

Economic conditions in Germany

Macroeconomic situation

The upturn in the German economy continued into the third quarter of 2011. According to the Federal Statistical Office's flash estimate, seasonally and calendar-adjusted real gross domestic product (GDP) increased fairly sharply again in the third quarter by 0.5% on the preceding three-month period after extraordinary effects had slightly slowed the pace of growth to 0.3% in the second quarter. Going into the second half of 2011, the underlying cyclical tendency was therefore not much weaker than in the first six months. During the reporting period, seasonally and calendar-adjusted economic output clearly exceeded the peak it had marked prior to the onset of the financial and economic crisis. In the year to date, moreover, the level of use of aggregate capacity, which had previously already reached the corridor of normal utilisation, is likely to have risen perceptibly.

*Strong GDP
growth in 2011
Q3, ...*

However, a look at the pattern of development in monthly production indicators shows that economic momentum has waned of late. Furthermore, the substantial lowering of business expectations that has been observed for some time is being reflected in a considerable deterioration of industrial new orders. External perturbations, as mirrored in plummeting international stock markets and sagging sentiment, are now perceptibly weighing on real economic activity in Germany and are likely to leave their mark over the next few months. This increases the risk that domestic economic dynamics may weaken.

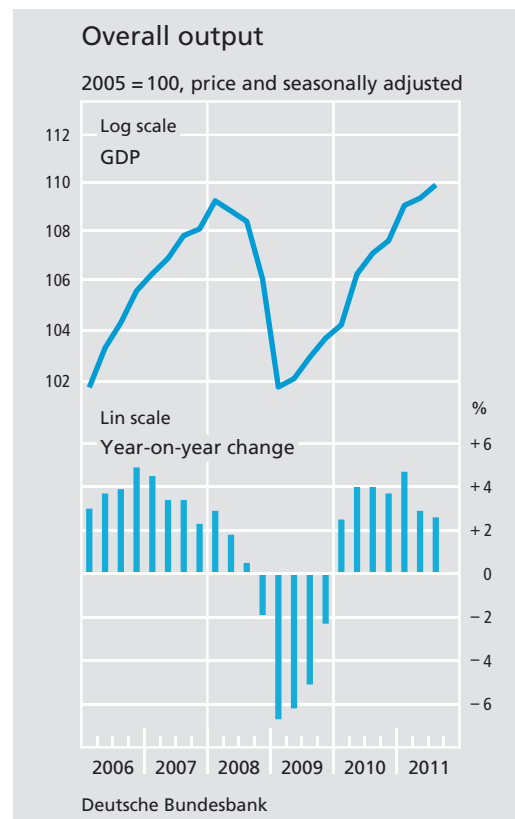
*... but
unfavourable
outlook*

*Buoyant export
activity*

German enterprises' foreign trade remained buoyant in the third quarter of 2011 despite growing concerns about global economic developments. The value of exported goods rose by a seasonally adjusted 2¼% in the summer months. Against the backdrop of only minor price rises across the range of German exports, a real increase is likely to have been posted which was not smaller than the perceptible growth recorded in the two preceding quarters. Of late, German enterprises' foreign business has benefited from stimuli from the United States and Japan and the country's east European neighbouring countries. Exports to China and other south and east Asian emerging market economies, by contrast, stagnated, as did deliveries of goods to the euro area. Foreign sales of motor vehicles and automotive components experienced exceptionally dynamic growth. Sales of machinery and electronic goods also increased. There was once again a perceptible seasonally adjusted rise in intermediate goods exports in July and August – primarily metals and metal products – after only a marginal increase had been recorded in the previous quarter.

*Marked rise
in imports*

Imports expanded again appreciably in the third quarter. However, the rate of increase is likely to have been lower than in the previous three months. Purchases of goods by German enterprises from foreign suppliers in the reporting period rose by a seasonally adjusted 1% on the quarter. Demand for energy was particularly strong as it was somewhat cheaper than in the second quarter. Real imports of energy in July and August – more recent data are not yet available – are esti-



ated to have risen by just over one-tenth on the previous quarter on average. In addition to chemical and pharmaceutical products as well as metal products, motor vehicle imports also went up by an above-average amount. This is likely to be due to a sizeable extent to the fact that exports of Japanese brands were no longer being hampered, as they had been in the second quarter, by lost output in connection with the disruptions in the global supply chain resulting from the natural disaster that occurred in Japan. There was, however, a slight decline in purchases of foreign machinery from the middle of 2011 following a marked rise in the first half of the year.

The dynamic upswing in business investment remained intact in the third quarter. Enter-



Dynamic business investment

prises substantially stepped up their purchases of new machinery and electrical equipment. Large-scale investments were also made in vehicle fleets. The current high level of capacity utilisation of tangible fixed assets in large parts of the economy, in conjunction with the now considerable backlog of orders, explains why enterprises have, so far, barely revised their intention to expand production capacity. The order capacity index,

for example, indicates that the current order volume has been consistently above the normal level of industrial output for the past one-and-a-half years. Provided it remains a temporary phenomenon, the fact that demand has eased off from its cyclical high is therefore not inconsistent with plans to expand production capacity. Taking a longer-term view, at any rate, the business investment cycle has not yet reached maturity. In the enterprise sector (excluding housing), for example, the share of gross fixed capital formation in value added in the second quarter of 2011 was still down perceptibly on the price-adjusted level recorded at the end of the last upswing.

Housing construction again provided support to the domestic economy. Demand for residential property remained strong throughout the third quarter, not least because mortgage rates fell to new lows. Output in public sector construction is not likely to have held up at its elevated level of the past few months of late.

