Jamaica coalition unlikely to offer a goody bag

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The view from Berlin: Jamaica unlikely to trigger fundamental policy changes. The total additional fiscal impulse provided by a Jamaica coalition could in our view amount to between EUR 15 bn and EUR 20 bn in 2018 as more than half of the planned tax cuts will come at the expense of the Länder budgets. This would be only marginally more than the EUR 15 bn tax cuts "promised" by the outgoing Minister of Finance, which we had already taken into account in our 1.8% GDP forecast for 2018. Proposals in the FDP's election platform to scale back the ESM and to install an orderly EMU exit procedure have raised concerns among some EU politicians. We doubt that these two proposals will make it into the coalition treaty. The exit procedure could not be implemented without a treaty change. The Greens' very EMU-friendly approach including the provision of more financial resources is unlikely to prevail either. The conservative shift in Merkel's own CDU and the CSU will probably only allow for a continuation of the piecemeal approach, providing more funds in exchange for reforms and stricter adherence to the rules. Still, even with the FDP's insistence on more market- and rule-based procedure within EMU, it is very unlikely that Germany would not provide the necessary support, if another EMU country slipped into acute crisis.

Taking stock of public finances after the election: How big is the new government's fiscal scope? In the update of the Stability Programme (as of April 2017), the federal government anticipates a general government surplus of around EUR 16 bn (or 0.5% of projected GDP in 2017), followed by surpluses throughout the entire period up until 2021. At the federal level the government does not foresee new net borrowing in the upcoming four years ("black zero"). Despite strong tax revenues and markedly lower interest service payments, the fiscal scope of the new government will nonetheless be limited for now – at least at the federal level. This is owed to generous expense increases in the last legislative period. Moreover, the national debt brake demands that the (structural) net new borrowing of the federal government may not exceed 0.35% of GDP (around EUR 10.6 bn in 2017). This limits the fiscal scope for new measures (tax cuts and expenditure programs) at the federal level to around EUR 15 bn in 2018. Allowing for some safety margin the scope is probably closer to EUR 10 bn.

World trade stagnates again and remains volatile. The excellent growth environment and high leading indicators point to an increase in global trade in the coming months. At the same time, higher commodity prices, increased obstacles to trade and structural changes in the supply chains may have a dampening effect. From our vantage point, the dynamic of the business cycle currently plays a more important role than the growth-dampening effects. We have therefore raised our forecasts for global trade growth to 4.1% for 2017 and 4% for 2018, respectively.

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Economic forecasts

	Real GDP (% growth)			Consumer Prices* (% growth)			Current Account (% of GDP)			Fiscal Balance (% of GDP)		
	2016	2017F	2018F	2016	2017F	2018F	2016	2017F	2018F	2016	2017F	2018F
Euroland	1.7	2.2	2.0	0.2	1.5	1.4	3.5	3.0	2.6	-1.5	-1.3	-1.3
Germany	1.9	1.9	1.8	0.5	1.8	2.0	8.4	8.0	7.8	0.8	0.5	0.2
France	1.1	1.7	1.7	0.3	1.1	1.1	-0.9	-0.5	-0.6	-3.4	-3.0	-2.7
Italy	0.9	1.5	1.2	-0.1	1.4	1.2	2.6	2.6	2.3	-2.4	-2.3	-2.2
Spain	3.2	3.0	2.5	-0.3	2.0	1.5	1.9	1.8	1.7	-4.5	-3.4	-2.5
Netherlands	2.2	3.2	3.3	0.1	1.2	1.3	8.5	10.2	10.2	0.4	1.1	0.5
Belgium	1.2	1.9	2.0	1.8	2.2	1.7	-0.4	0.0	0.5	-2.6	-2.1	-1.8
Austria	1.6	2.4	1.9	1.0	2.1	1.8	1.7	2.0	2.3	-1.6	-1.0	-0.8
Finland	1.9	2.5	1.9	0.4	0.9	1.2	-1.1	-0.5	0.0	-1.9	-0.8	-0.4
Greece	0.0	1.5	2.7	0.0	1.2	0.8	-0.6	-0.5	0.0	0.7	-2.0	-1.5
Portugal	1.4	2.6	1.7	0.6	1.4	1.4	0.9	0.4	0.4	-2.0	-1.6	-1.4
Ireland	5.1	4.5	3.7	-0.2	0.3	1.1	3.3	4.5	3.5	-0.6	0.0	0.0
UK	1.8	1.6	1.0	0.6	2.6	2.7	-4.4	-3.8	-3.5	-2.9	-2.9	-2.6
Denmark	1.7	1.6	1.8	0.3	1.2	1.4	6.5	7.5	7.3	-2.1	-1.2	-0.7
Norway	0.7	1.3	1.9	3.6	2.0	2.0	4.4	6.1	6.4	3.0	3.6	3.8
Sweden	3.0	2.7	2.4	1.0	1.6	1.8	4.7	4.8	4.8	2.0	0.7	0.7
Switzerland	1.3	1.5	1.9	-0.3	0.3	0.3	9.5	11.2	11.0	-0.1	0.5	0.5
Czech Republic	2.3	2.8	2.1	0.7	2.5	2.1	1.1	1.1	1.0	0.6	-0.6	-0.6
Hungary	2.0	3.8	3.5	0.4	2.3	2.5	5.5	3.0	2.3	-1.9	-2.3	-2.4
Poland	2.7	3.4	3.2	-0.6	1.8	2.0	-0.3	-1.1	-1.2	-2.5	-2.9	-3.0
United States	1.5	2.1	2.4	1.3	2.1	1.9	-2.6	-2.9	-3.2	-3.1	-3.6	-2.8
Japan	1.0	1.8	0.7	-0.1	0.3	0.4	3.7	3.6	3.5	-3.5	-3.5	-3.1
China	6.7	6.7	6.3	2.0	1.7	2.7	1.8	1.3	1.1	-3.8	-4.0	-4.0
World	3.1	3.6	3.7	4.3	5.2	4.3						

*Consumer price data for European countries based on harmonized price indices except for Germany. This can lead to discrepancies compared to other DB publications.
Sources: National Authorities, Deutsche Bank

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

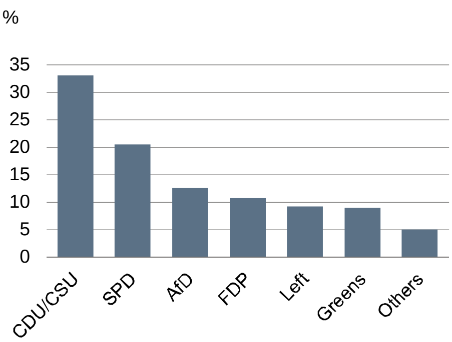
	2014	2015	2016	2017F	2018F	2017 Q1	2017 Q2F	2017 Q3F	2017 Q4F	2018 Q1F	2018 Q2F	2018 Q3F	2018 Q4F
Real GDP	1.9	1.7	1.9	1.9	1.8	0.7	0.6	0.6	0.5	0.5	0.4	0.3	0.3
Private consumption	1.0	1.7	2.1	1.8	1.8	0.4	0.8	0.4	0.4	0.4	0.5	0.3	0.3
Gov't expenditure	1.5	2.9	3.7	1.5	1.1	0.2	0.6	0.3	0.3	0.3	0.3	0.3	0.3
Fixed investment	3.7	1.5	3.1	3.6	3.1	2.7	1.0	1.1	1.0	0.7	0.7	0.7	0.6
Investment in M&E	5.9	3.9	2.2	2.2	3.8	2.1	1.2	1.5	1.0	1.0	0.8	0.8	0.5
Construction	2.3	-1.4	2.7	4.7	3.5	3.4	0.9	1.0	1.2	0.7	0.7	0.7	0.7
Inventories, pp	-0.3	-0.3	-0.2	-0.1	0.1	-0.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Exports	4.6	5.2	2.6	3.7	3.8	1.6	0.7	1.2	1.0	1.0	1.0	1.0	1.0
Imports	3.6	5.6	3.9	4.4	4.6	0.4	1.7	1.2	1.1	1.0	1.2	1.2	1.2
Net exports, pp	0.4	0.2	-0.3	0.0	0.0	0.6	-0.4	0.1	0.0	0.1	0.0	0.0	0.0
Consumer prices*	0.9	0.2	0.5	1.8	2.0	1.9	1.7	1.8	1.8	2.0	2.2	2.1	2.0
Unemployment rate, %	6.7	6.4	6.1	5.7	5.5	5.9	5.7	5.7	5.6	5.6	5.5	5.4	5.4
Industrial production**	1.5	1.1	1.4	3.0	1.8								
Budget balance, % GDP	0.3	0.7	0.8	0.9	0.6								
Public debt, % GDP	74.9	71.2	68.3	65.1	62.1								
Balance on current account, % GDP	7.3	8.3	8.4	8.0	7.8								
Balance on current account, EUR bn	213	253	263	259	260								

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

The view from Berlin

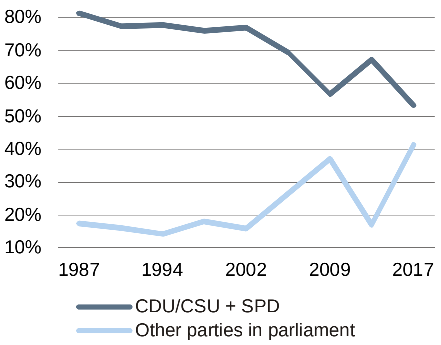
Jamaica unlikely to trigger fundamental policy changes

Election results 1



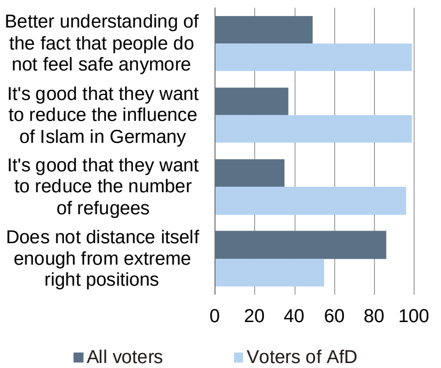
Source: The Federal Returning Officer

Diminishing role of the two big parties
Percentage share of votes 2



Source: Infratest dimap, September 2017

Views on AfD: Percentage agreement 3



Source: Infratest dimap, September 2017

After the elections on September 24, the parties have started to analyse the outcome, to refocus and to adapt to their respective role, especially the two "big" parties (CDU/CSU and SPD) who together just garnered more than 50% of the votes compared to 70-80% in the 1980s and 1990s (see chart). First strategic decisions relating to personnel policy as well as to the political path have been taken.

