ECONOMIC RESEARCH & CORPORATE DEVELOPMENT

Working Paper 155

September 25, 2012

} MACROECONOMICS } FINANCIAL MARKETS } ECONOMIC POLICY } SECTORS

Claudia Broyer, Gregor Eder, Thomas Hofmann, Ann-Katrin Petersen,
Laura Pütz, Dr. Rolf Schneider

Economic Forecast 2013

Allianz

Working Paper

No. 155

Economic Forecast 2013

AUTHORS:

CLAUDIA BROYER
Tel.:+49.69.263-57667
claudia.broyer@allianz.com

GREGOR EDER
Tel.: +49.69.263-53358
gregor.eder@allianz.com

THOMAS HOFMANN
Tel.: +49.69.263-19912
t.hofmann@allianz.com

ANN-KATRIN PETERSEN
Tel. +49.69.263-19790
ann-katrin.petersen@allianz.com

LAURA PÜTZ
Tel.: +49.69.263-13431
laura.puetz@allianz.com

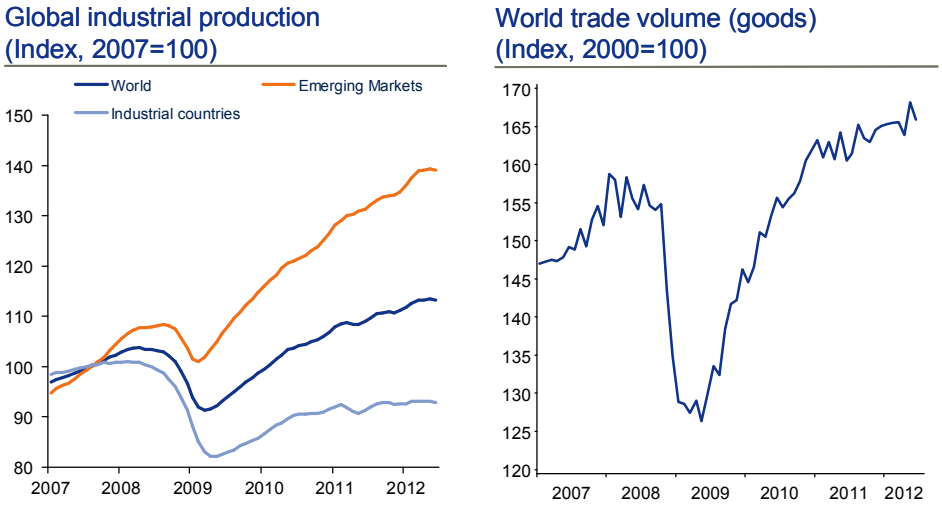
DR. ROLF SCHNEIDER
Tel.: +49.69.263-57790
rolf.schneider@allianz.com

1. GLOBAL ECONOMIC SITUATION AND OUTLOOK

The world economy lost further steam in the first half of 2012. In June global industrial production was a mere 1.2% up on its level at the start of the year, having risen by a total of 4% in the course of last year. The increase in the first half of 2012 was attributable solely to the emerging markets, above all in Asia, with production rising by no less than 3.5%. By contrast, production in the industrial countries actually fell marginally. World trade also gives scant grounds for euphoria. In the first half of 2012 it continued the sideways movement that set in in the summer of 2011. In the year to date the increase in global merchandise trade amounts to a mere 0.5%.

Chart 1

Global economic momentum very subdued



Source: CPB Netherlands Bureau for Economic Policy Analysis.

This poor global economic development on the whole is due primarily to the unrelenting sovereign debt crisis in the eurozone. The severe fiscal policy squeeze in some EMU countries, such as Greece and Spain, is not only strangling economic development in these economies themselves; its impact is seeping its way through the trade channel and contaminating the growth prospects for other countries and regions. In the wake of the further exacerbation of the debt crisis in the first half of the year, the growth-inhibiting forces emanating from Europe and impacting the global economy as a whole became more prominent again: the financial markets became far more jittery and the business climate across the globe, particularly in the manufacturing industry, took a significant turn for the worse. High energy prices also took their toll on the economy. The marked increase in oil prices in the first quarter of 2012 hampered economic development in the industrial countries and emerging markets alike. Hopes of increased purchasing power among private households and the corporate sector fueled by the considerable downward turn in oil prices in the second quarter have already been virtually extinguished by the renewed rise in oil prices over the past few weeks.

Now, midway through the second half of the year, the economic outlook remains clouded by uncertainty. In order to achieve at least a moderate revival in global economic activity, it is imperative that the sovereign debt crisis in the euro area gradually subsides. The prospects for this have indeed improved in recent weeks. The Federal Constitutional Court ruling in mid-September paved the way for swift installation of the ESM. Particularly in conjunction with the ECB measures and providing that national

policymakers push ahead with consolidation and structural reforms and European policymakers make further headway on economic and political integration, there are grounds to hope that we are moving closer to a resolution of the debt crisis. This is also one of the two central premises upon which our forecast rests.

The second main assumption relates to the Middle East and North Africa region, where the political situation in the fall of 2012 is once again proving to be a very complex one. Not least due to the region's significance as one of the world's major crude oil and natural gas producers and the fact that it is home to major transportation routes, any serious political tension in the area could severely disrupt the international financial and commodity markets, which would also hit the global economy hard. There is no doubt that the nuclear dispute with Iran poses the greatest risk potential, although we do not expect to see any dramatic escalation in the conflict during the period covered by our forecast. Latent risks to further global economic development are lurking in at least a combination of the armed conflict in Syria and the recent anti-western riots in a number of Arab countries, especially if the latter end up unleashing a new wave of violence. Last but not least, it remains to be seen exactly what political approach will ultimately be taken by the (new) governments in the Arab Spring countries, such as Egypt or Libya. All in all, we have assumed in our forecast that, while the political situation in the Middle East and North Africa will remain tense, we will be spared any dramatic escalation.

This document sets out our assessment of the economic prospects for selected countries and regions:

USA

After clearly picking up speed at the end of 2011, the US economy achieved only moderate growth in the first half of 2012, reporting average growth of 1.8% in annualized terms. Domestic demand was hit by continued cuts in government spending and slower inventory replenishment.

We do not expect to see any marked changes in economic momentum in the second half of the year. The residential construction industry is likely to be one ray of hope. Both the general trend towards an increase in construction permits and the continued improvement in sentiment among residential construction companies suggest that residential construction investment will remain firmly on the path to recovery. We expect this to mean that the residential construction segment will make a positive contribution to growth this year, for the first time since 2005. By contrast, consumer momentum offers virtually no upside potential in the short term due to the renewed trend towards higher prices (energy and food prices). Due to the heatwave that has enveloped the country over the past few months, moves to reduce inventory levels in the agricultural sector could put sustained downward pressure on inventory investments as a whole. The weak incoming orders for capital goods of late suggest a considerable slowdown in momentum as far as equipment investments are concerned. Companies are presumably keeping a tight hold on their purses amid the ongoing uncertainty surrounding next year's fiscal policy course.

According to the data provided by the Congressional Budget Office, specific tax and spending policy measures would translate into fiscal policy tightening to the tune of around 4% of GDP in 2013 if the current statutory provisions apply. More than 75% of this tightening would be tax-related. The question as to whether or not and, if so, which changes will be made in this respect is unlikely to be resolved until after the presidential and congressional elections in November of this year. If we do not end up seeing a

political stalemate, however, we can expect a situation in which the tax cuts, in particular, are not phased out entirely. After all, this would go against the proposals made by the parties.

All in all, economic growth in the US is expected to be only very moderate, at between 2% and 2¼% both this year and next. Looking ahead to 2013, the downside risks currently seem to have the upper hand due to the fiscal policy uncertainties.

