Commentaries

Economic conditions

Underlying trends

Easing of downward pressure on the economy

After becoming considerably more severe in the winter half year 2008-09, the underlying recessionary trend in the German economy appears to have eased considerably at the beginning of the second quarter. Although industrial orders picked up somewhat recently from their very poor level in the first quarter, a cyclical bottoming-out is not to be expected before the middle of the year. The signs of improvement from export demand are still weak overall and domestic demand is suffering from the declining propensity to invest. This is consistent with the fact that the cautious upturn in industrial sentiment continues to be sustained solely by the expectations component, while the current business situation was being rated as very unfavourable up to the end of the period under review. According to the available indicators, private consumption remains a stabilising factor. The main reasons for this are the selective purchasing incentives from the economic stimulus packages, a price climate which is preserving purchasing power, and the comparatively moderate reaction of the labour market so far.

Industry

Output

The pace of the decline in industrial output, which has been rapid since the final quarter of last year, eased perceptibly at the end of the period under review. Seasonally adjusted industrial output in April was 2.9% down on the month; according to the revised figure,

Economic conditions in Germany *

Seasonally adjusted

Period	Orders received (volume); 2005 = 100			
	Industry			Con-struction
	Total	Domestic	Foreign	
2008 Q3	112.2	110.0	114.1	102.0
Q4	93.1	92.5	93.5	94.0
2009 Q1	79.7	82.7	77.1	92.0
Feb	77.9	80.6	75.5	89.4
Mar	80.8	82.1	79.7	91.7
Apr	80.8	82.6	79.3	...
	Output; 2005 = 100			
	Industry			Con-struction
		of which		
	Total	Inter-mediate goods	Capital goods	
2008 Q3	114.6	116.4	117.7	104.7
Q4	106.2	103.8	110.2	106.4
2009 Q1	91.8	90.1	90.2	105.7
Feb	90.6	90.2	87.5	104.2
Mar	91.1	88.7	90.7	110.5
Apr	88.5	87.8	84.9	111.1
	Foreign trade; € billion			*Memo item* Current account balance € billion
	Exports	Imports	Balance	
2008 Q3	252.84	212.83	40.01	40.54
Q4	231.44	193.48	37.96	32.24
2009 Q1	198.89	174.47	24.42	17.52
Feb	65.97	57.12	8.85	6.30
Mar	66.16	57.26	8.90	7.37
Apr	62.96	53.94	9.02	6.38
	Labour market			
	Employ-ment	Vacancies	Un-employ-ment	Un-employ-ment rate in %
	Number in thousands			
2008 Q3	40,385	566	3,212	7.7
Q4	40,393	553	3,195	7.6
2009 Q1	40,266	517	3,336	8.0
Mar	40,227	502	3,398	8.1
Apr	40,167	488	3,455	8.3
May	...	486	3,456	8.2
	Import prices	Producer prices of industrial products	Con-struction prices 1	Con-sumer prices
	2005 = 100			
2008 Q3	112.8	115.0	114.0	107.2
Q4	106.0	114.1	114.0	106.9
2009 Q1	101.9	110.5	114.4	106.8
Mar	101.3	109.7	.	106.7
Apr	100.3	108.0	.	106.8
May	...	108.0	.	106.7

* Explanatory notes, see Statistical Section, X, and Statistical Supplement, Seasonally adjusted business statistics. — **1** Not seasonally adjusted.

Deutsche Bundesbank

there had been a slight increase in March. Nevertheless, the figure over the four quarters was also affected by the fact that the Easter holidays – which fell in April this year – were used by many firms for extended breaks, while it was chiefly the automotive industry which stepped up its production somewhat in March. Industrial output in April was 3½% down on the average of the first quarter. At around 6%, manufacture of capital goods was cut back very sharply, whereas the decline in the intermediate and consumer goods sectors was not so large at 2½% and 1½% respectively. Overall industrial output in April was down by almost one-quarter on the year.

