



2019: Only 1.3% GDP growth, snap elections a distinct possibility

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GDP stagnation in Q3 – 2019 forecast lowered to 1.3%. Despite signs that the WLTP effect is subsiding the recovery looks set to be slow. Export expectations and business sentiment in general have become more clouded on the back of the US/China trade conflict, the problems in the EMs and overall heightened economic uncertainty. Whilst we expect the economy to get back on track in the winter half-year, expansion rates well above potential have become unlikely in 2019. We have therefore trimmed our 2019 growth forecast to 1.3% (1.7%).

Auto industry: WLTP effect is petering out – market share of diesel cars might stabilise. The shift to the new WLTP emissions test has led to significant output declines in the German auto industry. In Q3 2018, the sector's output index is likely to be down c. 10% qoq in real terms. Diesel cars complying with Euro 6d-TEMP standard will be exempt from potential driving bans. Producers might additionally fuel demand for diesel cars by offering exchange premiums, at least if these premiums exceed the usual rebates. As a result, the decline in the share of diesel cars in new car registrations might be slowed or even stopped in certain market segments.

Labour migration: Good arguments for new legislation. With a new law (draft forthcoming) the Groko intends to address the shortage of qualified labour. Migration into Germany is declining. In 2017 only about one tenth of all residence permits granted to third country nationals were meant for the purpose of employment. The recognition of qualifications is a crucial issue. Labour market integration of refugees remains a challenge, but there is discernible progress.

The view from Berlin: The race for Merkel's succession is on. Merkel's camp seems to favour party secretary Annegret Kramp-Karrenbauer (AKK), as the option for continuity. Hopes from business are primarily pinned on Friedrich Merz, who would probably press for a reform oriented policy, but hardly change Germany's EU stance. Merz could trigger a self-reinforcing dynamic, as many conservatives seem to hope, that he could lead the CDU out of the current mess. If he is elected, the Groko's end seems to be a question of a few months only. The SPD's strict focus on the enhancement of the "Sozialstaat" including the request for a EUR 12 minimum wage indicates that the SPD is preparing itself for the possibility of snap elections.



2019: Only 1.3% GDP growth, snap elections a distinct possibility

Economic forecasts

	Real GDP (% growth)			Consumer Prices* (% growth)			Current Account (% of GDP)			Fiscal Balance (% of GDP)		
	2017	2018F	2019F	2017	2018F	2019F	2017	2018F	2019F	2017	2018F	2019F
Euroland	2.5	2.0	1.7	1.5	1.8	2.1	3.2	3.1	2.5	-1.0	-0.8	-0.7
Germany	2.2	1.6	1.3	1.8	1.6	1.8	7.9	7.1	6.4	1.0	1.4	1.1
France	2.3	1.6	1.5	1.2	1.9	2.1	-0.6	-0.4	-0.4	-2.7	-2.5	-3.0
Italy	1.6	1.1	1.3	1.3	1.5	2.0	2.9	2.5	2.3	-2.4	-2.1	-2.6
Spain	3.0	2.6	2.4	2.0	1.8	1.8	1.8	1.4	1.2	-3.1	-2.5	-1.9
Netherlands	2.9	2.7	2.2	1.3	1.6	2.1	10.5	10.3	9.9	1.2	0.8	0.6
Belgium	1.7	1.6	1.8	2.2	2.3	2.3	0.7	0.0	0.0	-0.9	-1.2	-1.2
Austria	3.1	3.0	2.2	2.2	2.0	1.8	2.0	2.3	2.4	-0.8	-0.3	0.0
Finland	2.8	2.7	2.1	0.8	1.3	1.5	-0.7	0.5	0.5	-0.7	-0.4	-0.2
Greece	1.3	2.1	2.1	1.1	0.7	1.3	-1.0	-0.5	-0.3	0.8	0.9	0.5
Portugal	2.8	2.2	1.7	1.6	1.5	1.9	0.7	0.2	0.2	-3.0	-1.0	-0.8
Ireland	7.2	6.6	3.8	0.3	0.8	1.4	8.5	7.5	6.5	-0.2	0.2	-0.2
UK	1.7	1.3	1.6	2.7	2.4	2.0	-3.7	-3.7	-3.4	-1.8	-1.7	-1.4
Denmark	2.3	1.8	1.8	1.1	1.0	1.3	8.1	7.4	7.3	0.9	-0.4	-0.4
Norway	2.4	2.1	2.0	1.9	2.0	2.0	5.6	6.0	6.0	5.1	4.5	4.6
Sweden	2.4	2.6	2.4	1.9	1.7	1.8	3.3	3.8	3.9	1.4	1.0	0.9
Switzerland	1.7	3.0	1.7	0.5	1.0	0.9	9.5	9.9	10.1	0.9	0.5	0.4
Czech Republic	4.5	3.3	3.2	2.5	2.2	2.3	1.0	0.7	0.7	1.5	1.5	0.9
Hungary	4.1	4.1	3.3	2.3	2.9	3.2	3.2	2.0	1.5	-2.2	-2.2	-2.1
Poland	4.6	4.4	3.6	1.9	1.8	2.6	0.2	-0.8	-1.0	-1.6	-1.9	-2.2
United States	2.2	2.9	2.8	2.1	2.6	2.4	-2.3	-2.7	-3.5	-3.4	-3.9	-4.5
Japan	1.7	0.9	0.6	0.5	0.8	0.3	4.0	3.8	4.1	-2.8	-2.6	-2.3
China	6.9	6.6	6.3	1.6	2.1	2.4	1.3	0.5	-0.2	-3.7	-3.5	-3.5
World	3.8	3.8	3.8	2.9	3.4	3.5						

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

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

	2016				2017				2018F				2019F			
	Q1	Q2	Q3F	Q4F	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Real GDP	2.2	2.2	1.6	1.3	0.4	0.5	0.0	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Private consumption	2.1	1.8	1.4	1.0	0.5	0.3	0.2	0.2	0.2	0.4	0.3	0.2	0.2	0.4	0.3	0.2
Gov't expenditure	4.0	1.6	1.2	1.4	-0.3	0.6	0.8	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Fixed investment	3.5	2.9	3.0	2.8	1.4	0.5	0.6	0.8	0.9	0.8	0.8	0.7	0.9	0.8	0.8	0.7
Investment in M&E	2.3	3.7	4.6	2.7	2.3	0.3	0.7	0.5	1.0	0.7	0.7	0.5	1.0	0.7	0.7	0.5
Construction	3.8	2.9	3.1	3.8	1.6	0.6	0.5	1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Inventories, pp	0.2	0.1	0.3	0.1	-0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports	2.3	4.6	2.5	3.6	-0.3	0.7	-0.1	1.2	1.1	1.0	1.0	1.0	1.1	1.0	1.0	1.0
Imports	4.1	4.8	3.6	4.7	-0.2	1.7	0.8	1.3	1.2	1.2	1.1	1.0	1.2	1.2	1.1	1.0
Net exports, pp	-0.5	0.2	-0.3	-0.3	0.0	-0.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Consumer prices*	0.5	1.8	1.6	1.8												
Unemployment rate, %	6.1	5.7	5.2	4.9												
Industrial production	1.5	2.9	1.5	0.5												
Budget balance, % GDP	0.9	1.0	1.4	1.1												
Public debt, % GDP	67.9	63.9	60.1	56.7												
Balance on current account, % GDP	8.5	7.9	7.1	6.4												
Balance on current account, EUR bn	268.8	257.7	240	226												

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



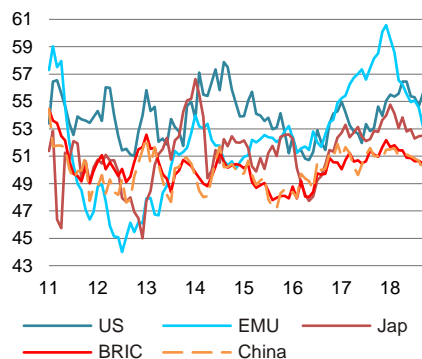
GDP stagnation in Q3 – 2019 forecast lowered to 1.3%

- Led by a problematic WLTP change-over, third-quarter auto production (on the basis of the production index) was down by around 10% on the previous quarter, which ought to have shaved just under half a percentage point off GDP. As private consumption is also likely to have risen only moderately and net exports ought to have been negative again, we have lowered our quarter over quarter GDP forecast for Q3 from 0.4% to 0%.
- Despite first signs that the WLTP effect is subsiding – auto production rebounded slightly in September, according to the statistics of the German Association of the Automotive Industry – the recovery looks set to be slow. Moreover, export expectations and business sentiment in general have become more clouded on the back of the trade conflict between the US and China, the problems in the EMs and overall heightened economic uncertainty. We have therefore lowered our forecast for 2018 from 1.9% to 1.6%.
- Whilst we expect the German economy to get back on track for growth in the winter half-year, expansion rates well above potential (0.3% to 0.4% qoq) have become unlikely in 2019, from our perspective. Also in view of the markedly lower statistical overhang, we have therefore trimmed our 2019 growth forecast to 1.3%, down from previously 1.7%.