Euro area

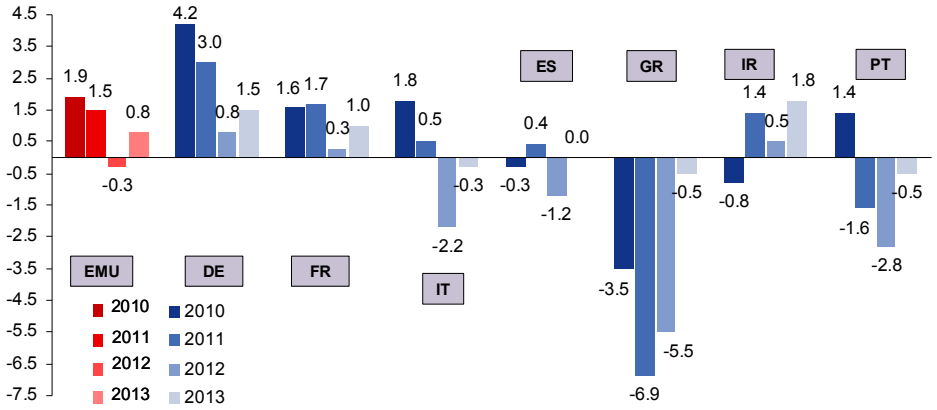
Will September and October prove, in retrospect, to be turning points in the euro debt crisis due to the combination of many key events at European level? Hopefully they will, but the situation is still marred by considerable uncertainty: the yields on bonds issued by the "problem countries" have slid substantially in the wake of the ECB's decision on its new program for government bond purchases. With the launch of the ESM scheduled for October 8, a key weapon in the battle to overcome the crisis will be ready for action. Especially in tandem with the ECB's measures and provided that national policymakers make further progress with their consolidation moves and economic reforms, and that policymakers at EU level manage to forge ahead with their endeavors to promote more integrated economic and fiscal policy, the prospect of the crisis finally being put to rest is looking more likely on the whole. Nevertheless, the road ahead is not entirely devoid of stumbling blocks - given the serious potential for conflict, it would appear important, as far as the financial markets are concerned, for Europe's heads of state and government, as well as other important European policy players to "read from the same hymn sheet" and "speak with one voice" as far as possible.

And when will the economy change for the better? The closing quarter of the year is likely to see the economy stabilize, although this development will not yet merit the label "economic recovery": this year, the eurozone economy will probably contract slightly by 0.3% (2011: +1.5%). With at best zero GDP growth on the cards for Q3, any growth in the period leading up to the year-end will presumably be restrained, providing only a modest basis for the growth prospects for 2013, when we expect GDP to grow by 0.8%. The arguments in favor of a gradual recovery include, first and foremost, political successes in getting to grips with the crisis that boost confidence levels among economic players, the substantial support provided in the guise of the ECB's monetary policy and the relatively low external value of the euro. Nevertheless, budgetary consolidation will exert a drag on the domestic economy. What is more, developments still vary considerably from country to country (risk of a vicious circle between austerity drives and increasingly weak economies).

Chart 2

EMU: Moderate growth in 2013, after downturn in 2012

Real GDP growth (%)



Sources: Eurostat, own forecasts.

To date, the EMU economic indicators have been consistently painting a rather grim picture. Although a few glimmers of hope are now popping up, there are nowhere near enough of them to justify the conclusion that the worst is now over. One fact worthy of mention is that the most recent hard data from the industrial sector point towards an improvement. In July, EMU industrial production was up by 0.6% month-on-month, laying the foundation for a positive growth rate in Q3. The fact that, based on the preliminary data, the purchasing managers' index for the industrial sector edged up slightly to 46 points in September, is, however, thanks primarily to Germany, whereas in France, the same index was clearly headed south. Furthermore, the number of people in work in the euro area stabilized in the second quarter. What is striking in this respect is that in Spain and Portugal, the decline in the number of people in work slowed considerably in a quarter-on-quarter comparison, while in Italy, the same number actually increased. Last but not least, the EMU current account is moving towards a significant surplus of 0.8% of GDP for the first time in a long while. This reflects, in particular, the painful but beneficial adjustment processes in the countries on Europe's periphery.

Although the eurozone inflation rate was recently sitting at 2.6%, which is still well above the 2% ECB stability threshold, the price outlook is providing little cause for concern. First of all, it is important to take into account that the inflation rate currently reflects the tax hikes implemented in some member states. Second, the energy component is still driving up prices. The overall index, excluding energy, was recently up by a mere 1.8% on the prior-year level. We expect the average eurozone inflation rate for this year to come in at 2.4%, before dropping back to 1.8% in 2013.

The ECB brought the minimum bid rate down to 0.75% in July (the lowest level ever). In our base scenario described above, we expect key rates to remain unchanged at this level well into next year. If the EMU economy flouts our expectations and spirals further into decline and the debt crisis does not gradually taper out, a further key rate cut is possible (even if the rate for the ECB's deposit facility is already sitting at zero).

The new program for government bond purchases (Outright Monetary Transactions, OMTs) is based on a completely different concept to the previous SMP: the ECB has declared that it will do everything in its power to preserve the euro's status as a stable

currency, and that the single currency is irreversible. The fact that there could well be no limits to the ECB's interventions is a new feature and is likely deter the financial markets from truly excessive speculation. What is more, more transparency surrounding intervention announcements – exact volume per country – will probably make these interventions more efficient. Even without specifying upper interest rate thresholds, it should be possible to draw conclusions as to corresponding points of intervention. It is imperative that incentives for sound budget management remain intact. This is ensured, first of all, by the fact that the purchase program only includes short maturities and second, by the fact that the relevant country in crisis has to submit an aid application, meaning that it is subject to checks. The resolutions passed by the ECB are likely to slash a considerable chunk off the risk premiums that apply to the peripheral countries in the long run, at least as far as the shorter maturities are concerned. This does not, however, mean that the crisis has been laid to rest. The responsibility for this continues to lie with the national governments and political cooperation within the European Union. The ECB could start by buying Irish and Portuguese government bonds, also in an attempt at a "display of power". It would, however, also make sense if countries facing financing problems were to make use of the insurance option offered by the government rescue funds (EFSF/ESM).

Euro area: Economic indicators and forecasts*

		2010				2011				2012				2013							
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2010	2011	2012e	2013f
GDP real		0.5	1.0	0.4	0.3	0.6	0.2	0.1	-0.3	0.0	-0.2	*0.0*	*0.2*	*0.3*	*0.3*	*0.3*	*0.3*	2.0	1.5	*-0.3*	*0.8*
Private consumption		0.2	0.2	0.3	0.5	0.1	-0.4	0.2	-0.5	-0.2	-0.2	*0.2*	*0.1*	*0.0*	*0.1*	*0.2*	*0.2*	1.0	0.2	*-0.6*	*0.4*
Government spending		-0.3	0.1	0.3	-0.1	0.0	0.0	-0.2	0.0	0.2	0.1	*0.1*	*0.2*	*0.0*	*0.0*	*0.0*	*0.1*	0.8	0.0	*0.2*	*0.2*
Investment		-0.1	1.9	0.2	-0.6	2.1	-0.2	-0.4	-0.5	-1.3	-0.8	*0.3*	*0.4*	*0.5*	*0.5*	*0.6*	*0.5*	-0.3	1.7	*-2.3*	*1.5*
Exports		2.7	4.5	1.9	1.9	1.8	0.6	1.5	-0.2	0.7	1.3	*0.5*	*1.3*	*1.0*	*1.0*	*1.0*	*0.8*	10.9	6.6	*3.0*	*4.0*
Imports		3.2	4.0	1.4	1.6	1.4	0.2	0.5	-1.4	-0.2	0.9	*1.1*	*1.5*	*0.6*	*0.7*	*1.0*	*0.8*	9.3	4.4	*0.6*	*3.7*
Industrial production (excl. construction)		2.1	3.1	0.7	1.8	1.0	0.2	0.7	-2.0	-0.5	-0.5	*0.5*	*0.4*	*0.4*	*0.5*	*0.4*	*0.4*	7.3	3.5	*-1.7*	*1.5*
Unemployment rate	%	10.1	10.2	10.1	10.1	9.9	9.9	10.2	10.6	10.9	11.2	*11.3*	*11.3*	*11.2*	*11.2*	*11.1*	*11.0*	10.1	10.2	*11.2*	*11.1*
Consumer prices	y-o-y	1.1	1.6	1.7	2.0	2.5	2.8	2.7	2.9	2.7	2.5	*2.4*	*2.1*	*1.9*	*1.8*	*1.8*	*1.8*	1.6	2.7	*2.4*	*1.8*
Producer prices	y-o-y	-0.1	3.0	4.0	4.8	6.5	6.3	5.9	5.1	3.7	2.2	*2.0*	*2.4*	*1.6*	*2.2*	*2.8*	*2.6*	2.9	5.9	*2.6*	*2.3*
Current account balance	EUR bn, nsa	3.7	-2.3	0.9	-11.8	-1.8	-6.1	-1.2	5.8	16.8	30.1	*20.0*	*10.0*	*15.0*	*20.0*	*15.0*	*15.0*	-9.5	-3.2	*76.9*	*65.0*
	% of GDP																	-0.1	0.0	*0.8*	*0.7*
Budget balance	% of GDP																	-6.2	-4.1	*-3.0*	*-2.5*

*) quarterly values: percentage change over previous period, seasonally adjusted, except where noted; annual GDP not adjusted; foreign trade incl. intra-trade.

e = estimate; f = forecast.