Domestic sales and foreign trade

While domestic sales of industrial goods have stabilised recently, there was a further setback in export business in April. After seasonal adjustment, the value of exported goods showed a fall of 4¾% on the month. Imports, too, were cut back considerably at the start of the second quarter. At 5¾%, the month-on-month decline in imports was – albeit starting from a relatively low level – even greater than that in exports. The trade surplus remained virtually unchanged in seasonally adjusted terms at €9 billion.

Orders received

Seasonally adjusted new industrial orders in April matched the previous month's level; at 3¾%, the March result had brought a considerable increase on the decidedly low figure for February. This was therefore a 1½% increase in orders in April compared with the average of the first quarter. At 5%, the rise was especially sharp in the case of intermediate goods, while mostly negative figures were recorded in the capital goods sector. The order situation benefited mainly from export orders which, in April, were 2¾% up on the level of the first quarter. According to this calculation, domestic orders merely held their level of the first quarter in seasonally adjusted terms, even though the underlying trend has been showing a moderate improvement since February. In April, the year-on-year decline in orders was quite considerable at almost one-third in terms of volume.

Construction

Output and orders received

Seasonally adjusted construction output went up by 0.5% in April. This followed a notable recovery in March (+6.0%) from its weather-affected low February level. Construction output at the beginning of the second quarter was thus 5% up on the first quarter. Besides continuing catching-up effects, this was due chiefly to the increased implementation of a large number of infrastructure projects financed by resources from the cyclical stimulus packages. Overall, however, construction orders were 2¼% down on the final quarter of 2008 owing to a sharp fall in private construction demand.

Labour market

Employment

The impact of the economic crisis on the labour market has been subdued hitherto, although the negative effects are increasingly being felt. According to initial estimates by the Federal Statistical Office, the seasonally adjusted number of persons in work in April fell by 60,000 on the month to 40.17 million. The year-on-year decline widened to 150,000. March also saw a noticeable fall in the number of employees subject to social security contributions. According to estimates by the Federal Employment Agency, short-time working benefits on economic grounds were claimed by 1.1 million employees in April and May, as was the case in March. In January, this affected only 440,000 persons. In February, the figure was already 930,000. According to the BA-X index, there was a further decline in May in the willingness of enterprises to recruit new staff, and the Ifo employment barometer remained at a depressed level.

Unemployment

Following a sharp rise in April, the unemployment level remained largely unchanged in May at a seasonally adjusted 3.46 million. The delayed spring pick-up in the labour market this year is likely to have played a role in this context. According to estimates by the Federal Employment Agency, without the changeover in the labour market statistics – since the beginning of May, persons formally on the books of private employment agencies are not counted as being unemployed – the rise in unemployment would have been between 15,000 and 20,000. The unemployment figure showed a year-on-year increase of 175,000 in May. The unemployment rate went up by 0.4 percentage point on the year. However, owing to the Federal Employment Agency's annual adjustment of the figure for the labour force, it was 0.1 percentage point lower than in April at a seasonally adjusted 8.2%.

Prices

International crude oil prices

Crude oil prices continued to accelerate owing to the brightening of the global economic outlook. At US$58½ on a monthly average in May, the spot price for Brent North Sea oil was 13½% higher than in April. The increases in the forward markets were somewhat smaller, but prices for future deliveries of crude oil were still being quoted with marked premiums; US$3¼ and US$7¼ were being charged for six-month and 18-month deliveries respectively. As this report went to press, the spot price stood at US$71.

Import and producer prices

Price reductions at the upstream stages of the economy continued at the end of the period under review. In seasonally adjusted terms, the cost of imports in April was 1.0% down on the month and 8.6% down on the year. Seasonally adjusted industrial producer prices remained unchanged in May; the year-on-year rate was -3.6%. Energy prices rose again somewhat on the month in the wake of higher oil prices, while prices of intermediate goods continued to ease. The prices of finished goods (capital and consumer goods) showed little change.