According to a survey around the election day (Infratest dimap), 70% of those asked were concerned that the rift in the society will become bigger. 67% of those surveyed expected a massive increase in crime and 46% think that the influence of Islam will become too strong.

But apparently many Germans do not judge the bigger parties capable of solving the respective problems. Only small majorities of 51% and 50% deem the CDU/CSU competent in fighting terror and crime, respectively. And with regard to the issue of social justice even the SPD's competence rating is only 38% (CDU/CSU 23%). On the contrary, many Germans blamed both big parties for major problems. 69% of those asked agreed with the statement that with the CDU/CSU the rift between poor and rich people has widened, and 55% agreed with the statement that the conservatives did not take care of the peoples' concerns with regard to the refugee policy. The SPD was blamed for not specifying how it would enhance social justice (80%) or that it did not care enough about those who are in a position of weakness (58%).

Against this background many voted for populists at the extreme wings of the political landscape, especially the AfD. The AfD supporters' prime motive was disappointment (with the established parties). 61% of its voters acted out of this motive and only 31% out of conviction that the AfD would provide better solutions. With respect to the other relevant parties, conviction dominated the voting decision, in particular among the voters of the CDU/CSU (78%) and the Greens (73%).

SPD heading into opposition …

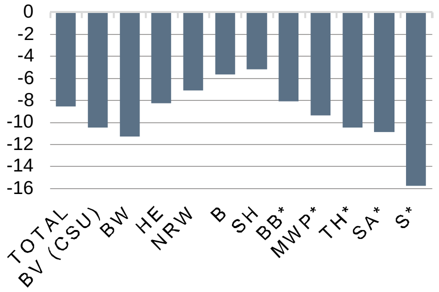
On election day evening, party leader and frontrunner Schulz emphatically refused a renewed grand coalition and announced that the SPD will assume the role of the opposition leader in the Bundestag. A party grandee recently mentioned that a renewed alliance with the CDU/CSU would be possible only if Merkel resigned – a development deemed rather unlikely. Schulz himself will remain party chairman despite the SPD's poor result in the election. However, he was forced to share power with Andrea Nahles, the former Labour Minister, who has been elected as new party whip. Some experts interpreted it as a signal for the next campaign in 2021. Schulz and Nahles, belonging to the SPD's left wing, should strengthen their parties' social democratic profile. As a result the next government will be confronted with two outspoken opposition parties from the left, with the SPD and the Left taking up 222 seats, i.e. 35%, in the Bundestag.

… while CDU/CSU has to seek consent over priorities

Angela Merkel wants to form a new coalition in a timely manner without a lot of fuss. Despite her party's poor result she did not see any mistakes in her campaign or in the grand coalition's work. In contrast, particularly party grandees from East German states, where the CDU lost many voters to the AfD, have demanded a substantial strengthening of their party's traditional more conservative profile. They argued that in the past few years the CDU has neglected the political right of the center and thus given its opponents too much leeway to position themselves. This happened in line with similar calls from the Bavarian CSU.

CDU & CSU election results in selected federal states 4

Difference vs. the 2013 results



BV = Bavaria, BW Baden-Wurttemberg, HE Hesse; NRW North Rhine-Westphalia, B Berlin, SH Schleswig-Holstein, BB Brandenburg, MWP Mecklenburg-Western Pomerania, TH Turingia, SA Saxony-Anhalt, S Saxony
* East German state

Source: Bundeswahlleiter

CSU chairman Seehofer also advocated a more conservative stance with regard to asylum policy and internal security, driven not least by concerns over the CSU position in the upcoming state election in 2018. He also demanded a more pronounced focus on social policy issues. To reinforce his arguments about his party's key points for coalition talks, Seehofer hinted at a possible CSU member survey over the final outcome of such talks.

Therefore Merkel cannot start even preliminary talks with the potential partners but has to settle the dispute within her own party first. This could take until the CSU party convention on November 17 to 18. Angela Merkel, Mr. Seehofer and some other senior officials of the two sister parties will meet for first exploratory talks on Sunday (Oct. 8).

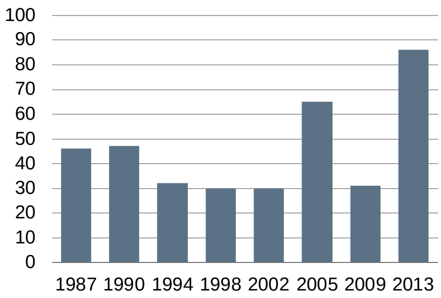
Recently, a CDU personnel decision has attracted widespread attention, too: Finance Minister Schäuble will quit the cabinet to become President of the Bundestag – a highly honorable but physically less demanding job. Merkel's close ally, Peter Altmaier, currently minister in the Chancellery, will temporarily take over the role of the Finance Minister. The resignation of Wolfgang Schäuble will leave a substantial vacancy in the CDU's senior personnel team. However, Schäuble's change of office will provide more leeway for Angela Merkel when it comes to the formation of the intended Jamaica coalition cabinet. This is all the more important as Merkel in her function as CDU leader is also in charge of promoting a new CDU frontrunner for the next campaign in 2021.

Junior partners of a Jamaica coalition positioned themselves

Parts of the FDP already claimed the right to nominate the new Finance Minister. FDP MPs have elected party chairman Lindner as their whip – an important task when it comes to set the course and close the party's ranks in a possible four party Jamaica coalition. In terms of popularity (ZDF Politbarometer), Lindner now follows directly after Merkel and Schäuble (while the CSU's Seehofer assumes the last rank among the top ten).

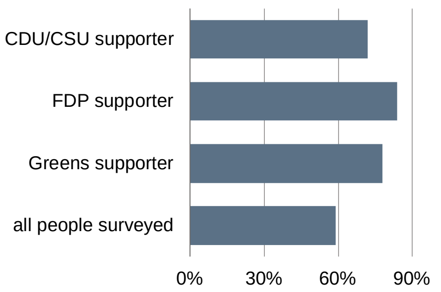
Like the FDP, the Greens demonstrated self-confidence but by and large refrained from provoking the CDU/CSU. The party unanimously agreed on a commission for exploratory talks, with members from the moderate centrist camp as well as the party's left wing. However, there is no target date for such talks and thus are unlikely to start soon – at least not before the election in Lower Saxony on October 15, when Member ballots will be held in the Green party, the FDP and possibly the CSU.

Length of German coalition talks in days 5



Source: German Bundestag

Support for Jamaica coalition among... 6



Source: ZDF Politbarometer, September 28, 2017

Difficult process of coalition building but snap elections unlikely

The new parliament has to meet for its constitutive session within 30 days after the election date, i.e. on October 24 at the latest. In contrast, Germany's basic law does not stipulate a deadline for the election of a new chancellor. But this does not mean that the constitution gives the actors involved – primarily the Federal President, who formally has to nominate the candidate – any length of time to fulfil their task. Instead, the President should present the candidate within an appropriate period of time, which should be interpreted as six months according to experts. In the worst case, the President would have to nominate a candidate without the prospect of getting the necessary majority of the votes in the Bundestag. The parliament's failure to elect a new chancellor could trigger a snap election then.

From the present point of view, the risk of such an event seems to be very limited, however. Instead we think it's likely that Angela Merkel and her camp will succeed in forming a Jamaica coalition, although this could take until early 2018. But all actors involved have stated they are aware of their responsibility for forming a new government capable of acting. And they know that their failure would be a shot in the arms of the populist forces, especially the AfD. In addition, the four potential partners should be motivated by the fact that a clear majority of the Germans (59%, see chart) now favour a Jamaica coalition in contrast to a small minority prior to the election.

How could Jamaica work?

It goes without saying that the following considerations are highly speculative by nature. Give that a Jamaica coalition is without alternative – at least as long as the SPD remains sidelined – the potential junior partners seem to try for a constructive approach. Still, in order to sell a coalition compromise everyone has to bite some bullets, therefore every partner needs some topics where each can claim its view prevailed. This should be easiest with regard to education and investments in public infrastructure to promote digitalization. FDP and Greens do also agree on the aim of protecting the environment, but differ regarding the means, with the FDP favoring market-based solution while the Greens prefer to direct policy interventions including prohibitions (for example of combustion engines by 2030). We do not foresee a mixture but do not expect that such fixed deadlines will be part of the coalition treaty – rather that such targets exceeding the Jamaica coalition's 4 year term will be phrased as policy intentions in ways acceptable for all coalition partners.

Hey, not so big spenders!