Spotlight on Italy and Spain

Italy

The Italian economy has been contracting since the third quarter of 2011. In the second quarter of the year, economic output once again lost 0.8% on the previous quarter. Private consumption in Q2 slipped by 0.7% and gross capital investment fell by 2.3%. In light of the country's surprisingly poor performance, particularly compared with Spain, we have made a downward revision to our GDP forecast for 2012 as a whole, bringing it down to -2.2% (2011:+0.5%).

Given the ongoing consolidation efforts and the uncertainty surrounding the next chapter in the debt crisis story, we do not expect the domestic economy to make any contribution to growth during the rest of the year either. While spreads over German government bonds have narrowed, the financing conditions for Italian companies have deteriorated over the past few months. We expect foreign trade to continue to

provide positive impetus, not least against the backdrop of the weak import demand. In the first two quarters of this year, the external trade surplus came in at 0.2% and 0.7% of GDP respectively. In July, incoming orders from abroad in the Italian industrial sector were up by 3.7% as against the previous month.

The recession has triggered a marked increase in unemployment in the euro area's third-largest economy. The harmonized unemployment rate climbed to 10.7% in July, the highest level seen since November 1999. A far from insignificant part of this increase, however, is due to an increase in labor force participation. Compared with the first quarter of the year, the number of people in work charted a surprising increase to the tune of 0.6% (in seasonally adjusted terms) in the months from April to July. The increase in employment should not, however, distract us from the fact that, at 57.1%, Italy's employment rate still ranks among the lowest in the euro area – the only countries with lower rates are Greece and Spain. The country also has catch-up work to do when it comes to labor productivity which, in addition to (relatively moderate) wage increases, is a driver of the continued unfavorable development in unit wage costs. As a result, the systematic implementation of the labor market reforms that have been passed (measures include: cutting the costs associated with employee dismissals, creating incentives for new permanent positions, strengthening the role played by apprenticeships and vocational training, streamlining the unemployment insurance system) is key to ensuring higher growth potential. Nevertheless, there is mounting opposition in Italy to far-reaching structural reforms such as a general overhaul of the Italian labor law system, which has cemented labor market divides in the past.

If the government led by Mario Monti can build on the measures that have already been implemented, such as the pension system reforms (including moves to reduce pensions and adjust the retirement age) and systematically stick to its policy of consolidation, Italy will be able to get its debt problems under control, especially since private sector debt levels are relatively low. Although Italy's sovereign debt level was very high in the first quarter of 2012 at 123.3% of GDP, the consolidation measures should mean that the Italian budget deficit for this year as a whole comes in at only between 2% and 2.5% of GDP. This would mean that the country would have already managed to adhere to the 3% deficit threshold. The spending cuts for the 2012-2014 period resolved by the Italian parliament in early August amount to EUR 27bn in total (1.7% of GDP), EUR 4.5bn of which is attributable to this year, and EUR 10.9bn of which is attributable to next year. This means that Italian fiscal policy remains very restrictive. In order not to put too much additional pressure on the economy, Italy's government plans to achieve its consolidation targets not by increasing the VAT rate by 2 percentage points, a move that had originally been planned for October 2012, but rather by cutting spending. Focusing on spending cuts as opposed to increasing levies is the right approach in principle.

If the country can make further progress in liberalizing its product markets, making its labor market more flexible and boosting administrative efficiency, the mood of uncertainty should gradually subside and, together with foreign trade impetus, form the basis for a gradual economic recovery. We expect the Italian economy to contract only very slightly (-0.3%) next year.

Spain

Spain's economy is in the throes of recession – it contracted by 0.4% compared with the previous quarter in Q2. The main culprits behind this development are ongoing sluggish private consumption and a sustained marked weakness in investment development. On the other side of the coin, Spain benefited from positive net exports thanks to the fact that exports improved considerably while imports were once again clearly on the decline. Looking at this year as a whole, we expect to see a decline in GDP of 1.2%. We do, however, believe that substantial downside risks are looming in the background. The construction sector is still suffering from the after-effects of the burst property bubble, with the data providing no signs of the development bottoming out (in July, construction production was down by 16.1% on the previous year, with house prices down 14.4% in a year-on-year comparison in the second quarter). Tax hikes and high unemployment are putting pressure on private consumption. Uncertain sales prospects and unfavorable financing conditions are stifling investment activity.

As far as the country's state finances are concerned, the target for this year's deficit ratio has once again been cranked up a notch to 6.3% (actual value for 2011: 8.9%), with the revised target for 2013 now sitting at 4.5%. This means that Spain has been granted a one-year reprieve, giving it until 2014 to comply with the 3% deficit threshold. In return, the country will be implementing some of the EU's suggestions as part of another austerity package. The program of austerity measures is to save the country EUR 65bn in the period leading up to 2014 and includes, in particular, an increase in VAT by 3 percentage points to 21% (which goes hand-in-hand with a reduction in social security contributions), unemployment benefit cuts, public-sector savings (including reducing overlaps and axing Christmas bonuses).

The VAT hike that came into force on September 1 will put a damper on private consumption and we do not expect Spain to make a return to economic growth next year. Rather, we predict that the country's economy will, at best, stagnate. Another trend that is proving cause for concern is the increasing potential for social unrest. Protests against the reform policies are mounting, not least against the backdrop of the situation on the labor market, where the unemployment rate climbing even further to 25.1% in July. Financial support from the EU's growth package to help to push Spain's unemployment rate down would certainly be of help (e.g. to finance wage subsidies or transfers in the case of reduced working hours models, etc.). One gleam of hope comes in the fact that the decline in the number of people in work has started to slow. In the second quarter, employment fell by 0.4% (q-o-q), after having dropped by 1.5% in the first quarter of the year and by 1.3% in the closing quarter of 2011. This does, however, mean that the number of people in work has recently been 4% lower in a year-on-year comparison.

The labor market reforms implemented were important and could prove to be as successful as Germany's "Hartz IV" reforms. It will, however, take some time for them to bear fruit. With the economy in as poor shape as it is at present, the moves could actually have the very opposite of the desired effect to begin with. After all, reforms such as cheaper dismissal options or leeway to cut wages give companies greater flexibility to adjust wages and employment to bring them more into line with the economic situation. The debate on the country's price competitiveness, or the need to adjust unit wage costs, often overlooks the fact that Spain's current account deficits were largely caused by exuberant domestic demand as the economy overheated. Now, however, a correction process is under way and Spain has already

made significant progress in terms of external trade adjustments: the country has already shaved a large chunk off its high current account deficit (bringing it down from a peak of 10% of GDP to 3.5% last year and, it is estimated, under 2% in 2012), although the decline in unit wage costs has only been moderate to date. At the same time, Spain's imports have been falling while its exports have been rising. In the second quarter of this year, Spain actually clocked up a nominal external trade surplus corresponding to 1% of GDP. Furthermore, the country has, over the past two years, managed to claw back some export market shares that had previously been lost.

Spain can receive up to EUR 100bn from the EFSF/ESM via the Spanish F.R.O.B. rescue fund to recapitalize its banks without risking being stamped as a "program country". In return, there is an adjustment program for the purposes of restructuring or liquidating ailing banks. The volume of funds that will ultimately be required is still unclear. The problems facing the Spanish banking sector can be overcome using the amount of up to EUR 100bn promised by the Eurogroup. The question remains, however, as to whether the state will still have sufficient capacity to support the regions if the financial markets also end up driving state financing costs up. If the country is to survive without any aid in excess of the EUR 100bn that has already been promised, it is crucial that the markets honor the government's resolute reforms. It might also be necessary to give the country a little more (albeit limited period of) time to achieve its consolidation objectives. Otherwise, the Spanish government should not keep playing the tactical game for too much longer. After all, it is pursuing stringent consolidation measures and, even if it did end up being labeled a program country, it would not, presumably, have too much to fear as far as additional austerity demands are concerned.