Consumer prices

Following a slight rise in April, consumer prices declined again in May by a seasonally adjusted 0.1%. On average, consumer prices were therefore no higher than at the beginning of this year. In seasonally adjusted terms, consumers had less to pay for food, package holidays and air travel, while the prices of other services showed a moderate rise. Not least owing to base effects, the overall figure for the national consumer price index (CPI) fell to 0.0% and for the Harmonised Index of Consumer Prices (HICP) was likewise down to 0.0%, compared with 0.7% and 0.8% respectively in April.

Public finances[1]

Statutory health insurance scheme

Surplus in Q1 owing to new system of financing via health insurance fund

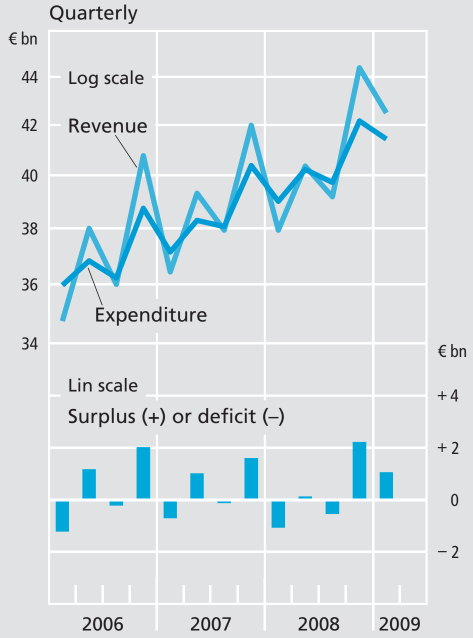
In the first quarter of 2009, the statutory health insurance scheme recorded an overall surplus of €1 billion after posting a deficit of the same size a year earlier. Although expenditure saw a steep rise of just over 6%, revenue was up significantly more sharply, by 12%. This is mainly attributable to the new system of financing the health insurance institutions via the health insurance fund. The fund makes monthly payments to the health insurance institutions which remain largely stable throughout the year. In contrast to the typical pattern of weak contribution receipts at the beginning of the year which are then boosted at the end of the year by seasonal bonus payments, the new pattern is much more balanced from the perspective of the health insurance institutions. Year-on-year growth in revenue has therefore initially been particularly strong among the health insurance institutions, although this trend will reverse itself over the remainder of the year. The tight liquidity conditions at the beginning of the year are currently affecting the health

1 In the short commentaries on public finances the emphasis is on recent outturns. The quarterly editions of the Monthly Reports (published in February, May, August and November), by contrast, contain a detailed description of the development of public finances during the preceding quarter. For detailed statistical data on budgetary developments and public debt, see the statistical section.

insurance fund, which now receives insured persons' contribution payments and, lacking its own reserves, was dependent in the first quarter on transfers from the Federal budget, some of which had been brought forward. Revenue from insured persons' contributions was up by 6% on the year, which was due largely to the introduction of the higher uniform contribution rate of 15.5% to the new health insurance fund at the beginning of the year. Adjusted for the change in the contribution rate, revenue growth stood at 1½%. The negative impact of the economic downturn was cushioned by stable pensions and contributions for recipients of short-time working and unemployment benefits.

Finances of the statutory health insurance scheme*

Quarterly



* Preliminary quarterly results (KV45).

Deutsche Bundesbank

Strong growth in expenditure

Health insurance institutions' expenditure on benefits rose by 6½%, with particularly strong growth in payments for out-patient treatment (+9%) resulting from the new remuneration arrangements. Owing to the Hospital Financing Reform Act *(Krankenhausfinanzierungsreformgesetz)* – which stipulates that, among other things, half of the costs associated with the rises in negotiated rates of pay introduced in 2008 and 2009 can be passed on to the health insurance institutions – there was also a clear increase (+5½%) in the outlays for hospital treatment, which are quantitatively the most significant expenditure item. Growth in spending on pharmaceuticals, at 5½%, continued at its recent high level.

