

■ Economic conditions in Germany

■ Macroeconomic situation

*GDP growth
2012 Q1*

The German economy returned to a path of growth after the turn of 2011-12. Following a slight drop in economic output in autumn 2011, seasonally and calendar-adjusted real gross domestic product (GDP) in the first three months of 2012 rose by 0.5% on the quarter according to the flash estimate by the Federal Statistical Office. Expansionary forces retained the upper hand in a difficult environment. The German economy was put under strain only for quite a short time by the considerable easing in demand for goods and services in the second half of 2011 due to the economic downturn in major global export markets and the ongoing euro-area sovereign debt crisis. Although the slowdown in the pace of economic activity weighed significantly on enterprises' investment, the underlying trend in construction demand remained strong. It is apparent that the losses in construction activity caused by the very cold winter weather in February were offset very rapidly. Moreover, private consumption probably picked up again after the turn of the year. The surprisingly good GDP outcome in the first quarter of 2012 is likely to overstate the underlying cyclical trend.

*Export growth
again ...*

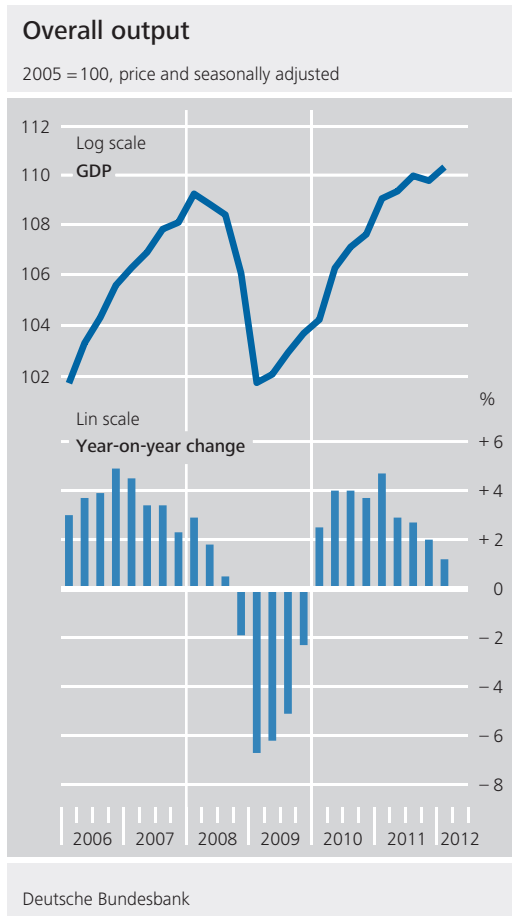
Exports rose over the reporting period in seasonally adjusted terms, following no quarter-on-quarter increase at the end of 2011 for the first time since the beginning of the current upturn. The reignition of the global economy also tallies with the fact that there was more demand again for intermediate goods in the first two months of the current year – more recent detailed figures on German foreign trade are unavailable. By contrast, demand for machinery and motor vehicles made in Germany decreased again after a fall in the previous quarter, whilst foreign sales of consumer goods increased.

The increase in goods exports in the first two months of 2012 was attributable in equal measure to euro-area and non-euro-area countries. Nevertheless, demand stimuli from Germany's euro-area partner countries are currently relatively weak. This is reflected, among other things, by the fact that the marked decline in goods exports last autumn has by no means been recovered. By contrast, there was merely an easing of the pace of growth in exports of goods to non-euro-area countries at the end of the year. The export trend in markets outside the euro area continued to point upwards over the winter months, not least owing to the strong pick-up in US business. In January and February 2012, goods exports to the US were, on average, not quite one-tenth up on the level of the previous quarter, which had already shown a notable increase of 4¾%. In addition, exports to the UK increased and sales of goods to Asia accelerated. Momentum came mainly from China and the newly industrialised economies in Asia, whilst the South and East Asian emerging market economies were still lagging behind. Growth in business with central and east European EU countries was also comparatively subdued. Increased petrodollar recycling is suggested by the fact that exports of goods to OPEC countries jumped by one-third in the final quarter of 2011 and remained at a heightened level after the turn of the year, despite some losses.