Global PMIs: Heading lower

1

Index (manufacturing sector)



Source: IHS Markit

WLTP weighs on growth in Q3

Led by massive production disruptions on the back of the WLTP change-over, auto production in Q3 (based on the sector's production index) looks set to have slumped by around 10% compared with the previous quarter (see also "Auto industry: WLTP effect is petering out" on page 6). As the automotive industry accounts for roughly 4.5% of total gross value-added, this should have shaved just under half a percentage point off GDP. Given the sector's outstanding role, the WLTP effect weighed on both soft indicators (ifo, PMI) and hard data (output, order intake), though underlying dynamics in Q3 would probably also have lost momentum without WLTP.

Deterioration of the international environment

This view is above all corroborated by the deterioration of the international environment, which is already clearly reflected in the ifo export expectations for manufacturing. In the emerging markets, both current growth and the growth outlook have declined, led by higher US interest rates and the resulting re-emergence of idiosyncratic issues. China is particularly hard hit, as the trade dispute with the US intensifies. Doubtless, the Chinese government's surprising announcement of an income tax reduction of around half a percent of GDP for 2019, just days after third-quarter GDP growth came in below market expectations at 6.5% (Q2: 6.7%), the PBoC's rate cut and the debate about further growth stimuli within the Chinese government are sending a clear signal. It remains to be seen how sharply growth momentum throughout Asia will continue to slow. That it will slow is beyond doubt, from the perspective of our DB Asia's analysts. Courtesy of potential front-loading effects stemming from higher US and Chinese tariffs, the deterioration is not yet reflected in current international trade figures. In June/August, international trade was up by 3.8% compared with the previous year, following a 3.1% increase in the preceding three months. Over the past months, however, manufacturers surveyed by the

World trade: Skidmarks

2



Sources: IHS Markit, CPB

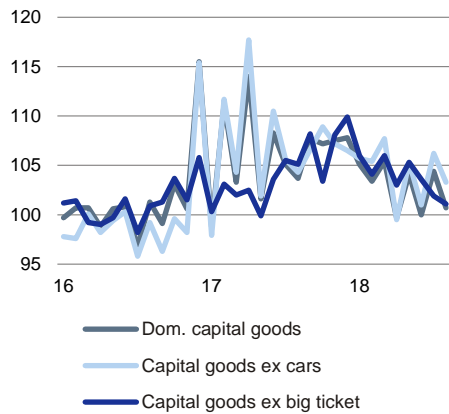


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Domestic capital goods orders

3

2015=100, volume



Source: Federal Statistical Office

global purchasing managers' index reported a sharp drop in new export orders pushing the index below the 50 boom-bust-threshold (Sep. 49.7).

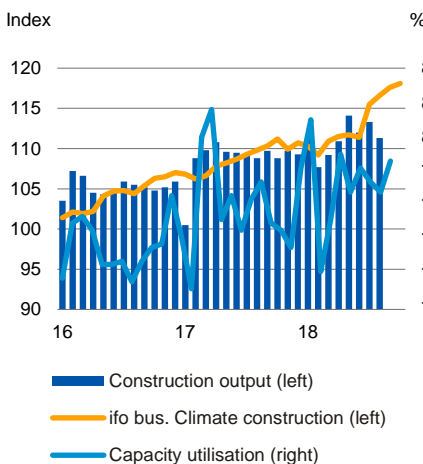
Weak foreign trade and only moderate uptick in investment in Q3

Based on nominal exports and imports and taking into account the developments in import and export prices, net exports are again likely to have weighed on growth in Q3 (Q2: growth contribution of -0.4 percentage points). Investment in machinery and equipment looks set to have recovered only slightly from its weakness in Q2 (+0.3% qoq). After suffering sharp declines in the previous quarters, orders of domestic capital goods in July/August advanced by 1.3% (qoq), resp. 2.8% excluding cars, albeit thanks to big-ticket orders. Excluding these orders, however, the slowdown in domestic capital goods demand has even gained further momentum of late, at -2.4% (Q2: -1.3%). Moreover, the index of economic uncertainty rose sharply in Q3 (up to 206 from 172 in Q2), which tends to weigh on investment with a lag of about 3 quarters.

Monthly data for construction investment are a mixed bag. Whilst business climate and price expectations have hit one record high after another in recent months, production stagnated in the first two months of Q3 compared with Q2 and nominal sales growth also slowed, probably due to massive equipment and staff shortages. Like in the second quarter, construction investment therefore looks set to have grown only moderately, at best (+0.6% qoq).

Construction: Production bottlenecks

4



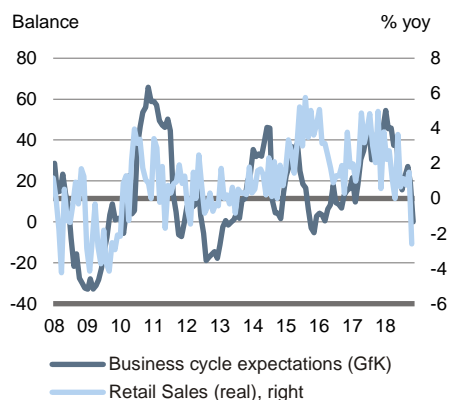
Sources: Deutsche Bundesbank, ifo

Consumption continues to be the growth driver

Consumer sentiment remains at high levels, not least thanks to the booming labour market and the strong uptick in wages. This year's wage negotiations in the private sector ought to have yielded annual increases of around 3 ½% (chemical industry) and 4 ¾% (construction) for workers in the respective sectors. That said, consumer confidence indices slipped slightly compared with the beginning of the year, possibly because the uptick in inflation to above 2% since this spring (preliminary estimate for October: 2.5%) leaves some mark on nominal income. Furthermore, growth expectations of consumers have been getting more clouded over the course of the year. At the same time, the propensity to save was up modestly in Q3, albeit from extraordinarily low levels. Third-quarter retail sales ought to have been nearly stagnant (Aug./Sep. vs Q2 - 0.6%). Despite WLTP-related high volatility, car registrations were relatively weak in Q3 (+2.2% yoy), whilst being significantly distorted to the upside due to dealer registrations. Against this backdrop, overall private consumption is unlikely to have edged up by more than a quarter of a percent.