Every party of a potential Jamaica coalition has promised income tax cuts, so tax cuts are likely to come with a reduction between the EUR 15bn promised by the CDU and the FDP's EUR 30bn. Redistributive measures such as a higher top tax rate or a wealth tax for the "super-rich" as demanded by the Greens are almost certainly a no-go for Jamaica. But the Greens – in line with similar demands from the CSU – might get more social expenditures for low-income earners and families as a substitute. All in all fiscal policy will have to give in order to conciliate the various requests in a way that every party gets its trophy. However, the fiscal constraints provided by the federal debt brake (-0.35% of GDP) as well as the CDU's repeated call for a balanced federal budget effectively curtail the room to manoeuver at the federal level to around EUR 15bn in 2018, even assuming that the strong economic momentum will ceteris paribus bring a single digit EUR bn surplus at the federal level. That makes the FDP's EUR 30bn quite ambitious even when taking into account that slightly more than half of such a tax cut would come at the expense of Länder and local authorities. So one could expect tax cuts slightly north of EUR 20bn plus additional expenditures between EUR 3 and 5bn. Since tax cuts are unlikely to kick in Jan 1st and additional expenditures will only materialize over time, such a package should provide a sufficiently large safety margin. Finally one could assume at least a partial self-financing effect.

… and what about Europe?

The FDP's election platform has made some of the more EU-friendly readers hyperventilate, in particular the request to scale back the ESM and to install an orderly EMU exit-procedure. However, we doubt that these two proposals will make it into the coalition treaty. The exit procedure should be easily ditched by Merkel by pointing out that it would require a treaty change, which is unlikely to find a majority among EMU countries. On the other hand the Greens' very EMU-friendly approach, including the provision of more financial resources is unlikely to prevail. The conservative shift in Merkel's own CDU and the CSU will probably only allow for a continuation of the piecemeal approach, providing more funds in exchange for reforms and stricter adherence to the rules. Still, even with the FDP's insistence on more market- and rule-based procedure within EMU, it is very unlikely that Germany would not provide the necessary support, if another EMU country slipped into acute crisis.

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Taking stock of public finances after the election: How big is the new government's fiscal scope?

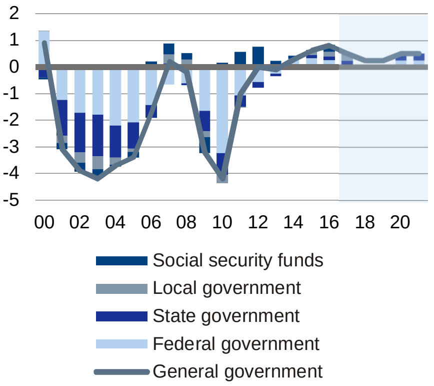
— Thanks to buoyant growth and a sharp uptick in tax revenues, Germany's fiscal situation stands out – despite robust expenditure growth. The general government budget looks set to be clearly in the black for the fourth year in a row in 2017. In the 2017 update of the Stability Programme (a requirement within the framework of EU budgetary supervision), the federal government anticipates a general government surplus of around EUR 16 bn (or 0.5% of projected GDP in 2017), followed by surpluses throughout the entire period up until 2021. According to the draft budget for 2018 and the financial plan for the period up to 2021, there will be no new net borrowing at the federal government level in the upcoming four years ("black zero").

— Despite strong tax revenues and markedly lower interest service payments, the fiscal scope of the new government will nonetheless be limited for now – at least at the federal level. This is owing to generous expense increases in the last legislative period (particularly for old-age pensions and other social spending). Moreover, the national debt brake rules that the (structural) net new borrowing of the federal government may not exceed 0.35% of GDP (around EUR 10.6 bn in 2017). Another factor blurring the overall picture of a robust general government budget is that federal taxes have been affected by special effects.

— Provided economic growth continues to be healthy and (additional) tax receipts surprise to the upside, new fiscal scope for public investment and tax cuts might emerge in the near future. Pointing to sustained robust growth, current economic indicators (such as Ifo and PMI) suggest that public finances might surprise to the upside.

Surpluses due to robust growth and low interest rates 1

General government budget balance*, % of GDP

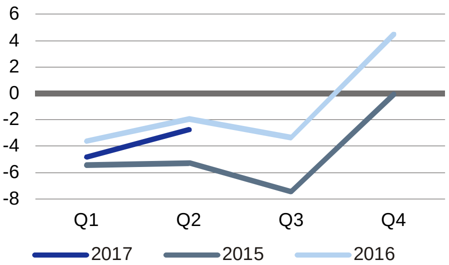


* Forecasts: German Stability Programme (April 2017)

Sources: WEFA, Deutsche Bundesbank, Federal Ministry of Finance, Deutsche Bank Research

Current (aggregated) budget position of German social security funds* 2

Cumulated budget balance, EUR bn

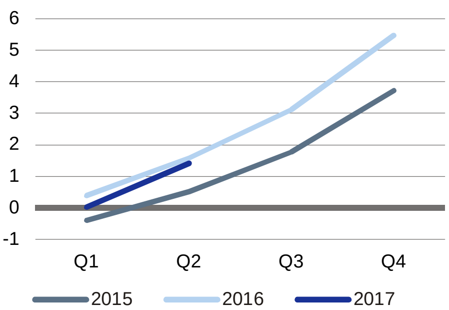


* GRV, GKV, BA und SPV

Sources: Deutsche Bundesbank, Deutsche Bank Research

Booming labour market brings full pockets for the Federal Employment Agency! 3

Cumulated budget balance, EUR bn



Sources: Deutsche Bundesbank, Deutsche Bank Research

Starting point: Buoyant growth and low interest rates are replenishing the state's coffers

Governmental entities and social security systems in solid fiscal shape …

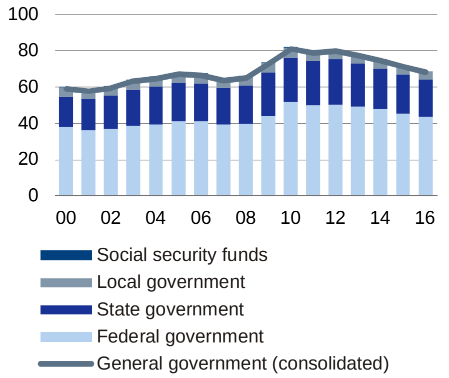
Germany's fiscal situation currently stands out – thanks to buoyant growth and strongly rising tax receipts and despite sharp expense increases. In 2016, Germany already generated a sound surplus of EUR 25.8 bn (0.8% of GDP) at the general government level (financial statistics[1]) according to data from the Federal Statistical Office, which encompasses the budgets of the governmental entities (federal government, federal states, local authorities and their special budgets) as well as the fiscal situation of the social security systems. The latter consist of the German statutory pension system (*Gesetzliche Rentenversicherung*; GRV), the statutory health insurance (*Gesetzliche Krankenversicherung*; GKV), the social long-term care insurance (*Soziale Pflegeversicherung*; SPV) and the Federal Employment Agency (*Bundesagentur für Arbeit*; BA).

In the fiscal year 2016, the general government surplus rested on a broad base. Of the governmental entities, the federal government (EUR 7.4 bn or 0.24% of GDP), the federal states (EUR 4.9 bn; 0.16%), and also the local authorities (EUR 5.2 bn; 0.17%) all reported solid surpluses (the latter two in aggregated

[1] Public finance data published within the framework of financial statistics (Finanzstatistik) generally differ slightly from public finance figures published within the system of national accounts. For instance, the German general government budget surplus reached EUR 23.7 bn in 2016, according to national accounts data from Eurostat (according to the Maastricht definition).

Debt ratio on a declining path, tough still above the Maastricht debt limit 4

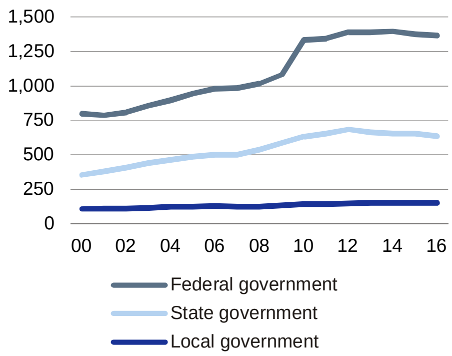
General government debt, % of GDP



Sources: Deutsche Bundesbank, Deutsche Bank Research

Federal and state government debt level is also declining in absolute terms 5

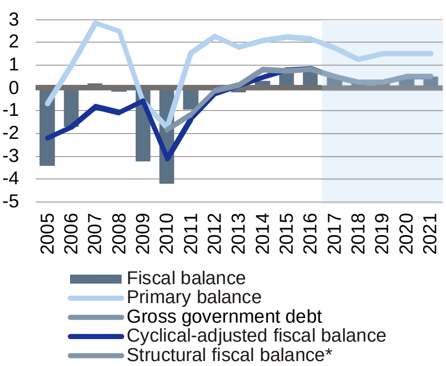
Government debt stock (gross), EUR bn



Sources: WEFA, Deutsche Bundesbank, Deutsche Bank Research

DE: Solid public finances to continue according to government projections 6

General government, % of GDP



* Cyclically adjusted and excluding one off effects.
Forecasts: Stability Programme (April 2017).

