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Focus Germany

Economic backdrop supportive for Jamaica talks

November 3, 2017

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Envisaged Jamaica coalition: After the exploratory talks is before the negotiations. It would not come as a surprise, if the coalition formation were to take longer than ever before in the Federal Republic and if the chancellor were not elected until January. Given that in many areas critical details remained unresolved in the first round of the exploratory talks, further challenging rounds will follow in the next few weeks. Only after that will the official coalition talks begin - provided the Greens sound the all-clear at their party convention. The search for compromises is aggravated, as many of the partners' requests have to remain unfulfilled despite buoyant tax revenues. Initially, i.e. in 2018, the economic impulse of a "black-yellow-green" fiscal policy is likely to be very limited. But steps in the right direction of strengthening Germany are on the horizon. Also positive is the clear commitment to a united and strong Europe.

November tax estimate: Even more money for the government? As the economy is running at a good clip, the fiscal situation is quite favourable. The overall tax revenue estimate for the period from 2018 to 2021 may be lifted by another accumulated EUR 55 bn in comparison to the May assessment. The federal government might have an additional EUR 20 - 25 bn at its disposal in the coming four years. While the Jamaica coalition negotiators have already compiled a long and expensive wish list worth considerably more than EUR 40 bn, any potential Jamaica government will be able to implement only part of the tax cuts and spending increases demanded by the CDU/CSU, the FDP and the Greens if it wants to keep a balanced budget – even though the fiscal situation is positive and interest rates are near zero.

Current account surplus declines – but German economic policy will likely remain in the line of fire. The German current account surplus has narrowed, from 9.1% of GDP in H2 2015 to 7.5% of GDP in H1 2017. And this trend looks set to continue on the back of strong domestic growth and the euro appreciation. Indeed, we expect the surplus to shrink to 7.2% in 2017 as a whole and to 6.5% in 2018 (down from 8.3% in 2016). Nevertheless, among the major economies, Germany remains the one country that makes a particularly large contribution to global imbalances. It will therefore continue to be criticised for its economic policy. The slow ageing of society appears to be the key factor which might reduce the surplus significantly during the coming decade.

Trends in the EU industry: Persistent shift from west to east. During the last few years, the industrial sectors in the individual EU countries have undergone very different developments. As a result, their shares in the EU's aggregate industrial value added have changed, with the eastern countries gaining shares at the expense of the western (and southern) countries of the bloc. Germany is the main beneficiary of this trend. Between 2009 and 2016, the share of its industry in the EU's aggregate gross manufacturing value added rose by 3 pp, to 30%. This means that, in 2016, Germany's share in the EU's total industrial output exceeded that of France, Italy and Spain combined.

Economic backdrop supportive for Jamaica talks

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	1.8	2.2	2.0	0.2	1.5	1.4	3.3	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	7.2	6.5	0.8	0.9	0.6
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	-2.5	-2.3	-2.2
Spain	3.3	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	9.0	10.2	10.2	0.4	1.1	0.5
Belgium	1.5	1.9	2.0	1.8	2.2	1.7	0.1	0.0	0.5	-2.5	-2.1	-1.8
Austria	1.6	2.4	1.9	1.0	2.1	1.8	2.1	2.0	2.3	-1.6	-1.0	-0.8
Finland	1.9	2.5	1.9	0.4	0.9	1.2	-1.4	-0.5	0.0	-1.7	-0.8	-0.4
Greece	0.0	1.5	2.7	0.0	1.2	0.8	-1.1	-0.5	0.0	0.5	-2.0	-1.5
Portugal	1.5	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	-0.7	0.0	0.0
UK	1.8	1.6	1.0	0.6	2.6	2.7	-5.9	-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	3.1	2.7	2.4	1.0	1.6	1.8	4.7	4.8	4.8	1.9	0.7	0.7
Switzerland	1.4	1.5	1.9	-0.3	0.3	0.3	9.5	11.2	11.0	-0.1	0.5	0.5
Czech Republic	2.5	3.8	3.0	0.7	2.4	2.2	1.1	1.3	1.0	0.6	0.3	0.0
Hungary	2.0	3.8	3.5	0.4	2.3	2.6	6.1	3.1	2.5	-1.8	-2.3	-2.4
Poland	2.7	3.9	3.4	-0.6	1.9	2.0	-0.3	-1.0	-1.1	-2.5	-2.7	-2.9
United States	1.5	2.2	2.4	1.3	2.1	2.0	-2.4	-2.9	-3.2	-3.1	-3.6	-2.8
Japan	1.0	1.5	0.7	-0.1	0.3	0.4	3.7	4.0	4.2	-3.5	-3.5	-3.1
China	6.7	6.8	6.3	2.0	1.7	2.7	1.8	1.2	1.1	-3.8	-4.0	-4.0
World	3.1	3.7	3.7	3.9	5.3	10.6						

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

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

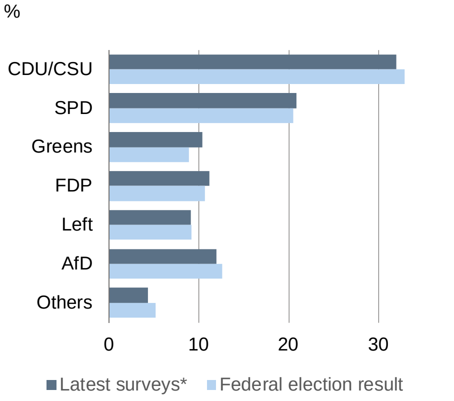
						2017				2018			
	2014	2015	2016	2017F	2018F	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Real GDP	1.9	1.7	1.9	1.9	1.8	0.7	0.6	0.6	0.5	0.5	0.4	0.3	0.3
Private consumption	1.0	1.7	2.1	1.8	1.8	0.4	0.8	0.4	0.4	0.4	0.5	0.3	0.3
Gov't expenditure	1.5	2.9	3.7	1.5	1.1	0.2	0.6	0.3	0.3	0.3	0.3	0.3	0.3
Fixed investment	3.7	1.5	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	7.2	6.5								
Balance on current account, EUR bn	213	253	263	232	212								

*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

Envisaged Jamaica coalition: After the explorations is before the negotiations

In Berlin the exploratory talks between the CDU, CSU, FDP and the Greens to establish a joint coalition have been taking place since October 24. According to press reports, there have been ups and down in the debates so far. The frictions did not come as a surprise given the parties' initially strongly opposing positions in major political issues. However, there also seems to be a strong willingness to compromise, too. Nevertheless, for the actors involved the road ahead will still be long and bumpy.

Major political parties' popularity & result of the recent federal election 1



* Average of major surveys (Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, Infratest dimap, INSA)

Source: Wahlrecht.de

In the talks, the negotiators have primarily discussed benchmarks and guide rails for the 12 relevant political topics, so far. Thus, with regard to important issues they still have to agree on major details taking up further rounds of exploratory talks. An indication for the timeline is the date for the Greens' party convention, where the Greens will discuss the results of the talks and decide whether they will participate in official coalition negotiations. This convention is scheduled for November 25. CDU and CSU grandees will likely meet on November 17 for the same reason, according to press reports. Until then the negotiators will work hard to sort out the matters in detail. The more thoroughly this is done the higher the probability that the vote from the Greens' party convention, which is said to be open, will be positive. Detailed results from the exploratory talks would also facilitate the official coalition negotiations.

All in all, the current procedure is different from former ones. Up to now the exploratory talks usually were preliminary talks only and the parties involved agreed on the major guidelines and even more on the details of their joint government programme later in the official coalition negotiations. Therefore, the negotiations usually took more time. In 2013 the CDU, the CSU and the SPD negotiated for five weeks. Overall, the formation of the then grand coalition from the federal election (on 22 September 2013) to the election of the chancellor (on 17 December) was under way for more than 12 weeks. To date, both figures mark all-time highs. Now, the negotiators will have to merge the positions of even four parties to a common denominator forcing them to break new ground.

Election of chancellor possibly as late as January

Against this backdrop, it would not come as a surprise if the coalition talks were a long haul that is unprecedented in Germany. Assuming the official talks will not start before the Greens' party convention on November 25 and will last for some weeks, the negotiators will find it very difficult to present a draft coalition treaty before Christmas. However, it would be premature to completely exclude such an outcome. If in the course of the exploratory talks the four parties will manage to compromise on details on all the issues still debated currently, the official coalition talks might be accomplished smoothly and relative rapidly.

Therefore, from the present point of view it is still open whether the Greens and the FDP can start or even finish the member surveys on the results of the talks before Christmas. But even if this happened, it seems fairly unlikely that the chancellor can be elected before the Christmas holidays. The more conceivable scenario is mid-January 2018.

Economic backdrop supportive for Jamaica talks

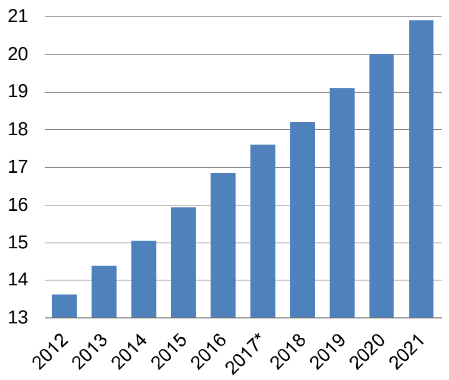
Debt brake as a guide rail for fiscal policy

Although the potential Jamaica coalition has as yet not disclosed any details on its projects, the political outlines are meanwhile gaining shape. At the beginning of the exploratory talks, the delegations agreed on a fiscal framework for a CDU/CSU, FDP and Greens government. Under the requirement that "the debt brake of the basic law has to be observed" and with the will to maintain a balanced federal budget ("black zero"), a ceiling was defined, which nonetheless leaves some room for fiscal flexibility. According to our estimates, the fiscal room to manoeuvre at the federal level, exclusive of the scope of the debt brake, is a cumulated EUR 40 bn in this legislative period, from the current perspective (see the article on the November tax estimate in this issue). On this scale, taxes could be cut and / or social spending, in particular on infrastructure improvements, could be raised.