Emerging markets

Although developments in the up-and-coming economies of Asia, Latin America and eastern Europe varied rather considerably in some cases in the first half of 2012, economic momentum in this group of countries has, in fact, slowed appreciably on the whole. Eastern Europe is feeling the heat of the economic slump in the euro area, which is its main export market. What is more, economic developments in Hungary are being hampered by a pronounced credit crunch and the consequences of budget consolidation. In Asia, we are presented with a mixed picture: the countries in south-east Asia are still showing robust development, with Thailand, for example, receiving a lift from the reconstruction efforts following last year's devastating floods. In China and India, Asia's two main emerging markets, economic activity has been losing momentum. In addition to domestic economic factors, the weak development in global trade is obviously also playing its part in this trend. In the period from January to August 2012, China's nominal exports were up by only 7% year-on-year, with exports to the EU actually slipping by almost 5%: by way of comparison, Chinese exports expanded by more than 20% in 2011 as a whole. In Latin America, countries like Mexico and Chile are recording robust growth. On the other hand, Brazil, the largest economy in Latin America, is still battling with a phase of economic weakness. This is doubtlessly due to faltering lending activity, which was the driving force behind both consumption and investment in previous years. In the second quarter of 2012, investment activity fell for what is already the fourth time running.

Over the coming months, we expect emerging market growth to gradually pick up speed. Stimulus is likely to come, for one, from economic policy. In recent months, for example,

numerous central banks have made use of the leeway created by the drop in inflationary pressure to loosen the monetary reins, in some cases considerably so. Economic impetus in countries such as Brazil and China will also come from fiscal policy. Last but not least, those emerging markets that are heavily reliant on exports look set to reap particular benefits from the revival in global trade that is on the cards for next year.

In 2013, Asia's emerging markets are likely to grow by 7.1%, following a 6.6% increase this year. This forecast is based on the assumption of a soft landing in China. In actual fact, we predict that the Chinese economy will start picking up speed again in the fourth quarter of 2012 at the latest, driven by state moves to kick-start the economy. Looking to the Latin American emerging markets, we predict GDP growth of 3% this year followed by 4.3% in 2013. The Brazilian economy should make a marked recovery in the period covered by our forecast. This recovery will be fueled, among other things, by the sharp drop in interest rates, state investment spending ahead of the football World Cup that is to be staged in Brazil in 2014, as well as the sharp fall in the external value of the real witnessed in recent months. 2013 is also likely to see the eastern European emerging markets return to slightly stronger growth than this year as the euro area economy stabilizes. We expect real economic output to increase by 3.2% next year, compared with 2.6% this year. All in all, the group of emerging markets is expected to report growth of 5.6% in 2013, after expanding by 4.9% this year. We expect the up-and-coming economies to report growth in the region of between 5.5% and 6% a year in the medium term, too. By way of comparison: in the period from 2004 to 2008, the annual growth rate was still averaging 7.2%.

Growth rates in main economic regions

GDP, real % change over previous year

	2007	2008	2009	2010	2011	2012[1)]	2013[2)]
Industrialized countries	**2.5**	**-0.2**	**-3.8**	**2.5**	**1.3**	**1.3**	**1.7**
European Union	3.2	0.3	-4.3	2.0	1.6	0.0	1.1
Euro area	3.0	0.3	-4.4	1.9	1.5	-0.3	0.8
Germany	3.3	1.1	-5.1	4.2	3.0	0.8	1.5
USA	1.9	-0.3	-3.1	2.4	1.8	2.3	2.2
Japan	2.2	-1.0	-5.5	4.5	-0.8	2.1	1.8
Emerging markets	**8.3**	**5.5**	**1.3**	**7.4**	**6.0**	**4.9**	**5.6**
Asia	10.7	6.9	5.8	9.6	7.4	6.6	7.1
Latin America	5.9	4.2	-1.8	6.1	4.1	3.0	4.3
Central and Eastern Europe	7.4	4.4	-6.2	3.4	3.9	2.6	3.2
World	**4.2**	**1.5**	**-2.2**	**4.1**	**2.9**	**2.5**	**3.1**

1) estimate; 2) forecast.

Sources: EcoWin, own forecasts and estimates.

All in all, we estimate that global output will grow by 3.1% in 2013, after an increase of 2.5% this year (country weighting based on current exchange rates in each case). This slight acceleration in growth will likely be due, in particular, to the economic stabilization in the euro area and slightly more rapid growth in the emerging markets.

In addition to the key premises already described above in respect of the EMU sovereign debt crisis and the situation in the Middle East & North Africa area, our economic forecast is also based on the following assumptions:

- With an increase of no more than 2%, global trade will be very subdued in 2012. Looking ahead to next year, we expect to see a slight recovery and an increase in global trade of around 4%. Nevertheless, this is still well below the medium-term average of a good 6%.

- Crude oil prices (Brent) are expected to fluctuate between 100 and 120 USD/barrel during the forecast period. After a marked downward correction in the second quarter of 2012, when the oil price plummeted from around USD 125/barrel to USD 90/barrel, oil prices have made up a lot of this lost ground in recent weeks. The price was recently fluctuating between around USD 110 and USD 115 a barrel, The fact that global economic activity remains on the sluggish side tends to suggest that we will not see oil prices start to climb. The risk of a drastic price hike if the geopolitical risks escalate does, however, remain.

- Monetary policy in both the US and the euro area is likely to remain very expansionary next year. Initial corrections to the direction of ECB monetary policy could come at the end of the forecast period. The Fed, by contrast, is unlikely to take any steps in this direction up to the end of 2013. The US Fed has already signaled that it could leave key interest rates at a very low level until well beyond next year.

- The past few weeks have seen the euro distance itself significantly from the two-year low against the US dollar reached in late July. The currency was recently trading at around USD 1.29. One of the main reasons behind this recovery is bound to have been the announcement of far-reaching measures designed to resolve the EMU sovereign debt crisis. Although we largely welcome the latest economic policy decisions, a number of key questions remain open and a lot of work will still have to be done before the crisis can be solved once and for all. Bearing this in mind, we expect the euro to weaken slightly again over the next few months. In 2013, we forecast that the exchange rate will come in at between 1.20 and 1.25 USD/EUR.

2. ECONOMIC SITUATION AND OUTLOOK IN GERMANY

2.1 Economy at a crossroads

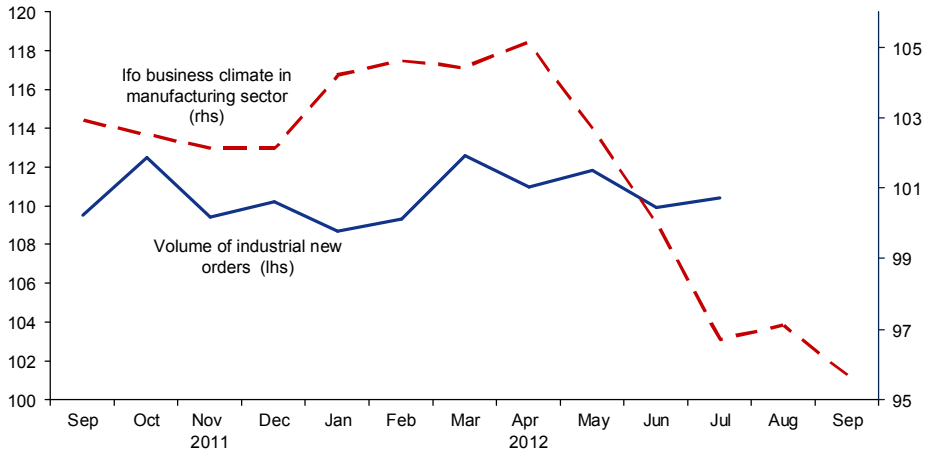
Economic development in Germany is currently on particularly shaky ground. Given the good shape the German economy is in, things should continue to move upwards, but the danger that the economy will hit the skids is now considerable. Uppermost are the risks stemming from the European debt crisis. The slide in incoming orders from the eurozone by almost 13% within the space of a year (Q2 2012 on a year earlier) has caused the export engine to stall Even more worrying, however, is that concerns about the future of the euro are increasingly reflected in companies' propensity to invest. Over the last three quarters equipment investment has fallen by 3½%.

Nonetheless, the collapse in sentiment currently seems more pronounced than the actual deterioration in the situation. This becomes clear if we look at the chart below. While the business climate in industry, according to the Ifo test, has literally plummeted in recent months, new orders have merely stagnated.