Sources: Eurostat, AMECO, Federal Ministry of Finance, Deutsche Bank Research

terms). In addition, the social security schemes – with the exception of the deficit-stricken German statutory pension system across the board generated, in part, significant surpluses. Overall (i.e. in the aggregate), the surplus of the social security systems amounted to EUR 8.2 bn or 0.26% of GDP, which marks a contribution of roughly one-third to the general government surplus (see chart 1). In the year to date, the social security funds have also benefitted substantially from the persistent labour market boom. But although employment subject to social security insurance and hence contribution receipts have picked up sharply, the aggregated (and since the start of the year accumulated) social security balance ran a slight deficit of around EUR 2.8 bn at the end of the second quarter of 2017 (see chart 2). The aggregated deficit was attributable to shortfalls in the German statutory pension system (EUR 1.6 bn), the statutory health insurance (EUR 1.6 bn) and the social long-term care insurance (EUR 0.9 bn), which were offset against a Federal Employment Agency surplus of EUR 1.4 bn (see chart 3). In late Q2 2015 and 2016, however, the accumulated budget was also in the red, but nonetheless turned out nearly balanced or with a sound surplus in the year as a whole (see chart 2). Overall, we expect the general government balance to remain in positive territory in 2017 and 2018. In view of better-than expected growth and positive fiscal surprises, we assume that the general government's surplus would widen under a no-policy-change scenario to around 0.9% and 1.1% of GDP, respectively, from previously forecast 0.5% and 0.2% of GDP.

… paving the way to lower public debt

Courtesy of particularly robust growth in Germany and a reduction in absolute debt at the federal government and state level, the German debt-to-GDP ratio declined for the sixth year in a row in 2016, to 68.1% at the end of the year (down from its peak of 81.0% in 2010), according to data from the Deutsche Bundesbank (see chart 4)[2]. Whilst the federal states significantly reduced debt (by EUR 48.5 bn or 7.1% vis-à-vis 2012) between 2012 and 2016, the decline in federal government debt between 2014 and 2016 was much less striking (EUR 29.6 bn or 2.1% vis-à-vis 2014) (see chart 5). Without the strong increase in government consumption (particularly for social security purposes – "pensions paid to mothers", "retirement at 63"), the federal government surplus would have turned out even more comfortable and debt could have been trimmed back more sharply. With the demographic challenge likely to weigh substantially on the general government budget (in the medium and long term), this would have been a necessary move on the part of the outgoing government, and could have been achieved without great effort, thanks to extraordinarily positive special factors – on both the revenue side (booming tax receipts due to buoyant growth and bracket creep) and the spending side (low interest rates and declining interest payments, sharp rise in social security contribution receipts owing to the flourishing labour market).

Government benefitting from strong economic tailwind

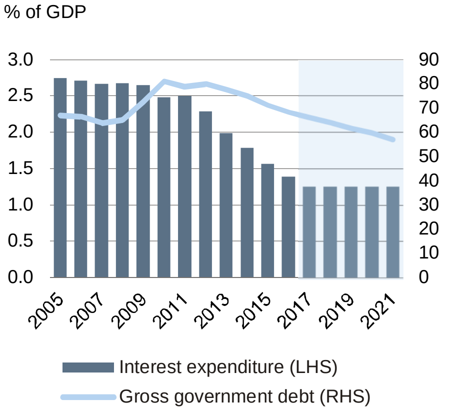
Fiscal situation to remain comfortable …

The general government budget (the federal government, the federal states, the local authorities and the social security system as well as special budgets) looks set to generate a strong surplus for the fourth year in a row in 2017.

According to the Stability Programme (April 2017 update), the outgoing federal government expects another surplus this year, which, however, might not be quite as comfortable as last year (EUR 16 bn or 0.5% of GDP in 2017 compared with EUR 25.8 bn or 0.8% in 2016 according to financial statistics and EUR 23.7 bn or 0.8% according to Eurostat data). Given persistent strong growth, a

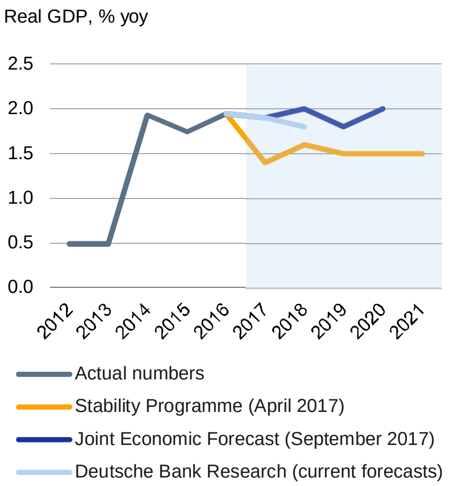
[2] Germany's general government gross debt stock amounted fto 68.3% of GDP by the end of 2016, according to data from Eurostat (Maastricht definition).

Debt ratio could fall below 60% by 2020, according to Stability Programme 7



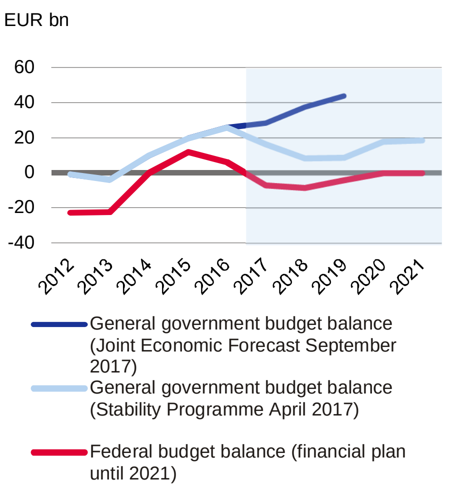
Sources: Eurostat, AMECO, Federal Ministry of Finance, Deutsche Bank Research

DE: Summary of growth forecasts 8



Sources: Deutsche Bundesbank, Federal Ministry of Finance, Joint Economic Forecast, DB Research

Fiscal outlook has brightened further 9



Sources: Federal Ministry of Finance, Deutsche Joint Economic Forecast, Deutsche Bank Research

booming labour market and the extraordinarily low interest burden on public budgets, the federal government expects the general government balance to be in surplus throughout the next four years (see chart 6).

From our point of view, though, the risks to the above projections of the federal government are clearly tilted to the upside (assuming no changes to fiscal policies), as the growth assumptions underlying the forecasts/targets appear much too conservative by now. In its April 2017 update of the stability report, the federal government expected real (nominal) GDP growth of 1.4% (2.8%) and 1.6% (3.2%) for 2017 and 2018, respectively. Meanwhile, however, the growth outlook has brightened visibly. Recently, the recovery has not only gained in strength but in breadth as well (in addition to private consumption, investment and external trade are also picking up). Assuming (real GDP) growth of 1.9% for 2017 and 1.8% for 2018, our current forecasts are much more optimistic than the government's projections. This view is further corroborated by the economic research institutes involved in the autumn expert opinion (Joint Economic Forecast) for the German federal government. In their report of late September, they expect the robust recovery of the German economy to continue.

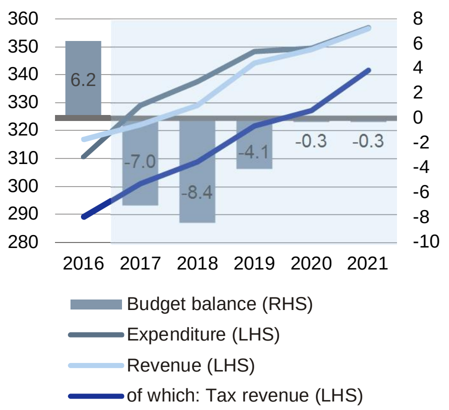
The institutes now predict real growth rates of 1.9% for 2017, 2.0% for 2018 and 1.8% for 2019 (see chart 8). Against this backdrop, it can be assumed that the upturn will hold further positive surprises for public finances. In view of improving growth prospects, the research institutes meanwhile expect general government surpluses (governmental entities and social security schemes) to rise sharply over the next three years. For 2017, they reckon with a surplus of EUR 28.3 bn (equivalent to around 0.9% of GDP based on the institutes' joint forecast for nominal GDP) (compared with EUR 25.8 in 2016), followed by EUR 37.3 bn (1.1%) and EUR 43.7 bn. (1.2%) in 2018 and 2019, respectively (see chart 9). The forecast is based on the key assumption that overall government revenues in the next two years, at around 3.8% and 3.7%, continue to rise at a faster pace than spending (2018: 3.3%; 2019: 3.4%), albeit only if tax and spending policies remain unchanged.

… prompting calls from all parties to cut taxes and raise spending

The outcome of the federal election leaves just two options for building a stable government coalition that has an absolute majority: the so-called Jamaica coalition consisting of the CDU/CSU, the FDP and the Greens or another grand coalition of CDU/CSU and SPD. In their joint election programme, the CDU/CSU promoted moderate tax cuts (above all for medium income earners), whilst advocating expense increases in specific areas (investment, security, education and social issues). For the FDP, lower taxes, better education (higher spending on education) and future-oriented public investment (expansion of the digital infrastructure) seem to be in the spotlight. Similarly, the Greens also championed tax cuts for small and medium income earners, higher spending on education and more public investment. In view of the above election pledges, the first question that now comes to mind is to what extent these promises will be realised, followed by the financing issue. In the following section, we analyse how big the fiscal scope of the new federal government is likely to be, from the current perspective.