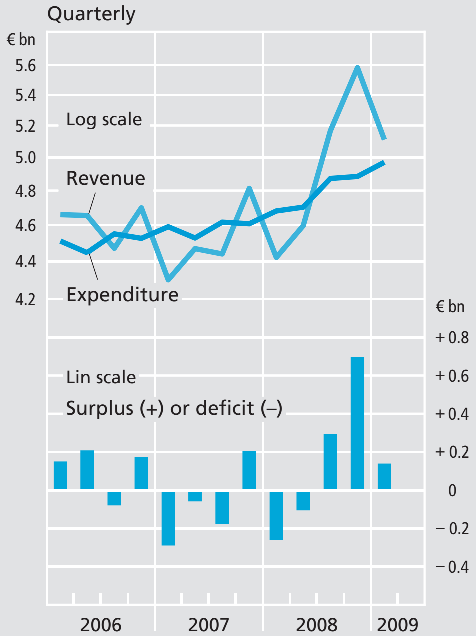
Over the year as a whole, the health insurance institutions will probably be able to cover the significant increase in their expenditure with the predetermined transfers from the health insurance fund, and individual health insurance institutions' demands for additional contributions from their members are likely to remain very limited. However, the health insurance fund is facing a tighter financial situation.

Hardly any additional contributions thus far in 2009 but larger grants to health insurance fund

On economic policy grounds (second economic stimulus package), the contribution rate will be reduced from 15.5% to 14.9% on 1 July. The resulting shortfalls in revenue to the health insurance fund will be offset by bringing forward the increase of just over €3 billion in the Federal grant originally planned for the coming years. Owing to the unfavourable macroeconomic trend[2] and the resulting weak revenue devel-

2 Whereas in autumn 2008 an increase of 2¾% in gross wages and salaries was expected for 2009, the Federal Government of Germany revised its forecast to +1% at the end of April. The economic research institutes' joint assessment predicts a decline of as much as 2.3%.

Finances of the public long-term care insurance scheme*



* Preliminary quarterly results (PV45).

Deutsche Bundesbank

opment, however, over the year as a whole the fund is unlikely to be able to finance the stipulated transfers to the health insurance institutions using contributions and the regular Federal grants. Additional liquidity assistance – for which the second supplementary Federal budget contains an appropriation authorisation of €4 billion for 2009 from central government – will therefore be required. These funds must be paid back by the end of 2011 at the latest. For next year, the uniform contribution rate of 14.9% will only need to be raised if the expected revenue from contributions and the regular Federal grant is not sufficient to cover at least 95% of the health insurance institutions' planned expenditure. Any financing gaps experienced by individual institutions will have to be offset by additional contributions.

Public long-term care insurance scheme

Long-term care insurance institutions in surplus at beginning of 2009 ...

For the first quarter of 2009, the public long-term care insurance scheme posted a marginal surplus after recording a deficit of €¼ billion a year earlier. Owing primarily to the rise in the contribution rate from 1.7% to 1.95% (plus a special contribution of 0.25% to be paid by childless persons) following the nursing care reform of 1 July 2008, revenue growth, at 15½%, was very robust. After adjustment for the increased contribution rate, contributions rose by as little as just over 1%. Growth in expenditure accelerated to just over 6% as the nursing care reform entailed a substantial extension of benefits. Reserves amounted to €4 billion at the end of March.

... and probably also for year as a whole

The public long-term care insurance scheme is also likely to post a surplus for 2009 as a whole. Following the season pattern, fiscal balances typically tend to improve towards the end of the year. However, the one-off impact of the nursing care reform will no longer be felt in the second half of the year, and the unfavourable macroeconomic trend poses a risk. As in the statutory health insurance scheme, the effect of the resulting revenue shortfalls will initially be cushioned by contributions for unemployed recipients of wage substitutes and by pensions. Nevertheless, in the medium to long term, the foreseeable increase in the number of long-term care patients owing to demographic developments and the planned regular adjustments of benefits mean that further rises in the contribution rates can be expected.