Further stimulus from housing construction but public sector construction weaker

Private consumption recovered from its temporary spring lull going into the second half of the year. Retailers reported a seasonally adjusted quarter-on-quarter increase in sales for the reporting period. Moreover, households purchased significantly more motor vehicles again. Higher consumer spending was attributable to sharply improved earnings and a robust propensity to purchase. A contributory factor towards the end of the period was a pick-up in purchases of heating oil, which had been deliberately postponed in

Recovery in private consumption

the late winter and early spring months owing to high prices.

Sectoral trends

High industrial output in July and August not matched in September

Industrial output developed dynamically on balance in the third quarter of 2011. In July and August it clearly exceeded the peak level recorded prior to the crisis. Following the marked rise of 2¼% in the second quarter, industrial output grew by another 2% after seasonal adjustment on an average of the third quarter compared with the preceding three months. The manufacture of capital goods expanded very sharply by 3½% in the reporting period, compared with an increase of 1¾% in the case of intermediate goods. Only the production of consumer goods showed a slight decline (-1¼%). Output was bolstered by the automobile industry, in particular, which benefited from very positive demand conditions of late. Added to this was the fact that a large number of automobile manufacturers shortened their usual plant shutdowns this summer or even refrained from shutting down completely. The output of motor vehicles in the reporting period was therefore up by a seasonally adjusted 7¾% on the quarter. The severe cutback in industrial output alone by 3% between August and September was due partly to this special effect, but it may also be interpreted as a harbinger of a broadly based slowdown in industrial activity, which is likely to occur in the coming months in the light of the noticeably weakened demand dynamics.

This view is supported by Ifo Institute data, according to which manufacturing capacity utilisation in October, at 84¾% of normal full capacity, was rated significantly lower than in April and July (86%). There was an above-average decline in capacity utilisation in the intermediate goods sector, though it held up at just above the long-term sectoral mean – a position which can also be observed in the case of the capital goods sector at present.

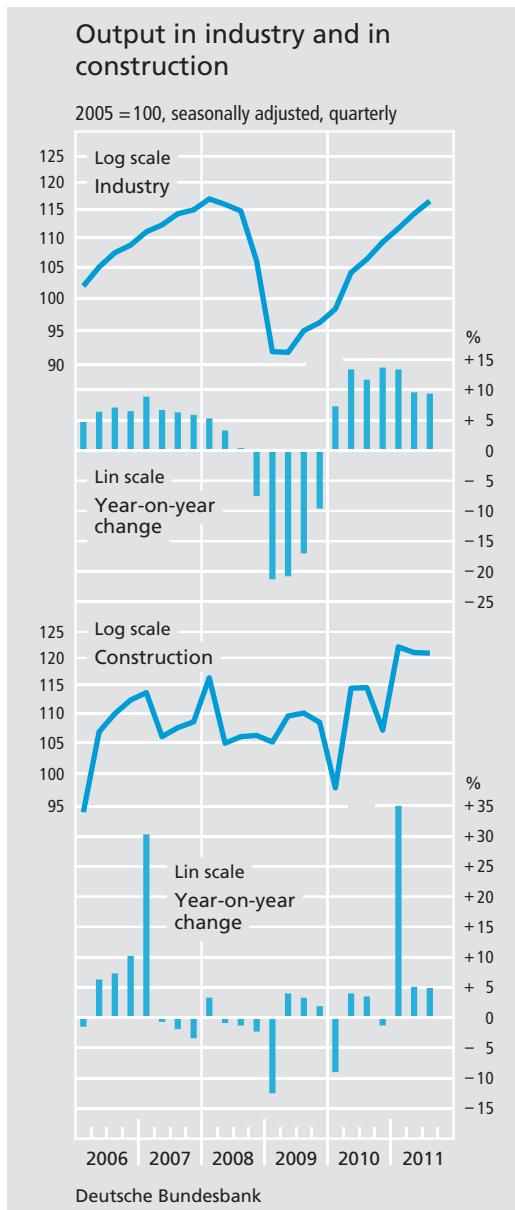
Industrial capacity utilisation noticeably lower at start of Q4

Construction activity has persisted at a high level since the second quarter. Overall construction output remained virtually unchanged between the second and the third quarter of 2011 in seasonally adjusted terms; building construction expanded slightly, whereas civil engineering contracted moderately. Energy production stabilised in the third quarter after it had previously declined considerably following the shutdown of a number of nuclear power plants (see the box on pages 54 and 55 for information on the effects of permanently decommissioning older nuclear power plants on the generation of domestic electricity and cross-border power transmission).

Construction output and energy production showing sideways movement

In the third quarter of 2011, the wholesale and retail trade largely made good the sales losses they suffered in the previous quarter in seasonally adjusted terms. Motor vehicle traders also posted growth in activity. This, however, was by no means enough to offset the sharp fall recorded in the second quarter, which was probably connected in part with the delivery problems of Japanese cars. The transport and logistics sector is likely to have felt the forthcoming slowdown in industrial

Growth in sales in trade sectors, hardly any growth in other services



activity in the third quarter. For example, there was no further seasonally adjusted increase in the mileage of German-registered freight carriers and hauliers on roads subject to toll charges in the third quarter of 2011. Nevertheless, according to Ifo Institute data, service providers (excluding retailers) rated their business situation in the reporting period almost as optimistically as in the preceding months.

Employment and labour market

Employment continued to rise in the third quarter of 2011 on the back of sharply higher economic output. The pace of growth decelerated compared with the first half of the year, however. According to estimates by the Federal Statistical Office, employment in Germany rose by 90,000, or 0.2%, on the quarter after adjustment for seasonal variations. Employment therefore expanded more than one-third more slowly than in the two preceding quarters. Most new jobs that were created were again subject to social security contributions, while the number of persons working exclusively in low-paid part-time jobs remained virtually unchanged in seasonally adjusted terms, and government-sponsored working arrangements (one-euro workfare jobs) were reduced further. Self-employment grew at a rate similar to that of payroll employees.