Medium-term financial planning for the federal budget 10

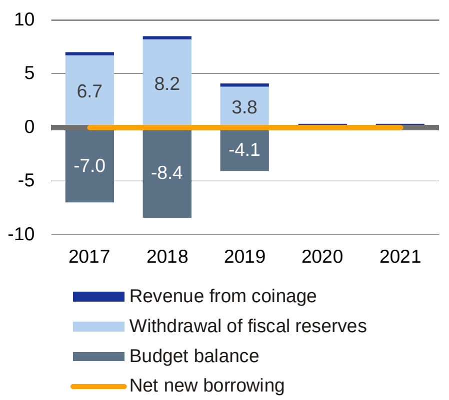
Federal budget (core budget), EUR bn



Sources: Federal Ministry of Finance (Monthly Report September 2017), Deutsche Bank Research

Budget deficits to be financed primarily by withdrawal of fiscal reserves 11

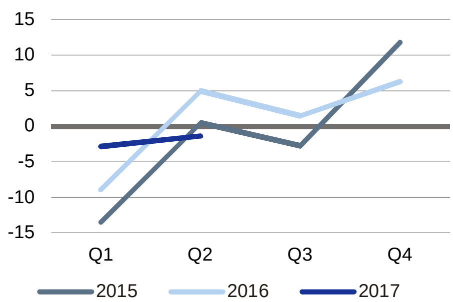
Federal budget (core budget), EUR bn



Sources: Federal Ministry of Finance (Monthly Report September 2017), Deutsche Bank Research

Federal budget recorded a moderate deficit for the first half of this year 12

EUR bn (cumulated figures year to date)



Sources: Federal Ministry of Finance, Deutsche Bank Research

Despite sound surpluses: Near term, the old sins of the grand coalition and the national debt brake will restrict the new government

National “debt brake” and declining federal taxes …

According to the draft 2018 budget and the financial plan for the period up to 2021 (as at July 2017), the federal government still sticks to the so-called “black zero” (as already in 2014, 2015 and 2016). The continuation of the “black zero” implies no new net borrowing at the federal government level for the years up to 2021. As indicated by the current monthly report of the Federal Ministry of Finance (as at September 2017), the outgoing government expects persistent, though shrinking, federal deficits (see chart 10) in the medium term, but is planning to finance them by withdrawing EUR 6.7 bn in 2017 and EUR 8.2 bn and EUR 3.8 bn in 2018/19, respectively, from the fiscal reserves that were set aside during the refugee crisis (see chart 11), thereby avoiding new net borrowing in the upcoming fiscal years.

… initially limit the fiscal scope of the new government

Although tax receipts are soaring and interest payments have declined markedly over the years, the fiscal scope of the new government will continue to be limited for now – at least at the federal level. This is owed to generous expense increases in the last legislative period (particularly for old-age pensions and other social spending), which largely “swallowed up” the fiscal scope created by buoyant growth. Moreover, federal tax revenues have recently suffered a setback, after the Federal Constitutional Court ruled in April 2017 that nuclear fuel tax payments since 2011 (a federal tax) have to be refunded. Following the reimbursement of EUR 6.3 bn (roughly 0.2% of GDP) in June, tax receipts at the federal level declined. According to the Monthly Report of the Deutsche Bundesbank (August 2017), they were down by an annualised 0.5% in the second quarter of 2017. In August, the federal government paid further compensation – in connection with the nuclear fuel tax – (in the amount of EUR 1 bn) for interest on the tax refund, which will weigh on tax revenues in the third quarter. Based on the accumulated balances since the beginning of the year, the federal government therefore ran a moderate deficit in the first of half of 2017 – despite solid growth and largely due to the above one-off factor (see chart 12).

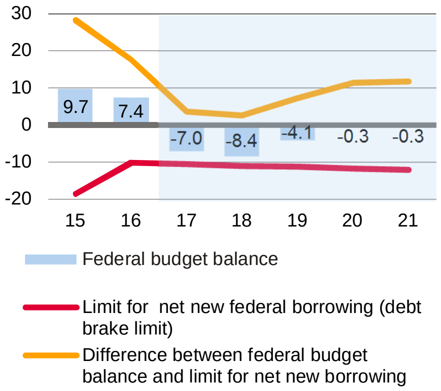
Starting in fiscal year 2016, the "debt brake" anchored in Article 115 of the Basic Law limits the structural net new borrowing of the federal government (i.e. adjusted for cyclical and special effects) to 0.35% of GDP. According to the Deutsche Bundesbank (see Monthly Report of August 2017), new net federal borrowing this year must not exceed EUR 10.6 bn (following EUR 10.2 bn in 2016). Without tapping into the reserves, the fiscal deficit target would already be dangerously close to this ceiling this year (see chart 13). Courtesy of past reserves, however, the federal government will not have to take on new net borrowing, which allows a fairly wide safety margin of roughly EUR 10 bn to the debt brake limit.

But the strong upturn and further buoyant revenues will create substantial fiscal scope in the medium term

Sustained robust growth and better-than-expected (additional) tax receipts, however, are likely to soon create new respectively further scope – at the federal level, as well. Against this backdrop, deficits this year could turn out lower than envisaged by the federal government. Moreover, the financial plan for the years from 2019 to 2021 already contains an accumulated EUR 14.8 bn

Debt brake is limiting new borrowing by the federal government 13

Federal budget (core budget), EUR bn



Sources: WEFA, Deutsche Bundesbank, Federal Ministry of Finance, Deutsche Bank Research

(approximately 0.5% of GDP) in uncommitted budget resources. These extra funds (in the form of a global revenue shortfall) will be at the free disposal of the new federal government.

Additional fiscal revenues from the better-than-expected growth outlook could thus be used by the next government to finance widespread calls from parties for tax relief. Realistically, election campaign pledges of the CDU/CSU to cut taxes by around EUR 15 bn (approximately 0.5% of GDP) should mark the lower end, though actual tax reductions in the near term are unlikely to meaningfully overshoot the above number (see chart). In our view the total additional fiscal impulse (on the general government level) provided by a Jamaica coalition – primarily through (income) tax relief and a smaller part in form of additional (investment) spending – could amount to around EUR 20 bn in 2018. Such fiscal stimulus would in our view not endanger the federal government from complying with the national debt brake rule as more than half of any forthcoming (income) tax relief would be at the expense of the state and local government level. The total magnitude of the forthcoming fiscal stimulus will in the end depend on the new government's political preferences, i.e. whether the new federal government wants to give priority to a faster reduction of government debt (and hence to promoting inter-generation fairness) or to providing greater monetary relief to today's tax payers as well as how close the new federal government is willing to let planned new net borrowing to get to the binding upper limit under the national debt brake rule. Based on the assumption that the new government will provide an overall fiscal stimulus (on the general government level) of around EUR 20 bn for 2018, we now forecast the general government budget surplus to decline to 0.6% of GDP in 2018 due to tax relief/additional spending (from a forecast 0.9% of GDP in 2017). Given the strengthening growth outlook, we now project Germany's general government debt ratio to decline to 65.1% of GDP by the end of 2017 and 62.1% of GDP by the end of 2018, respectively (compared to 65.9% and 63.4% previously forecast).

To support an anti-cyclical and stability-oriented fiscal policy, maintaining the "black zero" is key, from our point of view, and, in the interest of intergenerational justice, surpluses should be primarily used to trim back debt. And with construction activity already stretched to the limit, the increase in public investment (transport infrastructure, broadband networks), another key demand, should be carefully measured out, or else higher public spending on construction holds the risk of rising prices, instead of more bridges and school buildings. Larger-scale investment projects could hence be postponed to the future - i.e. to more challenging economic cycles.

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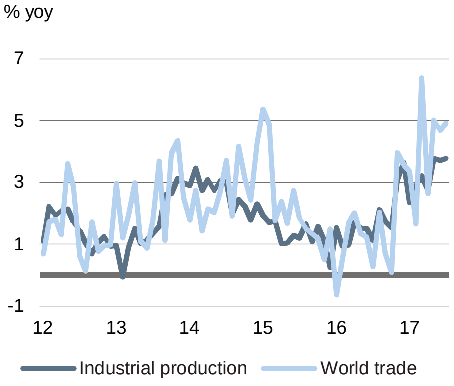
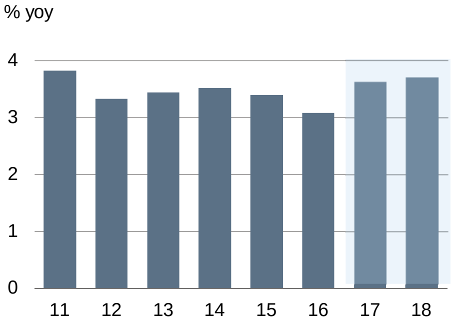
World trade vs industrial output 1



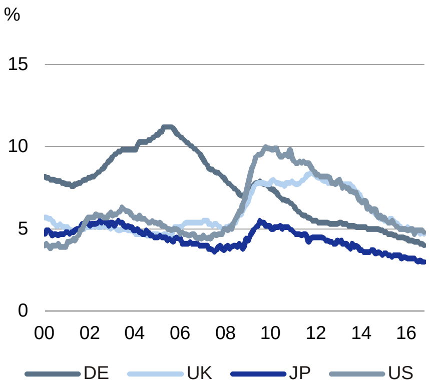
Sources: CPB, Deutsche Bank Research

Global real GDP growth 2



Sources: IMF, Deutsche Bank Research

Unemployment rate 3



Source: Eurostat

World trade stagnates again and remains volatile

— World trade was sluggish at the beginning of 2016, but accelerated towards the end of the year as global growth picked up. While growth remained robust during the first half of 2017, world trade dropped back into stagnation.

— However, the excellent growth environment and high leading indicators point to an increase in global trade in the coming months. At the same time, higher commodity prices, increased obstacles to trade and structural changes in the supply chains may have a dampening effect. From our vantage point, the dynamic of the business cycle currently plays a more important role than the growth-dampening effects.

— We have therefore raised our forecasts for global trade growth to 4.1% for 2017 and 4% for 2018, respectively. These figures are considerably above our April estimates (c. 2% and 3%, respectively). While we were too pessimistic back then, we correctly assumed that the momentum was likely to slow down in 2017. This implies risks for our 2018 forecast in particular.

