positive side, however, any decisions will be taken within an institutional framework that has proven itself over and over again. After all, Germany soundly managed reunification – a shock that pushed the system to its limits as public debt and unemployment soared. In fact the robustness and cohesion of a society can be assessed by observing unemployment and inflation as well as the development of public and private debt. These indicate whether countries are able to manage distributional conflicts or whether they are prone to time-inconsistent behaviour of its major stake-holders. Germany's strong institutional framework stands out not only in Europe but among all developed countries.

Germany: "Misery parameter" 4

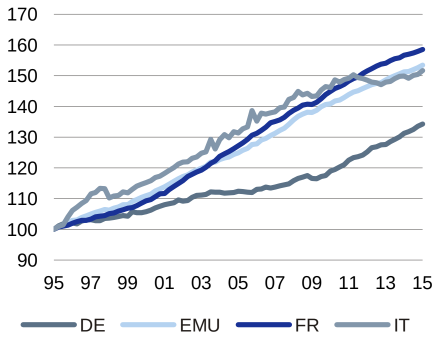
% yoy, ratio



Sources: Deutsche Bundesbank, Deutsche Bank Research

Unit labour costs 5

1995:1=100



Sources: Eurostat, Deutsche Bank Research

The Mittelstand – key pillar of the German economy

One key pillar of this framework is the Mittelstand – companies with fewer than 500 employees that account for more than 99% of employment. The Mittelstand comprises many market-leading businesses in their respective sectors with strong regional ties even though they are hardly known domestically let alone outside of Germany. These businesses are often family-owned and both owners and the workforce have a strong interest in the long-term success of the firm and are prepared to sacrifice short-term gains in profits or wages for this target. Workers often enjoy life-long employment, and in-company training is common. Quite often the children of blue collar workers join the company's management levels after finishing their university education.

It is also the case that more than half of the turnover of the Mittelstand involved in the manufacturing sector is generated abroad, fostering a strong focus on global markets and international competitiveness. Such an international perspective also keeps management and workers on their toes while naturally restraining excessive wage increases. This goes a long way to explain the global success of Germany's private sector.

Deep-rooted risk aversion

Along with this cooperative attitude, another shared trait is a dislike for 'experimental' endeavours with uncertain outcomes. This risk aversion manifests itself as a deep-rooted reservation against high private and public indebtedness, thus forming a second pillar of the stable German institutional framework. This helps explain a new fiscal rule demanding a structurally balanced budget while allowing for cyclical adjustments ("Schuldenbremse"). While some flexibility for the federal budget is preserved (a structural deficit of 0.35% of output), German states are required to have a balanced budget from 2020 onwards. These constitutionally anchored debt brakes are not only more strict than those in most other eurozone countries but the German rule-based mentality ensures that, for the most part, a strict application will help prevent short-sighted, unfunded expenditures.

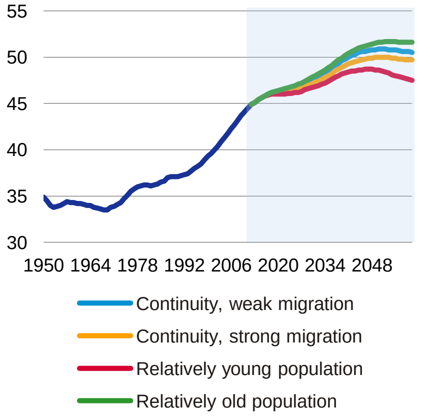
Inclusive social system has reduced distributional conflicts

A third pillar of the German institutional framework is an inclusive social system. Studies reveal a broad consensus among Germans that the state must support inclusion. This should not be misconstrued as an unrealistic over-reach for an egalitarian society but rather the conviction that economic and political challenges can only be successfully addressed if society is not falling apart. For instance, the wealth gap in society seems to be a concern for rich and poor alike. Over 70% of those belonging to the upper one-fifth of the income scale consider large social differences a problem. These better-offs tend to accept re-distribution based on the feeling that individual wealth can be better justified and enjoyed if the society as a whole is prospering.