Limited scope for tax cuts

Revenue from the solidarity surcharge 2

EUR bn



* From 2017 onwards according to official estimates

Source: BMF

As regards taxation, the measures encompass income tax cuts, tax relief for families, rental housing subsidies and the abolition of the solidarity tax surcharge, though contrary to calls of the FDP originally demanding that the surcharge is fully scrapped in 2019, its abolition would be hard to finance in this legislative period, i.e. by 2021, and is not supported by all parties. Its impact on the federal budget would be 100% (2018: EUR 18.2 bn, 2021: roughly EUR 21 bn), whereas only 42.5% of income tax cuts would come at the expense of the federal government. The actors have therefore brought into play a gradual and income-bracket-related phase-out of the surcharge. For a CDU/CSU, FDP and Greens government, changes in the solidarity tax surcharge would have the advantage that they, unlike those in income taxes, are not subject to approval by the Bundesrat, the German Federal Council, where a Jamaica alliance would not have a majority. Given the SPD's ongoing strong role in the Council, it will likely support only tax reductions that primarily benefit lower and medium-income earners. (This excludes strong increases in the basic personal allowance and / or the tax-exempt allowance for children).

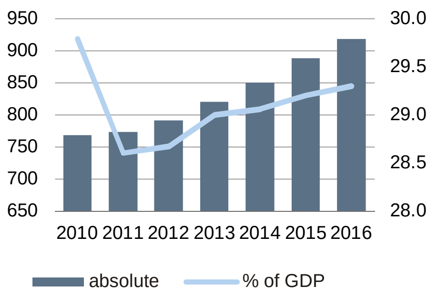
Additional government spending: EUR 13 bn plus X on infrastructure

With regard to spending, there is consensus among the partners that primarily investment in education, research and development as well as the digital infrastructure should be supported resp. accelerated, along with the facilitation of residential construction. If – based on widespread calls within the CDU/CSU – it is assumed that one-third of uncommitted federal budget resources is spent on such items, an additional EUR 13 bn would be at disposal until 2021. According to press releases (FAZ), these funds could be increased by partially tapping privatisation receipts. In their election programmes, the FDP and the Greens thus call upon the federal government to sell its stake in Deutsche Telekom AG, in order to expand broadband networks.

Initially, i.e. in 2018, the economic impulse of a "black-yellow-green" fiscal policy ought to be very limited. Given the limited capacities of potential contractors, federal investment spending is likely to be raised only gradually. Moreover, it remains to be seen when the tax reductions that were adopted in 2018 actually take effect, next year or beyond, at the beginning of 2019. But the potential impulse also hinges on the concrete composition of the tax cuts. A stronger focus on trimming back the solidarity tax surcharge would argue for a lesser impulse, as the forthcoming tax relief would be smaller relative to income tax reductions, which would also come at the expense of the state (42.5%) and local government level (15%).

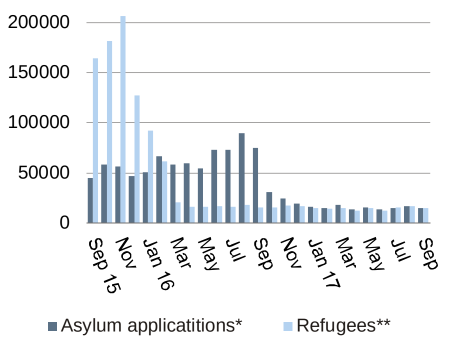
Increasing welfare spending 3

EUR bn (left-hand scale), % of GDP (right-hand)



Sources: BMAS, Statistisches Bundesamt, Deutsche Bank Research

Asylum applications & registered refugees in Germany 4



* First time applications; **until Dec. 2016 preliminary registrations in the EASY system which might include double count

Sources: BAMF, BMI

Social policy: Status quo likely to be largely maintained

Reaching consensus on social and labour market policies, on the other hand, has so far been the more challenging task, given the widely differing views of the four parties. One example is healthcare policy. Traditionally, the FDP champions private-sector solutions, whereas the Greens call for a joint civic insurance under the direction of the government. The same applies to pension schemes. Whilst the CSU, in particular, advocates higher statutory pension benefits (increases in pensions paid to long-term insured low-income earners and mothers), the FDP and, above all, younger representatives of the Greens and the CDU support a more sustainable pension funding scheme. Given the reluctant forces, a stalemate could ultimately be on the cards in both areas, i.e. the status quo would be maintained. This does not exclude adjustments in selected areas such as pensions of the long-term insured. It would be good news if social policy would, in general, turn more revenue-oriented after years of strongly expanding social spending.

As regards labour market policy, the paternalistic concepts of the CDU/CSU and the Greens are in opposition to the pro-market orientation of the FDP. We expect a gradual transition to greater flexibility in some areas, above all with respect to working-time regulation, but consider it unlikely that regulations adopted by the grand coalition, for instance on subcontracted labour, will be withdrawn.[1]

Asylum policy and migration: Probably no reason why Jamaica should fail

For a long time, asylum and refugee policy was seen as the biggest hurdle for a Jamaica coalition. But the actors will likely succeed in alleviating this problem, too, in the next rounds of the exploratory talks. Ffrom today's point of view, the FDP and the Greens, irrespective of their initial criticism, are likely to back the compromise of the CDU and the CSU by and large. Accordingly, the number of immigrants taken in for humanitarian reasons shall not exceed 200,000 a year. In order to maintain the limit, the CDU/CSU opted for adhering to the to-date transitional regulation suspending family reunification for individuals with subsidiary protection. For the Greens, this was unacceptable. Hardship clauses now seem to be a solution to the quandary.

European policy – challenging exploratory talks

Exploratory talks on European policy were challenging. Not surprisingly though, given the relevance of the issues as well as the diverging positions of the parties. Without problems, the actors agreed to a united and strong Europe and the "elevated" status of the German-French cooperation and resolved governance aspects for the EU (including cooperation by means of the Community method rather than the intergovernmental approach). But discussions on other issues, in particular concerning the evolution of EMU – such as the role of the ESM, the finalisation of the banking union or the creation of a euro area budget – have not yet been concluded. At the EU level, as well, additional funds shall be available for research, investment, infrastructure and external security / defence. To this end, the EU shall receive a total budget in the next financing period that allows "the proper performance of its designated responsibilities".

Steps in the right direction

For a success of the exploratory talks numerous compromises are still needed and these have become apparent only vaguely, so far. Therefore, a final analysis is not yet possible. The negotiators from the four parties will still be facing substantial challenges in the imminent meetings. Nevertheless, there is evidence to suggest that a federal government consisting of the CDU/CSU, the FDP and the Greens will take some steps in the right direction of strengthening Germany as a business site. This holds for tax policy, as well as for education and the promotion of digitisation. As regards social security, the tendency towards an unchecked expansion of spending, at least, looks set to come to a halt. In labour market policy, as well as in energy and climate policy, the focus is likely to reshift to market-oriented solutions, albeit only in some areas.

Greens member survey continues to be a risk

Before the four parties can seal their alliance project, however, their members (Greens and FDP) resp. party conventions (CDU and CSU) have to approve the coalition treaty to be negotiated. Will the actors at the grassroots level back compromises that are in some respects a far cry from the parties‘ programmatic objectives?

This is by no means certain, particularly with respect to the members of the Greens with their left wing. Some core demands of this wing, such as higher taxes for the very wealthy and the introduction of a joint healthcare insurance for all citizens, did not survive the exploratory talks. But the Greens, like all the other actors, can have no interest to see the coalition formation fail. The consequence would be snap elections, associated with high risks for all four parties.

Moreover, surveys suggest that government building will be a success. A Jamaica alliance is meanwhile the preferred option, as indicated by several opinion polls. Although 62% of the Germans are dissatisfied with the outcome of the federal election according to a recent poll (Allensbach Institute in the FAZ of 25 October), a relative majority of 43% (compared with 38%) is convinced that a Jamaica coalition could work. Whilst only 35% of all persons surveyed favour such a coalition, 55% of the Greens and FDP supporters are pro-Jamaica. Although supporters and party members cannot be lumped together, this sentiment trend also argues for a successful government formation.

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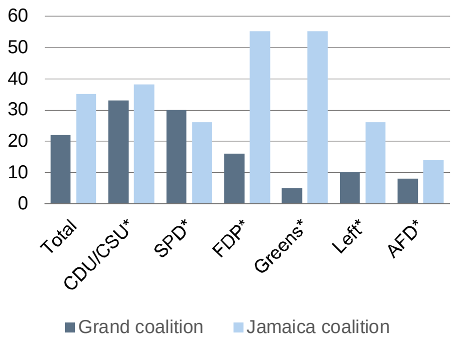
Coalition preferences by supporters of the major political parties 5

% of those asked



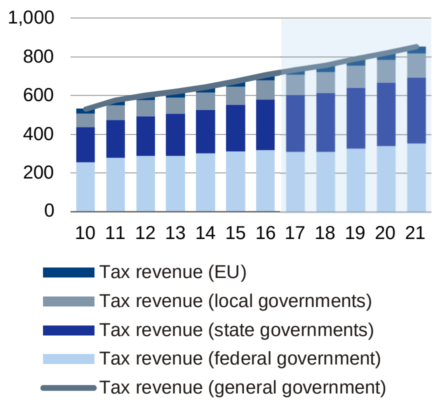
* Supporters of the respective party

Source: FAZ, Institut für Demoskopie Allensbach

November tax estimate: Even more money for the government?