Global upswing gains force

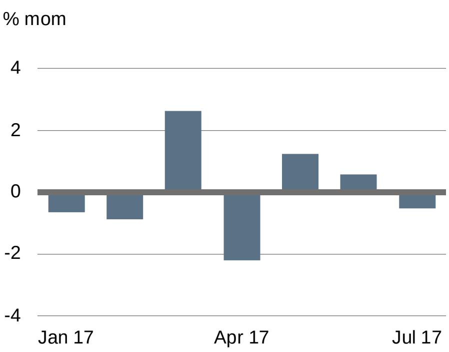
Between 2012 and 2016, global trade plodded ahead and grew less strongly than global GDP – a development that was in sharp contrast to trends observed in the past. The sluggish expansion of world trade since 2012 suggests that structural changes have taken place.[3] In fact, global trade even shrank temporarily during the past two years – a phenomenon only observed twice before, namely during the severe recession of 2001/02 and after the global financial crisis in 2007/08. However, it picked up again towards the end of 2016 as a global upswing gained pace. Global industrial output expanded by 3.8%, and on the grounds of numerous favourable economic data we lifted our global growth forecast for 2017 to currently 3.6%, the highest annual rate since 2011. In many countries, growth is driven by the strong labour market development. The relatively long cycle, which started almost ten years ago, has driven unemployment down to a level near the NAIRU and led to strong employment growth in many countries. With labour becoming scarce, wage and productivity growth is likely to pick up and be stronger than in the sluggish environment of the last few years.

Sentiment indicators point to future growth

Manufacturing PMIs, in particular the global PMI, the US ISM and the ifo index, are among the most important leading indicators for global trade. Three of these indices, namely the global PMI, the PMI for export orders and the ISM index, recently rose to a six-year high. The ifo expectations component reached a three-year high in August and declined only marginally in September. Indicators for air and ship transport are also quite favourable. The survey-based Baltic Dry Index, which measures transport prices for important commodities such as coal or iron ore on the main global shipping routes, has climbed to a three-year high. And the IATA (International Airport Transport Association) passenger freight index, which measures transported goods per passenger, has remained near its all-time high so far during 2017. The RWI/ISL index, which measures global container throughput and thus the volume of finished goods transports, has

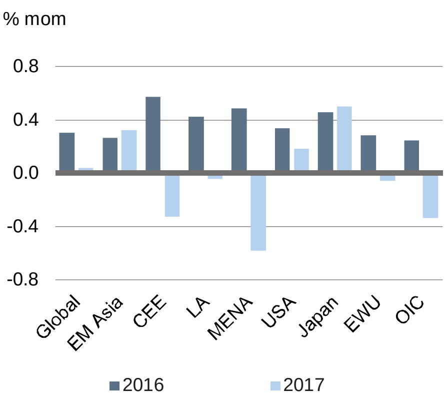
[3] See Peters, Heiko and Stefan Schneider, Stefan (2014). Sluggish global trade – cyclical or structural? Global Economic Perspectives.

2017 Stagnating world trade 4



Sources: CPB, Deutsche Bank Research

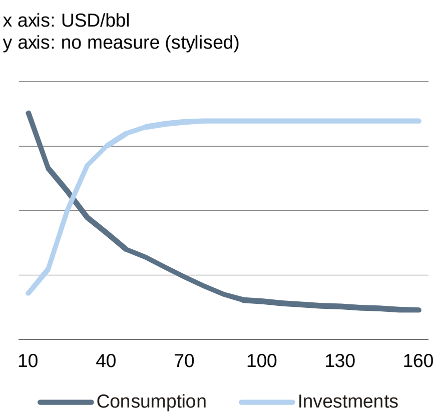
World trade in 2016 and 2017: monthly growth rates 5



CEE = central and eastern Europe, LA = Latin America, MENA = Middle East and North Africa, OIC = other industrialized countries

Sources: CPB, Deutsche Bank Research

Stylised effects of the crude oil price: consumption and investment 6



Source: Deutsche Bank Research

been calculated since 2007 and has repeatedly reached new highs since autumn 2016.

Asian and US trade as main growth engines in 2017...

Even though the overall growth environment is very favourable, world trade has been stagnating since December 2016. While year-on-year growth appears impressive at first sight (4.9% in July 2017), the figure is simply an overhang from the strong momentum registered in the second half of 2016. Trade has been weak so far this year, and the key question is how it is going to fare in the future. Trade in Asia continued to grow strongly in 2017. China and India remain key engines of growth, and the Japanese economy has recently exceeded the expectations. In addition, many young economies in southeastern Asia, for example Indonesia, the Philippines or Vietnam, are also registering very dynamic growth rates. Demand for capital goods remains high, as industrial plants are to be built and the infrastructure is to be improved. This suggests that trade will remain strong during the coming years. In the US, trade growth has slowed in 2017 in comparison to 2016, but is still positive. Oil prices have risen again after dipping below USD 30/bbl at the beginning of 2016, and this development has helped to fuel investment in the energy sector. Overall, robust employment growth and a low unemployment rate form the basis for healthy domestic growth.

... while trade is slowing in most other regions

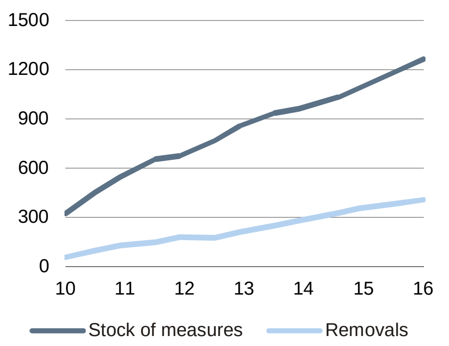
Most other regions, emerging markets and industrial countries alike and including the euro area, have seen a slowdown in trade activity in 2017. The Arab countries are still suffering from the oil price shock and geopolitical tensions in the region, which are also having a negative effect on Eastern Europe, in particular Turkey. In addition, trade with Russia is being hampered by the repeated extensions of the sanctions. In Latin America, Brazil and Argentina have overcome their recessions, but their growth outlook is still subdued. Moreover, the economic decline of Venezuela, the continent's third-largest economy, is a burden on trade. While the euro area is experiencing a cyclical upswing, employment growth (6 million new jobs were created during the past five years) happens mostly in the less trade-intensive services sectors. In fact, manufacturing employment is stagnating and even declining in Italy, France and Spain. Thus, the upswing in the euro area, which relies mainly on household consumption and the labour market, is unlikely to give a boost to trade.

Higher commodity prices tend to dampen trade

Crude oil prices are an important factor for world trade. Lower crude oil prices tend to fuel world-wide consumption. In addition, world trade depends on investment activity. If crude oil prices are very low, investment in the energy sector suffers; the critical threshold is probably slightly below USD 30/bbl. As these considerations suggest, world trade stagnated during the first half of 2016, as lower oil prices caused investment to decline in many emerging markets and in the US. Lower oil output reduced the global oversupply, particularly of US shale oil and gas. In turn, crude oil prices started to rise again in the second half of 2016 and investment activities and world trade accelerated. Overall, the relationship between crude oil prices and world trade is probably U-shaped, with most favourable oil price for world trade being somewhere between USD 40 and USD 50/bbl. Strong global demand and uncertainties on the back of Kurdish attempts to gain autonomy recently pushed crude oil prices up to a level considerably above USD 50/bbl. This is likely to dampen global consumption

Trade restrictions increased since financial crisis 7

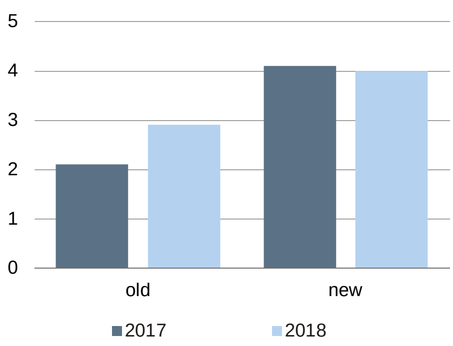
Number of measures



Source: Report on G-20 trade measures

World trade: DB forecast 8

% yoy



Source: Deutsche Bank Research

and, in turn, world trade. The relationships between world trade and prices for other commodities are similar. For example, the latest increases in aluminium and copper prices are likely to dampen world trade.

Obstacles to trade likely to increase

Since 2008, global trade restrictions have steadily been tightened, despite commitments to free trade at G20 meetings. Moreover, election results both in the industrial countries and the emerging markets have shown that a “my nation first” policy is gaining ground not only in the US. It is therefore unlikely that trade obstacles are going to be removed in the near future. Still, there is a ray of light for European exporters. Not only was the CETA agreement with Canada adopted, but trade negotiations with Japan have also made good progress. This should prop up trade in the medium term.

Industry is turning away from global supply chains

The change in the supply chain structure is one potential explanation for the fact that world trade growth has been sluggish in the last few years. Up to the financial crisis, manufacturers were happy to strengthen global supply chains. By now, however, WTO data suggest that global supply chains, which stretch across numerous countries and continents, are no longer gaining importance. In contrast, production increasingly takes place within one country once again. As trade obstacles increased, it has made sense to relocate production back to locations near the sales markets. The risk environment of the last few years might have supported such decisions, too. The financial crisis, the euro crisis and the resultant unconventional monetary policies (which are still in place today) have considerably increased financial market volatility in comparison to the first decade of this century. Numerous geopolitical crises have rendered global supply chains less attractive, too. In addition, stronger emphasis on national interests in the US and, in connection with the Brexit, in the UK is likely to strengthen national supply chains. This suggests that world trade could remain sluggish even though global growth accelerates.