*... through
reignition of
global economy*

Seasonally adjusted imports after the turn of the year could have remained unchanged on the quarter in real terms. In the reporting period, nominal expenditure on imports of goods rose due to sharp price increases. The German economy's demand for imports vis-à-vis the euro-area partner countries is holding up slightly better overall than it is with non-euro-area countries. In particular, despite certain signs of improvement at the current end, imports from Asia failed to overcome the moderate underlying trend that set in during the

*By contrast,
imports
unchanged*



is likely to have decreased moderately in the reporting period, following a sideways movement in the previous quarter.

Construction activity was negatively affected by output losses in connection with the very low temperatures in February. With regard to the number of ice days, February was far above the seasonal average, although the other winter months were rather mild. There was a surge in construction activity as early as March. According to survey findings on the utilisation of construction machinery and weather-induced stoppages, however, output was curbed by external factors even in the last month of winter. Thus, in view of the extremely good orders situation in the construction sector, further catch-up effects can be expected from spring onwards.

Construction activity affected by adverse weather conditions

Private consumption could have picked up again somewhat in seasonally adjusted terms at the beginning of the year, after falling in the fourth quarter of 2011. Retail business improved dramatically according to Ifo business surveys carried out during the winter months of 2012. Moreover, following the pronounced uncertainty in the middle of last year, economic optimism has become more widespread among consumers again. In this connection, income expectations, too, have remained largely stable. However, inflation restricted the scope for expenditure perceptibly. High fuel prices, which are normally strongly felt, might have been one factor playing a key part in putting a dampener on the propensity to purchase.

Slight recovery in private consumption

course of last year. By contrast, central and east European EU countries have probably been benefiting recently from the fact that German enterprises again had more demand for inputs and intermediate goods. Looking at energy imports, the OPEC countries became a significant factor again at the beginning of the year, whilst imports from Russia fell markedly after a very strong second half of 2011.

Pause in growth in machinery and equipment investment

Many enterprises are preparing themselves to step up production again rapidly in the next few months. This is indicated by the growth in domestic supplies and imports of inputs and intermediate goods. According to Ifo Institute data, the stock reach of raw and primary materials in manufacturing was significantly longer in the first quarter of 2012 than one year earlier. By contrast, extending capacity currently appears less urgent. Even though vehicle fleets were probably renewed to a somewhat greater extent after the turn of the year, seasonally adjusted investment in machinery and equipment

■ Sectoral trends

Seasonally adjusted industrial output in the first three months of 2012 remained virtually unchanged on the quarter. However, extended breaks in production during the Christmas period had then also contributed to a marked decline (-2%). These special measures were most widespread in the mechanical engineering and automotive sectors. The year began

Industrial output unchanged ...

well for these industries, following the very weak output figure in December. Even so, given depressed demand, there was no return to the high level of production of the summer months.¹ Within the capital goods sector, the motor vehicle industry has so far been least affected by the cyclical cooling tendencies of the second half of last year. Producers of intermediate goods cut back their output by a seasonally adjusted ½% on the quarter. The recently resurgent demand for inputs and intermediate products was evidently met in many cases by drawing on inventories. Consumer goods output fell somewhat more sharply in seasonally adjusted terms after the turn of the year (-1½%).

... normal utilisation maintained

With regard to utilisation and demand conditions, industrial activity was in a largely balanced position at the beginning of 2012. A slowdown in new orders was followed in late 2011 and early 2012 by a reduction in output towards normal utilisation; this is reached with a fixed capital utilisation of just over 84% of normal full capacity in manufacturing, as reported in the Ifo business survey in January and April 2012. There is unlikely to be further adjustment pressure on industrial output, given that the order capacity index shows current orders having been in line with output at normal utilisation for roughly three quarters. In addition, the reach of the order books stabilised at an average level, after peaking last summer.