Consumers' business cycle expectations and retail sales

5



Sources: Federal Statistical Office, GfK

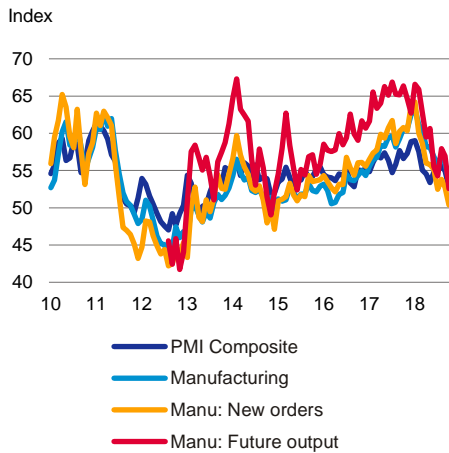
No distinct countermovement in Q4

Although the retarding WLTP effects ought to largely subside in Q4, sentiment indicators in October, at least, do not point to an overall trend reversal. The purchasing managers' index fell from 55.0 (September) to 52.7, which marks the lowest level since May 2015. Even the services sector, which still compensated weak manufacturing in September, suffered substantial losses. Slipping from 50.4 to 48.2 in manufacturing, the new orders component now indicates contraction, and output expectations were down even more sharply (from 52.6 to 48.5). By contrast, the ifo business climate declined only moderately by 0.9 points to 102.8, courtesy of new record highs in the construction sector. In manufacturing, however, the index fell more strongly by 1.9 points. Export expectations, which had regained 2.3 points since June, plummeted by 3.2 points, down to the lowest level since December 2016. According to the recent



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PMI: Weak forward-looking components **6**



Source: IHS Markit

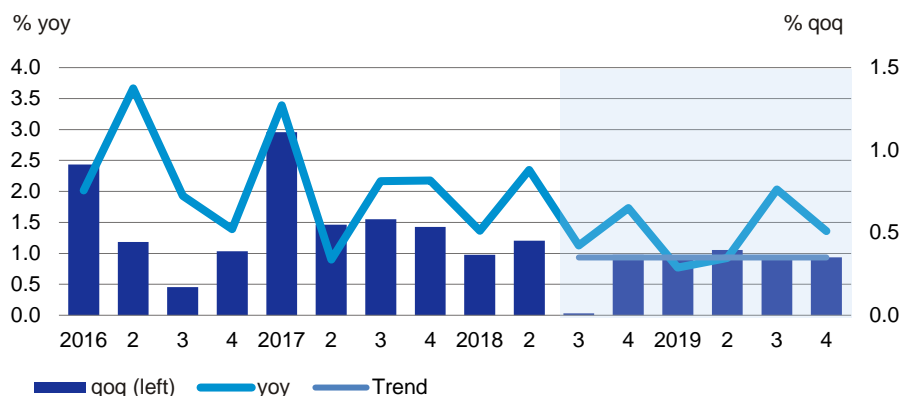
Export: leading indicators **8**



Sources: ifo, IHS Markit, CPB, EU-Commission

industry survey of the EU Commission, German companies were more downbeat as regards their competitiveness outside EMU. Plunging from 4.7 in Q3 to -1.8 in Q4, the index hit the lowest level since Q4 2009. The various indicators for export expectations are closely correlated with the companies' investment activity. In the near term, the latter is therefore unlikely to rebound sharply, the more so as capacity utilisation in manufacturing is on a steady moderate downtrend, after marking its peak of 88.0 in Q1 (Q4: 87.1). Given an only muted rebound in Q4 GDP (0.3% to 0.4% qoq), we have lowered our forecast for the current year from 1.9% to 1.6%.

GDP: Slowing towards trend **7**



Sources: Deutsche Bank Research, Federal Statistical Office

2019 Growth forecast revised down to 1.3%

As a consequence of the more clouded international backdrop, quarterly rates in 2019 are also likely to be somewhat weaker than we expected earlier. On top of that, the growth overhang for 2019 will come to only around 0.3 percentage points, as growth in H2 2018 lost steam. At an average annual rate of 1.3%, current growth will then be roughly in line with the potential rate. With the phase of over-utilisation likely to remain intact, the normalisation of core inflation will continue.

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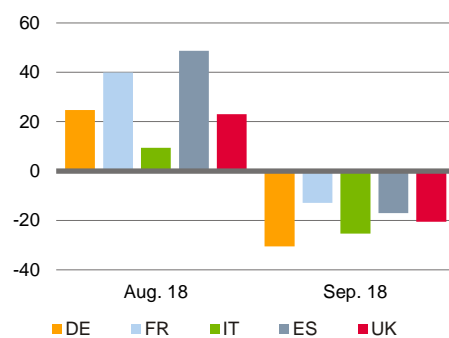
Auto industry: WLTP effect is petering out – market share of diesel cars might stabilise

- The shift to the new WLTP emissions test has led to significant output declines in the German auto industry. In Q3 2018, the sector's output index is likely to be down c. 10% qoq in real terms. Some of these losses will probably be offset in Q4. We expect the output index for the auto industry to decline by 1% in 2018 as a whole.
- Even as the WLTP test is introduced, a growing number of models comply with the new emissions standard Euro 6d-TEMP. Diesel cars which meet this standard will be exempt from potential driving bans. This means that customers may refocus on the key advantages of diesel engines over their petrol counterparts (lower consumption, lower fuel prices, higher torque). Producers might additionally fuel demand for diesel cars by offering exchange premiums, at least if these premiums exceed the usual rebates. As a result, the decline in the share of diesel cars in new car registrations might be slowed or even stopped in certain market segments.

Switch to WLTP pulled forward car demand

1

New passenger car registrations, % yoy

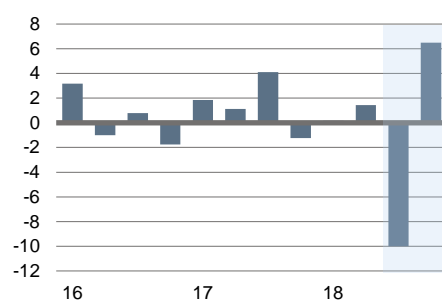


Source: ACEA

WLTP effect spoils automotive production in Q3 2018

2

Production index in German automotive industry, sa., quarterly values, % qoq



Sources: Federal Statistical Office, Deutsche Bank Research

As of September 2018, all cars newly registered in the EU must comply with the so-called Worldwide Harmonized Light Vehicles Test Procedure (WLTP). The shift to this new, more realistic emissions test has led to major turmoil in the EU and German statistics of new car registrations and car production. For example, the total number of new car registrations in the EU was up by more than 31% yoy in August (Germany: +24.7%) because registrations were brought forward. The lion's share of this jump was caused by car trader registrations, which, in Germany, were up by more than 80% yoy in that month. This led to a setback in September; in that month, the number of new car registrations declined by 23.5% yoy in the EU and by 30.5% in Germany.

Such pull-forward effects did not occur in car production, as the WLTP certification depends on the registration date and not on the production date of a car. Nevertheless, unit output in Germany declined considerably, by 32% yoy in August and by 24% in September, because numerous models had not yet undergone the WLTP test. Moreover, several carmakers decided to forego a WLTP test for those models which are near the end of their life cycles anyway and simply to stop their production until the new versions are launched. As a result, several car factories in Germany closed down for a few days. To some extent, the year-on-year decline is also due to the fact that some plants shut down for the holidays in another month than in 2017.

Significant dip in the output index

The shift to WLTP has also affected the output index for the auto industry, which includes qualitative components and suppliers. In working day-adjusted terms, the output index was down 16% yoy in real terms in August. The declines were considerably more moderate in other EU countries. France and Italy, for example, only registered declines by 1.6% yoy and 5.5% yoy, respectively, in August. The significantly more pronounced dip in Germany is largely due to the fact that a big German manufacturer reduced its domestic production particularly strongly.

WLTP effect to peter out during Q4

The September figure for the seasonally adjusted output index for the German auto industry looks set to be considerably below the level seen during the first half of the year. Overall, output is likely to be down c. 10% qoq in real terms in

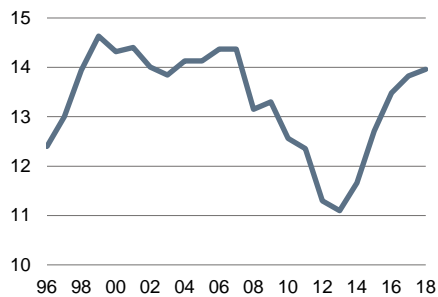


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Significant recovery since 2013, however, declining momentum of late

3

New passenger car registrations in EU-15, m



Sources: ACEA, Deutsche Bank Research

Q3 (the Statistical Office will soon release the figures for September). As the auto industry is quite important for the German economy as a whole, this will have an effect on the GDP growth figures, too (see our GDP growth article in this issue). From October, the WLTP effect is likely to peter out and the “normal” cyclical development will take over once again. We expect the output index to offset part of its Q3 losses in Q4. However, demand for cars is growing slowly or even declining in many key sales markets for German producers, which is why any economic stimulus will remain limited. We expect the output index for the auto industry to be down by 1% in real terms in 2018 as a whole. In unit terms, car production looks set to shrink by roughly 5% this year. The WLTP effect makes these forecasts less reliable, given the recent high volatility.