Modest rise in employment

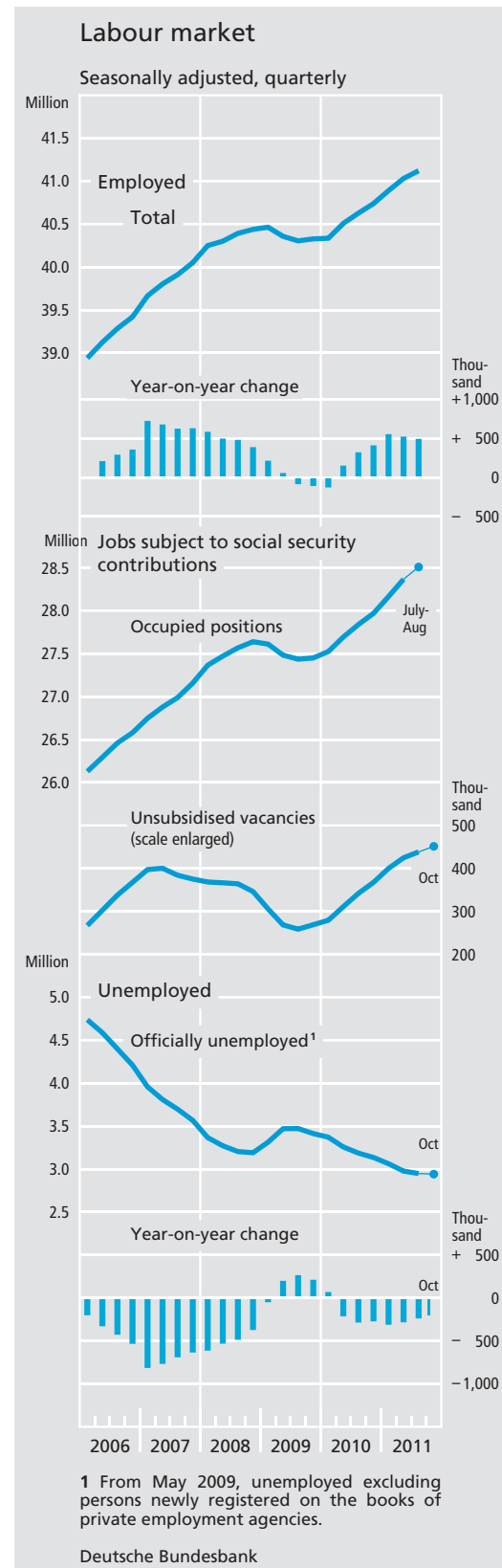
Growth in employment subject to social security contributions, which was up by 120,000 persons, or 0.4%, in July and August taken together compared with the average of the second quarter, was accounted for primarily by the manufacturing sector, the health and social work sector, business-related services (excluding third-party hiring) and the wholesale and retail trade. No further growth in employment was posted in the construction sector in the reporting period following the sizeable gains observed since the beginning of 2010. The number of agency hirings has been tending to decline for a number of months now. This presumably primarily reflects the fact that the

Further rise in employment subject to social security contributions

build-up of a flexibility reserve, which triggered the boom in third-party hiring in the early stage of the recovery, has now come to an end in a large number of enterprises and this is now being followed by an exchange in favour of the core workforce. However, the anticipated deceleration in the pace of economic growth, among other factors, may also have prompted firms to adopt a somewhat more cautious approach, especially with regard to temporary staff.

Migration from EU-8 countries still muted

Citizens from the eight central and eastern EU member states (EU-8), who have been permitted to take up employment in Germany without restrictions since the introduction of full labour mobility within the EU in May 2011, are also benefiting from the growth in employment subject to social security contributions. According to estimates by the Federal Employment Agency, the number of migrants from the EU-8 countries in jobs subject to social security contributions in Germany at the end of August 2011 was around 47,000 higher than the figure recorded immediately prior to the introduction of the new regulation. This represents an increase of 40,000 after adjustment for seasonal variations. The vast majority of these are likely to have been persons who have been living in Germany for some time already. At any rate, data from the Central Register of Foreign Nationals indicate that migration from the EU-8 countries has been



The effect of decommissioning nuclear power plants on the generation and cross-border trading of electricity

On 14 March 2011, three days after the nuclear reactor disaster in Fukushima, Japan, the German Federal government announced a suspension of its nuclear power plant lifetime extension programme as part of a three-month moratorium. Following this, five block-unit nuclear power stations with a net output of more than 5 gigawatts (GW) were taken off-line on 17 and 18 March. Together with the two plants that have not been in operation since 2007 and the two reactor blocks shut down for an overhaul, at the peak in spring, nine of Germany's 17 nuclear power plants with an installed output of just under 10 GW were not connected to the grid. This represents 6% of the country's entire domestic electricity-generating capacity.¹ The Federal government decided to permanently decommission the eight oldest nuclear power plants with effect from 6 August 2011. Although the moratorium had already ended seven weeks before the final switch-off date, none of the power plants concerned was started up again.

Permanently forgoing the use of around two-fifths of the nuclear power plants' output leads to a reduction of the potential domestic electricity supply, which is determined by the generating capacity of all the domestic electricity producers. It is the effective supply, however, which is relevant to the market and this would be unaffected by the nuclear power plants being switched off if reserve capacities could be used on an adequate scale and/or the average capacity utilisation of other plants were to be raised accordingly. For various reasons, this did not occur in the short term, however, resulting in a marked reduction in the domestic supply. What proved to be a likely technical obstacle was that the baseload capacity of nuclear power could not simply be taken up by other energy sources. From an economic perspective, it may have been relevant that departures from the normal degree of capacity utilisation lead to increased plant wear and tear, making additional maintenance work necessary.