Tax revenues are moving steadily upwards 1

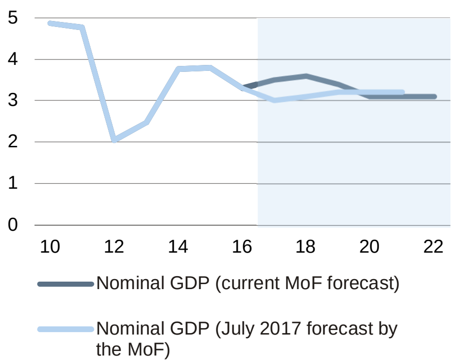
EUR bn



Sources: Working Party on Tax Revenues (May 2017), Deutsche Bank Research

Ministry of Finance has significantly raised its growth forecast 2

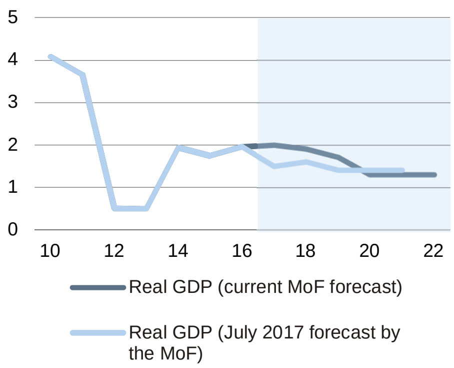
% yoy



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

Ministry of Finance now forecasts growth rate of 2% for 2017 3

% yoy



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

— As the economy is running at full speed, the fiscal situation is very favourable. The overall tax revenue estimate for the period from 2018 to 2021 might be lifted by another accumulated EUR 55 bn in comparison to the May assessment. The federal government might have an additional EUR 20 - 25 bn at its disposal in the coming four years.

— While the Jamaica coalition negotiators have already compiled a long and expensive wish list worth considerably more than EUR 40 bn, any potential Jamaica government will be able to implement only part of the tax cuts and spending increases demanded by the CDU/CSU, the FDP and the Greens if it wants to keep a balanced budget – even though the fiscal situation is very good and interest rates are near zero.

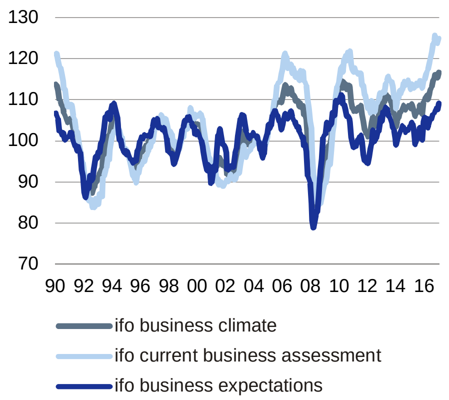
Government already benefiting from high and strongly rising tax revenues ...

As the economy is running at full speed and tax revenues are already ample, the fiscal situation is very favourable and will provide the next federal government with financial elbow-room, for example for (income) tax cuts and higher public-sector investment (e.g. in infrastructure) (see also Focus Germany, 6 October 2016). The financial planning of the outgoing government suggests that the new government will be able to freely dispose of EUR 14.8 bn (c. 0.5% of GDP) during the years from 2019 until 2021. This amount has been itemised as a global revenue shortfall. The new government may use this accumulated (not annual!) amount for tax cuts or additional (investment) expenses. The budget draft for 2018 still includes global spending cuts of EUR 3.4 bn, which means that the final budget for 2018 will need to contain similarly sized spending cuts.

Anyway, the actual fiscal leeway of the new federal government during the next parliament will depend to a considerable extent on the economic environment. And the economy seems to be humming on. In May 2017, the Working Party on Tax Revenues ("Arbeitskreis Steuerschätzung", "WP on TR") already assumed that aggregate tax revenues at the federal, state and local level combined might rise considerably by 2021, from EUR 706 bn in 2016 to more than EUR 850 bn in 2021 (the end of the current forecast period) (see chart 1). And the May estimate was based on a considerably lower growth forecast for the coming three years than the current expectations. In May, the Federal Ministry of Finance (MoF) anticipated real GDP growth rates of 1.5%, 1.6% and 1.4% and nominal growth rates of 3.0%, 3.1% and 3.2% for 2017, 2018 and 2019, respectively. In view of the healthy expansion during H1 2017 and consistently robust growth indicators the economy looks set to do considerably better than assumed in spring. The Ministry of Finance has significantly raised its forecasts for the coming three years, to 2.0%, 1.9% and 1.7% in real and 3.5%, 3.6% and 3.4% in nominal terms for 2017, 2018 and 2019, respectively (see charts 2 and 3). The nominal growth rate is more important for tax revenues, as taxes are levied on the basis of nominal figures (income, profit, sales etc). We, too, have lifted our growth forecast considerably in the course of the year and now expect real GDP growth of 1.9% for 2017 and 1.8% for 2018. Moreover, further upside corrections are quite possible.

Sentiment remains buoyant 4

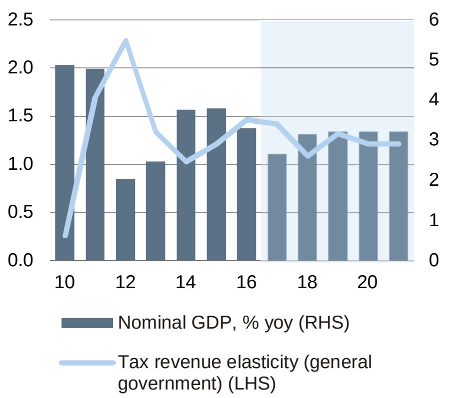
Ifo index (seasonally adjusted)



Sources: WEFA, Ifo, Deutsche Bank Research

Tax elasticity over the economic cycle 6

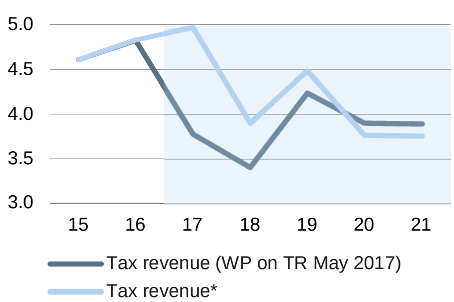
Relation between annual tax revenue growth and nominal GDP growth



Sources: Working Party on Tax Revenues (May 2017), Deutsche Bank Research

Tax revenues to rise more strongly than expected 7

% yoy



* Based on the May 2017 tax estimate and unchanged tax elasticities

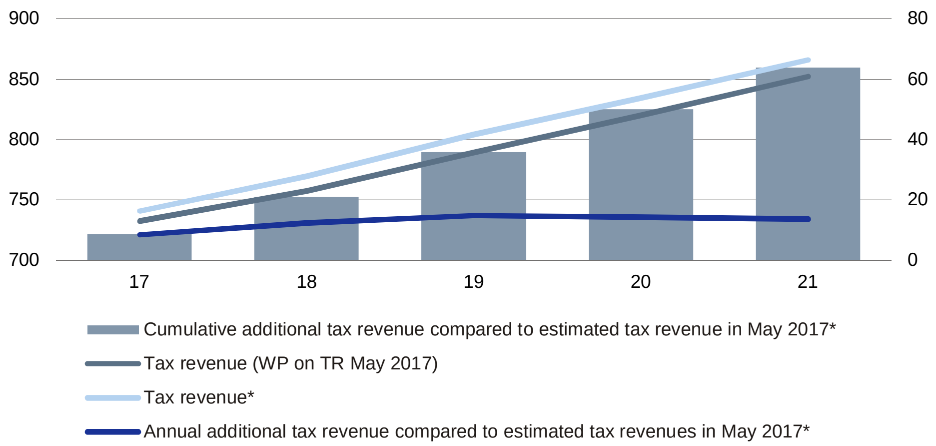
Sources: Deutsche Bundesbank, Working Party on Tax Revenues (May 2017), Federal Ministry of Finance, DBR

... which might even exceed former assumptions thanks to buoyant growth

With growth very robust (chart 8), tax revenues are likely to be stronger than expected. At the beginning of November (7 - 9 November) the Working Party on Tax Revenues will revise its aggregate tax estimate and the estimates for the federal, the state and the local level on the basis of the current economic assumptions. In all probability, the tax estimate will be raised considerably, as the economy is humming along at full speed (chart 4). But just by how much will the tax estimate be lifted due to stronger growth? How much additional money will the government have at its disposal?

Stronger GDP growth to push up tax revenues in the coming years 5

EUR bn



* Based on the May 2017 tax estimate and unchanged tax elasticities

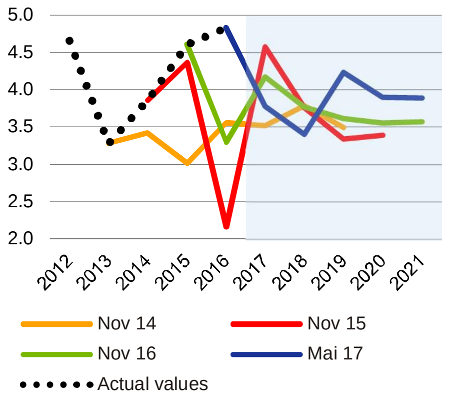
Sources: Deutsche Bundesbank, Working Party on Tax Revenues (May 2017), Federal Ministry of Finance, Deutsche Bank

In view of the considerable revision of growth forecasts since May and on the basis of the simplified assumption that tax elasticities remain unchanged[1] the government may expect additional (accumulated) tax income of c. EUR 55 bn for the period from 2018 to 2021 in comparison to the May estimate (chart 5). Similar calculations for the federal level lead to additional tax revenues of EUR 20 - 25 bn (compared to May; accumulated figure for the years 2019 - 2021). Seeing that EUR 14.8 bn (c. 0.5% of expected GDP for 2017) have already been included for tax cuts/spending increases in the financial planning for 2019 - 2021, the total fiscal leeway of the new government (excluding new debt) might amount to c. EUR 40 bn during the current legislative period (c. 1.2% of GDP). This is largely in line with the potential amount of tax relief or additional spending announced by budget experts for the next four years (EUR 30 - 40 bn at the federal level).