Securities markets

Bond market

Sales of debt securities

In April, the gross issuance volume in the German bond market amounted to €152.9 billion, exceeding the figure in the previous month by €5.9 billion. After deducting redemptions – which were likewise higher (€146.0 billion) – and taking account of changes in issuers' holdings of their own bonds, the volume of domestic debt securities outstanding increased by €3.8 billion. In the reporting month, sales of foreign debt securities in the German market amounted to €4.4 billion; on balance, this consisted exclusively of euro-denominated securities. Therefore, the total outstanding volume of debt securities in Germany rose by €8.3 billion.

Sales and purchases of debt securities

€ billion

Item	2008 Apr	2009 Mar	2009 Apr
Sales			
Domestic debt securities [1]	– 19.6	– 1.5	3.8
of which			
Bank debt securities	– 2.0	– 10.4	– 15.8
Public debt securities	– 13.0	8.8	15.1
Foreign debt securities [2]	– 10.8	3.8	4.4
Purchases			
Residents	– 26.0	– 2.0	7.2
Credit institutions [3]	5.8	7.1	– 0.3
Non-banks [4]	– 31.8	– 9.1	7.5
of which			
Domestic debt securities	– 26.7	– 21.6	0.6
Non-residents [2]	– 4.4	4.3	1.0
Total sales/purchases	– 30.4	2.3	8.3

1 Net sales at market values plus/minus changes in issuers' holdings of their own debt securities. — **2** Transaction values. — **3** Book values, statistically adjusted. — **4** Residual.

Deutsche Bundesbank

Public debt securities

In April, the public sector once again increased its bond market borrowing, raising €15.1 billion compared with €8.8 billion in March. Central government enlarged its capital market debt by €9.4 billion. As in the preceding months, it issued primarily short-dated Treasury discount paper (Bubills) for €14.6 billion. It also issued two-year Federal Treasury notes (Schätze) for €7.1 billion, ten-year Federal bonds (Bunds) for €4.8 billion and, to a lesser extent, Federal savings notes for €0.1 billion. This contrasted with net redemptions of five-year Federal notes (Bobls), thirty-year Bunds and Federal Treasury financing paper (€16.4 billion, €0.6 billion and €0.1 billion respectively). State governments tapped the German bond market for €5.9 billion in April.

Corporate bonds

In the reporting month, German enterprises also enlarged their capital market debt by €4.5 billion, a significantly larger increase than in the previous month (€0.1 billion). In net terms, these were all bonds with original maturities of more than one year.

Bank debt securities

By contrast, in April, domestic credit institutions further reduced their capital market debt, a process which they began in December 2008. Overall, they redeemed their own bonds worth €15.8 billion net. These included, above all, public Pfandbriefe (€7.3 billion) and mortgage Pfandbriefe (€3.9 billion) as well as other bank debt securities which can be structured flexibly (€1.1 billion). Specialised credit institutions, which include public promotional banks, also scaled down the outstanding volume of their own bonds (by €3.4 billion).

Purchases of debt securities

German non-banks were the main purchasers of debt securities in April. They added debt securities worth €7.5 billion net to their portfolios; the majority of these were foreign debt instruments (€7.0 billion). Non-resident investors purchased €1.0 billion worth of German bonds, predominantly public-sector instruments (€4.7 billion). Domestic credit institutions sold interest-bearing paper with a total net value of €0.3 billion. They sold, above all, foreign paper (€2.6 billion) and own debt instruments (€3.1 billion) and purchased public debt securities (€6.0 billion).