While this cooperative institutional framework has served Germany well for the past 60 years, will it withstand future challenges? By design, the system has a long response time. Major changes of political direction, observable in Anglo-Saxon political systems or some smaller countries, are less likely in Germany, given the two major "Volksparteien", the CDU/CSU and SPD, increasingly overlap in major policy fields. Moreover, with a few exceptions the system is seen to have served the country well, achieving an economically efficient and politically acceptable distribution of income gains. Given the inert response

Median age 6

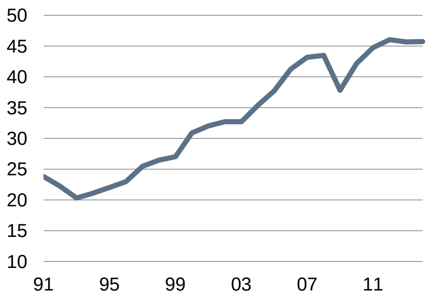
Continuity: 1.4 fertility rate, increase in life expectancy of 7 (female) and 6 (male) years



Sources: German Federal Statistical Office, Deutsche Bank Research

Export share 7

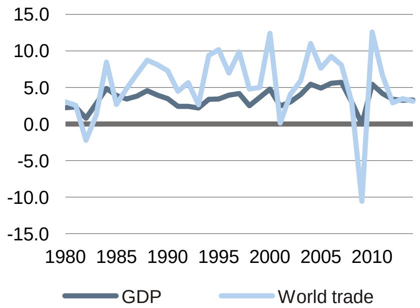
Exports (goods & services) in % GDP



Sources: Deutsche Bundesbank, Deutsche Bank Research

World trade: End of outperformance? 8

Real, % yoy



Sources: IMF, World Economic Outlook

function of the German socio-economic system, strong overarching trends are usually necessary to trigger any adjustment.

Major challenges ahead for Germany

What are the upcoming major challenges that can force such an adjustment? Unfavourable demographic developments that will almost certainly hurt economic growth are one. Gains for society as a whole will get much smaller and their distribution may result in outright losses for certain parts of society. With the country's median age approaching 50 years, the share of those trying to protect their vested interests is on the rise. At the same time the declining number of new entrants into the labour market will have a stronger bargaining position. By 2050 the member of employed is expected to be close to 20% lower than today. Distributional conflicts, so far uncommon in German society, could become more prominent.

Worsening demographic trends will also test the relationship between the government and German corporates. The country's comeback from the sick man of Europe in 1999 to its economic poster child a decade later owes more to the adjustment in the corporate sector, in particular its globalisation drive and strong industrial relations, than to the government's reform Agenda 2010. Now there is a risk Mittelstand companies may not think of their home-market as such a great asset, as a shrinking work force constitutes a smaller counterweight to political, environmental and regulatory burdens. In such an environment the traditional strong regional links might lose their anchor function.

Will there be a change in Germany's attitude towards Europe?

Besides demographics, the other factor that is worth observing is changing German attitudes towards Europe. As some of Germany's institutional strengths are challenged in the coming years, the changes may not necessarily move the country closer to its European partners. Although more than one-third of German exports still go to eurozone members, their share has dropped by one-tenth since the crisis. In contrast, German exports to China, Asia and the US have enjoyed strong gains in recent years. Even assuming a European economic recovery, the focus of Germany's corporate sector will probably remain outside the eurozone for the foreseeable future.

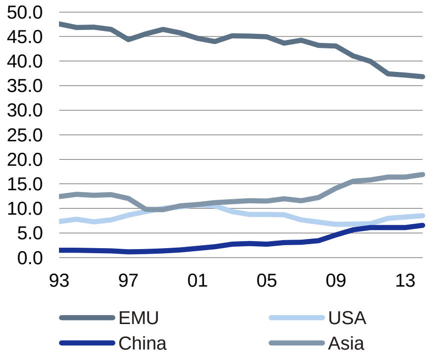
While economic prospects matter for corporates, the attitude of German citizens towards Europe is influenced by the collective perception of the eurozone crisis. The increasing divergence between developments in Europe and the traditional German legalistic and rule-based habits could put increasing pressure on Germany's relations with the rest of Europe. In recent months, issues such as the commission's lenience with regard to budget consolidation, Greek resistance to reforms and demands for a further debt restructuring, and the ECB's unorthodox monetary policy stand (in stark contrast to the Bundesbank's position) all chafe against the German instinct for ordoliberalism—the idea that market-based system needs rules that provide order to function most effectively.