[1] Defined as the ratio between annual tax revenue growth and annual nominal GDP growth. In 2016, the tax elasticity amounted to c. 1.5, which means that tax revenues rose by 1.5% for each percentage point of additional GDP growth. The May tax estimate implicitly assumes an average

Results of the Working Party on Tax Revenues 8

Overall tax revenues (financial statistics)
% yoy



Sources: Deutsche Bundesbank, Working Party on Tax Revenues, Deutsche Bank Research

Conclusion: More money for the government, but not enough to keep all expensive election promises

The public coffers will become fuller and fuller, and the November tax estimate will tell us more about how much additional tax revenues the government can expect. While the Jamaica coalition negotiators have already compiled a long and expensive wish list worth considerably more than EUR 40 bn, it is clear that any potential Jamaica government will be able to implement only part of the tax cuts and spending increases demanded by the CDU/CSU, the FDP and the Greens if it wants to keep the "black zero" (no new net borrowing at the federal level) – even though the fiscal situation is very good and interest rates are near zero. This is due to expensive electoral presents by the preceding government, particularly in the social sector. Significant increases in social spending (higher pensions for mothers, retirement at 63) will claim a large share of the future additional (tax) revenues in the coming years, which is why, despite the excellent revenue development, the fiscal elbow-room of the new government will be limited, provided that the "debt brake" is adhered to (or the "black zero" is kept) and there are no major shifts within the budget.

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tax elasticity of c. 1.25 for the years between 2017 and 2021 (see chart 6) and thus expects a further disproportionate increase in tax revenues. This is, among other things, due to the bracket creep inherent in the German tax system.

Current account surplus declines – but German economic policy will remain in the line of fire

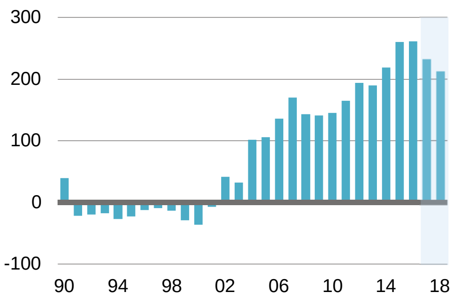
— The German current account surplus has narrowed, from 9.1% of GDP in H2 2015 to 7.5% of GDP in H1 2017. And this trend looks set to continue on the back of strong domestic growth and the euro appreciation.

— In fact, we expect the surplus to shrink to 7.2% in 2017 as a whole and to 6.5% in 2018 (down from 8.3% in 2016). Nevertheless, among the major economies Germany remains the one which makes a particularly large contribution to global imbalances. It will therefore continue to be criticised for its economic policy.

— The slow ageing of society appears to be the key factor which might reduce the surplus significantly during the coming decade.

Germany: Current account 1

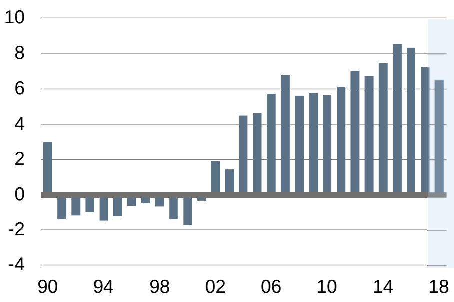
EUR bn



Sources: Federal Statistical Office, Deutsche Bank Research

Germany: Current account 2

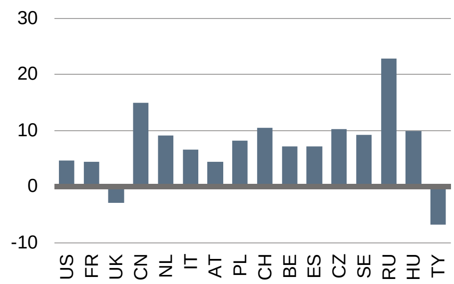
% GDP



Sources: Federal Statistical Office, Deutsche Bank Research

Jan-Aug 2017: Exports 3

% yoy



Sources: Federal Statistical Office, Deutsche Bank Research

Germany's current account surplus to narrow in 2017

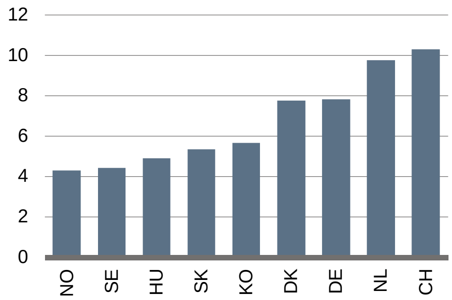
Germany is regularly blamed for its large current account surpluses, which are seen to be one of the main reasons for global imbalances. We do not share this opinion.[3] Nevertheless, the German current account surplus (as measured in % of GDP) has steadily declined since H2 2015, from 9.1% to 7.5% in H1 2017. While the latest available export and import data refer to July and August, it seems that the surplus is likely to narrow further during the second half of the year due to the euro's appreciation by c. 10% versus the US dollar during the summer and the political situation in several important export markets. During the first eight months of 2017, exports to the UK dropped by 2.9% and exports to Turkey even shrank 6.8% yoy. Overall, however, we forecast healthy export growth in real terms (+3.7%) as world trade remains dynamic. Strong domestic demand and the euro appreciation will push up real imports, which look set to expand at an even higher rate (+4.4%). Since import prices are likely to rise more strongly than export prices in 2017 (+3.0% vs. +1.7%), we expect the current account surplus to shrink again in H2 2017, to c. 7%. This should lead to a surplus of 7.2% in 2017 as a whole (down from 8.3% in 2016 and 8.5% in 2015, respectively); in EUR terms, the surplus should drop to significantly less than EUR 250bn (2015 and 2016: c. EUR 260 bn).

Current account surplus to decline further in 2018

With the labour market moving towards full employment, domestic demand looks set to increase further in 2018, particularly if the upcoming wage rounds (metals industry, construction industry, public sector) fuel wage growth. Global sentiment indices (ifo, PMIs) suggest that global demand will remain buoyant. Overall, we expect global GDP to grow 3.7% for 2018 and world trade to expand by 4%. German imports, propped up by healthy domestic activity, are likely to rise more strongly than exports (+4.6% vs. +3.8%), which is why we expect net exports to make a marginal negative contribution to GDP growth. Against this background the current account surplus looks set to narrow again, to c. 6.5% or "only" EUR 210 bn in 2018 as a whole – the lowest level since 2013.

2017 Current account 4

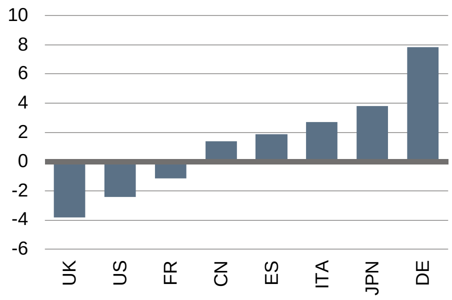
in % GDP, 4QMA



Sources: IMF, Deutsche Bank Research

2017 Current account 5

in % GDP, 4QMA



Sources: IMF, Deutsche Bank Research

Criticism of German surpluses unlikely to abate much

Despite the expected narrowing, Germany remains the industrial country with the highest current account surplus. In addition, the surplus will stay above the 6% threshold set by the European Commission for the Macroeconomic Imbalance Procedure. Only smaller countries such as Switzerland and the Netherlands will continue to run higher surpluses (in relation to their GDP) than Germany. German economic policy will therefore remain in the line of fire even though the surpluses decline. The slow ageing of society appears to be the key factor which might reduce the surplus significantly during the coming decade.

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Trends in the EU industry: Persistent shift from west to east

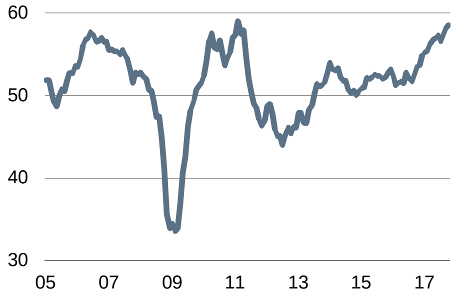
— During the last few years, the industrial sectors in the individual EU countries have undergone very different developments. As a result, their shares in the EU's aggregate industrial value added have changed, with the eastern countries gaining shares at the expense of the western (and southern) countries of the bloc. Germany is the main beneficiary of this trend. Between 2009 and 2016, the share of its industry in the EU's aggregate gross manufacturing value added rose by 3 pp, to 30%. This means that, in 2016, Germany's share in the EU's total industrial output exceeded that of France, Italy and Spain combined.

— Germany is the only western European country where the share of manufacturing in overall GDP is higher than 20% (2016: 22.6%). The EU country with the largest manufacturing contribution to GDP is the Czech Republic (27.1%), followed by Hungary (23.9%). In contrast, the EU average amounts to 16.1%. France (11.4%) and the UK (9.7%) lag far behind. The different economic structures of the EU countries are not "good" or "bad" as such. They reflect different "business models" of the economies, which have evolved over time and cannot be changed thoroughly in the short to medium term.