Considerable uncertainty about forecasts for 2018

The excellent cyclical situation, the steady rise in global industrial output and high leading indicators suggest that world trade is likely to pick up after having stagnated between January and July 2017. However, higher commodity prices, the fact that trade obstacles will probably increase in the short run and structural changes to supply chains might dampen trade. From our vantage point, the effect of the dampening factors is currently minor, as the general environment is very favourable. We have therefore raised our forecasts for global trade growth to 4.1% for 2017 and 4.0% for 2018, respectively, Due to the considerable growth overhang from 2016, trade would still expand by 3.4% yoy even if it continued to stagnate in the second half of the year. Our most recent estimates from April 2017 (c. 2% and 3%, respectively) were evidently too low. Still, we correctly expected a slowdown in global trade in 2017. Since the stagnation seen from the beginning of 2017 might continue in the coming months, our forecast for 2018 in particular is subject to downside risks.

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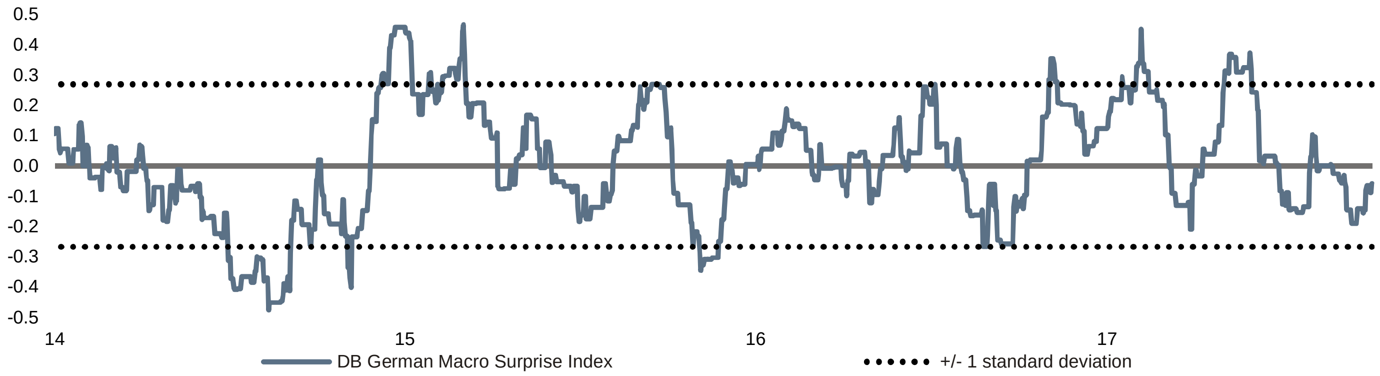
DB German Macro Surprise Index

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.

DB German Macro Surprise Index

Average of last 20 z-scores of data surprises



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

Sources: Bloomberg Finance LP, Deutsche Bank Research

Last 20 published economic data for Germany

Bloomberg Tickers	Indicator	Reporting month	Publication date	Current value	Bloomberg consensus	Surprise	Standardised surprise	Quantile rank
GRGDPPGQ Index	GDP (% qoq)	6 2017	25/08/2017	0.6	0.6	0.0	-0.1	0.3
GRIFPBUS Index	IFO Business Climate	8 2017	25/08/2017	115.9	115.5	0.4	0.1	0.5
GRIMP95Y Index	Import Price Index (% yoy)	7 2017	25/08/2017	1.9	2.3	-0.4	0.0	0.4
GRUECHNG Index	Unemployment Change (000's mom)	8 2017	31/08/2017	-6.0	-6.0	0.0	-0.2	0.4
GRFRIAMM Index	Retail Sales (% mom)	7 2017	31/08/2017	-1.2	-0.6	-0.6	-0.2	0.4
MPMIDEMA Index	Markit Manufacturing PMI	8 2017	01/09/2017	59.3	59.4	-0.1	-0.1	0.3
MPMIDESA Index	Markit Services PMI	8 2017	05/09/2017	53.5	53.4	0.1	0.1	0.6
GRIORTMM Index	Factory Orders (% mom)	7 2017	06/09/2017	-0.7	0.2	-0.9	-0.5	0.3
GRIPIMOM Index	Industrial production (% mom)	7 2017	07/09/2017	0.0	0.5	-0.5	-0.4	0.3
GRCAEU Index	Current Account Balance (EUR bn)	7 2017	08/09/2017	19.4	20.8	-1.4	-0.7	0.2
GRCP20YY Index	CPI (% yoy)	8 2017	13/09/2017	1.8	1.8	0.0	0.2	0.3
GRZEWI Index	ZEW Survey Expectations	9 2017	19/09/2017	17.0	12.0	5.0	0.6	0.8
GRZECURR Index	ZEW Survey Current Situation	9 2017	19/09/2017	87.9	86.2	1.7	0.1	0.6
GRIFPBUS Index	IFO Business Climate	9 2017	25/09/2017	115.2	116.0	-0.8	-0.8	0.2
GRIMP95Y Index	Import Price Index (% yoy)	8 2017	26/09/2017	2.1	2.1	0.0	0.3	0.6
GRCP20YY Index	CPI (% yoy)	9 2017	28/09/2017	1.8	1.8	0.0	0.2	0.3
GRUECHNG Index	Unemployment Change (000's mom)	9 2017	29/09/2017	-23.0	-5.0	18.0	0.5	0.7
GRFRIAMM Index	Retail Sales (% mom)	8 2017	29/09/2017	-0.4	0.5	-0.9	-0.5	0.3
MPMIDEMA Index	Markit Manufacturing PMI	9 2017	02/10/2017	60.6	60.6	0.0	0.0	0.4
MPMIDESA Index	Markit Services PMI	9 2017	04/10/2017	55.6	55.6	0.0	0.0	0.5

Sources: Bloomberg Finance LP, Deutsche Bank Research

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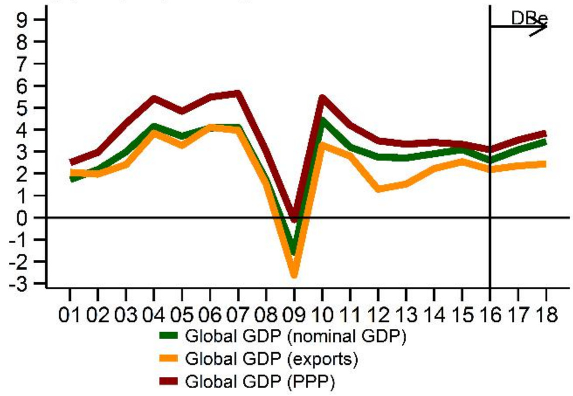
Source: Heiko Peters (2014). DB German Macro Surprise Index. Focus Germany, 4 August 2014.

German Export Indicator

The Export Indicator identifies the effects on German exports of changes in global demand on the one hand, and currency movements on the other (price impact).[4]

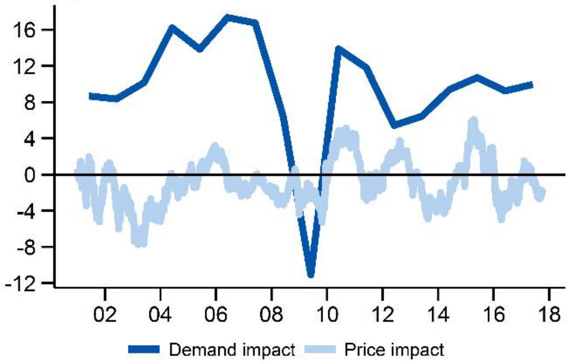
Global growth expected to accelerate

% yoy, weighting factor in parenthesis



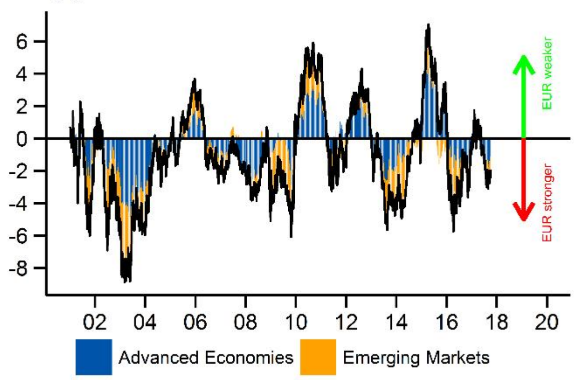
Demand and price impact for German exports

% yoy



Price impact slightly negative in 2017

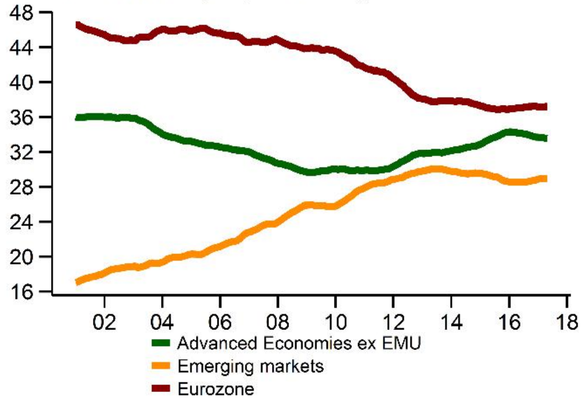
% yoy



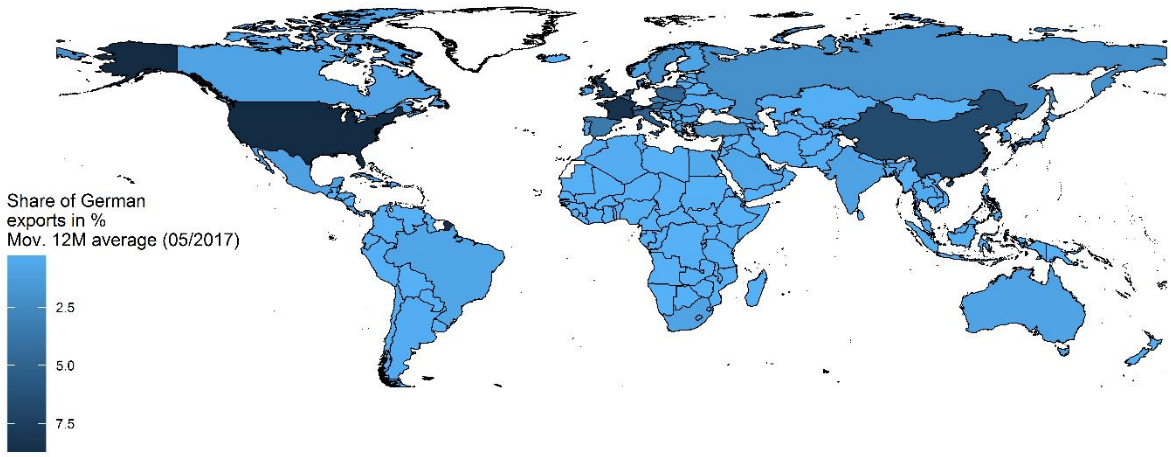
Weighed EUR yoy change using German export destination shares

Importance of EMU has moved sideways recently

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



German exports focus on Europe, the USA and China



Sources: Eurostat - Comext, Deutsche Bank Research

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[4] See for details Focus Germany, March 3, 2016.