Chart 3

Industry: Sentiment sliding, but no collapse in demand

Indices 2005 = 100



Sources: Deutsche Bundesbank, Ifo Institut.

A slump in sentiment can herald a recession, but does not have to. However, it is irrefutable that economic growth in Germany has slowed down considerably. In the first half of this year GDP grew by around 1½% at an annual rate, in the second half the figure will be 1% at best.

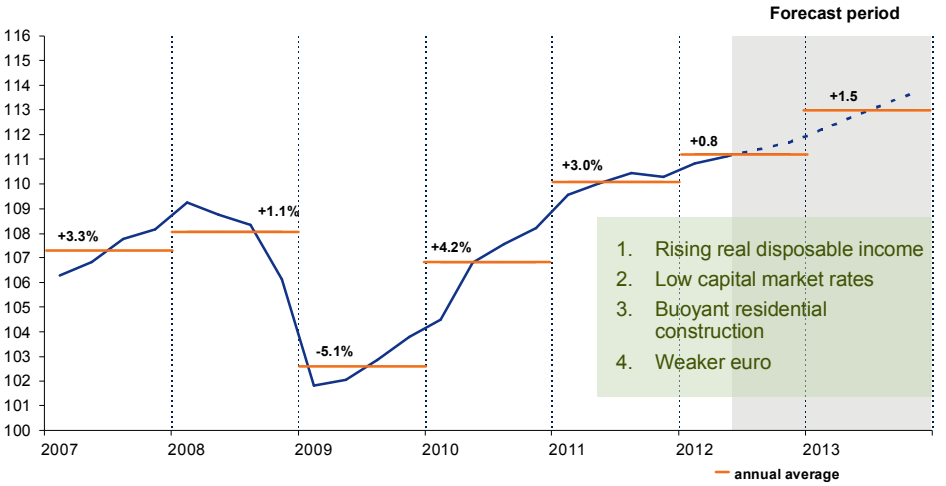
Private consumption and the construction sector are expected to make positive contributions to growth in the second half of 2012. Equipment investment and foreign trade, on the other hand, are unlikely to contribute much to growth. All in all, we predict that the German economy will grow by 0.8% year-on-year in 2012. It is, however, also important to bear in mind that 2012 has three fewer working days than 2011 had.

Economic growth in Germany in 2013 hinges on developments in the European debt crisis. The more resolute approach by policymakers suggests that progress is being made in overcoming the crisis. As a result, business expectations are likely to improve again gradually.

Chart 4

German economy defying the crisis

Real GDP, Index, 2005 = 100



Sources: EcoWin, own forecasts.

The robust labor market is likely to provide an important basis for further expansion in the domestic economy in 2013 as well. An increase in real incomes in the region of 1½% will buoy consumption. The external trade side is likely to provide a somewhat larger fillip in 2013 than of late. A gradual pickup in world trade is likely, the depreciation of the euro is likely to help German exporters gain market share. As a result, at 1.5%, economic growth in 2013 will be appreciably stronger than in 2012.

Germany: Economic indicators and forecasts*

		2010				2011				2012				2013							
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2010	2011	2012e	2013f
GDP real		0.7	2.2	0.7	0.6	1.2	0.5	0.4	-0.1	0.5	0.3	*0.2*	*0.2*	*0.5*	*0.5*	*0.5*	*0.4*	4.2	3.0	*0.8*	*1.5*
Private consumption		0.2	0.8	0.3	0.6	0.7	-0.5	1.3	-0.3	0.1	0.4	*0.6*	*0.4*	*0.4*	*0.4*	*0.3*	*0.3*	0.9	1.7	*0.8*	*1.6*
Government spending		1.5	-1.4	1.2	0.1	0.1	0.6	0.2	0.5	0.2	0.2	*0.2*	*0.2*	*0.2*	*0.2*	*0.1*	*0.1*	1.7	1.0	*1.1*	*0.7*
Investment in machinery/equipment		4.5	5.7	4.1	1.6	0.9	1.1	1.6	-0.3	-0.9	-2.3	*-0.5*	*0.0*	*1.0*	*1.3*	*1.5*	*1.5*	10.3	7.0	*-2.9*	*2.1*
Construction		-1.9	6.9	-0.6	-2.9	7.2	-0.4	-0.7	1.4	-0.8	-0.3	*2.5*	*1.0*	*0.7*	*0.7*	*0.5*	*0.5*	3.2	5.8	*0.4*	*3.4*
Domestic demand		1.6	1.5	0.2	0.3	0.9	1.2	0.1	-0.1	-0.2	-0.1	*0.5*	*0.1*	*0.2*	*0.3*	*0.3*	*0.3*	2.6	2.6	*0.0*	*1.0*
Exports		3.0	6.5	1.3	2.0	2.7	0.5	2.1	-0.5	1.2	2.5	*0.0*	*1.0*	*1.5*	*1.5*	*1.4*	*1.3*	13.7	7.8	*3.4*	*5.0*
Imports		5.7	5.5	0.2	1.6	2.3	2.2	1.7	-0.4	-0.2	2.1	*0.5*	*0.8*	*1.2*	*1.4*	*1.3*	*1.2*	11.1	7.4	*2.2*	*4.5*
Industrial production (excl. construction)**		2.1	4.9	1.7	3.4	1.6	1.1	1.8	-1.8	0.1	-0.3	*0.4*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	10.9	8.0	*0.2*	*2.3*
Unemployment rate (EU def.)	%	7.5	7.2	6.9	6.6	6.3	6.1	5.8	5.6	5.5	5.5	*5.4*	*5.5*	*5.5*	*5.5*	*5.4*	*5.4*	7.1	6.0	*5.5*	*5.4*
Unemployment rate (nat. def.)	%	8.0	7.7	7.6	7.4	7.3	7.1	7.0	6.9	6.8	6.8	*6.8*	*6.9*	*6.9*	*6.9*	*6.8*	*6.8*	7.7	7.1	*6.8*	*6.9*
Employed persons (national def.)	y-o-y	-0.2	0.5	0.9	1.1	1.5	1.4	1.3	1.4	1.4	1.2	*1.1*	*0.8*	*0.5*	*0.4*	*0.4*	*0.5*	0.6	1.4	*1.1*	*0.4*
Consumer prices	y-o-y	0.8	1.1	1.2	1.5	2.1	2.3	2.5	2.3	2.2	1.9	*1.9*	*1.8*	*1.6*	*1.9*	*2.0*	*1.9*	1.1	2.3	*1.9*	*1.8*
Consumer prices (HICP)	y-o-y	0.8	1.0	1.2	1.6	2.2	2.5	2.6	2.6	2.4	2.1	*2.0*	*1.8*	*1.6*	*1.8*	*2.0*	*1.9*	1.2	2.5	*2.1*	*1.8*
Producer prices	y-o-y	-2.6	1.1	3.6	4.7	6.1	6.0	5.6	4.8	3.3	2.0	*1.2*	*1.4*	*1.1*	*1.7*	*2.4*	*2.4*	1.7	5.6	*2.0*	*1.9*
Current account balance	EUR bn	33.8	32.6	37.9	43.9	39.8	31.2	37.3	38.2	40.6	40.3	*38.0*	*38.0*	*38.0*	*38.0*	*39.0*	*39.0*	150.7	147.7	*156.9*	*154.0*
	% of GDP																	6.1	5.7	*6.0*	*5.7*
Budget balance	EUR bn																	-103.6	-19.6	*0.0*	*4.0*
(Maastricht-definition)	% of GDP																	-4.2	*-0.8*	*0.0*	*0.1*

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

e = estimate, f = forecast.