— In all likelihood, the eastern EU countries will continue to gain industrial market shares at the expense of their western counterparts in the coming years. To a large extent, this is due to the lower wage level in eastern Europe, even though high labour costs may be offset by other factors, as the example of Germany shows. However, the momentum of this shift is likely to slow. After all, the western European countries have got a grip on unit labour costs in their industries in the last few years. Moreover, wage growth looks set to be stronger in eastern Europe than in western Europe in the coming years.

Positive sentiment in the industry 1

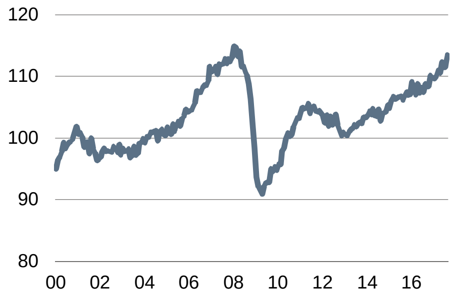
Manufacturing PMI, Eurozone



Source: Markit

Former peaks in sight again 2

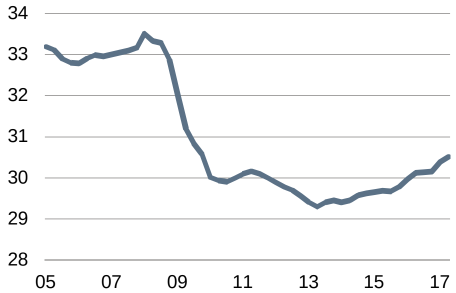
Manufacturing production index in the EU, 2010=100, seasonally adjusted



Source: Eurostat

Number of industrial employees in the EU is increasing again 3

Manufacturing employees in the EU, m



Source: Eurostat

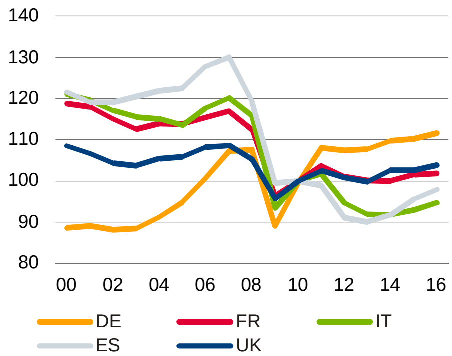
EU industrial output: Pre-crisis level to be reached in the near future

Across Europe, sentiment in the industry is buoyant. For example, the purchasing managers' index (PMI) for the euro area (figures for the EU as a whole are not available) has recently climbed to its highest level since the beginning of 2011. At the same time, manufacturing output in the EU was up 2.7% yoy in real terms in the first seven months of 2017. Between 2013 and 2016, EU industrial output grew 2.1% p.a. on average. And the number of industrial employees in the EU has been rising since the beginning of 2013, albeit quite slowly. In Q2 2017, it exceeded the level of Q2 2013 (the most recent low) by just above 4%.

All this confirms that the economic situation is quite favourable at the moment. However, a look at longer-term trends shows that the global economic and financial crisis of 2008/09 has deeply affected the European industry. For example, manufacturing output in 2016 was still more than 3% below its record level of 2007. And the pre-crisis level will not be reached until this year or next. In 2016, the total number of industrial employees was 9% lower than in 2007. This is equivalent to the loss of almost 3 million manufacturing jobs in the EU. Both comparisons show that the momentum in the European industry has been quite sluggish in the last few years.

Only Germany above pre-crisis level 4

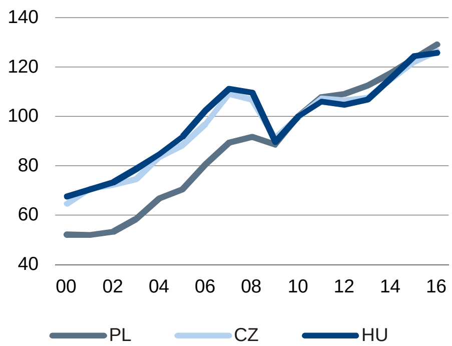
Manufacturing production index, 2010=100



Source: Eurostat

Strong production gains in eastern Europe 5

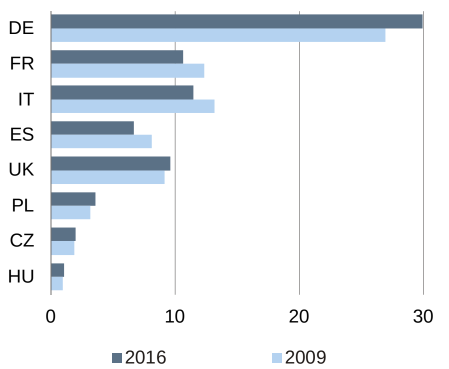
Manufacturing production index, 2010=100



Source: Eurostat

Germany and eastern Europe have increased their market share 6

Share of countries in EU's manufactruing gross value added, %



Source: Eurostat

Large regional differences

The average figures for the EU as a whole paint an incomplete picture of the trends in the industrial sector during the last few years. A comparison of industrial output in the five largest western and the three largest eastern economies points to considerable discrepancies within the region. Spain, Italy and France registered the largest declines in industrial output. Between 2007, i.e. the year before the crisis, and 2016, industrial output dropped by about 25% in Spain, by just above 21% in Italy and by 13% in France. The UK fared better, at least in relative terms; there, industrial output declined only by 4.3%. All four countries have one thing in common: after the recession in 2009, industrial output rose again in 2010 (and in some cases also in 2011). However, it declined again (or moved sideways at best) until 2013/14 and has not picked up markedly since then.

As a result, French and Italian industrial output was not much higher in 2016 than in the crisis year 2009 (+5.7% and +1.3%, respectively). In Spain, manufacturing output was still below the 2009 level in 2016 (-1.6%). The British industry achieved an increase of 8.6% in 2016 in comparison to 2009.

In contrast, manufacturing performed considerably better in the three large eastern European countries. In Poland, output was up 44% between 2007 and 2016, with the decline in 2009 being relatively small. The Czech Republic (+16%) and Hungary (+13%) also increased their industrial output considerably during this period. And compared to the crisis year 2009, output growth is even (significantly) higher. It amounts to 46% in Poland, 39% in the Czech Republic and more than 40% in Hungary.

In comparison, the German industry occupies the middle ground. Industrial output has risen by 4% between 2016 and 2007 and by 25.4% between 2009 and 2016, which means that, in terms of industrial output growth, Germany clearly outperformed the other western European countries, but lagged behind Poland, the Czech Republic and Hungary.

Germany and eastern Europe are gaining market shares

The different paces of growth have caused the shares of the individual countries in total industrial gross value added within the EU to shift, mainly from the west (and south) to the east, with Germany being the easternmost of the western European countries analysed in this report. For example, the share of the French industry in the EU's total gross value creation declined from 12.4% in 2009 to 10.7% in 2016. The same applies to Italy, whose share dropped by 1.7 pp to recently 11.5%. During the same period, the share of the Spanish industry in the EU's total industrial output shrank from 8.1% to 6.7%.

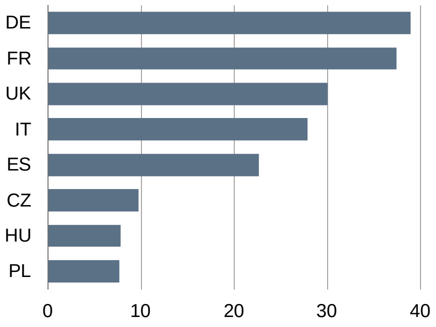
In contrast, Polish manufacturing increased its share in the EU's total industrial output from 3.2% to 3.6%, and the Czech Republic and Hungary saw their market shares grow by 0.1 of a pp each. Despite these gains by the three eastern European countries, their joint share in the EU's gross aggregate output only equalled that of Spain in 2016. The industrial sectors of the eastern EU countries are therefore still relatively small.

Germany is the main beneficiary of this trend. Between 2009 and 2016, the share of its industry in the EU's aggregate gross manufacturing value added rose by 3 pp, to 30%. This means that, in 2016, Germany's share in the EU's total industrial output exceeded that of France, Italy and Spain combined.

Industrial sectors in eastern EU countries benefit from low wages and production shifts

High labour costs in Germany 7

Hourly manufacturing labour costs per employee, 2015, EUR



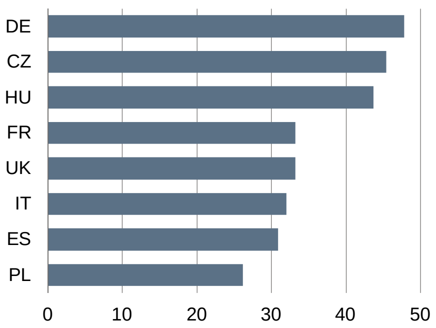
Source: Cologne Institute for Economic Research

There are numerous reasons why industrial production activity and value creation are shifted from the west to the east. The eastern European countries have certainly benefited from the fact that their industrial labour costs are, on average, considerably lower than in western Europe. For example, hourly labour costs in the Czech Republic amounted to just above one quarter of the French level in 2015. They were even lower in Poland and Hungary. And the gap in labour costs is not the only reason why the eastern European countries have gained market shares. During the past decade, unit labour costs in Italy and Spain in particular have risen strongly, but declined in Poland and the Czech Republic. In response, companies moved their factories or part of their value creation chains from Spain or Italy to eastern Europe and focused on eastern Europe for new investments. These far-reaching management decisions were not overthrown by the global economic and financial crisis. The upswing in the eastern European industries was driven not so much by domestic companies, but rather by international conglomerates from western Europe, the US or Asia.

