

ECONOMIC RESEARCH & CORPORATE DEVELOPMENT

# Economic Snapshot

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Germany: Emerging from the woods

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## GERMANY: EMERGING FROM THE WOODS

The German economy managed to turn the corner in the second quarter of 2009. Following the severest economic collapse in the history of the Federal Republic, which saw gross domestic product shrink by 6.7% from the first quarter of 2008 to the first quarter of 2009, in the second three months of this year the economy returned to slight expansion.

In the second quarter private consumption, government spending, construction investment and, above all, net exports contributed to this growth. There was another marginal dip in machinery and equipment investment. However, what severely depressed economic performance was destocking, which made a negative contribution to growth of -1.9%. Had stocks not been run down so massively, the economy would have bounced back by a remarkable 2.2% versus the first quarter. Companies evidently sold far more goods than they produced. But with inventories (finished goods and intermediates) now much lower, it is hardly likely that destocking will continue on any scale of note, meaning that in the second half of 2009 the brake will be released on what has so far been the most serious check to Germany's economic comeback.

## German economic growth



In the first half of 2009 the economic crisis did not suck consumer spending into its vortex. This is all the more surprising in view of the marked deterioration on the jobs market, with incomes being lost as a result of short-time working as well as cutbacks in overtime and variable salary components. Aggregate net wages and salaries in the first half of 2009 were more than 1% below their level in the same period of the previous year. Investment income and income from self employment and entrepreneurial activity dropped even more sharply, by 2.2%. This was balanced by the steep 7.5% rise in welfare benefits, bringing disposable incomes up to their year-earlier level. With falling inflation boosting purchasing power and a lower savings rate in the second quarter, private consumption in the course of the first six months of this year increased by around 1¼% in real terms; but in comparison to the first half of 2008 it edged up by a minuscule 0.2%.

That German consumers are in more of a buying mood has certainly been encouraged by the car scrappage incentive scheme. Crucial to the further development of retail demand is that prices hold steady and the situation on the labor market does not worsen beyond what is already expected.

Although Germany's jobs market is in steep descent, relative to the cliff-edge collapse in production the rise in unemployment is still moderate. So far the government's short-time work schemes that subsidize companies to keep workers on their books have kept a fairly tight lid on joblessness. But in the coming months unemployment figures will head sharply north despite the "green shoots" of economic recovery. In the course of 2009 the (seasonally adjusted) number of people out of work is likely to climb by around 500,000. We expect a figure of between 3.7 and 3.8 million at the end of the year. Then at the beginning of 2010 the (unadjusted) statistic could pass the 4 million mark. Unlike past trends, the jobless rate in Germany is now lower than the European average (June 2009: EU 8.9%, EMU 9.4%, Germany 7.7%, France 9.4%).

Stabilization of the financial markets, extremely expansive monetary policy, the big economic stimulus packages and the recovery in world trade now point to the likelihood of a powerful economic rebound for Germany in the second half of this year. We are reckoning with quarter-on-quarter GDP growth rates of between 1½ and 2%. The boost from the government's two economic packages is likely to peak in the second half-year. However, the strength of Germany's economic bounceback will presumably depend even more on exports. By June new orders from abroad had already accelerated 19% versus their trough in February. For the second half of 2009 we see German exports jumping by around 5% from one quarter to the next. But this would still leave exports in the fourth quarter of 2009 a good 10% below their level in the third quarter of 2008.