Risk of complacency about "life after Merkel"?

Finally, perhaps the biggest challenge facing the current consensus in Germany is life after Chancellor Merkel. Thus far, her presence may be papering over conflicts that would otherwise gain more prominence. Germany's economic success under the Chancellor and the unwavering belief that she will defend German interests in Europe has bred a climate of consensus among the political

Export structure by region 9

% of total exports (goods)



Sources: Federal Statistical Office, Deutsche Bank Research

parties, press and the citizenry. Too much consensus may have even bred complacency. Yet Chancellor Merkel cannot stay in office forever. Only over time will it be possible to judge whether the German institutional framework she presided over can survive her passing without a major overhaul.

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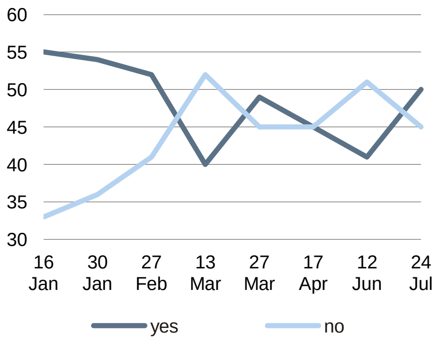
The view from Berlin

Debate on a eurozone finance minister detached from reality

Should Greece stay in the eurozone? 1

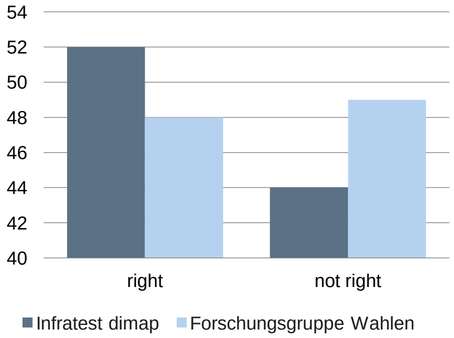
Results of surveys in DE, %



Source: Forschungsgruppe Wahlen Politbarometer

No clear opinion on a third rescue package for Greece 2

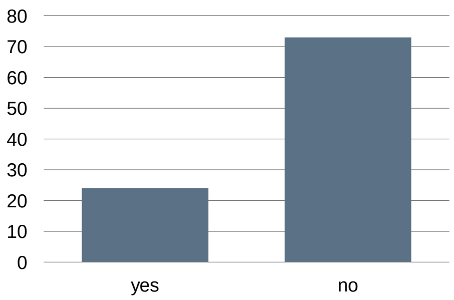
Question: Do you think further financial aid for Greece is right or not? % of those surveyed



Sources: Forschungsgruppe Wahlen Politbarometer, Infratest dimap Deutschland-Trend

Germans doubt the Greek government's commitment to reforms 3

Question: Do you think Greece will stick to the planned reforms? % of those surveyed



Source: Forschungsgruppe Wahlen Politbarometer

Three weeks after the Brussels eurozone summit on Greece the troubled waters have hardly calmed in Germany. Instead, a debate has started on what should be learned for European integration from the difficulties to reach a compromise in the run-up to the summit and from the difficult situation in Greece. This also reflects discontent with Chancellor Merkel's course in the negotiations, which showed pragmatism but less of a new vision for the eurozone.

Commentators from different sides have sized and interpreted Finance Minister Schäuble's former idea of a eurozone finance minister. Critics from the left have argued that Schäuble's proposal was about forcing a restrictive, rules-oriented fiscal policy upon the eurozone. This interpretation goes with the warning that a German-style policy one-sidedly aiming at budget consolidation would exacerbate the eurozone's problems. However, these critics seem to ignore that the federal government has supported flexible adjustment policies for Greece including measures to foster economic growth.