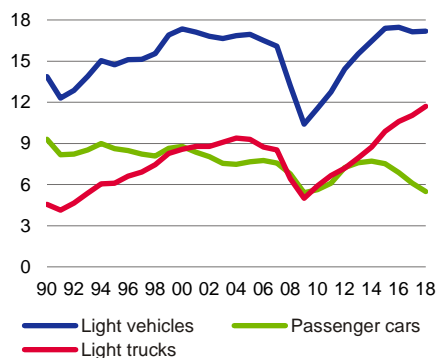
Economic environment to remain mixed in 2019

By the beginning of 2019, the shift to WLTP will have stopped weighing on the German auto industry’s output. However, major catch-up effects are unlikely as well. As of now, there are no signs that the auto industry will be impacted by a similar special effect in the coming year. Production should therefore run more smoothly than in 2018 and output is likely to rise (significantly) in year-on-year terms in Q3 2019. This statistical basis effect should have a positive impact on the result for the whole year, too.

US consumers prefer light trucks

4

US light vehicle sales, m



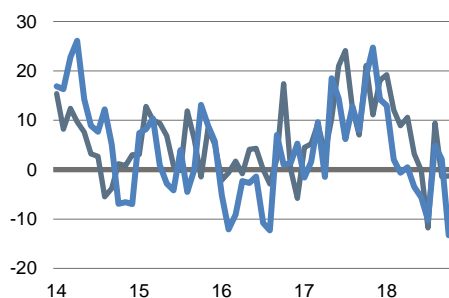
Sources: Bureau of Economic Analysis, Deutsche Bank Research

At the same time, any cyclical stimulus for the German car industry will probably be limited in 2019. Car demand in western Europe has steadily recovered in the last few years, which means that there is not much headroom left (not least because the overall economic cycle has reached the mature stage). New car registrations in the UK, for example, are set to decline in the second year in a row in 2018. To some extent, this is due to the depreciation of the pound sterling versus the euro caused by the Brexit discussions. Moreover, the US cycle is unlikely to provide a significant boost to the German auto industry either next year. Light vehicle sales (passenger cars and light trucks) are likely to trend sideways at a high level in 2019. However, customers continue to shift away from passenger cars to light trucks, i.e. a market segment where the share of German producers is lower. In China, car sales are not growing at two digit rates any more either, even though car demand might benefit from household tax cuts in the coming year. While the lion’s share of Chinese demand for German cars is satisfied by local factories, China, as the largest car market worldwide, remains an important export destination for the German auto industry, including suppliers.

Muted expectations

5

Expectations in German automotive industry, balance of pos. and neg. company reports



Source: ifo

Beyond cyclical aspects, economic and geopolitical risks (such as trade conflicts, Brexit, the fiscal debate in Italy and its effects on the euro area) give rise to concerns for the German car industry and increase uncertainty. This is evident from the declining ifo business and export expectations. Overall, car production – as measured by the output index – might rise by c. 1% in price adjusted terms in 2019.

Diesel cars might experience a renaissance

The share of diesel cars in the total number of new registrations in Germany dropped from almost 48% in 2015 (the year in which dieselgate broke) to 32% in the first nine months of 2018. Retail customers in particular have become cautious. At the same time, more and more cities are considering (regional) driving bans for certain diesel cars because of excessive nitrogen oxide concentrations. This should hamper diesel sales. However, even as the WLTP test is introduced, a growing number of petrol and diesel engines comply with the new emissions standard Euro 6d-TEMP. Diesel cars which meet this

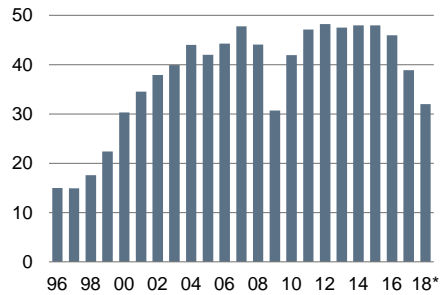


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Diesel share in Germany declines

6

Share of diesel cars in new passenger car registrations in Germany, %



* January till September

Sources: ACEA, KBA

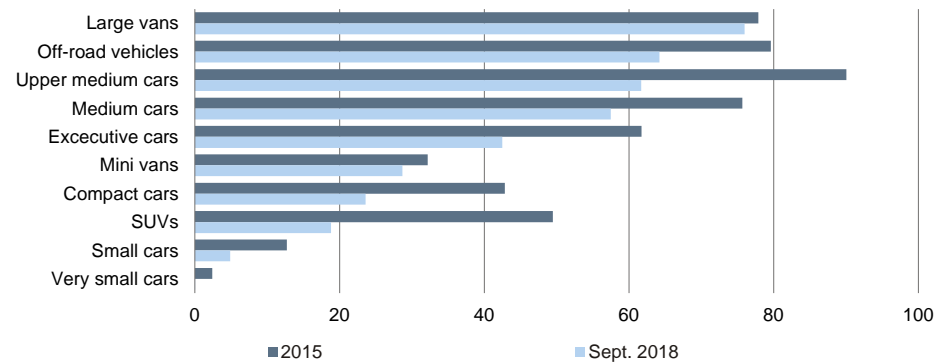
standard are and will remain exempt from potential driving bans. Even green NGOs have recently confirmed that state-of-the-art diesel cars meet or even undercut the current thresholds on the road and not just on the test stands.

This means that customers may refocus on the key advantages of diesel engines over their petrol counterparts (lower consumption, lower fuel prices, higher torque). Particularly those who drive a lot may decide to buy a diesel car once again. Producers might additionally fuel demand for diesel cars by offering exchange premiums, at least if these premiums exceed the usual rebates. As a result, the decline in the share of diesel cars in new car registrations might be slowed or even stopped in certain market segments (medium-sized and bigger cars or SUVs).

Diesel share declines in all vehicle categories

7

Share of diesel cars in all new passenger car registrations in Germany by vehicle segment, %



Source: KBA

Still, the share of diesel engines among small and compact cars will probably decline further. In these segments, the higher production costs necessary to comply with the emission thresholds on the road will affect the final sales price to a larger extent than in the premium segment. In addition, several manufacturers have announced that they plan to stop offering diesel engines for certain models or, in the medium term, their whole fleet. Still, the diesel engine is unlikely to die out any time soon. Quite apart from this issue, the auto industry will continue to research and develop electric vehicles, not least due to the strict CO₂ emissions limits for new cars. Complying with these limits will be a much larger structural challenge than the shift to WLTP, as demand for electric vehicles currently depends to a large extent on subsidies.

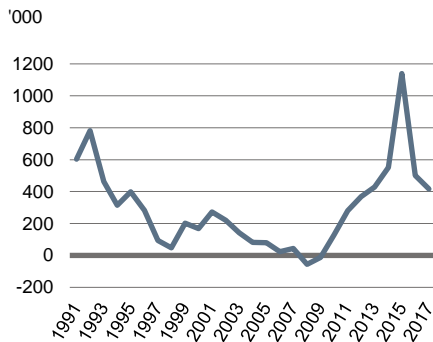
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Labour migration: good arguments for new legislation

Germany: net migration 1991 to 2017

1



Source: Federal Statistical Office

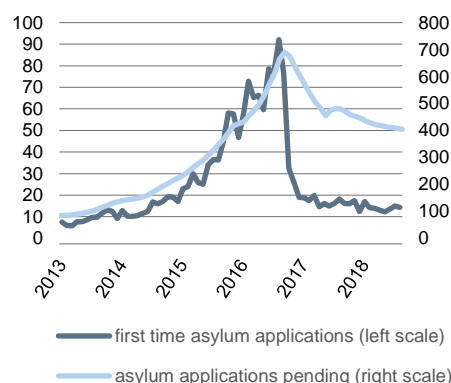
Asylum policy has certainly been the predominant domestic policy issue in recent months. However, there has been another important development in migration policy: the GroKo presented a “key issues paper” on qualified labour migration from third countries at the beginning of October. This is an important step towards a “qualified labour immigration act”, which was mentioned in the coalition agreement as one of the current government’s goals. In addition, the paper shows that the three parties plan to focus their migration policy efforts increasingly on (potential) workers.