A look at the sectors in which the eastern European countries saw output rise most confirms this view. Most of them belong to the medium high-technology segment, such as the car industry, mechanical engineering, electrical equipment or the chemical industry. In fact, carmakers and parts suppliers have established new factories in the eastern European countries during the past ten to 15 years, whereas they have reduced their production in France, Italy and Spain over the medium to long term, not least by shutting down factories or reducing their operations. In absolute terms, the new EU countries (including Slovakia, for example) have become an important car producing location. Domestic sales of new cars play only a minor role, though. This means that many of the cars produced in the new EU countries are exported. The same applies to other industrial sectors, in particular in the high and medium high-technology segments.

Medium high-technology important 8

Share of medium high-techn. sectors in total manufacturing production value, 2015, %



Source: Eurostat

With these sectors registering strong growth, the share of production value in medium high-technology industries in total manufacturing production value is quite high. In particular, this is the case in the Czech Republic and in Hungary (2014: 45% and 44%, respectively). The figure for Poland is only 26%, as the production value in low-technology (such as the food, textile and clothes or furniture industries) and medium low-technology sectors (e.g. metal or building materials industries) is high in Poland. These sectors have traditionally played an important role in the country.

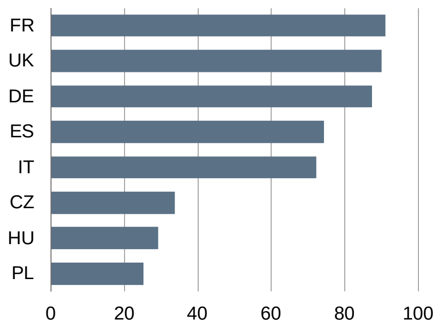
The Czech Republic and Hungary register a particularly large number of employees in high and medium high-technology sectors in comparison to the total number of employees across all economic sectors. Their share amounted to 11.5% in the Czech Republic and to 9.5% in Hungary in 2016, compared to only 4.4% in France or 3.9% in Spain. Germany is the only western European country whose figures are similar to those of the Czech Republic or Hungary.

While this employee structure suggests at first sight that the eastern European countries enjoy a technological or knowledge advantage over most of their western European peers, the picture changes if we look not only at industrial employees in high and medium high-technology sectors, but also at employees in knowledge-intensive services. Their combined share in the total number of employees is relatively low, at 31% in Poland and 33% in the Czech Republic. At 36%, the share in Hungary is similar to that in Italy (35%) or Spain (36%). However, in the UK (49%), France (46%) or Germany (40%) considerably more employees work in these sectors. Thus, the western EU countries offset their lower shares of employees in technologically sophisticated industrial sectors by higher shares of employees in knowledge-intensive services.

Germany, as an important industrial location, benefits from innovative companies and international exposure

Higher productivity in western Europe 9

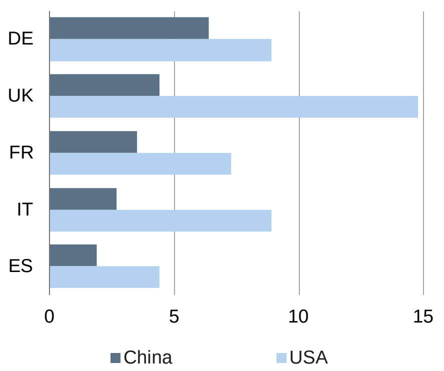
Gross value added per employee in manufacturing, 2016, '000 EUR



Sources: Eurostat, Deutsche Bank Research

China and US are important export markets for Germany and UK 10

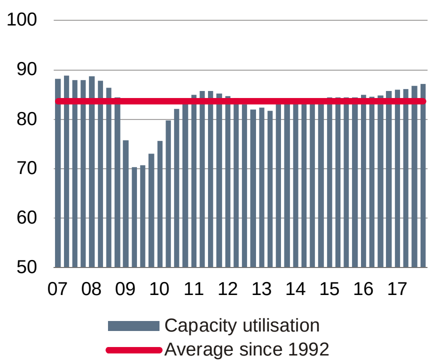
Share of exports to China and the US in total exports of selected countries, 2016, %



Source: IMF

Capacity utilisation exceeds long-term average 11

Capacity utilisation in the manufacturing industry in Germany, %



Source: ifo Institute

In contrast to the eastern European countries, Germany did not gain larger shares in the EU's total industrial gross value added on the grounds of cost advantages. In fact, labour costs per employee and per hour of work were almost four times as high in Germany as in the Czech Republic and more than 70% higher than in Spain. At the same time, however, the German manufacturing sector can boast high gross value creation per employee. According to Eurostat, this figure was almost 160% higher in Germany than in the Czech Republic and 18% higher than in Spain in 2016. Still, Germany was second to France, where gross value creation per employee was 4% higher than in Germany in 2016.

Germany's success as an industrial location is largely due to the fact that German companies have gained a strong position over the years. They are highly innovative, particularly in medium high-technology sectors. In fact, Germany filed more patent applications with the European Patent Office in 2016 than France, Italy, Spain and the UK combined. The number of patent applications per capita was twice as high as in France in 2016. This innovative strength enables German companies to provide tailor-made solutions for customers from highly different sectors. In addition, Germany benefits from the fact that all important parts of the industrial value chain are located locally and that companies have been working together or cooperating in the area of research and development for a long time, in some cases even for decades. Often, companies also involve external research institutions. According to Stifterverband (a joint initiative by companies and foundations), manufacturing companies shouldered more than 85% of the aggregate R&D expenses in 2015.

German industrial companies benefit not only from their innovative strength, but also from their international exposure beyond Europe. More than 15% of aggregate German exports (according to the IMF definition) were shipped to the US and China in 2016 – two countries which, during the years after the global recession, registered considerably higher economic growth than the EU. In contrast, France and Italy each sent only about 11% of their total exports to these two countries in 2016, and Spain even only just above 6%. In absolute terms, Germany is a special case anyway with regard to exports to the US and China. According to IMF figures, German exports to the US and China exceeded those of France, Italy and Spain combined in 2016. Ultimately, Germany's exposure to dynamic markets outside Europe helped the German industry to return more quickly to a sustained growth path than that of other western European countries after 2008/2009.

Political measures supported this quick recovery. They include efforts to make the labour market more flexible in the framework of the Agenda 2010 (such as temporary employment), which helps to offset the cost disadvantages of higher wages and to adapt to cyclical volatility. Generous provisions concerning short-time work during the crisis were helpful, too. They enabled companies to keep workers on board and respond to the pick-up in demand more quickly than their competitors once the crisis was over. While, owing to the short-term work provisions, unit labour costs rose more strongly in the German industry in 2009 than in the other countries analysed in the framework of this study, this development was offset in 2010 and 2011. Capacity utilisation in the manufacturing sector quickly exceeded the long-term average again after the crisis; this is highly important for corporate profitability.

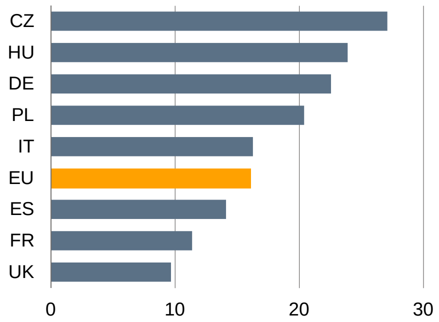
Industry plays a particularly important role in Germany and eastern Europe

Overall, Germany and the eastern EU countries have increased their shares in the EU's total industrial output and gross value added in manufacturing in the last few years at the expense of western European countries (at least those analysed in this study), where industrial output has not yet returned to its pre-crisis level in absolute terms. The focus of the eastern European countries is not on medium low or low-technology industrial sectors. Rather, the Czech Republic and Hungary in particular are very well positioned in medium high and high-technology, even though most of the companies in these sectors are western conglomerates which run factories in these countries. Compared to western Europe, the eastern EU countries lag behind in the area of knowledge-intensive services. It seems that there is a certain division of labour within the EU: industrial production plays a larger role in eastern Europe, whereas western Europe focuses on (knowledge-intensive) services. Germany is, to some extent, an exception. Even though it is a high-wage country, it has gained industrial market shares within the EU, and it is the only major western EU country which saw its manufacturing output rise above the pre-crisis level in 2016. At the same time, Germany can hold its own in knowledge-intensive services, even though the share of employees in these sectors (as compared to the total number of employees) is higher in France or the UK than in Germany.

Germany is a special case in another respect, too: It is the only western European country where the share of manufacturing in overall GDP is higher than 20% (2016: 22.6%). The EU country with the largest manufacturing contribution to GDP is the Czech Republic (27.1%), followed by Hungary (23.9%). In contrast, the EU average amounts to 16.1%. France (11.4%) and the UK (9.7%) lag far behind. The different economic structures of the EU countries are not "good" or "bad" as such. To a large extent, they reflect different "business models" of the economies which have evolved over time and cannot be changed thoroughly in the short to medium term. For example, the low share of industrial output in the UK also stems from the country's focus on financial services, which regularly provides the country with above-average growth rates during periods in which the financial sector prospers. The recent past has shown, however, that Germany was and is in a good position thanks to its competitive industry, particularly since this sector is an important customer for corporate services and thus drives the activity in other sectors. What is more, domestic consumption benefits from the fact that wages in the (German) industry are higher than in many services sectors.

Significant differences in importance of manufacturing 12

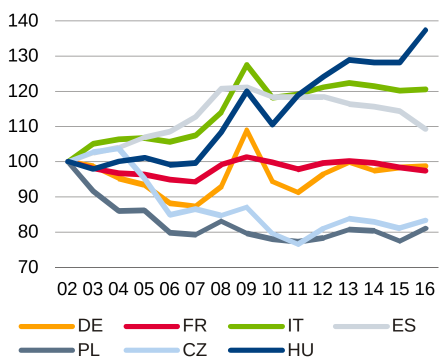
Share of manufacturing in total gross value added, 2016, %



Source: Eurostat

Diverging unit labour costs 13

Unit labour costs, manufacturing, index: 2002=100



Source: ECB

Shift from west to east to continue, if at a slower pace

In all likelihood, the eastern EU countries will continue to gain industrial market shares at the expense of their western counterparts in the coming years. To a large extent, this is due to the lower wage level in eastern Europe, even though high labour costs may be offset by other factors, as the example of Germany shows.