Professor Marcel Fratzscher, president of think tank DIW, has stated that a eurozone finance minister would offer the opportunity to establish a new institution in Brussels for the surveillance of the member states' budgetary policies and a new fiscal capacity. Backed by a strengthened European Parliament, such a minister should have the right to intervene in national fiscal policies if these violate European law. And the fiscal capacity should be able to levy taxes and issue jointly guaranteed debt. But this should be limited to two purposes: to provide unemployment insurance and to foster investment. According to these proposals, the fiscal capacity − operating as an insurance mechanism − would avoid serving as a transfer union and thus take into account German objections.

The German Council of Economic Experts has strongly criticised such reasoning. According to the Council, the appointment of a eurozone finance minister with such competences would be a step towards a transfer union as it would entail the risk of intensified moral hazard. The Council argues that the member countries obviously would like to benefit from a common budget and being able to pass on their responsibility for reducing unemployment to Brussels, while they would hardly be willing to reciprocally transfer parts of their sovereignty. Although there is much in favour of these arguments, wholesale criticism against a common unemployment insurance would be questionable, as the benefits from such a scheme could be limited to "catastrophic" shocks, i.e. very severe recessions.

Nevertheless, for the time being a transfer of substantial budgetary rights from the national parliaments to Brussels would hardly be capable of winning the necessary majority either in the German Bundestag or in other parliaments. It would also be surprising if Chancellor Merkel launched a major European policy initiative under the present circumstances. She is likely to stick to her step-by-step approach. She might also be pleased with the summit's results. The partner countries finally managed to reach an agreement with Greece, and thus prevent a heavy setback for European integration. The development in Greece now primarily depends on the Greek government's performance again.

The Germans seem to agree with Merkel. Her popularity is persistently high. In the meanwhile, the majority even thinks again that Greece should stay in the eurozone. However, the attitude towards Greece is somewhat inconsistent. While about 50% of the Germans are in favour of a third rescue package for Greece, about 75% do not trust in the Greek government's willingness to reform.

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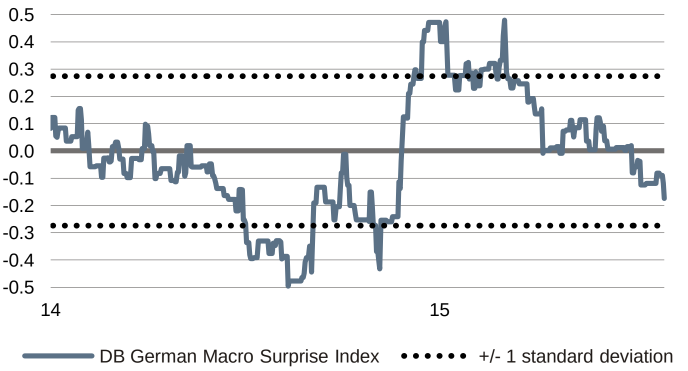
DB German Macro Surprise Index

The DB German Macro Surprise Index compares published economic data with market forecasts and thus provides clues as to the direction of future forecast revisions.[8]

DB German Macro Surprise Index

Average of last 20 z-scores of data surprises

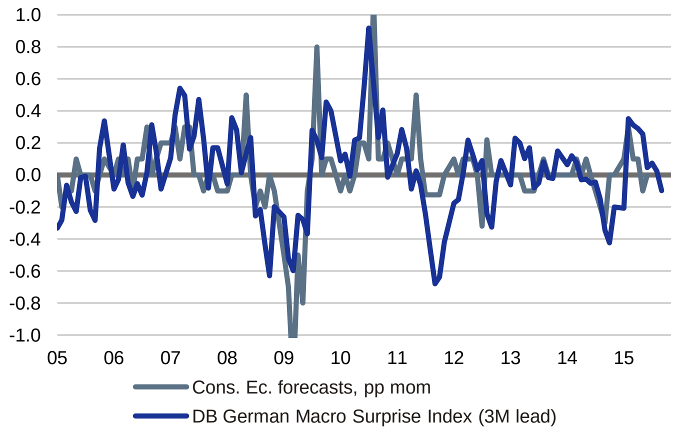


Values above (below) 0 indicate the data came in better (worse) than expected

Sources: Bloomberg Finance LP, Deutsche Bank Research

DB German Macro Surprise Index and revisions of Consensus GDP forecasts

Monthly revisions of Consensus Economic Forecasts (pp);
Average of previous 20 z-scores