Germany: Events of economic, fiscal and euro politics

Date	Event	Remarks
9-10 Oct	Eurogroup and ECOFIN, Luxembourg	Debates on exchange rate developments, thematic discussion on growth and jobs – financing of labour tax cuts, (poss.) Portugal - Post Programme Surveillance – 6th review, Greece – state of play.
19-20 Oct	European Council, Brussels	Debates on migration (measures against illegal immigration), defence (permanent structured cooperation, PESCO), Digital Europe, external relations (incl. relations with Turkey), (poss.) on the Brexit negotiations.
26 Oct	ECB Governing Council meeting, press conference	We expect the ECB to announce an extend-and-slow decision. Beyond that we expect QE to be tapered over the course of 2018 with the first refi hike coming in mid-2019.
6-7 Nov	Eurogroup and ECOFIN, Brussels	(Poss.) economic situation – Commission's 2017 autumn forecast and inflation developments. Thematic discussion on growth and jobs – QPF: Investment in human capital, among others.
4 Dec	Eurogroup and ECOFIN, Brussels	Among others thematic discussion on growth and jobs: Tax wedge – follow-up on benchmarking, (poss.) Spain and Cyprus – Post Programme Surveillances – 8th review – 3rd review, respectively.
14 Dec	ECB Governing Council meeting, press conference	Review of the monetary policy stance (see Oct 26).
14 to 15 Dec	European Council, Brussels	Debates on the state and future of the EU and on the Brexit negotiations (agenda not yet published).

Source: Deutsche Bank Research

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Germany: Data calendar

Date	Time	Data	Reporting period	DB forecast	Last value
6 Oct 2017	8:00	New orders manufacturing (% mom, sa)	August	0.5	-0.7
9 Oct 2017	8:00	Industrial production (% mom, sa)	August	0.6	0.0
10 Oct 2017	8:00	Trade balance (EUR bn, sa)	August	20.5	19.5
10 Oct 2017	8:00	Merchandise exports (% mom, sa)	August	1.7	0.2
10 Oct 2017	8:00	Merchandise imports (% mom, sa)	August	0.9	2.3
24 Oct 2017	9:30	Manufacturing PMI (Flash)	October	60.0	60.6
24 Oct 2017	9:30	Services PMI (Flash)	October	55.0	55.6
25 Oct 2017	10:30	ifo business climate (Index, sa)	October	116.0	115.2
30 Oct 2017	14:00	Consumer prices preliminary (% yoy, nsa)	October	1.8	1.8
30 Oct 2017	8:00	Retail sales (% mom, sa)*	September	0.6	-0.4
30 Oct 2017	09:55	Unemployment rate (%, sa)	October	5.6	5.6

*An earlier data release may be possible due to the Federal Statistical Office.
Sources: Deutsche Bank Research, Federal Statistical Office, Federal Employment Agency, ifo, Markit

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Jamaica coalition unlikely to offer a goody bag

Financial Forecasts

	US	JP	EMU	GB	CH	SE	DK	NO	PL	HU	CZ
Key interest rate, %											
Current	1.125	-0.10	0.00	0.25	-0.75	-0.50	0.05	0.50	1.50	0.90	0.25
Dec 17	1.375	-0.10	0.00	0.50	-0.75	-0.50	0.05	0.50	1.50	0.90	0.50
Mar 18	1.375	-0.10	0.00	0.50	-0.75	-0.50	0.05	0.50	1.50	0.90	0.50
Jun 18	1.625	-0.10	0.00	0.50	-0.75	-0.50	0.05	0.50	1.50	0.90	0.75
3M interest rates, %											
Current	1.34	0.06	-0.33	0.34							
Dec 17	1.58	0.05	-0.30	0.55							
Mar 18	1.58	0.05	-0.30	0.55							
Jun 18	1.83	0.05	-0.30	0.55							
10Y government bonds yields, %											
Current	2.33	0.07	0.37	1.36							
Dec 17	2.75	0.00	0.60	1.50							
Mar 18	2.80	0.00	0.65	1.70							
Jun 18	2.85	0.00	0.75	1.75							
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	1.18	112.60	0.89	1.33	1.14	9.59	7.44	9.39	4.32	312.05	25.93
Dec 17	1.17	116.00	0.91	1.29	1.05	9.50	7.46	9.75	4.10	310.00	26.00
Mar 18	1.18	117.00	0.92	1.28	1.06	9.38	7.46	9.69	4.20	312.50	25.93
Jun 18	1.19	118.00	0.93	1.28	1.08	9.25	7.46	9.63	4.28	315.00	25.85

Sources: Bloomberg Finance LP, Deutsche Bank Research

Jamaica coalition unlikely to offer a goody bag

German data monitor

	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	May 2017	Jun 2017	Jul 2017	Aug 2017	Sep 2017	Oct 2017
Business surveys and output											
Aggregate											
Ifo business climate	110.7	111.2	114.3	115.7		114.7	115.2	116.1	115.9	115.2	
Ifo business expectations	105.5	104.3	106.1	107.5		106.4	106.8	107.3	107.8	107.4	
Industry											
Ifo manufacturing	105.4	106.2	109.6	111.9		110.4	110.4	112.1	112.2	111.3	
Headline IP (% pop)	0.0	1.2	1.8			1.2	-1.1	0.0			
Orders (% pop)	4.2	-1.0	0.8			1.1	0.9	-0.7			
Capacity Utilisation	85.7	85.9	86.0	86.7							
Construction											
Output (% pop)	-1.6	4.6	5.2			-1.1	-0.9	0.1			
Orders (% pop)	8.2	0.4	-3.0			-6.5	3.8	-1.1			
Ifo construction	129.5	128.4	130.3	132.9		130.6	130.5	131.5	133.3	133.9	
Consumer demand											
EC consumer survey	-1.5	-0.6	3.6	4.1		3.1	5.0	5.2	3.3	3.9	
Retail sales (% pop)	1.5	0.2	1.6			0.2	1.3	-1.2	-0.4		
New car reg. (% yoy)	-0.3	6.7	0.0	0.3		12.9	-3.5	1.5	3.5	-3.3	
Foreign sector											
Foreign orders (% pop)	3.1	-0.4	1.1			3.4	-1.9	0.0			
Exports (% pop)	2.4	2.8	1.5			1.5	-2.7	0.2			
Imports (% pop)	3.5	3.6	1.4			1.1	-4.4	2.3			
Net trade (sa EUR bn)	60.1	59.9	61.1			20.3	21.2	19.5			
Labour market											
Unemployment rate (%)	6.0	5.9	5.7	5.7		5.7	5.7	5.7	5.7	5.6	
Change in unemployment (k)	-28.3	-59.0	-43.3	-20.7		-8.0	5.0	-10.0	-6.0	-22.0	
Employment (% yoy)	1.3	1.5	1.5			1.5	1.5	1.6	1.6		
Ifo employment barometer	111.1	110.3	111.1	111.9		110.8	111.0	112.1	111.2	112.3	
Prices, wages and costs											
Prices											
Harmonised CPI (% yoy)	1.0	1.9	1.6	1.7		1.4	1.5	1.5	1.8	1.8	
Core HICP (% yoy)	1.2	1.0	1.4			1.1	1.5	1.5	1.5		
Harmonised PPI (% yoy)	0.2	2.8	2.8			2.8	2.4	2.3	2.6		
Commodities, ex. Energy (% yoy)	19.2	32.7	8.9	4.2		8.3	2.0	2.7	4.8	5.3	
Crude oil, Brent (USD/bbl)	51.1	54.5	50.8	52.2		51.4	47.6	49.1	51.9	55.5	56.0
Inflation expectations											
EC household survey	10.0	18.9	17.6	16.3		17.5	17.9	15.1	15.8	18.1	
EC industrial survey	6.2	13.0	12.2	11.7		13.4	11.4	11.9	10.4	12.8	
Unit labour cost (% yoy)											
Unit labour cost	2.2	1.0	2.5								
Compensation	2.2	2.5	2.4								
Hourly labour costs	3.8	1.0	3.8								
Money (% yoy)											
M3	5.7	6.0	5.6			4.9	5.6	4.6	4.7		
M3 trend (3m cma)	6.4	5.5	5.5	5.0		5.5	5.3	5.2	5.0	5.0	
Credit - private	2.9	3.3	3.8			3.2	3.8	3.8	3.8		
Credit - public	8.9	21.0	4.1			9.9	4.1	0.3	-7.5		

% 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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