¹ The Federal Association of the Energy and Water Industry (Bundesverband der Energie- und Wasserwirtschaft) gives the net capacity of all Germany's power plants in 2010 as 166 GW. Their data are based on estimates, particularly in the field of renewable energy and in the case of industrial power plants. — ² In May 2011, the nuclear power plants fed very little electricity into the grid. The monthly supply volume has

The main reason for maintaining additional power plant capacities, from an economic point of view, is to ensure the security of supply. Expansion investments are needed to substitute so that the risk of shortages increasing beyond the level hitherto deemed to be sustainable is avoided in the long term after the plants are shut down, although the effect of these investments will be felt only in the long term. Owing to complex and time-consuming planning and approval procedures as well as long construction times, the commissioning of new plants and the associated expansion of the power grid generally require a considerable lead time.

According to the Electricity Report of the Federal Statistical Office, the production of electricity by nuclear power (less plants' own consumption) slumped by a seasonally adjusted 35% in the second quarter of 2011.² In terms of pure numbers, this almost completely "explains" the 10% decline in electricity generation for general supply to 104 terawatt-hours (TWh). This is likely to overstate the adjustment in the level of the effective domestic supply, however. The monthly production results are not based on reports by all the electricity producers. While electricity from nuclear power is incorporated fully into the statistics, the amounts generated by smaller producers, in particular from photovoltaic plants, wind parks and biomass power plants, are not adequately recorded as there is a maximum number of power plant operators to be surveyed as well as a reporting threshold. Industrial electricity production for self-supply is likewise not included in the statistics.

German electricity suppliers responded to the decline in domestic production mainly by stepping up imports. Since April 2011, the foreign trade statistics have been showing a deficit in cross-border trade in electricity after regularly recording a surplus from 2003 onwards. The import and export of electricity has a distinct seasonal pattern. Every spring, there is a significant reduction in

since clearly recovered from this low. — ³ Electricity plays a dominant role on the export side, however. In the second quarter of 2011, electricity accounted for two-fifths of the overall very small primary energy exports. — ⁴ On a monthly basis, it was only in April and May 2011 that there were net imports of electricity in seasonally adjusted terms. Since June, electricity has been exported again on balance on a small

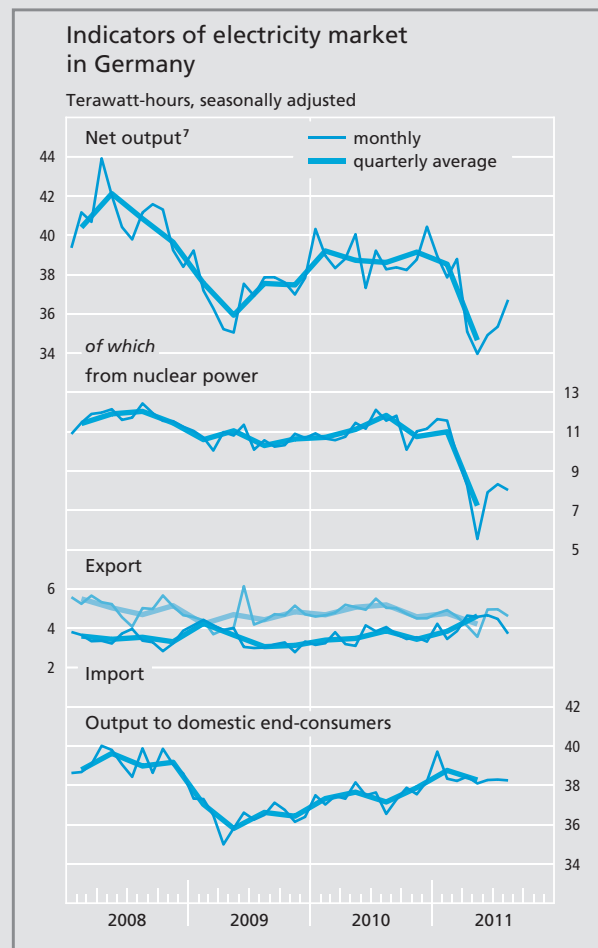
(gross) electricity exports, which increase again in the autumn. This is mostly due to the fact that Austria and Switzerland import less electricity from Germany on balance during the second and third quarters of the year as they can generate more themselves thanks to the snow-melt. Output to these two countries was especially low this year. Since April, there has also been a noticeable rise in electricity imports, with mainly French suppliers feeding additional electricity into the German grid. A similar response was also identifiable in the supply balances with Denmark and the Netherlands.

The shifts in cross-border trade in electricity have not had any significant impact on the German energy balance, however, which is characterised by high levels of oil and gas supplies from abroad. In real terms, electricity accounts for no more than around 5% of Germany's entire primary energy imports.³ The fact that monthly net earnings from international trading in electricity have declined by some €100 million year on year since the nuclear power plants were switched off is hardly significant given a monthly deficit in primary energy carrier trading, which has been fluctuating between €4 and €8 billion since 2008.