In fact, much remains to be done on this issue. While Germany has been an immigration country for many years now, it is still lacking a consistent migration policy which takes into account labour market requirements. There are good reasons to change course. Immigration is trending downwards, both from EU member states and third countries. So far, efforts to channel or encourage labour market immigration from third countries have often been fragmentary. And, above all, the growing lack of qualified labour suggests that it makes sense to focus on the immigration of qualified workers.

Asylum applications in Germany

2

First time asylum applications (monthly data), applications pending (end of resp month), '000



Source: Eurostat

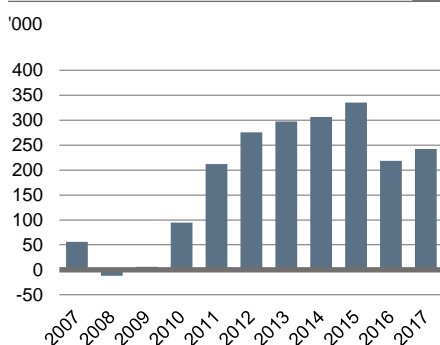
Slowing immigration momentum

Net immigration, i.e. the difference between inward and outward migration, peaked in 2015, at almost 1.14 million. This was, in fact, the highest level since the German unification. However, it declined considerably in the past two years, to 0.5 million in 2016 and 416,000 in 2017. During the first half of the current decade (i.e. between 2010 and 2014), net immigration averaged 351,000 persons per year.

Refugees make up an important share of this total, as is evident from the number of asylum applications. However, the figures reflect refugee arrivals in 2015 and 2016 only with a certain delay, as back then refugees often filed (or could file) an asylum application only several weeks after their arrival. In 2016, c. 722,000 initial asylum applications were filed. This figure dropped to 198,000 in 2017 and 124,000 in the first nine months of the current year, largely due to national and European measures to limit immigration. The EU-Turkey agreement and the closure of the “Balkan route” in south-eastern EU countries play an important role in this regard. Since there seems to be a consensus at both the German and the EU level that asylum policy should become more restrictive, it is unlikely that the number of asylum applications rises again in the foreseeable future.

Net migration from EU countries into Germany

3



Sources: Federal Statistical Office, Deutsche Bank Research

Apart from refugees, migrants from other EU member states are the second largest group of immigrants. While a remarkably large number of EU citizens came to Germany in the last few years, inflows from this source have recently declined. In 2008, more Germans emigrated to other EU countries than vice versa. By 2015, this had changed and net immigration from other EU countries peaked at 335,000. It declined to 218,000 in 2016. While net immigration from other EU countries rose slightly again in 2017, to 242,000, the figure was still about one-quarter (28%) below that of 2015. Two main trends are behind these developments: 1. Immigration from southern Europe due to the euro crisis. 2. Immigration from central Europe, particularly from Poland, Romania, Bulgaria and recently Croatia, once these countries were granted the full freedom of movement for workers. A number of signs suggest that immigration from these two groups of countries has peaked as well. In southern Europe, for example in Spain or Portugal, job opportunities for qualified workers in particular have improved considerably. (In Spain unemployment dropped to 14.55% in Q3



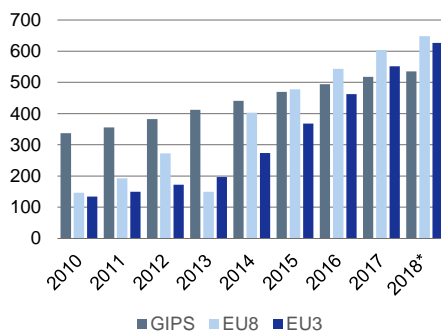
2019: Only 1.3% GDP growth, snap elections a distinct possibility

2018, i.e. its lowest level since the end of 2008.) Central and eastern Europe have seen so many qualified workers move away in the last few years that they are experiencing a lack of qualified labour, for example of doctors, engineers or IT specialists. Migration has therefore increasingly come under criticism. In addition, the labour pool in southern and, above all, in central and eastern Europe is drying up because birth rates have been low for some time now.

Employed persons from southern and central European EU countries*

4

Employees subject to social security taxes, '000



* GIPS: Greece, Italy, Portugal, Spain; EU8: Estonia, Latvia, Lithuania, Poland, Slovakia, Czech Republic, Hungary; EU3: Bulgaria, Romania, Croatia, ** Jan. to Aug.

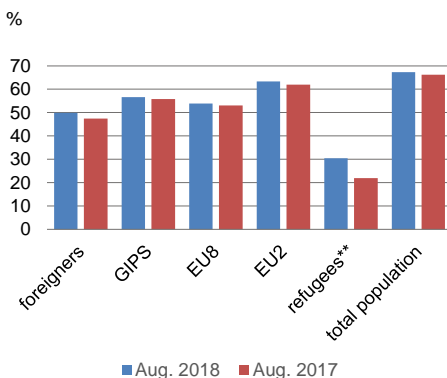
Source: Federal Employment Agency

Migration from other EU member states plays an important role for the labour market

The labour market is still benefiting from the immigration seen in the last few years. Immigration from other EU member states in particular has supported the German labour market. 90% of EU immigrants are of working age, i.e. between 16 and 64 (as of 2017). There are numerous signs that most of them are well integrated into the German labour market. In fact, the number of workers from the southern European GIPS countries has risen by 212,000, or 53%, between August 2010 and August 2018, to 615,100. And the number of workers from central and eastern European countries (excluding Croatia) has more than quadrupled, if from a lower starting level (+1,028,000, to 1.314 million). In addition, a larger share of those EU citizens who live in Germany and are aged between 15 and 64 is gainfully employed (GIPS: +0.9 pp yoy, to 56.7% in August 2018; EU2 (Romania and Bulgaria): +1.4 pp, to 63.4%; this compares to 49.9% for all foreigners and 67.3 for the population as a whole). The respective shares of those who receive social security benefits ("Hartz IV") are declining at the same time.

Selected population groups' employment rates*

5



* Employed persons (including mini jobs) as percentage of the respective countries nationals (aged 15 to 64) living in Germany. ** People from Afghanistan, Eritrea, Pakistan, Iraq, Iran, Nigeria, Somalia, Syria

Source: BAMF

Labour market integration of refugees a challenge, but ...

The labour market integration of refugees is another matter. According to the Institute for Employment Research (Institut für Arbeitsmarkt und Berufsforschung, IAB) at Nuremberg, a lower level of education and institutional hurdles are the two main difficulties. There are significant differences between the refugees in terms of education. While, according to a survey conducted in 2016, 40% of the men have attended secondary schools, 12% have only gone to primary school and 13% have not gone to school at all. In addition, roughly three-quarters have no (vocational) training. Language skills, or rather the lack of language skills, are another hurdle. The authorities have launched integration courses in order to improve the conditions for integration. In 2017, 154,000 new immigrants (most of them refugees) got a place in an integration course (2016: 225,000). Moreover, an increasing number of places reserved for Hartz IV recipients is allocated to refugees (the total number of such places added up to 98,000 in 2017).

Many refugees are allowed to work after (short) waiting periods and, in most cases, after having attended an integration course or other qualification measures. This applies in particular to recognised asylum seekers (602,500 at the end of 2017). They are on an equal footing with Germans in terms of labour market access. Any family members who join them in Germany also have unlimited access to the labour market, at least in principle.

The situation is more complicated for asylum seekers whose application is still pending and for those whose deportation has been suspended (Geduldete). These groups need a special permission by the foreigners authority if they want to work. As a rule, the foreigners authority has to get the approval of the Federal Employment Agency. This approval is not necessary if the foreigners start vocational training or have been resident in Germany for at least four years. In addition, people from these two groups are not allowed to start their own



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business. Refugees from safe countries of origin who have filed their asylum application after 31 August 2015 do not have access to the labour market at all.