2.2 Only temporary export dip

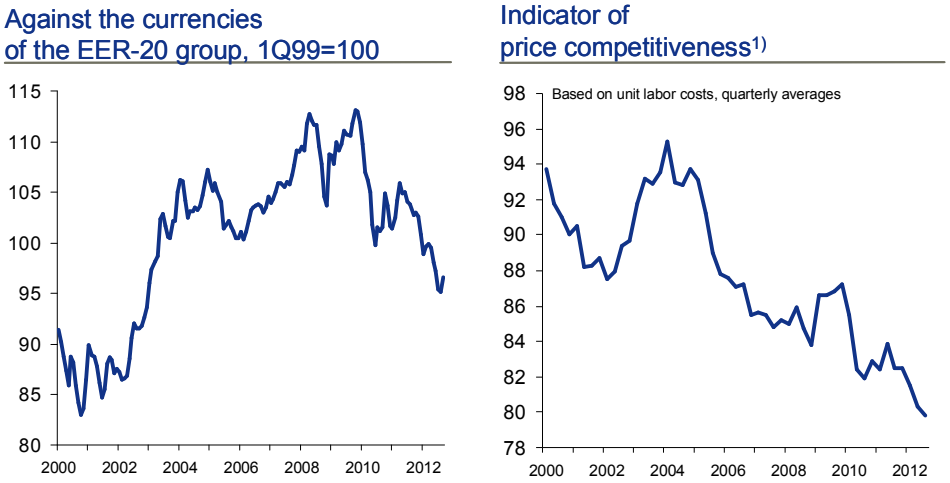
German exports showed surprisingly strong growth in the first half of the year, up by a wholly respectable 3.8% in Q2 2012 compared with Q4 2011. This development is, however, highly unlikely to stick with us in the second half of the year. Germany's industrial sector consistently received fewer orders from abroad, in terms of volume, in the first seven months of this year compared to the same period last year; the figures for June/July 2012 were down by 4.0% on June/July 2011. We expect German exports to stagnate in the third quarter of this year, and to increase only slightly, if at all, in Q4.

This weakness in foreign demand is owed largely to the euro area. Demand was down by no less than around 16% year-on-year in June/July. The brunt of this demand slump, however, had already hit in the second half of last year; in seasonally adjusted terms, demand from the euro area has actually stabilized since the start of the year.

There are currently no indications that foreign demand will take another fall. This is certainly helped along by the fact that the drop in the external value of the euro has once again provided a clear boost to the price competitiveness of Germany's exporters. After all, the trade-weighted external value of the euro in the summer of this year was around 7% lower than the average value of 2011. These price advantages for exports to regions other than the eurozone, which now account for almost 65% of total exports, are likely to translate into substantial gains in terms of export volume. This applies even in the event that the euro loses more ground against the dollar. Compared with a number of other currencies – in particular, the Scandinavian and a number of Asian currencies – the euro is likely to be valued lower in the long run.

Chart 5

Germany's price competitiveness rising



1) A decline means an increase in competitiveness.

Sources: Deutsche Bundesbank, September 2012 own calculation.

This year is likely to see German exports gain around 3½% in volume terms, with goods and services exports expected to be more or less neck and neck. This means that real German exports will finish just ahead of real global trade in terms of growth (estimated +2%). We believe that these slight gains in real global trade shares, which are likely to be due primarily to improved price competitiveness, will continue in 2013. Our prediction is that German exports will increase by 5% in 2013, while world trade will expand by only

4%. Given the considerable global economic risks that are on the scene, this forecast is obviously subject to considerable uncertainty.

German imports, which will grow by 2.2% this year in volume terms, are likely to grow twice as fast in 2013 at a rate of 4.5%. The terms of trade – the relationship between export and import prices – which have barely changed this year in spite of the weak euro, should remain largely stable in 2013 as well. We expect both export and import prices to chart a moderate increase in 2013. Against this backdrop, Germany's current account surplus, which is expected to increase by around EUR 10bn compared with 2011 to EUR 157bn, is expected to remain more or less constant next year.

The regional structure of the German external surplus is changing radically. While the current account surplus with EMU countries was still around 65% of the overall surplus in 2009, in 2011 this figure had slipped to 39% and this year to an estimated 30%. Germany now has hefty non-EU current account surpluses not only with America (an estimated 30% of the total surplus) but also increasingly with Asia (an estimated 10% of the total surplus).

2.3 Consumer demand still on the up

Private consumption, which increased by around ½% in the course of H1 2012, is likely to remain one of the main pillars propping up the economy. Although rising energy prices are still eroding purchasing power, the growth in labor income, which is estimated to total 3.7% net in 2012, is once again outstripping the rate of inflation (2012: +1.9%). These real income gains are explained by sustained employment growth, but also by a trend towards an increase in earnings under collective wage agreements, recently to the tune of almost 3%. In 2011, the increase came in at only 1.7%.

In 2013, the increase in labor income is actually expected to pick up a bit of speed. Although employment growth is expected to be much lower than it was this year, the increase in actual earnings per employee is expected to move up a gear, from 2½ - 3% this year to 3 - 3½% next year. The growth rate for collectively bargained wages, in particular, is likely to be slightly higher. This is compounded by the fact that net wages will grow at a slightly faster rate than gross wages due to the planned reduction in the pension contribution rate. All in all, we expect total net labor income to grow by a substantial 4% in 2013. Based on an inflation rate of almost 2%, the real increase in incomes for all employees will then come in at a respectable 2%.

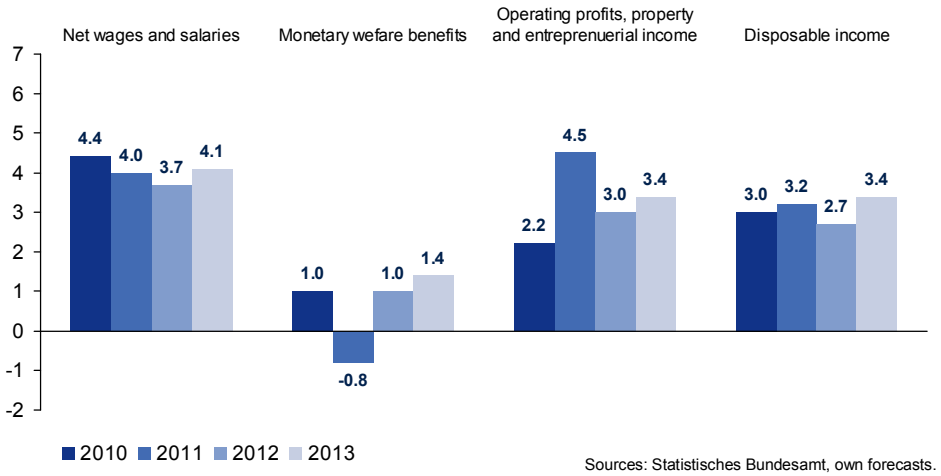
Monetary social benefits, which actually dipped slightly last year, will increase by 1.0% this year and 1.4% next year as unemployment remains virtually unchanged and pensions start to rise again. Profit income, the income of the self-employed and income from investments are expected to show more subdued development than in 2011 (+4.5%) in 2012 and 2013, growing at a rate of 3.0% and 3.4% respectively. Income from investments is still suffering from the low interest rate environment, whereas the prospects for profit income and the income of the self-employed are still looking fairly rosy.

All in all, private household disposable income, which grew by 3.2% last year, will likely increase by 2.7% this year and 3.4% next year. This means that we expect income growth to move up a notch in 2013. The savings rate, which slid by ½ a percentage point to 10.4% last year, is expected to remain more or less stable at the slightly lower level of around 10.5%. For real private consumption, this means that we can expect to see growth of 0.8% in 2012 and 1.6% in 2013.

Chart 6

Private household income stable

% change on year earlier



Sources: Statistisches Bundesamt, own forecasts.

2.4 Investment engine stalling

Germany's gross investment (equipment, construction and inventories), which clocked up growth of 7.2% in volume terms last year, contracted by 3.2% in the first six months of 2012. Both equipment and construction investment, as well as inventory investment, headed south.

This negative trend is particularly worrying when it comes to equipment investment. These investments are one of the factors that are crucial for the medium-term growth potential of the German economy and they are the only component on the expenditure side of gross domestic product that has yet to bounce back to the level seen before the economic crisis of 2008/2009.