According to the Electricity Report, Germany imported a seasonally adjusted 1¼ TWh of electricity on balance in the second quarter of 2011, compared with net exports of 2¾ TWh during the first quarter of the year.⁴ This turnaround in cross-border trading nevertheless accounts for merely one-third of the statistically recorded decline in domestic electricity generation of 11½ TWh during the same period. Considering that electricity consumption shows comparatively little fluctuation from one quarter to the next in seasonally adjusted terms,⁵ a considerable unexplained residual persists on the supply side, which may be associated with the aforementioned recording problems.

scale. — ⁵ One indication of this is the supply of network operators to domestic end-consumers. In the second quarter of 2011, this was a seasonally adjusted 1½ TWh down on the quarter and somewhat up on the year. — ⁶ At present, experts are looking into how the informative value of energy statistics can be improved. See W Bayer (2011),

Overall, it can be said that, with the decommissioning of eight nuclear power plants, Germany's domestic electricity production from conventional sources has shown a perceptible decline. This has been partly offset by the fact that, on balance, German electricity providers have since supplied virtually no electricity for export. It can also be assumed that domestic electricity production has been increasingly shifted to plants that are not currently covered by the infra-annual energy reports.⁶



Sich ständig wandelnde Energiemärkte – eine Herausforderung für die amtliche Energiestatistik, *Wirtschaft und Statistik*, August 2011, pp 753–761. — ⁷ Gross output of general supply less the power plants' own consumption.

mutated so far.¹ One reason for this is presumably that demand for labour in the construction sector and in third-party hiring, which have so far accounted for the largest shares – at just under one-fifth in each case – of the growth in employment among persons originating from one of the EU-8 countries, is not experiencing any further growth at present. Furthermore, the finding that the rise in the number of persons from these countries working exclusively in low-paid part-time employment between April and August, especially in the agricultural and hotel and restaurant sectors, was greater than last year is also an indication that this additional labour supply was focused primarily on jobs which tend to have a low skills profile. Nevertheless, there is considerable demand for highly qualified and skilled workers, the recruitment of whom is often a time-consuming process, especially when recruiting from abroad.

Slower pace of decline in registered unemployment

The falling trend in unemployment continued in the third quarter of 2011. At 2.95 million, around 28,000 fewer persons were registered as unemployed in the reporting period (seasonally adjusted) than in the second quarter, when the corresponding figure declined by as much as 86,000. The unemployment rate fell by 0.1 percentage point to 7.0% in the period under review. While unemployment among longer-term job seekers receiving welfare benefits continued to fall moderately, no further noticeable drop was recorded in the number of unemployed workers claiming insurance benefits, which was already at a very low level. The strong cyclical undercurrent that has boosted the

labour market over the past twelve months is demonstrated by the fact that underemployment (excluding short-time work), which also includes persons participating in labour market policy measures, declined by more than half a million persons compared with last year, whereas registered unemployment fell by just 239,000. Registered unemployment did not decline any further in October 2011 in seasonally adjusted terms; the corresponding unemployment rate remained at 7.0%.

According to the leading indicators available for the labour market, the positive development is likely to continue for the time being as the incentive to expand production capacities is still the dominant factor in staffing plans in trade and industry. The Ifo employment barometer with a survey horizon of three months has fallen perceptibly vis-à-vis the peak reached in the first quarter. Nevertheless, it is still clearly expansionary. In addition, the autumn survey conducted by the German Chamber of Commerce (DIHK), which investigates the hiring intentions of enterprises over the next 12 months, indicates that those enterprises intending to reduce their headcount are by far outnumbered by those with plans to increase their staffing levels or to leave them unchanged. There was a further seasonally adjusted increase in the third quarter in the number of vacancies registered with the Federal Employment Agency for jobs not promoted by la-

Weaker yet still positive outlook for labour market

¹ The (gross) influx of immigrants from the EU-8 countries in the four-month period from May to August 2011 was only about 13,000 higher than in the previous year, with the lion's share of the increase being accounted for in May alone; see Wanderungsmonitor (migration monitor) of the Federal Office for Migration and Refugees.

bour market policy measures. The pace of increase slowed down considerably compared with the preceding quarters, however. A similar picture is also revealed by the quarterly IAB Job Vacancy Survey for the third quarter of 2011. The BA-X index for job vacancies, which provides information on the current level and intake of vacancies, was only marginally higher than in the previous quarter. This is a reflexion of the fact that, for the second time in succession, fewer new vacancies were reported in the quarter under review than in the preceding period. There was also a decline in the number of job placements in the third quarter, which resulted in vacancies remaining unfilled for longer periods and a lower turnover on the labour market.

Wages and prices

Strong growth in actual earnings in first half of 2011, ...

Meanwhile, employees are benefiting from the favourable labour market situation in the form of sharply higher earnings. In many industries, these are well above the collectively agreed wage increases. A number of enterprises in the metal-working and electrical engineering industries, for example, in which, from today's perspective, a comparatively moderate wage increase had already been agreed in 2010, made generous voluntary one-off payments. Moreover, a number of chemical and pharmaceutical companies granted substantial bonus payments on top of the sizeable wage increase already agreed this year. Another factor contributing to the sharp rise in actual earnings was that regular working hours continued to converge to-

wards the normal level, thus also pushing up the amount of paid overtime. These special factors are likely to become much less significant as the year progresses. Nevertheless, a markedly positive wage drift, measured on a monthly basis, will be recorded for the year as a whole.