A major problem for (potential) employers of persons whose deportation has been suspended is that their employees may be obliged to return to their home countries at any time. This creates uncertainty and reduces the refugees' chances of finding a job. In particular, there are no incentives for companies to invest in the training of people whose deportation has been suspended. That is why policymakers have recently discussed giving persons whose deportation has been suspended and who are gainfully employed the opportunity to change their residence status, from an asylum-based to an employment-based status. The key issues paper mentioned above says that the government plans to define clear criteria under residence law to provide those who secure their livelihood by work and are well integrated with a reliable residence status. However, it is still unclear what the criteria will look like. According to Professor Brücker, a labour market expert at IAB, this will apply only to a limited number of refugees (c. 40,000 – 50,000; Deutschlandfunk, 1 October 2018).

... there is discernible progress

Overall, however, the labour market integration of refugees has made progress. A recent study by the German Institute for Economic Research (DIW) found that those who have recently come to Germany are integrated roughly within the same timeframe as earlier immigrants. Three years after their arrival in Germany, about half of the men and one-quarter of the women have gained initial labour experience in Germany.¹ This is in line with the results of an IAB analysis, according to which the labour market integration of refugees from the most important countries of origin outside Europe has recently improved considerably. By now, 28% of those who have come to Germany after the end of 2014 are gainfully employed. Overall, 346,000 persons from war-torn and crisis countries were gainfully employed in August 2018; 206,000 others were registered as unemployed (October: 191,400), and 993,700 received social security benefits (as of July).

Labour migration from third countries plays an insignificant role

While many refugees are gradually getting access to the labour market, it is not the purpose of asylum law to regulate the labour-market access of third-country nationals. There are other instruments available for this purpose, in particular the Act on the Residence, Economic Activity and Integration of Foreigners in the Federal Territory (Residence Act), which lists the relevant types of residence titles. With regard to labour migration the most important of them is the residence permit for the purpose of employment (including the permit for qualified skilled workers seeking employment) (Sections 18 – 22 of the Residence Act).

Out of 545,000 foreigners registered as new arrivals from third countries in the Central Register of Foreigners in 2017, only 61,000 (11.2%) were granted a residence permit for the purpose of employment. The total of 61,000 included c. 25,700 qualified workers, 900 researchers and 9,652 Blue Card EU holders. (The Blue Card EU is issued to university graduates who have been offered a job with a gross income of at least EUR 52,000 p.a. (or EUR 40,500 in case of a profession that is on the shortage occupation list)).

To some extent, residence for educational purposes may be regarded as a preparatory stage of labour migration. Residence permits for educational or (vocational) training purposes were granted to 53,300 third-country nationals in 2017, with roughly 44,600 of them coming for Germany for the purpose of



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studying at university. One-fifth of these immigrants were Chinese. They formed the biggest group, followed by Indians (7.5%).

Plans to adopt a “qualified labour immigration act” – limited amendments to current immigration legislation

The relatively small number of qualified workers who entered Germany for employment purposes shows why action is needed. The government plans to adopt a new “qualified labour immigration act”. However, any material changes to current legislation look set to be minor. Several restrictions are to be abolished. In principle, qualified workers from third countries shall be allowed to work in all occupations they are qualified for, not just in occupations included on the official shortage occupation list. In addition, the obligatory “priority check” is to be abolished. Under current law, third-country nationals are only allowed to take a job if a check shows that no (suitable) applicants from Germany or other EU member states are available. Still, the priority check will remain in place or be reintroduced in regions with high unemployment. According to the key issues paper, “qualified workers” are university graduates or workers who have completed their vocational training.

The recognition of qualifications is another important issue. The government plans to make the procedures more efficient and offer more support, for example better advice to applicants. However, the Groko intends to maintain the recognition standards, which means that any qualifications obtained abroad need to meet domestic standards. The goal is to ensure professional quality. However, labour market experts regard this requirement as a major hurdle for the immigration of qualified workers and have called for a less restrictive handling of the recognition of qualifications obtained abroad. One option could be to differentiate between different fields of work while making sure that recognition practices do not become overly complex and opaque.

In addition, it makes sense that the government, jointly with the business sector, plans to expand and improve advertising and marketing strategies. Joint efforts by all stakeholders can help to improve Germany’s position in the global competition for qualified labour.

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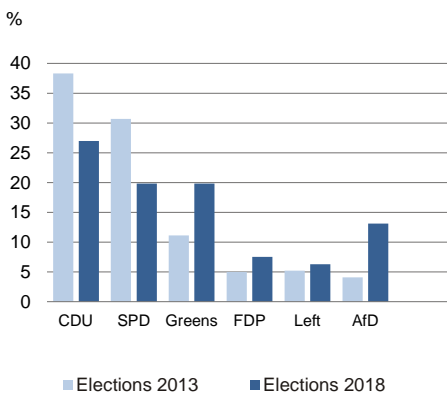


The view from Berlin

The race for Merkel's succession is on

Election results Hesse

1



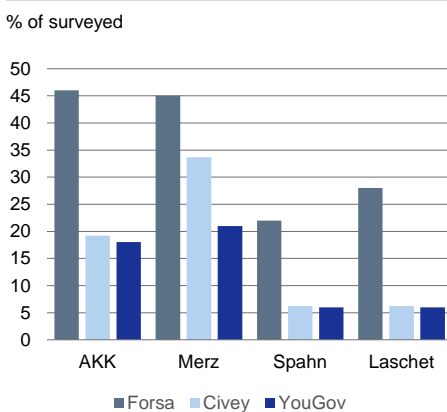
Source: Wahlrecht.de

Following heavy losses in the Hesse election Chancellor Merkel declared not to run again for CDU party leadership at the December party convention. The Chancellor added to end her political career in 2021, i.e. at the end of her present term. She thus also scotched all (former) speculations about her taking a position in Brussels. While she intends to stay in office for the rest of this term, it is open whether circumstances will permit it. Her party's severe defeats have curtailed her power base. Thus, there are growing doubts that she will remain in control of the developments in her party. A structured process for passing on the party leadership would have looked different.

The fight for the party leadership will be intense, since it will imply a more fundamental decision about the CDU's future direction and its next candidate for chancellor and quite likely for the question of whether Merkel will really fulfil her whole term as Chancellor. Candidates from different wings have already thrown their hats in the ring. Merkel's camp seems to favour Annegret Kramp-Karrenbauer (acronym: AKK), the party secretary. From the present point of view, it seems unlikely that AKK would challenge Merkel as Chancellor as long as Merkel wants to stay. If Merkel decides to leave office before her term ends, AKK could succeed Merkel as Chancellor, too, at least the SPD seems unlikely to refuse such an option which would hardly trigger a new CDU policy approach. From a German and EU stability perspective AKK seems to be the safest option. It would maintain the CDU with the largest number of options for coalition partners (Greens, FDP and SPD) and suggest that little will change regarding Germany's EMU and EU positions.

Who should follow Merkel as CDU party leader?

2



Sources: RTL, Spiegel Online, Handelsblatt

On the other hand, it might be exactly this prevalence of the status quo, which provides chances for other candidates. Jens Spahn, the Federal Minister of Health, and the CDU's conservative youngster's frontman, also declared to run. Surprisingly Friedrich Merz, the CDU's former party whip who was side-lined by Merkel in 2004 but still has a high reputation in the CDU and beyond has thrown his hat into the ring, too. Representatives of the CDU business wing immediately welcomed his decision. They expect that the liberal business-oriented Merz will press for reforms to enhance the competitiveness of Germany as a production location. With regard to E(M)U policy Merz who was MEP from 1989 to 1994 demands to focus on key issues, especially cooperation on internal and external security and the stabilisation of the euro but not on the harmonisation of the social security schemes, e.g. (FAZ, 28.12.2017). Recently, Merz together with other former German politicians and intellectuals of different political colour co-signed an appeal expressing their deep concerns about the future of Europe and Germany including the demand for "German readiness to make higher financial contributions". While this request lacks specification, given the appeal's often vague statements on major issues, it does not suggest that Merz would bring about a fundamental change in Germany's EU stance.

Merz's appearance could trigger a new, previously unexpected dynamic in the process of Merkel's succession as CDU leader as well as Chancellor which Merkel intended to accomplish stepwise. Merz could become the messiah the CDU is craving for to lead it out of the current mess. However, if the CDU elected Merz as their new leader this would clearly signal its demand for major political changes. Under such a scenario the Groko' end seems to be a question of a few months, only.