Sources: Consensus Economics Inc., Deutsche Bank Research

Last 20 published economic data for Germany

Bloomberg Tickers	Indicator	Reporting month	Publication date	Current value	Bloomberg consensus	Surprise	Standardised surprise	Quantile rank
GRCP20YY Index	CPI (% yoy)	5 2015	16.06.15	0.7	0.7	0.0	0.3	0.3
GRIFPBUS Index	IFO Business Climate	6 2015	24.06.15	107.5	108.1	-0.6	-0.6	0.3
GRIMP95Y Index	Import Price Index (% yoy)	5 2015	26.06.15	-0.8	-0.4	-0.4	0.0	0.5
GRFRIAMM Index	Retail Sales (% mom)	5 2015	30.06.15	0.4	0.0	0.4	0.6	0.7
GRUECHNG Index	Unemployment Change (000's mom)	6 2015	30.06.15	1.0	-5.0	-6.0	-0.4	0.3
MPMIDEMA Index	Markit Manufacturing PMI	6 2015	01.07.15	51.9	51.9	0.0	0.0	0.5
MPMIDESA Index	Markit Services PMI	6 2015	03.07.15	53.8	54.2	-0.4	-0.4	0.3
GRIORTMM Index	Factory Orders (% mom)	5 2015	06.07.15	-0.2	-0.4	0.2	0.0	0.5
GRIPIMOM Index	Industrial production (% mom)	5 2015	07.07.15	0.0	0.1	-0.1	0.0	0.5
GRCAEU Index	Current Account Balance (EUR bn)	5 2015	09.07.15	11.1	16.0	-4.9	-1.9	0.0
GRCP20YY Index	CPI (% yoy)	6 2015	14.07.15	0.3	0.3	0.0	0.3	0.3
GRZECURR Index	ZEW Survey Current Situation	7 2015	14.07.15	63.9	60.0	3.9	0.4	0.7
GRZEWI Index	ZEW Survey Expectations	7 2015	14.07.15	29.7	29.0	0.7	0.1	0.6
MPMIDESA Index	Markit Services PMI	7 2015	24.07.15	53.7	53.7	0.0	0.0	0.5
MPMIDEMA Index	Markit Manufacturing PMI	7 2015	24.07.15	51.5	51.5	0.0	0.0	0.5
GRIMP95Y Index	Import Price Index (% yoy)	6 2015	27.07.15	-1.4	-1.4	0.0	0.4	0.7
GRIFPBUS Index	IFO Business Climate	7 2015	27.07.15	108.0	107.2	0.8	0.5	0.7
GRUECHNG Index	Unemployment Change (000's mom)	7 2015	30.07.15	9.0	-5.0	-14.0	-0.7	0.2
GRCP20YY Index	CPI (% yoy)	7 2015	30.07.15	0.2	0.3	-0.1	-0.3	0.2
GRFRIAMM Index	Retail Sales (% mom)	6 2015	31.07.15	-2.3	0.3	-2.6	-1.7	0.1

Sources: Bloomberg Finance LP, Deutsche Bank Research

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

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

Date	Event	Remarks
Until 8 Sep	Bundestag, Berlin	Parliamentary Summer recess
End-Aug or later	Bundestag, Berlin	Voting on the 3rd rescue package for Greece. Assuming that the Greek parliament will implement further measures from the reform schedule, the Bundestag is very likely to approve, given the CDU/CSU/SPD coalition's large majority.
3 Sep	ECB Governing Council meeting, press conference	Draghi might reiterate that an extension of QE is more likely than a reduction ahead of schedule.
4 Sep	G20 Finance Ministers and Central Bank Governors meeting, Ankara	Among others (poss.) international taxation issues, financial market regulation, cross-border cooperation of regulators.
11-12 Sep	Eurogroup and informal ECOFIN meeting, Luxembourg	Greece, financial and macroeconomic stability developments in the euro area, Banking Union, others.
5-6 Oct	Eurogroup and ECOFIN meeting, Brussels	Discussions on growth and jobs: the quality of public finance, possibly: Implementation two-pack: draft budgetary plans, Cyprus - adjustment programme, stability developments in the euro area.
9-11 Oct	IMF/World Bank annual meetings, Lima (Peru)	Debates on the state of the global economy and on financial markets, (poss) exchange rates.