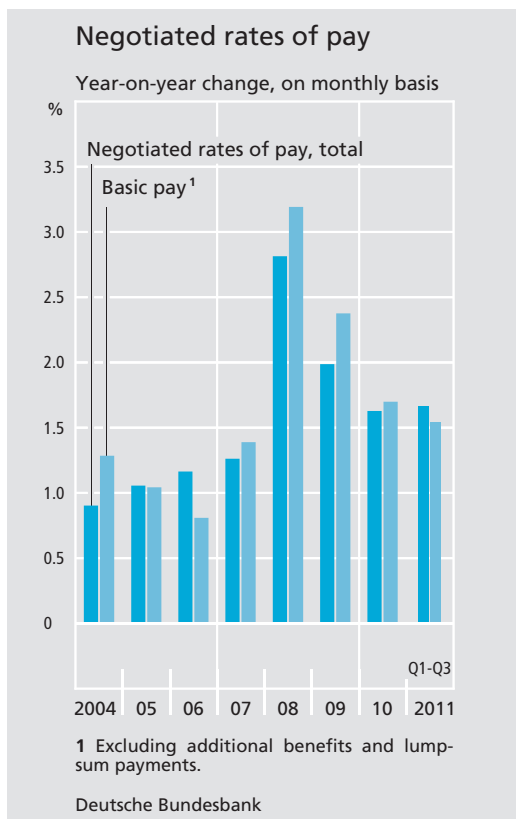
The moderate pattern of increase in negotiated rates of pay continued in the third quarter. According to Bundesbank statistics, negotiated rates of basic pay went up by 1.9% year on year in the third quarter of 2011, compared with 1.6% in the second quarter.² This is essentially due to wage agreements that were concluded earlier as no further wage settlements were finalised in the larger economic sectors in the second half of 2011. Including all one-off and ancillary payments, negotiated rates of pay in the reporting quarter went up by an average of 1.9% on the year, with marked differences between sectors. The wage increase in the very heterogeneous services sector, for example, where pay rates were raised by 1.7% on the year in the third quarter, was perceptibly lower than in the cyclically buoyant industrial sector (2.5%).

... but only moderate rise in negotiated wages

There are currently ten sectors with generally binding minimum wage levels negotiated upfront between the respective wage bargainers. It is difficult to objectively measure the effects on employment of these interventionist wage policies. However, it is to be expected that the risk of negative effects in-

Renewed debate about minimum wage

² The Federal Statistical Office, whose index excludes government employees with civil servant status, reports an increase of 1.8% in negotiated rates of basic pay in the third quarter, compared with 1.5% in the second quarter.



increases when social policy considerations become a factor in the wage bargaining process for professions which tend to have a low skills profile. This applies particularly to calls to introduce a nationwide minimum wage aimed at ensuring an adequate standard of living for everyone. A basic level of subsistence is already guaranteed for employees in Germany through the existing welfare system.

Further fall in import prices

A moderate drop in prices, or at least a slowdown in the rate of increase, was evident across all stages of the economy in the third quarter. Import prices continued to decline in the third quarter. Nevertheless, they were still up 7% on the year owing to the sharp rise in prices at the turn of 2010-11. The decline in crude oil prices contributed to the favourable

development of import prices in the third quarter, although this tendency was partly counteracted by the depreciation of the euro (which was weaker in percentage terms). Accordingly, energy prices fell most sharply, whereas imported consumer goods became even more expensive. The prices of intermediate goods and capital goods remained largely unchanged. The fall in import price levels was also aided by the fact that the general price upthrust in the wake of the global economic recovery has come to an end. An additional factor was that the looming economic slowdown is starting to ease the pressure on the commodity markets.

Similar trends are largely apparent in German industry's sales prices both at home and abroad, with prices rising only marginally on the quarter in seasonally adjusted terms. Domestic sales prices went up by 5½% on the year, while foreign sales prices rose by just over 3%. Despite the recent improvement, the terms of trade were still considerably more unfavourable than in the third quarter of last year.

Slower rise in industrial sales prices

The quarter-on-quarter rise in construction prices, at 0.7%, was only slightly weaker than in the second quarter as a result of the ongoing buoyant demand, and the year-on-year rate reached 3.0%. According to calculations by the Association of German Pfandbrief Banks (*Verband deutscher Pfandbriefbanken*), purchase prices for owner-occupied housing rose by 1.1% compared with the second quarter of 2011 and by 2.7% on the year.

Marked rise in construction and real estate prices

*Gradual easing
of consumer
inflation*

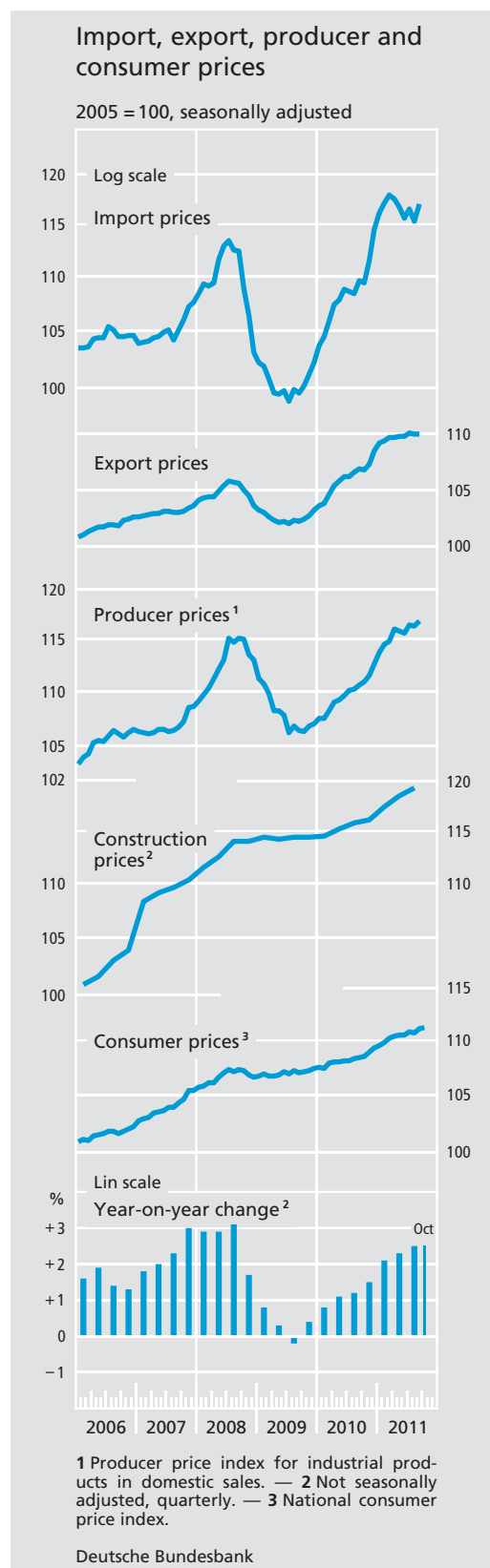
Consumer price inflation has weakened. In the summer months, consumer prices went up by a seasonally adjusted 0.4%, compared with 0.6% in the previous quarter. The rate of price increase for energy almost halted, but excluding energy it continued virtually unabated. Food prices were adjusted in line with the recent sharp rises – in some cases – in the prices of basic foodstuffs. The prices of industrial goods (excluding energy) continued to rise in line with import prices. There was also a perceptible rise in the prices of services despite marked declines in the premiums for motor vehicle insurance. Overall, consumer prices were 2.4% higher year on year. The corresponding figure as measured by the Harmonised Index of Consumer Prices (HICP) was 2.7%.