Construction output burdened by severe frost, energy production weak

Construction output declined considerably in seasonally adjusted terms in the winter months (-1½%). The quarterly figure was depressed by the fact that many outdoor construction activities had to be stopped in view of the very low temperatures in February. The -3¼% decline in civil engineering was stronger than that in building construction (-3%). This was due not only to the fact that civil engineering projects react relatively strongly to adverse weather conditions; it is probably also related to the fact that this construction subsector is in a fairly weak state economically. In the first quarter 2012, energy production rose by a seasonally

Underlying trends in foreign trade

Seasonally adjusted, quarterly



¹ Adjusted for the price indices for foreign trade.
 Deutsche Bundesbank

adjusted ¾% on the quarter. The depressed level of output since numerous nuclear power plants were switched off in March last year thus fundamentally continued to exist.

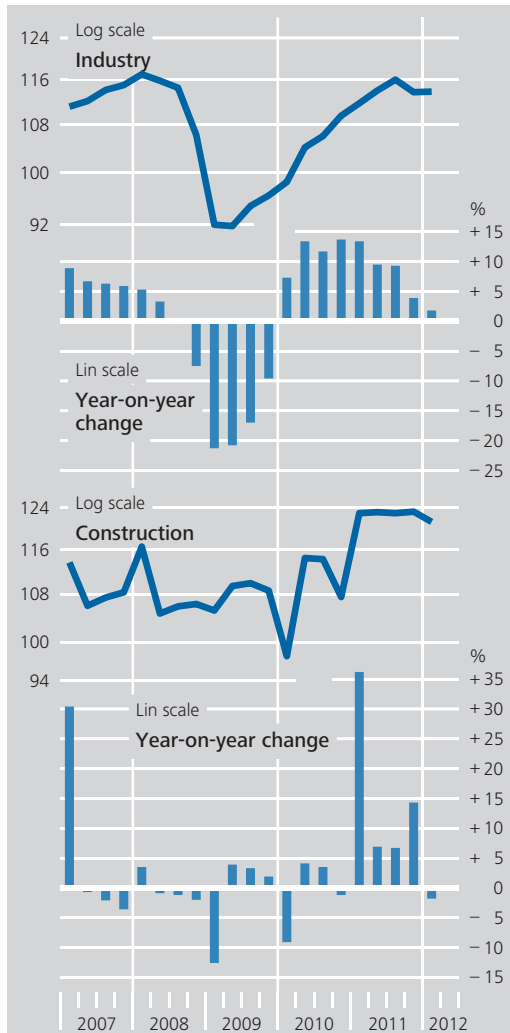
In the trade sector, activity in the first few months of this year may have increased compared with last autumn. According to Ifo Institute data, the assessment of the business situ-

Services show positive underlying trend

¹ The high figure in the statistics recorded for mechanical engineering output in March 2012 is related to the fact that output from the previous period was to a considerable extent reported late and booked in this month. The index value therefore does not correspond to the underlying trend in this industrial sector.

Output in industry and in construction

2005 = 100, seasonally adjusted, quarterly



Deutsche Bundesbank

ation has improved perceptibly, not only in retail but also in the wholesale trade. This outcome can be confirmed for the other surveyed service providers. Since the turn of the year, the underlying trend is likely to have been pointing upward again in the transport sector. For example, the only reason why the mileage of domestic heavy goods vehicles on toll roads declined in the first quarter of 2012 in seasonally adjusted terms was that it was cut back due to adverse weather conditions in February.

Employment and labour market

The winter saw a continuation of the positive labour market development in Germany. According to estimates by the Federal Statistical Office, the seasonally adjusted number of persons in work in Germany in the first quarter of 2012 rose by 192,000 on the quarter, an increase of 0.5%. This, in turn, was probably due to additional jobs subject to social security contributions. In January and February, the increase amounted to 157,000 persons, or 0.5%, compared with the final quarter of 2011.² In addition, there were more self-employed persons. As in previous quarters, there was a declining number of government-assisted working arrangements (“one-euro jobs”) and persons working exclusively in low-paid part-time jobs.