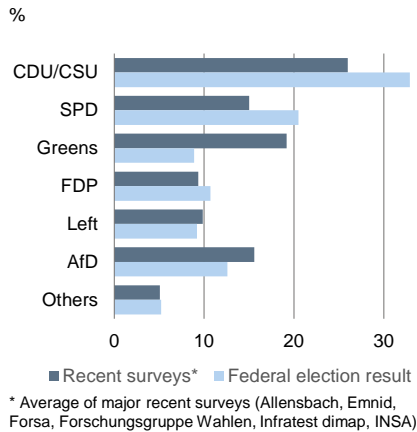
The media continue speculating that Armin Laschet could run, too. Albeit he declared not to run for the time being and under present circumstances, this might happen if the contest among the candidates who came out of the woods



2019: Only 1.3% GDP growth, snap elections a distinct possibility

Major political parties' popularity & result of the past federal election

3



Source: Wahlrecht.de (October 29)

early, especially among Kramp-Karrenbauer and Merz, threatened to polarise the CDU too much. Laschet is said to be part of Merkel's camp, too, but he could put his authority as the PM of Germany's by far most populous state in the balance, a state he and the CDU rule together with the FDP.

The CDU will most likely not only face intensified personal debates but also about the party's positioning in political issues. The dilemma: In Hesse the CDU – as the CSU in Bavaria – nearly lost the same amount of votes to the Greens and to the AfD. So a mere conservative reorientation is unlikely to do the trick. More important: Such a policy shift would make future coalitions with the Greens more difficult – the only option left for the CDU if the SPD decides to call it quits.

Although "Merkel twilight" has dominated the news, the SPD should not be overlooked. SPD grandees have frequently asked the CDU/CSU to stop their internal bickering (on asylum policy) and to focus on issue-oriented work instead. SPD leader Nahles wants an agreement on key points on which the SPD can base the mid-term review on whether to stay in the Groko. However, it is hard to see what the SPD could realistically ask for beyond what is stated in the coalition treaty. Of course, Nahles and the SPD wanted to push these key points to leverage their "Sozialstaat 2025" project and to finally get some recognition for their social policy intentions. However, chances are that the CDU's leadership battle will dominate the public debate leaving little attention for the SPD's pet project. That Finance Minister Scholz has now subscribed the left camp's request for a EUR 12 minimum wage (at present EUR 8.84, in 2019 EUR 9.19) demonstrates that the SPD will be prepared for all options.

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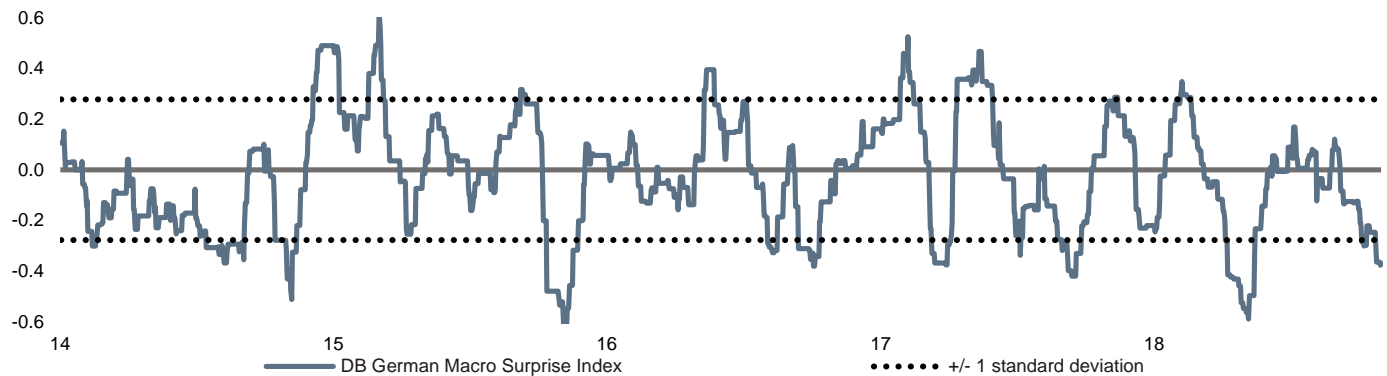
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DB German Macro Surprise Index

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
GRUECHNG Index	Unemployment Change (000's mom)	9 2018	28.09.2018	-23.0	-9.0	14.0	0.0	0.7
MPMIDEMA Index	Markit Manufacturing PMI	9 2018	01.10.2018	53.7	53.7	0.0	0.0	0.4
GRFRIAMM Index	Retail Sales (% mom)	8 2018	01.10.2018	-0.3	0.5	-0.8	-0.4	0.3
MPMIDESA Index	Markit Services PMI	9 2018	03.10.2018	55.9	56.5	-0.6	-0.7	0.2
GRIORTMM Index	Factory Orders (% mom)	8 2018	05.10.2018	2.0	0.8	1.2	0.5	0.7
GRIPIMOM Index	Industrial production (% mom)	8 2018	08.10.2018	-0.3	0.3	-0.6	-0.4	0.3
GRBTIMMM Index	Imports (% mom)	8 2018	09.10.2018	-2.4	-0.1	-2.3	-1.0	0.1
GRTBALE Index	Trade Balance (EUR bn)	8 2018	09.10.2018	17.1	16.2	0.9	0.2	0.5
GRCAEU Index	Current Account Balance (EUR bn)	8 2018	09.10.2018	15.3	16.2	-0.9	-0.6	0.3
GRBTEXMM Index	Exports (% mom)	8 2018	09.10.2018	0.1	0.4	-0.3	-0.2	0.4
GRCP20YY Index	CPI (% yoy)	9 2018	12.10.2018	2.3	2.3	0.0	0.2	0.3
GRZEWI Index	ZEW Survey Expectations	10 2018	16.10.2018	-24.7	-12.0	-12.7	-1.6	0.1
GRIMP95Y Index	Import Price Index (% yoy)	8 2018	16.10.2018	4.8	5.2	-0.4	-0.7	0.2
GRZECURR Index	ZEW Survey Current Situation	10 2018	16.10.2018	70.1	74.4	-4.3	-0.8	0.1
MPMIDESA Index	Markit Services PMI	10 2018	24.10.2018	53.6	55.5	-1.9	-2.2	0.0
MPMIDEMA Index	Markit Manufacturing PMI	10 2018	24.10.2018	52.3	52.3	0.0	0.0	0.4
GRIFPBUS Index	IFO Business Climate	10 2018	25.10.2018	102.8	103.2	-0.4	-0.9	0.2
GRUECHNG Index	Unemployment Change (000's mom)	10 2018	30.10.2018	-11.0	-11.5	-0.5	-0.2	0.4
GRCP20YY Index	CPI (% yoy)	10 2018	30.10.2018	2.5	2.4	0.1	0.9	0.8
GRFRIAMM Index	Retail Sales (% mom)	9 2018	31.10.2018	0.1	0.5	-0.4	-0.1	0.4

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.



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

Date	Event	Remarks
5 Nov	Eurogroup and ECOFIN meeting, Brussels	Thematic discussion on growth and jobs – financial stability in the EMU; Banking Union – euro area aspects, (poss.) Debrief of the G7 meeting; (poss.) Greece – post programme framework.
30 Nov- 1 Dec	G20 meeting, Buenos Aires	Apart from debates on the global economy, on development issues and on the international tax system, debates on international trade will likely dominate the agenda. US President Trump's meeting with the Chinese President Xi Jinping will attract special attention.
3-4 Dec	Eurogroup and ECOFIN meeting, Brussels	Assessment of euro area Member States' Draft Budgetary Plans and of the euro area budgetary situation and prospects, (poss.) Implications of the Commission services' autumn 2018 forecast for fiscal surveillance; implementation of the Stability and Growth Pact, Excessive Deficit Procedures for euro area countries, Eurogroup Work Programme H1 2019, among others.
6-8 Dec	CDU party convention, Hamburg	Given Chancellor Merkel's announcement not to run again as party leader, public attention will all the more focus on the party leadership elections, as these elections will likely prejudice the CDU's decision on the party's next candidate for chancellor. Three big shots have declared to run.
13 Dec	ECB Governing Council meeting, press conference	The ECB is expected to comment on the assessment of potential downside risks to economic growth. In the absence of major risk factors materialising to any great extent (Italy crisis, Brexit, trade war), the macro picture is likely to remain consistent with policy rate liftoff within 12-18 months. Given the current flow of data, some downward revisions to the ECB growth and inflation projections are likely. We expect there will be sufficient trust in the outlook for inflation for the ECB to announce the end of QE in December 2018. We expect a 15bp deposit rate hike in Sep 2019 (refi rate unchanged), followed by a simultaneous 25bp hike of the deposit and refi rates in March 2020.
13-14 Dec	European Council meeting, Brussels	Major issues are an euro area reforms review including banking union, debates on Brexit, global trade and (the prolongation of) the Russia sanctions.