The moderate rise in consumer prices continued in October. The year-on-year increase in the national consumer price index went down from 2.6% to 2.5%; the HICP rate remained unchanged at 2.9%. The abolition of university tuition fees in North Rhine-Westphalia had an alleviating impact, the effect of which is estimated at 0.1 percentage point. Year-on-year rates are likely to fall further over the next few months as the sharp price rises recorded in the fourth quarter of 2010 are not expected to be repeated.

Orders received and outlook

*Downbeat
mood ...*

The German economy is likely to encounter some turbulence in the coming months. The marked turndown in demand is being compounded by nervousness in the financial mar-



kets and is causing enterprises to take an increasingly pessimistic view of the future. In little more than half a year, the expectation component of the Ifo business climate indicator has fallen from an historical high back into neutral territory. The autumn survey conducted by the DIHK is also pointing to a severe deterioration in the business outlook compared with the previous survey conducted in the early summer. The usual offsetting of the positive and negative reports in this connection does, however, mask the fact that just over three-fifths of the enterprises surveyed are not expecting any change in their market opportunities. The fact that just four months ago enterprises are likely to have assessed their market opportunities very favourably on the whole shows that the finding based on the netting of replies is relative.

... owing primarily to external perturbations

The surveys conducted by the Ifo and the DIHK unanimously show that the cyclical growth-inhibiting factors are currently stemming predominantly from external demand. The industrial sector has now scaled back its export expectations to a level which is somewhat below the longer-term average. By contrast, the construction sector and the consumption-related sectors are anticipating a much less severe deterioration in business prospects. Furthermore, there are, at best, mild indications that enterprises have now substantially revised their basic expansionary focus in terms of investment intentions and recruitment plans. Nevertheless, the unresolved sovereign debt crisis in the euro area is a serious negative factor. Substantial progress towards resolving the crisis could restore the confidence that has been lost and contribute

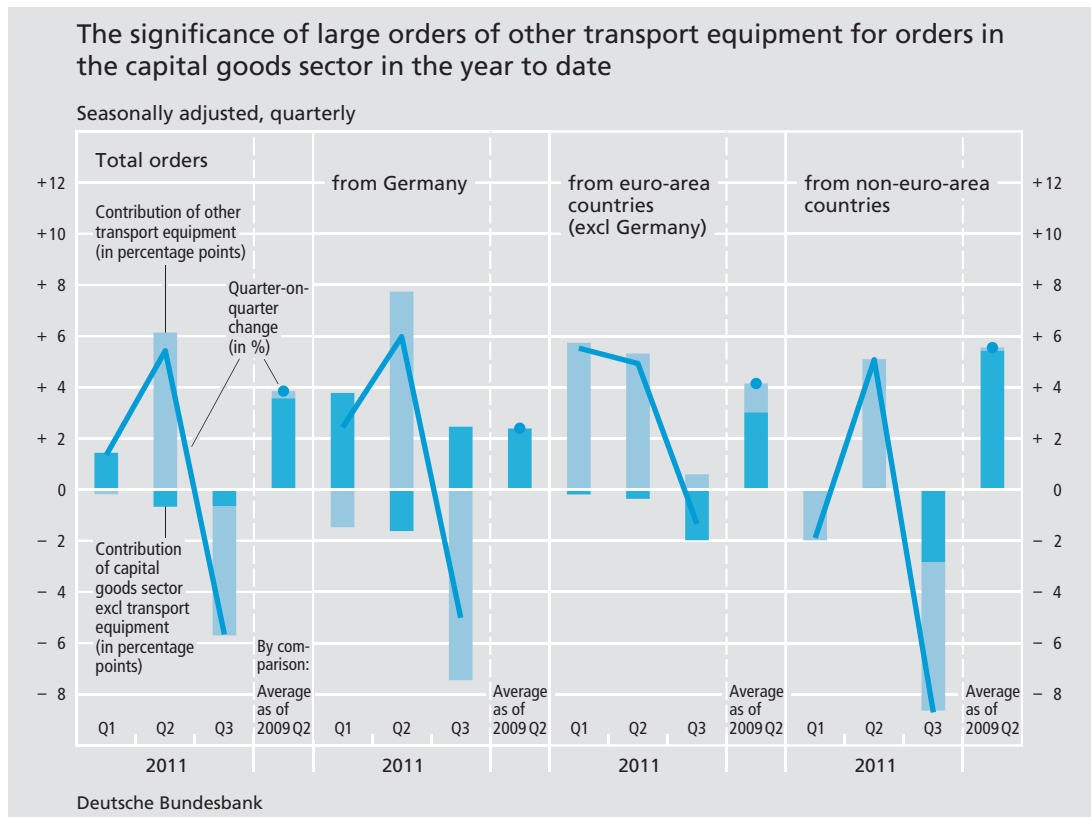
to reducing uncertainty. This would undoubtedly increase the likelihood that the forthcoming economic slowdown remains a temporary phenomenon.