Source: Deutsche Bank Research

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Germany: Data calendar

Date	Time	Data	Reporting period	DB forecast	Last value
6 Aug 2015	8:00	New orders manufacturing (Index, sa), pch mom	June	-0.3	-0.2
7 Aug 2015	8:00	Industrial production (Index, sa), pch mom	June	0.0	0.0
7 Aug 2015	8:00	Trade balance (EUR bn, sa)	June	20.2	22.8
7 Aug 2015	8:00	Merchandise exports (EUR bn, sa), pch mom (yoy)	June	0.3 (9.3)	1.7 (10.2)
7 Aug 2015	8:00	Merchandise imports (EUR bn, sa), pch mom (yoy)	June	3.8 (6.5)	0.4 (6.4)
14 Aug 2015	8:00	Real GDP (Index, sa), % qoq	Q2 2015	0.4	0.3
21 Aug 2015	9:30	Manufacturing PMI (Flash)	August	51.0	51.5
21 Aug 2015	9:30	Services PMI (Flash)	August	54.0	53.7
25 Aug 2015	10:30	ifo business climate (Index, sa)	August	108.0	108.0
28 Aug 2015	8:00	Import prices (Index, sa) pch mom (yoy)	July	-0.5 (-1.9)	-0.5 (-1.4)
28 Aug 2015	14:00	Consumer prices preliminary (Index, sa), pch mom (yoy)	August	0.1 (0.3)	0.2 (0.2)
1 Sep 2015	10:00	Unemployment rate (%, sa)	August	6.4	6.4
2 Sep 2015	8:00	Retail sales (Index, sa), pch mom	July	1.5	-2.3

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

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Financial forecasts

	US	JP	EMU	GB	CH	SE	DK	NO	PL	HU	CZ
Key interest rate, %											
Current	0.125	0.10	0.05	0.50	-0.75	-0.35	0.05	1.00	1.50	1.95	0.05
Sep 15	0.375	0.10	0.05	0.50	-0.75	-0.25	0.05	1.00	1.50	1.35	0.05
Mar 16	0.875	0.10	0.05	0.50	-0.75	-0.25	0.05	1.00	1.50	1.35	0.05
Jun 16	1.125	0.10	0.05	0.75	-0.75	-0.25	0.05	1.00	1.50	1.35	0.05
3M interest rates, %											
Current	0.26	0.15	-0.02	0.58							
Sep 15	0.51	0.15	0.00	0.58							
Mar 16	1.18	0.15	-0.10	0.59							
Jun 16	1.63	0.15	-0.10	0.60							
10J government bonds yields, %											
Current	2.26	0.34	0.62	1.97							
Sep 15	2.25	0.50	0.90	2.05							
Mar 16	2.50	0.60	1.10	2.30							
Jun 16	2.75	0.65	1.20	2.50							
Exchange rates											
	EUR/USD	USD/JPY	EUR/GBP	GBP/USD	EUR/CHF	EUR/SEK	EUR/DKK	EUR/NOK	EUR/PLN	EUR/HUF	EUR/CZK
Current	1.09	124.16	0.70	0.64	1.06	9.47	7.46	8.94	4.14	308.93	27.05
Sep 15	1.06	125.00	0.70	1.51	1.08	9.06	7.46	8.87	4.17	310.00	27.20
Mar 16	0.98	127.00	0.69	1.42	1.10	8.86	7.46	8.95	4.14	315.00	27.20
Jun 16	0.95	127.50	0.69	1.38	1.11	8.83	7.46	8.90	4.09	315.00	27.20