Source: Deutsche Bank Research

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2019: Only 1.3% GDP growth, snap elections a distinct possibility

Germany: Data calendar

Date	Time	Data	Reporting period	DB forecast	Last value
6 Nov 2018	8:00	New orders manufacturing (% mom, sa)	September	0.4	2.0
7 Nov 2018	8:00	Industrial production (% mom, sa)	September	0.6	-0.1
8 Nov 2018	8:00	Trade balance (EUR bn, sa)	September	16.5	18.2
8 Nov 2018	8:00	Merchandise exports (% mom, sa)	September	-1.3	0.1
8 Nov 2018	8:00	Merchandise imports (% mom, sa)	September	0.6	-2.7
14 Nov 2018	8:00	Real GDP (% qoq)	Q3 2018	0.0	0.4
23 Nov 2018	8:00	Real GDP (% qoq) - Details	Q3 2018	0.0	0.4
23 Nov 2018	9:30	Manufacturing PMI (Flash)	November	52.0	52.3
23 Nov 2018	9:30	Services PMI (Flash)	November	53.5	53.6
26 Nov 2018	10:00	ifo business climate (Index, sa)	November	102.3	102.8
29 Nov 2018	9:55	Unemployment rate (% sa)	November	5.1	5.1
29 Nov 2018	14:00	Consumer prices preliminary (% yoy, nsa)	November	2.3	2.5
30 Nov 2018	8:00	Retail sales (% mom, sa)*	October	0.5	0.1

*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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2019: Only 1.3% GDP growth, snap elections a distinct possibility

Financial Forecasts

	US	JP	EMU	GB	CH	SE	DK	NO	PL	HU	CZ
Key interest rate, %											
Current	2.125	-0.10	0.00	0.75	-0.75	-0.50	0.05	0.75	1.50	0.16	1.50
Dec 18	2.375	-0.10	0.00	0.75	-0.75	-0.50	0.05	0.50	1.50	0.30	1.75
Mar 19	2.625	-0.10	0.00	0.75	-0.75	-0.25	0.05	0.75	1.50	0.50	1.75
Jun 19	2.875	-0.10	0.00	0.75					1.50	0.85	2.00

3M interest rates, %

Current	2.54	0.05	-0.32	0.82
Dec 18	2.73	0.05	-0.32	0.80
Mar 19	2.93	0.05	-0.32	0.80
Jun 19	3.18	0.05	-0.29	0.90

10Y government bonds yields, %

Current	3.17	0.13	0.38	1.36
Dec 18	3.50	0.10	0.70	1.55
Mar 19	3.70	0.10	0.78	1.70
Jun 19	3.75	0.10	0.91	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	1.13	112.89	0.89	1.28	1.14	10.37	7.46	9.55	4.32	325.10	25.92
Dec 18	1.13	108.00	0.82	1.38	1.12	10.70	7.46	9.40	4.30	325.00	25.40
Mar 19	1.19	105.50	0.84	1.41	1.14	10.50		9.30	4.33	330.00	25.20
Jun 19	1.25	103.00	0.87	1.44	1.15	10.30		9.20	4.35	335.00	25.00

Sources: Bloomberg Finance LP, Deutsche Bank Research



2019: Only 1.3% GDP growth, snap elections a distinct possibility

German data monitor

	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	May 2018	Jun 2018	Jul 2018	Aug 2018	Sep 2018	Oct 2018
Business surveys and output											
Aggregate											
Ifo business climate	105.0	104.4	102.3	103.1		102.5	102.0	101.8	103.9	103.7	102.8
Ifo business expectations	103.0	100.7	98.6	100.1		98.7	98.5	98.2	101.1	100.9	99.8
Industry											
Ifo manufacturing	108.9	107.9	104.9	104.5		105.0	104.6	104.1	104.9	104.4	102.5
Headline IP (% pop)	0.9	0.2	0.6			2.4	-0.7	-1.9	-0.1		
Orders (% pop)	3.4	-2.3	-1.6			2.3	-3.9	-0.9	2.0		
Capacity Utilisation	87.7	88.2	87.8	87.8	87.1						
Construction											
Output (% pop)	-1.7	1.0	6.5			3.5	-3.3	0.9	-2.6		
Orders (% pop)	10.0	-1.9	-3.8			3.5	-3.8	2.5	-1.2		
Ifo construction	110.6	110.1	111.5	116.6		111.7	111.4	115.5	116.6	117.6	118.1
Consumer demand											
EC consumer survey	5.5	6.7	5.5	4.5		5.9	4.6	4.5	4.4	4.5	3.5
Retail sales (% pop)	0.5	-0.3	1.5	-1.0		-1.4	1.1	-1.1	-0.3	0.1	
New car reg. (% yoy)	4.2	4.0	1.9	1.2		-5.8	4.2	12.3	24.7	-30.5	
Foreign sector											
Foreign orders (% pop)	4.9	-2.2	-1.4			1.4	-4.8	-3.3	5.8		
Exports (% pop)	2.4	-0.2	1.1			1.7	0.1	-0.8	0.1		
Imports (% pop)	2.8	0.0	2.5			0.6	1.8	2.8	-2.7		
Net trade (sa EUR bn)	64.2	62.5	59.7			20.8	19.3	15.8	18.2		
Labour market											
Unemployment rate (%)	5.5	5.4	5.2	5.2		5.2	5.2	5.2	5.2	5.1	5.1
Change in unemployment (k)	-53.7	-68.3	-39.7	-34.7		-12.0	-14.0	-7.0	-10.0	-23.0	-12.0
Employment (% yoy)	1.3	1.4	1.3			1.3	1.3	1.3	1.3		
Ifo employment barometer	104.0	104.7	103.8	104.7		104.2	104.0	104.1	105.1	104.8	104.6
Prices, wages and costs											
Prices											
Harmonised CPI (% yoy)	1.6	1.4	1.9	2.1		2.2	2.1	2.1	1.9	2.2	2.4
Core HICP (% yoy)	1.3	1.3	1.2	1.2		1.5	1.1	1.2	1.1	1.2	1.5
Harmonised PPI (% yoy)	2.5	2.0	2.6			2.7	3.0	3.0			
Commodities, ex. Energy (% yoy)	-5.6	-12.4	2.6	-0.5		5.9	9.2	0.9	-0.2	-2.1	
Crude oil, Brent (USD/bbl)	61.5	66.9	74.5	75.1		76.9	74.4	74.3	72.5	78.9	81.1
Inflation expectations											
EC household survey	16.0	16.4	17.3	21.4		16.8	19.9	20.7	21.9	21.5	21.5
EC industrial survey	14.2	15.0	13.8	15.8		12.1	14.6	15.1	15.9	16.5	14.4
Unit labour cost (% yoy)											
Unit labour cost	1.2	2.5	1.8								
Compensation	2.5	2.8	3.0								
Hourly labour costs	2.6	3.5	1.4								
Money (% yoy)											
M3	4.3	3.3	3.6	4.1		4.2	3.6	3.8	3.5	4.1	
M3 trend (3m cma)						3.3	3.7	3.8	3.9	3.6	3.8
Credit - private	4.2	4.3	4.3	4.3		4.1	4.3	4.2	4.1	0.0	
Credit - public	-2.9	-20.0	-7.0			-8.8	-7.0	-5.8	0.5		

% pop = % change this period over previous period.

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



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