Equity market

Sales and purchases of shares

In comparison with the previous month, the issuance volume in the German equity market was very modest in April (€0.6 billion compared with €4.1 billion in March). The majority of these issues took the form of listed shares (€0.5 billion). The stock of foreign equities in the German market decreased by €0.9 billion in April, meaning that the total volume of shares outstanding in Germany diminished by €0.2 billion. Domestic credit institutions were the main purchasers of equities (€12.6 billion). In addition, German non-banks increased their shareholdings by €2.3 billion. By contrast, foreign investors – as in previous years – sold German stocks (€15.1 billion net) ahead of the dividend payment dates.

Mutual fund shares

Sales and purchases of mutual fund shares

Domestic mutual funds recorded an inflow of €2.0 billion in April following an outflow of €0.1 billion in the previous month. The capital inflow was channelled above all into mutual funds open to the general public (€2.2 billion), while specialised funds reserved for institutional investors recorded a slight outflow of €0.2 billion. Of the mutual funds open to the general public, equity-based funds and bond-based funds (€1.0 billion in each case) as well as open-end real estate funds (€0.6 billion) recorded greater investment activity. By contrast, €0.3 billion worth of share certificates in money market funds were sold. Foreign mutual funds once again repurchased shares from German investors in April (€2.5 billion). While domestic credit institutions and non-banks cashed in mutual fund shares in net terms (€1.8 billion and €0.6 billion respectively), foreign investors purchased €1.9 billion worth of German mutual fund products.

Balance of payments

Current account

The German current account recorded a surplus – in unadjusted terms – of €5.8 billion in April 2009. The result was thus €5.2 billion down on the level of the previous month. This can be attributed to a smaller trade surplus and a turnaround resulting in a deficit in terms of invisible current transactions, which comprise services, income and current transfers.

Foreign trade

According to provisional figures released by the Federal Statistical Office, in April the foreign trade surplus went down by €1.9 billion on the month to €9.4 billion. By contrast, after adjustment for seasonal and calendar effects, it remained practically unchanged at €9.0 billion. The value of imports declined – from a relatively low level – more sharply (-5.8%) than that of exports (-4.8%). Compared with the first-quarter average, seasonally adjusted nominal exports went down by 5.0%, while imports decreased by 7.3%. More than one-fifth of the decline in imports is attributable to lower prices, especially for some energy sources.

Invisibles

A deficit of €3.1 billion was recorded for invisible current transactions in April, compared with a surplus of €0.7 billion in March. This turnaround is the result of the deterioration in the income balance, which declined by €4.9 billion to €0.1 billion. The sharp increase in dividend payments to non-residents was a major contributory factor. By contrast, the deficit in services remained stable at €0.7 billion. In addition, the deficit in current transfers fell by €1.1 billion to €2.5 billion.

Portfolio investment

Cross-border portfolio investment was dominated by net capital exports in April (€13.0 billion), compared with inflows of €3.8 billion in March. This reversal was due to the fact that foreign investors sold German securities (€12.2 billion) after acquiring domestic paper to the amount of €5.1 billion in the preceding month. As usual in the run-up to the dividend payment dates, they sold German shares (€15.2 billion), albeit to a lesser extent than in the same month a year earlier