However, the momentum of this shift is likely to slow. After all, the western European countries have got a grip on unit labour costs in their industries in the last few years. Moreover, wage growth looks set to be stronger in eastern Europe than in western Europe in the coming years, not least due to basis effects. In addition, demographics are unfavourable in eastern Europe and might lead to a lack of qualified labour, which may limit the industrial expansion in the future. At the same time, the western European countries should benefit from the fact that they are larger markets than the eastern EU countries. This is a key criterion for investment decisions in a number of industrial sectors.

Industrial production has been trending upwards in the western EU countries analysed in this report since 2014/15, and this development is likely to continue in 2018.

Of course, further economic reforms are necessary (not only) in western Europe in order to deal with international competition. The competitors come not only from the eastern EU countries, but also from Europe outside the EU, the US and Asia. The globalisation process will not give the individual economies much time to catch their breath, which is why policymakers and company managers will need to step up their reform efforts and their efforts to improve productivity and innovativeness. However, the fact that more extreme political movements have been gaining ground in the EU shows that policymakers will have to listen more carefully to those for whom globalisation means unwelcome changes and increased uncertainty. In the longer run, higher expenditure on education is a must. In this context, companies should try and improve the qualifications of their employees, too. Better qualified labour is necessary because high and medium high-technology sectors are those industrial segments which offer the best growth opportunities in the EU. In the last few years, production growth in these segments clearly outpaced that in less sophisticated sectors.

The EU as a whole has successfully stopped the long-term downtrend of the industry's contribution to overall GDP in the last few years. This was and is its declared political goal. Nevertheless, the target announced in 2012, namely increasing the share of the industry to 20% by 2020, is unlikely to be reached (2016: 16.1%).

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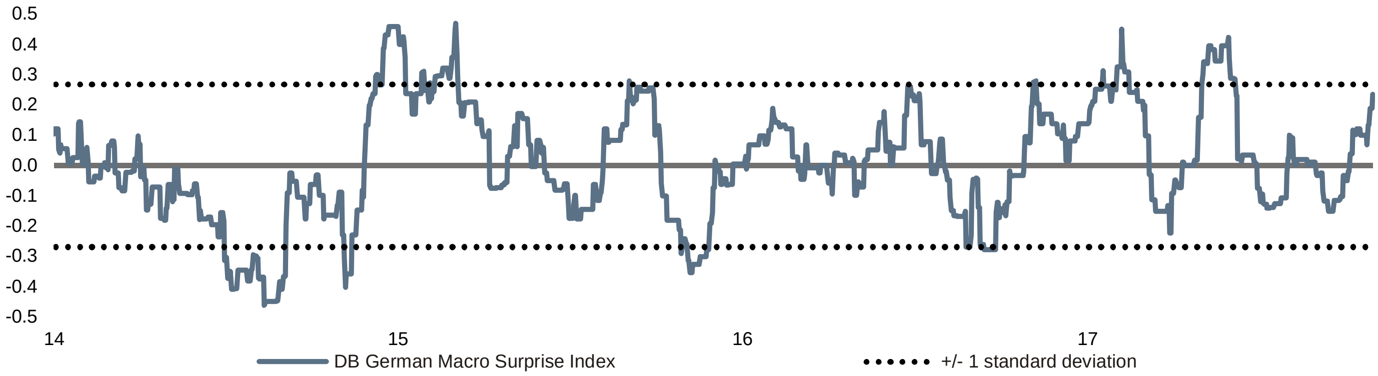
DB German Macro Surprise Index

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
GRCP20YY Index	CPI (% yoy)	8 2017	13/09/2017	1.8	1.8	0.0	0.2	0.3
GRZECURR Index	ZEW Survey Current Situation	9 2017	19/09/2017	87.9	86.2	1.7	0.1	0.6
GRZEWI Index	ZEW Survey Expectations	9 2017	19/09/2017	17.0	12.0	5.0	0.6	0.8
GRIFPBUS Index	IFO Business Climate	9 2017	25/09/2017	115.3	116.0	-0.7	-0.7	0.2
GRIMP95Y Index	Import Price Index (% yoy)	8 2017	26/09/2017	2.1	2.1	0.0	0.3	0.6
GRUECHNG Index	Unemployment Change (000's mom)	9 2017	29/09/2017	-22.0	-5.0	17.0	0.5	0.7
GRFRIAMM Index	Retail Sales (% mom)	8 2017	29/09/2017	-0.2	0.5	-0.7	-0.3	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
GRIORTMM Index	Factory Orders (% mom)	8 2017	06/10/2017	3.6	0.7	2.9	1.3	0.9
GRIPIMOM Index	Industrial production (% mom)	8 2017	09/10/2017	2.6	0.9	1.7	1.5	0.9
GRCAEU Index	Current Account Balance (EUR bn)	8 2017	10/10/2017	17.8	17.0	0.8	-0.1	0.5
GRCP20YY Index	CPI (% yoy)	9 2017	13/10/2017	1.8	1.8	0.0	0.2	0.3
GRZEWI Index	ZEW Survey Expectations	10 2017	17/10/2017	17.6	20.0	-2.4	-0.3	0.4
GRZECURR Index	ZEW Survey Current Situation	10 2017	17/10/2017	87.0	88.5	-1.5	-0.3	0.3
MPMIDESA Index	Markit Services PMI	10 2017	24/10/2017	55.2	55.5	-0.3	-0.3	0.3
MPMIDEMA Index	Markit Manufacturing PMI	10 2017	24/10/2017	60.5	60.5	0.0	0.0	0.4
GRIFPBUS Index	IFO Business Climate	10 2017	25/10/2017	116.7	115.1	1.6	1.0	0.9
GRIMP95Y Index	Import Price Index (% yoy)	9 2017	27/10/2017	3.0	2.6	0.4	0.6	0.9
GRFRIAMM Index	Retail Sales (% mom)	9 2017	30/10/2017	0.5	0.5	0.0	0.3	0.6

Sources: Bloomberg Finance LP, Deutsche Bank Research

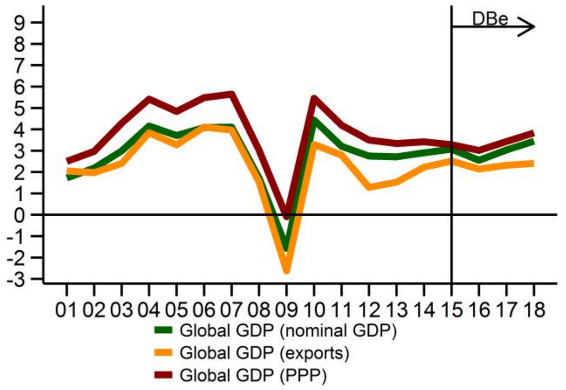
Updated by Sebastian Becker and Jochen Möbert (+49 69 910-31727, jochen.moebert@db.com)
Source: Heiko Peters (2014). DB German Macro Surprise Index. Focus Germany, 4 August 2014.

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).[2]

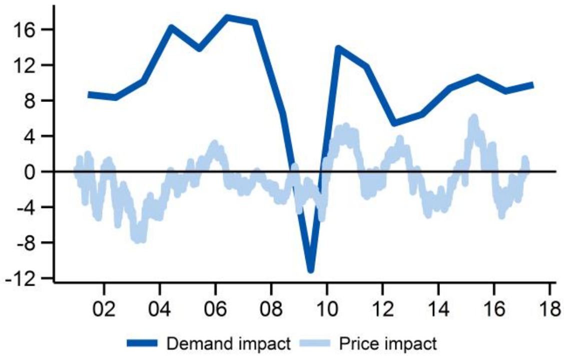
Global growth expected to accelerate

% yoy, weighting factor in brackets



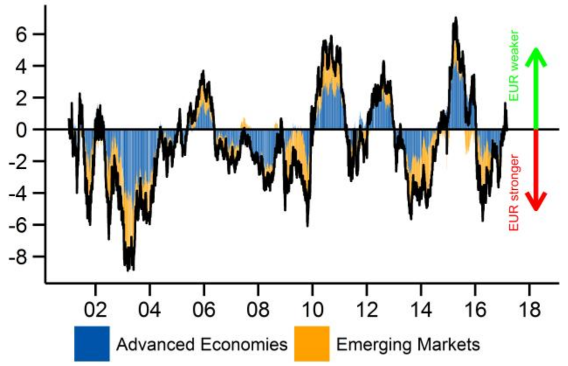
Demand and price impact for German exports