Sources: Bloomberg, Deutsche Bank

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German data monitor

	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Feb 2015	Mar 2015	Apr 2015	May 2015	Jun 2015	Jul 2015
Business surveys and output											
Aggregate											
Ifo business climate	106.6	104.7	107.1	108.2		106.8	107.9	108.7	108.5	107.5	108.0
Ifo business expectations	101.9	100.3	102.7	102.9		102.4	103.9	103.5	103.0	102.1	102.4
Industry											
Ifo manufacturing	102.7	99.9	102.8	103.9		102.3	103.8	104.6	104.3	102.9	103.2
Headline IP (% pop)	0.0	0.8	0.5			0.0	-0.4	0.6	0.0		
Orders (% pop)	1.3	1.4	-1.5			-1.0	1.1	2.2	-0.2		
Capacity Utilisation	83.8	84.1	84.5	84.3	84.7						
Construction											
Output (% pop)	0.4	1.3	1.1			-2.5	2.3	-0.9	0.5		
Orders (% pop)	-2.4	-0.1	8.6			-1.6	-2.2	-5.2	5.0		
Ifo construction	120.3	120.4	118.8	119.9		119.2	118.0	119.6	119.8	120.4	119.9
Consumer demand											
EC consumer survey	1.0	-1.2	1.0	3.0		-0.1	3.2	3.3	3.0	2.8	1.4
Retail sales (% pop)	-0.1	1.2	1.8	-0.3		-0.3	-0.8	0.9	0.4	-2.3	
New car reg. (% yoy)	4.1	2.7	6.4	4.2		6.6	9.0	6.3	-6.7	12.9	
Foreign sector											
Foreign orders (% pop)	3.4	0.8	-3.3			-1.8	-1.4	5.7	0.2		
Exports (% pop)	2.6	1.4	0.6			1.3	1.0	1.6	1.7		
Imports (% pop)	0.6	0.5	1.3			1.4	2.4	-0.8	0.4		
Net trade (sa EUR bn)	57.6	60.5	59.3			20.1	19.2	21.5	22.8		
Labour market											
Unemployment rate (%)	6.7	6.6	6.5	6.4		6.5	6.5	6.4	6.4	6.4	6.4
Change in unemployment (k)	-4.3	-38.0	-45.3	-25.7		-18.0	-14.0	-8.0	-4.0	1.0	9.0
Employment (% yoy)	0.9	0.8	0.6	0.4		0.6	0.5	0.4	0.4	0.4	
Ifo employment barometer	106.5	106.4	107.7	108.0		106.8	108.1	108.0	108.2	107.8	107.2
Prices, wages and costs											
Prices											
Harmonised CPI (% yoy)	0.8	0.4	-0.2	0.3		-0.1	0.1	0.3	0.7	0.1	0.1
Core HICP (% yoy)	1.2	1.1	1.0	1.1		1.1	1.0	1.1	1.4	0.9	
Harmonised PPI (% yoy)	-0.8	-1.2	-2.0	-1.4		-2.1	-1.7	-1.5	-1.3	-1.4	
Commodities, ex. Energy (% yoy)	-1.8	0.9	2.3	-0.5		1.4	3.4	0.5	-0.3	-1.6	
Oil price (USD)	102.0	76.4	55.1			58.9	56.8	61.6			
Inflation expectations											
EC household survey	13.4	8.6	0.5	6.1		-0.7	1.7	2.1	8.3	7.8	7.0
EC industrial survey	4.2	2.1	-0.4	1.5		-0.1	0.1	0.4	0.9	3.2	2.0
Unit labour cost (% yoy)											
Unit labour cost	2.0	1.8	1.8								
Compensation	2.5	2.6	2.4								
Hourly labour costs	2.1	1.7	2.5								
Money (% yoy)											
M3	4.7	4.8	7.2	7.6		6.3	7.2	7.2	7.2	7.6	
M3 trend (3m cma)						6.5	6.9	7.2	7.3		
Credit - private	1.4	1.7	2.6	2.1		2.5	2.6	1.8	2.2		
Credit - public	5.9	12.6	32.3			15.5	32.3	27.1	24.9		

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

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