Major items of the balance of payments

€ billion

Item	2008	2009	
	Apr	Mar r	Apr
I Current account			
1 Foreign trade 1			
Exports (fob)	89.5	70.0	63.8
Imports (cif)	70.5	58.7	54.4
Balance	+ 19.0	+ 11.3	+ 9.4
Memo item Seasonally adjusted figures			
Exports (fob)	84.6	66.2	63.0
Imports (cif)	67.9	57.3	53.9
2 Supplementary trade items 2	– 0.9	– 0.9	– 0.6
3 Services			
Receipts	13.9	12.8	13.0
Expenditure	14.1	13.5	13.7
Balance	– 0.2	– 0.7	– 0.7
4 Income (net)	– 0.6	+ 5.0	+ 0.1
5 Current transfers			
from non-residents	2.4	0.8	1.9
to non-residents	4.4	4.4	4.3
Balance	– 1.9	– 3.6	– 2.5
Balance on current account	+ 15.4	+ 11.0	+ 5.8
II Capital transfers (net) 3	– 0.1	+ 0.2	+ 0.3
III Financial account (net capital exports: –)			
1 Direct investment	– 8.7	– 9.6	– 4.7
German investment abroad	– 7.7	– 10.3	– 5.7
Foreign investment in Germany	– 1.0	+ 0.7	+ 1.0
2 Portfolio investment	– 32.0	+ 3.8	– 13.0
German investment abroad	+ 14.8	– 1.3	– 0.7
of which			
Shares	+ 6.2	+ 0.8	+ 1.2
Bonds and notes 4	+ 2.4	– 4.8	– 3.1
Foreign investment in Germany	– 46.8	+ 5.1	– 12.2
of which			
Shares	– 45.9	+ 1.8	– 15.2
Bonds and notes 4	– 4.8	– 9.9	– 12.2
3 Financial derivatives	– 9.3	+ 4.0	– 0.7
4 Other investment 5	+ 35.6	– 15.7	+ 10.8
Monetary financial institutions 6	+ 17.0	+ 20.0	+ 0.6
of which			
Short-term	+ 27.6	+ 21.5	+ 1.3
Enterprises and households	+ 5.6	– 18.2	+ 1.1
General government	+ 15.1	– 4.6	+ 8.2
Bundesbank	– 2.1	– 12.9	+ 0.9
5 Change in the reserve assets at transaction values (increase: –) 7	– 1.1	– 1.7	– 0.6
Balance on financial account	– 15.6	– 19.1	– 8.2
IV Errors and omissions	+ 0.3	+ 7.9	+ 2.1

1 Special trade according to the official foreign trade statistics (source: Federal Statistical Office). — **2** Including warehouse transactions for account of residents and deduction of goods returned. — **3** Including the acquisition/disposal of non-produced non-financial assets. — **4** Original maturity of more than one year. — **5** Includes financial and trade credits, bank deposits and other assets. — **6** Excluding Bundesbank. — **7** Excluding allocation of SDRs and excluding changes due to value adjustments.

Deutsche Bundesbank

(€45.9 billion). Conversely, they invested in mutual fund shares (€1.9 billion) and debt securities (€1.0 billion). With respect to debt securities, foreign investors shifted considerable funds out of bonds and notes (€12.2 billion) and into money market paper (€13.3 billion). In April, German investors purchased €0.7 billion worth of foreign securities. While purchasing debt securities – in particular, bonds and notes – from abroad (€4.4 billion), they disposed of mutual fund shares and shares to the combined value of €3.7 billion.

Direct investment

Direct investment activity likewise resulted in net capital exports. However, at €4.7 billion this figure was just below half the level recorded for the previous month. German parent companies provided their foreign branches with funds amounting to €5.7 billion. They primarily increased their capital stakes abroad (€7.4 billion), whereby a large part of this amount was dedicated to bolstering capital reserves of subsidiaries in order to offset losses. By contrast, German enterprises experienced inflows of funds (€2.5 billion) from intra-group credit transactions. This took the form, in particular, of repayments of trade credits by affiliated enterprises abroad. In the reporting month, investment by foreign proprietors in Germany was limited (€1.0 billion).

Other investment by non-banks and…

Other statistically recorded investment comprising financial and trade credits (where these do not constitute direct investment) as well as bank deposits and other assets saw inflows of funds from abroad in April (€10.8 billion compared with capital exports of €15.7 billion in March). A major role here was played by €9.3 billion worth of inflows of funds to non-banks. Of this amount, €8.2 billion resulted from the activities of general government, which in particular took up short-term loans abroad. A further €1.1 billion were generated by the transactions of enterprises and households.

… the banking system

In the banking system, unsecuritised credit transactions led to additional inflows worth €1.5 billion as credit institutions substantially increased both their short-term external claims and their short-term external liabilities.

Reserve assets

The Bundesbank's reserve assets increased – at transaction values – by €0.6 billion in April.