% yoy



Price impact about neutral so far in 2017

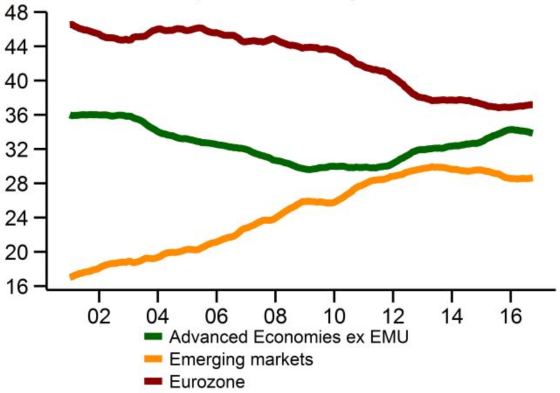
% yoy



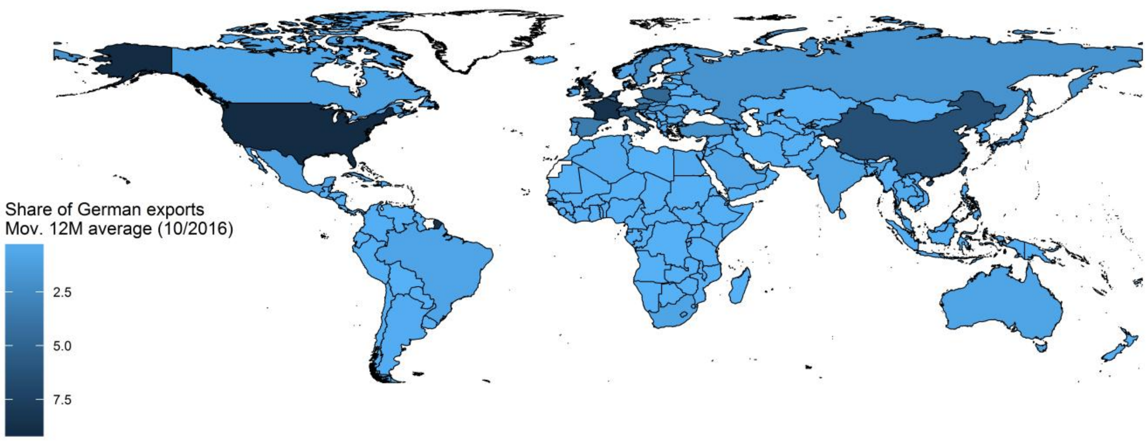
Weighed EUR yoy change using German export destination shares

Importance of EMU increased again 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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2 See for details Focus Germany, March 3, 2016.

Economic backdrop supportive for Jamaica talks

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

Date	Event	Remarks
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. On October 26 the ECB acted in line with market expectations. It announced to cut in the monthly net flow of QE (from EUR 60 bn to EUR 30 bn) from January 2018 onwards and to keep the purchases going for nine months until September 2018 and to maintain open-ended QE.
14 to 15 Dec	European Council, Brussels	Debates on the state and future of the EU, on the Brexit negotiations and on international relations.
15 to 16 Dec	(Poss.) CDU and CSU party conventions	Debates and voting on the result of the negotiations on the formation of a government coalition among the CDU/CSU, the FDP and the Greens.
Mid-Dec to end Dec	(Poss.) FDP and Greens member survey	Voting on the result of the negotiations on the formation of a government coalition among the CDU/CSU, the FDP and the Greens.
Until mid-Jan 2018	(Presumably) Election of the Federal Chancellor	From the present point of view it seems likely that the CDU/SCU's, the FDP's and the Greens' MPs will elect Angela Merkel as Chancellor. This would be the start of her fourth term.
25 Jan 2018	ECB Governing Council meeting, press conference	Review of the monetary policy stance. (See Dec 14)

Source: Deutsche Bank Research

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Germany: Data calendar

Date	Time	Data	Reporting period	DB forecast	Last value
6 Nov 2017	8:00	New orders manufacturing (% mom, sa)	September	-0.3	3.6
7 Nov 2017	8:00	Industrial production (% mom, sa)	September	-0.2	2.6
9 Nov 2017	8:00	Trade balance (EUR bn, sa)	September	19.7	21.7
9 Nov 2017	8:00	Merchandise exports (% mom, sa)	September	-0.1	2.9
9 Nov 2017	8:00	Merchandise imports (% mom, sa)	September	2.1	1.1
14 Nov 2017	8:00	Real GDP (% qoq)	Q3 2017	0.6	0.6
23 Nov 2017	8:00	Real GDP (% qoq) - Details	Q3 2017	0.6	0.6
23 Nov 2017	9:30	Manufacturing PMI (Flash)	November	60.0	60.6
23 Nov 2017	9:30	Services PMI (Flash)	November	55.0	55.2
24 Nov 2017	10:30	ifo business climate (Index, sa)	November	116.0	116.7
29 Nov 2017	14:00	Consumer prices preliminary (% yoy, nsa)	November	1.5	1.6
30 Nov 2017	8:00	Retail sales (% mom, sa)*	October	-0.2	0.5
30 Nov 2017	09:55	Unemployment rate (%, sa)	November	5.6	5.6

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

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Economic backdrop supportive for Jamaica talks

Financial Forecasts

	US	JP	EMU	GB	CH	SE	DK	NO	PL	HU	CZ
Key interest rate, %											
Current	1.125	-0.10	0.00	0.50	-0.75	-0.50	0.05	0.50	1.50	0.03	0.25
Dec 17	1.375	-0.10	0.00	0.50	-0.75	-0.50	0.05	0.50	1.50	0.03	0.50
Mar 18	1.375	-0.10	0.00	0.50	-0.75	-0.50	0.05	0.50	1.50	0.03	0.50
Jun 18	1.625	-0.10	0.00	0.50	-0.75	-0.50	0.05	0.50	1.50	0.05	0.75
3M interest rates, %											
Current	1.38	0.06	-0.34	0.45							
Dec 17	1.58	0.05	-0.30	0.50							
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	2.38	0.06	0.28	1.35							
Dec 17	2.62	0.00	0.60	1.45							
Mar 18	2.69	0.00	0.65	1.65							
Jun 18	2.75	0.00	0.70	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	1.16	114.02	0.87	1.33	1.16	9.72	7.44	9.46	4.23	311.75	25.56
Dec 17	1.17	116.00	0.91	1.29	1.05	9.50	7.46	9.75	4.23	310.00	26.00
Mar 18	1.18	117.00	0.92	1.28	1.06	9.38	7.46	9.69	4.25	312.50	25.93
Jun 18	1.19	118.00	0.93	1.28	1.08	9.25	7.46	9.63	4.26	315.00	25.85

Sources: Bloomberg Finance LP, Deutsche Bank Research

Economic backdrop supportive for Jamaica talks

German data monitor

	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Jun 2017	Jul 2017	Aug 2017	Sep 2017	Oct 2017	Nov 2017
Business surveys and output											
Aggregate											
Ifo business climate	110.6	111.2	114.3	115.8		115.2	116.1	116.0	115.3	116.7	
Ifo business expectations	105.4	104.3	106.2	107.5		106.7	107.3	107.8	107.5	109.1	
Industry											
Ifo manufacturing	105.3	106.2	109.6	111.9		110.4	112.1	112.3	111.3	112.7	
Headline IP (% pop)	0.0	1.2	1.9			-1.0	-0.1	2.6			
Orders (% pop)	4.2	-1.0	0.8			0.9	-0.4	3.6			
Capacity Utilisation	85.6	85.9	86.0	86.7	87.1						
Construction											
Output (% pop)	-1.6	4.6	5.2			-0.9	0.0	0.0			
Orders (% pop)	8.1	0.4	-3.0			3.1	-0.5	-3.2			
Ifo construction	129.4	128.5	130.4	133.0		130.5	131.6	133.4	134.1	134.9	
Consumer demand											
EC consumer survey	-1.5	-0.6	3.6	4.1		5.0	5.2	3.3	3.9	5.2	
Retail sales (% pop)	1.5	0.3	1.4	0.2		1.0	-0.5	-0.2	0.5		
New car reg. (% yoy)	-0.3	6.7	0.0	0.3		-3.5	1.5	3.5	-3.3		
Foreign sector											
Foreign orders (% pop)	3.1	-0.4	1.1			-1.9	0.3	4.3			
Exports (% pop)	2.3	3.0	1.5			-2.8	0.4	2.9			
Imports (% pop)	3.3	3.7	1.4			-4.4	2.3	1.1			
Net trade (sa EUR bn)	59.3	59.4	60.6			21.0	19.5	21.7			
Labour market											
Unemployment rate (%)	6.0	5.9	5.7	5.7		5.7	5.7	5.7	5.6		
Change in unemployment (k)	-28.3	-59.0	-43.3	-20.7		5.0	-10.0	-6.0	-22.0		
Employment (% yoy)	1.3	1.5	1.5	1.5		1.5	1.5	1.5	1.5		
Ifo employment barometer	111.1	110.3	111.1	111.9		111.0	112.1	111.2	112.3	112.0	
Prices, wages and costs											
Prices											
Harmonised CPI (% yoy)	1.0	1.9	1.6	1.7		1.5	1.5	1.8	1.8	1.5	
Core HICP (% yoy)	1.2	1.0	1.4	1.5		1.5	1.5	1.5	1.5		
Harmonised PPI (% yoy)	0.2	2.8	2.8	2.7		2.4	2.3	2.6	3.1		
Commodities, ex. Energy (% yoy)	19.2	32.7	8.9	4.2		2.0	2.7	4.8	5.3	0.7	
Crude oil, Brent (USD/bbl)	51.1	54.5	50.8	52.2		47.6	49.1	51.9	55.5	57.6	60.5
Inflation expectations											
EC household survey	10.0	18.9	17.6	16.3		17.9	15.1	15.8	18.1	16.0	
EC industrial survey	6.2	13.0	12.2	11.7		11.4	11.9	10.4	12.8	12.3	
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	4.7		5.6	4.6	4.7	4.7		
M3 trend (3m cma)	5.4	5.7	5.2	4.7		5.2	5.0	5.0	4.7		
Credit - private	2.9	3.3	3.8	3.9		3.8	3.8	3.8	3.9		
Credit - public	8.9	21.0	4.1	5.5		4.1	0.3	-7.5	5.5		

% 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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Available faster by E-mail:
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Printed by: HST Offsetdruck Schadt & Tetzlaff GbR, Dieburg

ISSN (Print) 2510-5248 / ISSN (Online) 2512-0824