Germany: Economic indicators and forecast*																
		2008				2009				2010				2008	2009f	2010f
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP real		1.6	-0.6	-0.3	-2.4	-3.5	0.3	1.8	1.7	0.0	0.1	0.3	0.3	1.3	-4.1	2.7
Private consumption		0.4	-0.6	0.3	-0.4	0.6	0.7	0.2	0.1	-0.4	0.3	0.1	0.2	0.2	1.0	0.3
Government spending		1.0	0.7	0.1	0.6	1.1	0.4	0.4	0.4	0.8	0.5	0.3	0.3	2.0	2.4	2.0
Investment in machinery/equipment		-0.6	-0.8	1.5	-3.7	-18.5	-0.5	0.0	2.0	3.0	2.0	2.0	1.0	2.6	-20.2	7.3
Construction		5.9	-4.3	-0.4	-1.0	0.2	1.4	1.0	1.0	-0.5	0.5	0.5	0.5	1.8	0.0	1.9
Domestic demand		2.3	-1.3	1.2	-0.4	-1.0	-1.3	0.7	0.6	-0.1	0.4	0.3	0.3	1.5	-1.5	0.9
Exports		1.7	0.2	-0.1	-7.9	-10.5	-1.2	5.0	5.0	0.7	0.5	0.8	1.2	2.4	-13.5	7.8
Imports		3.3	-1.5	3.4	-4.2	-5.3	-5.1	3.0	3.0	0.6	1.2	1.0	1.3	3.9	-8.7	4.8
Industrial production (excl. construction)		1.1	-0.8	-1.1	-7.1	-12.6	-1.1	6.0	4.3	0.8	0.5	0.6	0.6	0.3	-15.2	7.9
Unemployment rate (EU def.)	%	7.6	7.4	7.2	7.1	7.3	7.7	7.9	8.4	8.6	8.7	8.8	8.8	7.3	7.8	8.7
Unemployment rate (nat. def.)	%	8.1	7.8	7.7	7.6	8.0	8.3	8.5	9.1	9.3	9.4	9.5	9.5	7.8	8.5	9.4
Employed persons (national def.)	y-o-y	1.6	1.5	1.4	1.1	0.4	-0.1	-0.7	-1.4	-1.4	-1.1	-0.4	0.2	1.4	-0.4	-0.7
Consumer prices	y-o-y	2.9	2.9	3.1	1.7	0.8	0.3	-0.2	0.5	0.9	1.1	1.1	1.2	2.6	0.3	1.1
Consumer prices (HICP)	y-o-y	3.1	3.0	3.3	1.7	0.8	0.2	-0.2	0.6	1.0	1.2	1.2	1.3	2.8	0.3	1.2
Producer prices	y-o-y	3.2	5.4	7.9	5.3	0.8	-3.6	-5.2	-2.9	0.6	3.2	2.6	2.0	5.5	-2.7	2.1
Current account balance	EUR bn	46.7	44.8	40.4	33.7	17.5	25.5	28.0	30.0	30.0	28.0	27.0	25.0	164.9	101.0	110.0
	% of GDP													6.6	4.2	4.4
Budget balance	EUR bn													1.0	-70.0	-105.0
(Maastricht-definition)	% of GDP													0.0	-2.9	-4.2
3-month money market rate **)	%	4.7	4.9	5.3	2.9	1.5	1.1	0.8	1.0	1.3	1.6	1.8	1.9	4.6	1.3	1.5
10-year gov. bond yield **)	%	3.9	4.6	4.0	2.9	3.0	3.4	3.4	3.8	4.0	4.3	4.2	4.1	4.0	3.4	4.1
Exchange rate **)	USD per EUR	1.58	1.58	1.43	1.39	1.33	1.41	1.40	1.40	1.42	1.45	1.47	1.50	1.47	1.37	1.45

\*) quarterly figures: percentage change over previous period, seasonally and working day adjusted, except where noted, yearly figures: percentage change, not working day adjusted; \*\*) end of quarter, yearly average.

f = forecast

All in all, the German economy will probably contract by around 4% on average for 2009. But the strong business resurgence in the second half of 2009 creates a very favorable scenario for growth in 2010. However, we expect the pace of economic recovery to slacken in the course of 2010 as the impetus from the economic packages subsides. The pressing need to rebuild private and public budgets in many countries is likely to curb global demand and check the dynamic of world trade. For 2010 as a whole we estimate that gross domestic product in Germany will expand by 2.7%. On this assumption, economic output in the fourth quarter of 2010 would still be more than 2% lower than in the first quarter of 2008, when the recession began.

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