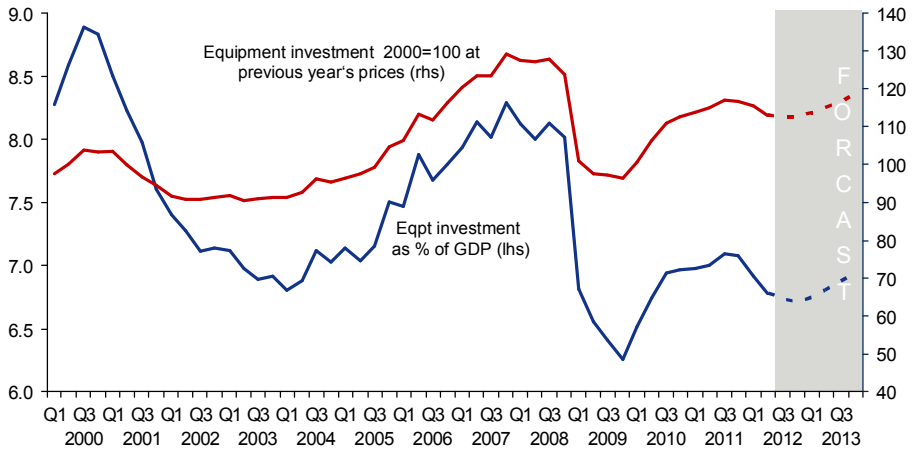
Given what appear to be relatively advantageous overall conditions, such as favorable financing conditions and solid earnings on the whole, this reluctance on the part of companies to invest shows just how much uncertainty there is surrounding the economic outlook. The European debt crisis and all of the risks that it entails are evidently leaving their mark on the German economy, too. The investment ratio for equipment is well below average in a longer-term comparison.

Nevertheless, we believe that there is a good chance that the demand for equipment will recover in the near future. The collapse in sentiment in the corporate sector does not have to be a permanent feature if it becomes clear that progress is being made in tackling the debt crisis. The fact that companies are still proving keen – to an extent that seems considerable given the current sentiment – to increase or at least maintain their current workforce levels suggests that the sector remains confident as far as the longer-term economic outlook is concerned. Given the expected revival in global trade and increasing export demand in 2013, industrial capacity utilization should also start to pick up again. Experience has shown that changes in capacity utilization have a fairly direct impact on the demand for equipment. We estimate that equipment investment,

which is set to fall by around 3% this year, will increase by approximately 5% in the course of next year. Looking at 2013 on average, however, this will only correspond to growth of a good 2%.

Chart 7

Investment ratio relatively low



Sources: Statistisches Bundesamt, own forecasts.

Although construction investment also slowed slightly in the first half of this year, it is expected to have already started growing again in the second half. Residential construction activity is likely to continue to report strong growth, with the prospects looking less promising for the commercial and public-sector construction segments.

The residential construction segment is experiencing a strong upswing. After real growth of 4.7% in 2010 and 6.3% in 2011, we expect to see an increase of 3% this year and 4% next year. Extremely low financing costs, poor returns on investments, the preference for property fueled by the crisis, relatively favorable income prospects and the increased demand for residential space as a result of immigration all help to explain the positive trend in the residential construction segment.

The commercial construction segment, like equipment investment, is battling against the economic risks created by the debt crisis. Expansion investments are being postponed or even shelved completely. The commercial construction segment, having still reported growth of 8.1% last year, is likely to more or less stagnate this year. We expect to see a return to growth next year, with the sector tipped to expand by 2-3%.

Public construction investment, which fell by around 14% y-o-y in the first half of this year as economic stimulus programs were unwound, is expected to continue to fall in the second half of the year, reporting an average decline of around 10% for 2012 as a whole. Given the most recent developments in government finances, however, 2013 should bring a moderate expansion in public-sector construction investment in the region of 2-3%.

Construction investment as a whole is set to achieve only minimal growth of 0.4% this year, but we expect 2013 to offer scope for a return to a fairly strong increase of 3.4%.

2.5 No pick-up in inflation

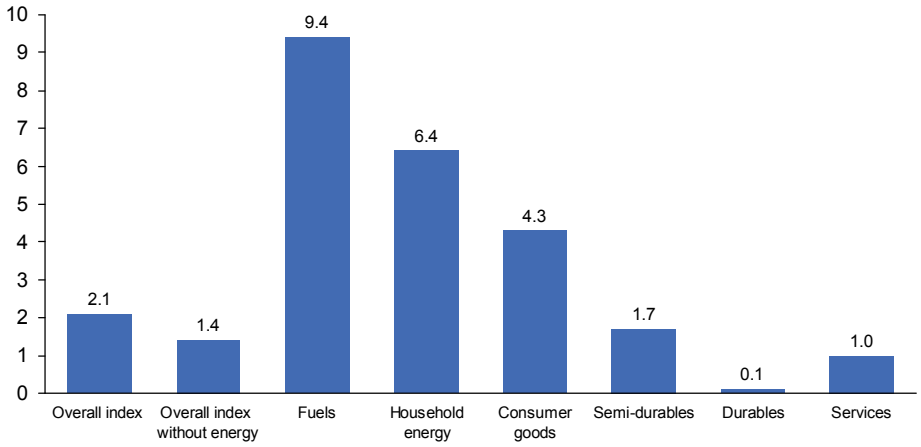
The debt crisis and the measures taken to tackle it have repeatedly stirred heated debate on inflation or deflation risks. Any sustained weakness on the European economy due to consolidation could create deflationary pressure. Many, however, fear that the extremely loose monetary policy currently being pursued by the ECB could create considerable inflation risks, particularly for Germany.

Neither the current inflation rates nor the rates forecast for 2013 point towards any extreme trends, at least not for the time being. After the consumer price index had climbed by 2.1% year-on-year in August, we expect German inflation for 2012 as a whole to stand at 1.9%.

Chart 8

Energy prices up sharply

Consumer price index (2005=100), August 2012, % change on year earlier



Source: Statistisches Bundesamt.

Unit labor costs were up by 2.7% in a year-on-year comparison in the second quarter of 2012 (after adjustments to reflect the number of working days), well ahead of the 1.2% increase seen last year. The increase in collectively bargained wages has picked up considerably (Q2 2012: +2.7% as against the same quarter of the previous year), a trend that looks set to continue. The increase in employment, however, has now tapered off to a considerable degree, which is likely to put at least something of a damper on overall labor cost growth again. We forecast an increase in unit labor costs of around 2% in 2013.

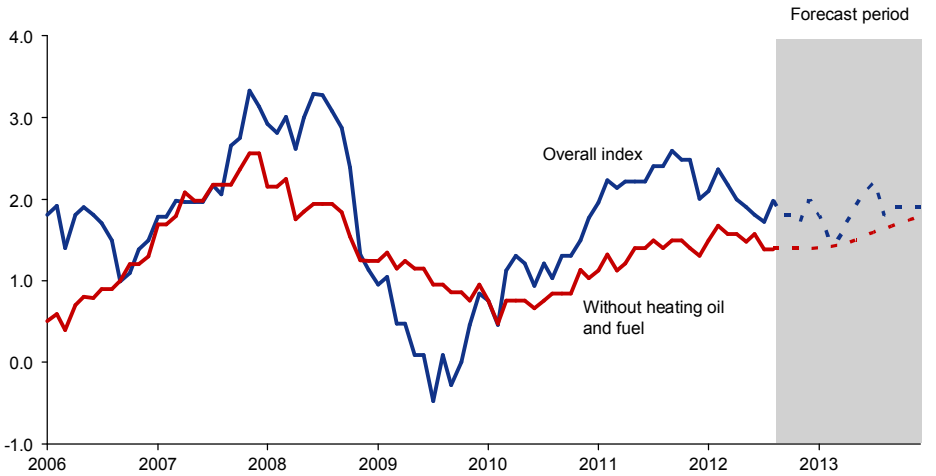
Inflation is currently being driven by high energy costs. Fuel costs in August were up by 9.4% on a year earlier, while household energy costs were 6.4% higher. Given the moderate economic performance that would appear to be on the cards, we do not expect to see such a marked increase in energy prices next year.

The fact that the external value of the euro is lower than in 2011 has increased the price of imported goods in general, triggering at least a slight increase in consumer price inflation, too. Since we do not expect 2013 to herald any substantial depreciation in the euro, we expect less inflationary impetus to come from the currency as well. We predict a moderate rate of inflation in Germany of 1.8% in 2013.

Chart 9

Germany: Consumer prices

% change on previous year



Sources: Statistisches Bundesamt, own forecasts.