Industrial new orders in the third quarter of 2011 were down by a seasonally adjusted 3½% on the quarter, with the decline recorded in September being particularly pronounced. Domestic orders declined significantly in the reporting quarter by 3¼%. The losses in terms of foreign orders were slightly higher on the whole; these remained limited, however, owing to the fact that the inflow of new orders from euro-area partner countries held up well (+¼%). By contrast, demand for industrial goods from non-euro area countries in the third quarter was much lower than in the second quarter (-6½%).

Sharp decline in industrial orders

The quarter-on-quarter figures were also influenced significantly by the fact that in the third quarter major orders did not match the level reached in the previous three months. The impact of this was particularly apparent in the capital goods sector, which, including as it does the manufacture of other transport equipment, is the largest recipient of major orders in the industrial sector. While the contribution of other transport equipment to the change in orders of capital goods is fairly small overall, given its low share of less than one-tenth on average, the erratic frequency at which major orders are placed means that they can have a substantial impact on the quarterly profile. Significantly fewer orders for other transport equipment were placed by both domestic and foreign customers in the reporting period than between April and

Marked fall in capital goods orders due primarily to fewer big orders



June. This concealed, for instance, the simultaneous increase recorded in domestic orders of machinery and motor vehicles. Two-thirds of the marked decline in the demand for capital goods from non-euro-area markets is attributable to this subsegment of other transport equipment. Owing to the existence of a major European aerospace group, orders of capital goods from the euro area are generally influenced to a comparatively large extent by the manufacture of other transport equipment; these impulses were exceptionally strong in the first half of 2011, but waned significantly after the middle of the year.

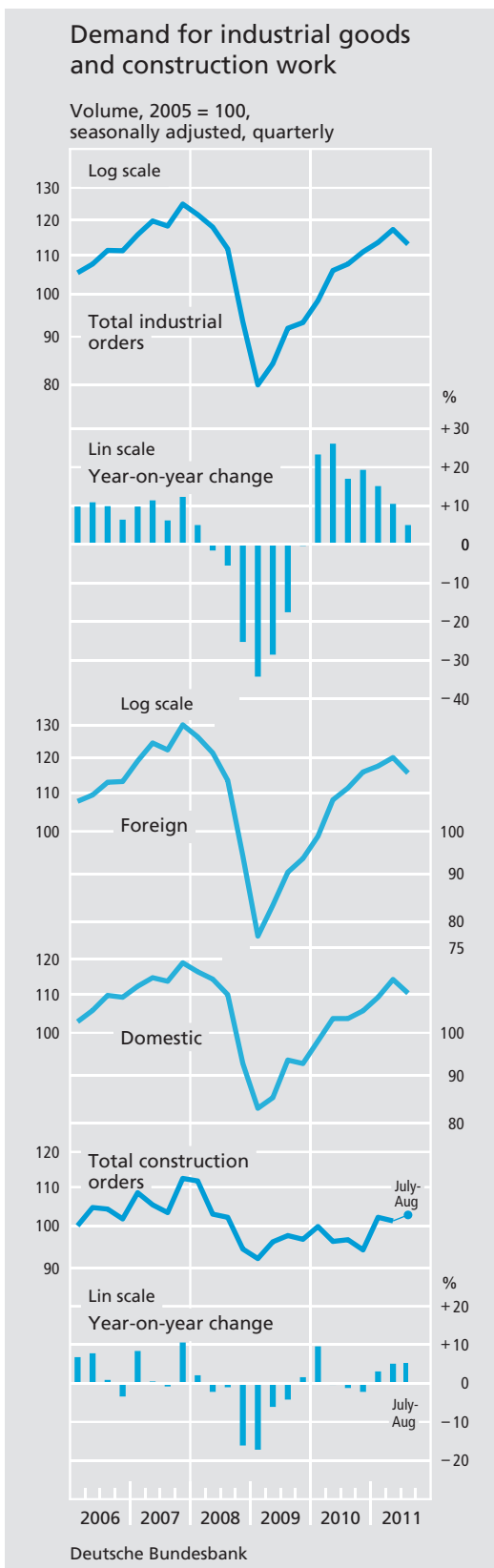
orders for this group of goods from other euro-area countries helped to stabilise the overall level of orders. By contrast, the downswing in the demand for inputs and intermediate goods from non-euro-area countries, which had already begun in the previous quarter, continued. The corresponding market for domestic orders also clearly dipped during the third quarter, though after having recorded sharp growth in the first half of the year. There was slightly less demand for consumer goods in the reporting period than in the second quarter in seasonally adjusted terms.

Intermediate goods orders also down

New orders of intermediate goods declined by a comparatively small amount in the third quarter after adjustment for seasonal variations. The fact that there was a sharp rise in

Construction demand remains favourable. Orders received in the construction sector, which have been subject to considerable monthly volatility owing primarily to the

Construction demand still buoyant



awarding of public infrastructure projects, have held up at a high level since the beginning of the year. The most important demand stimuli were still being generated by housing construction. In particular, the construction of apartment blocks received strong impetus again of late. In the third quarter of 2011, the seasonally adjusted number of building permits for flats in larger dwellings was up by more than one-half on the base level of the years 2008 and 2009. Following strong growth in the first half of the year, not quite as many permits were granted for new single-family and two-family houses at the end of the period under review.

While growing concerns about the economy are also being clearly reflected in household sentiment, this has barely dented their income expectations as employees still anticipate a perceptible rise in their earnings in view of the currently very favourable labour market environment. Despite the heightened uncertainty, there were no signs in recent months of any abatement of consumers' pronounced propensity to make major purchases. The underlying conditions for buoyant consumer demand are consequently still in place, at least in the short term.

Income expectations and propensity to purchase little dented