2.6 No further drop in unemployment

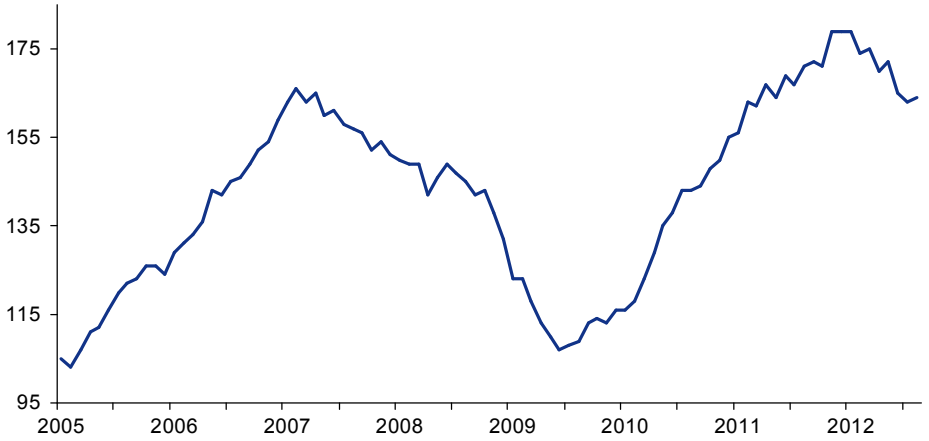
Although the economy has cooled off, Germany's labor market has so far remained robust. At 5.4%, the German unemployment rate is still one of the lowest in Europe. The jobless total is likely to come in at 2.89 million this year, around 87,000 down on 2011.

For 2012 as a whole we expect another strong increase in the number of people in work of almost 500,000, an increase of 1.1% on the previous year. The BA-X jobs index produced by the German Employment Agency, which measures the demand for employees and the willingness of German companies to recruit, is still sitting at a comparatively high level, although the last few months have seen it tend downwards.

In recent months, however, the rise in employment has no longer gone hand in hand with a reduction in unemployment. There are manifold reasons for this development. For one thing, women and older people are increasingly entering the labor market. In addition, immigrants from central and eastern Europe and job-seekers from southern Europe are pushing up the workforce in Germany. Another reason why unemployment is not falling despite the ongoing rise in employment is the reduced scale of labor market measures, such as the promotion of self-employment and job-creation schemes.

Chart 10

Jobs index BA-X still at high level



The seasonally adjusted index encompasses non-subsidized jobs registered with the Agency, freelance and self-employed jobs as well as jobs reported by private job agencies.

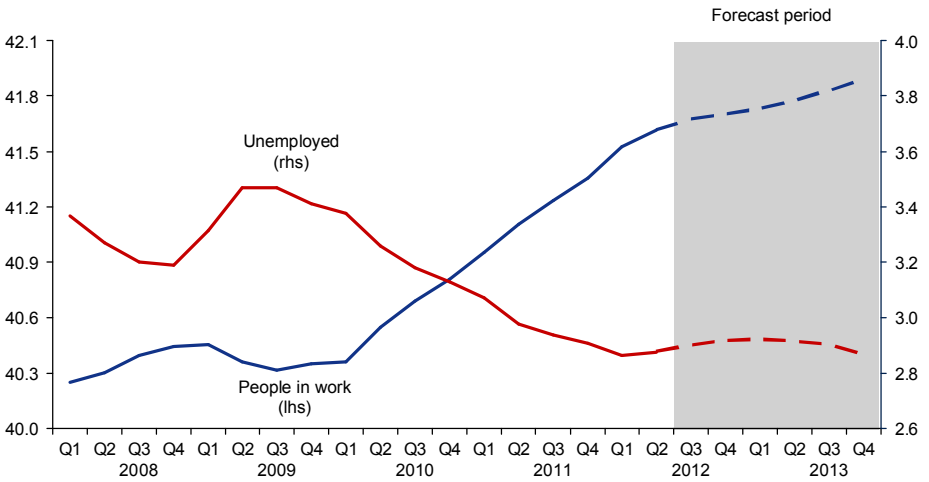
Source: Federal Labor Agency.

Employment is set to continue rising slightly in the months ahead. As the economy picks up in 2013, we expect (seasonally adjusted) unemployment to start to ease down again slightly from Q2 2013 onwards. In 2013 as a whole unemployment is likely to average 2.9 million, more than 10,000 up on 2012.

Chart 11

Germany: Workforce and unemployed

millions



Sources: EcoWin, own forecasts.

2.7 Budget completely balanced

The overall public-sector budget, which was still in the red to the tune of around EUR 20bn last year, recorded a surplus of EUR 8.3bn in the first half of 2012. This further improvement in public-sector finances was encouraged by solid economic performance, which boosted the inflow of tax and social security contributions, coupled with low spending increases and a number of consolidation measures.

We expect the favorable development to largely continue in the second half of this year, too. We predict that Germany's budget will be completely balanced in 2012 as a whole. The increase in government revenue is expected to come in at 3% in 2012, with the rise in tax revenues likely to once again be fairly substantial at just shy of 4%. Social security contributions, on the other hand, will chart a below-average increase of 2.5%, particularly due to the 0.3 percentage point reduction in the pension insurance contribution rate.

Government spending, which actually fell by 0.9% in 2011, will likely increase by a modest 1.3% this year, putting it only marginally ahead of the 2010 level. The component of government spending that will decrease the most is gross investment, a trend that is explained by the expiry of economic stimulus programs (-10%). Interest expenditure and subsidies are, however, also likely to be on a downward trajectory.

In 2013, the rates of increase in government revenue and spending are expected to move much closer into line with each other. We are penciling in an increase in revenue of only 2.5% and an increase in spending that will still be as high as 2.2%. Minor tax relief and the planned moves to shave 0.6 percentage points off the pension insurance contribution will hinder any upward movement in revenue. As far as government spending is concerned, we expect only interest payments to decline slightly. The state's personnel expenses will increase at a slightly faster rate than in 2012 (+1.8%) at 2.5%. While the rate of increase is actually expected to be slightly higher again for contractual wages, plans to cut jobs in some areas, particularly in the German Armed Forces, will take the edge off the growth rate. All in all, we expect the German budget to report a slight surplus of EUR 4bn in 2013.

Germany: Public-sector revenue and expenditure

in Euro bn	2009	2010	2011	2012	2013
Revenue	1071.7	1087.4	1154.9	1189.5	1219.4
of which:					
Taxes	547.5	548.8	589.5	611.9	630.3
Social contributions	410.8	421.1	436.9	447.8	456.8
Expenditure	1144.7	1191.0	1174.5	1189.5	1215.4
of which:					
Inputs	115.9	120.9	126.4	129.6	132.8
Employee compensation	191.0	195.3	199.7	203.3	208.4
Property income payable (interest)	63.6	63.4	65.9	63.6	62.7
Subsidies	27.9	27.9	26.9	25.8	26.1
Monetary welfare benefits	426.0	429.6	425.4	429.7	438.3
Welfare benefits-in-kind	196.9	203.3	207.8	214.1	220.5
Other current transfers	51.5	54.1	53.8	57.1	57.7
Gross investment	41.6	41.9	42.7	38.5	40.0
Financial balance	-73.0	-103.6	-19.6	0.0	4.0
memorandum:					
State spending ratio[1)]	48.2%	47.7%	45.3%	44.9%	44.3%
Financial balance[1)]	-3.1%	-4.1%	-0.8%	0.0%	0.1%

[1)] in relation to gross domestic product in current prices.

Sources: Statistisches Bundesamt, own forecasts.

These assessments are, as always, subject to the disclaimer provided below.

ABOUT ALLIANZ

Together with its customers and sales partners, Allianz is one of the strongest financial communities. Around 78 million private and corporate customers rely on Allianz's knowledge, global reach, capital strength and solidity to help them make the most of financial opportunities and to avoid and safeguard themselves against risks.
In 2011, around 142,000 employees in some 70 countries achieved total revenue of 103.6 billion euros and an operating profit of 7.9 billion euros.
Benefits for our customers reached 86.5 billion euros. This business success with insurance, asset management and assistance services is based increasingly on customer demand for crisis-proof financial solutions for an ageing society and the challenges of climate change. Transparency and integrity are key components of sustainable corporate governance at Allianz SE.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words "may", "will", "should", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Allianz Group's core business and core markets, (ii) performance of financial markets, including emerging markets, and including market volatility, liquidity and credit events (iii) the frequency and severity of insured loss events, including from natural catastrophes and including the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the Euro/U.S. Dollar exchange rate, (ix) changing levels of competition, (x) changes in laws and regulations, including monetary convergence and the European Monetary Union, (xi) changes in the policies of central banks and/or foreign governments, (xii) the impact of acquisitions, including related integration issues, (xiii) reorganization measures, and (xiv) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. The company assumes no obligation to update any forward-looking statement.

NO DUTY TO UPDATE

The company assumes no obligation to update any information contained herein.