Strong increase in employment again

One part of growth in employment subject to social security contributions at the beginning of 2012 came from manufacturing. Although there has been an ongoing rapid rise for two years now, the pre-crisis level has not quite been matched yet in this sector. There were also further substantial gains in business-related services (excluding temporary agency employment) and in trade. With the exception of the short cold spell in February, the winter was quite mild with little snow overall; this probably contributed to the relatively favourable seasonally adjusted development in employment in the construction sector and in transport and logistics. There was also a slight rise in the temporary agency employment sector in January and February, after growth had come to a halt in the previous two quarters. There were no gains in the public administration and education sectors.

Wide-ranging increase in employment subject to social security contributions

² There is a considerable downward bias in the quarter-on-quarter comparison of employment subject to social security contributions. According to the Federal Employment Agency data, beginning with data for January 2012, around 70,000 persons who took up federal voluntary service or a year of social or ecological voluntary work were removed from the statistics for employees subject to social security insurance contributions. The health and social services sector, which accounts for around two-thirds of such jobs, was particularly affected by this.

Decline in registered unemployment continues

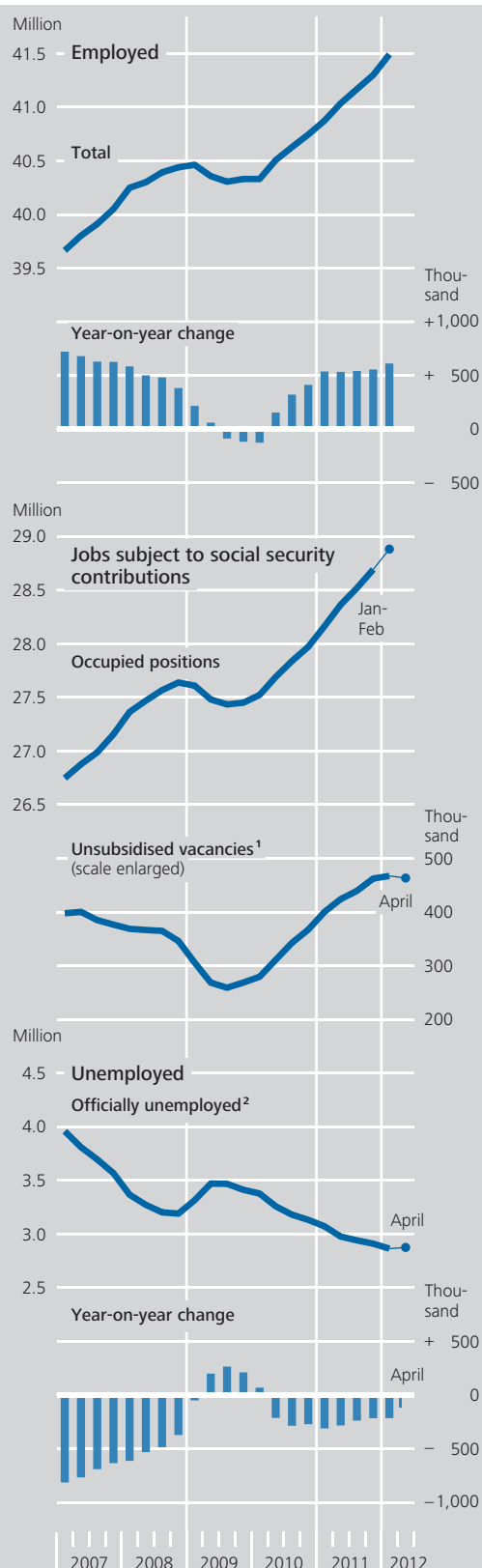
The seasonally adjusted decline in unemployment was somewhat sharper in the first quarter of 2012 in comparison with the previous two quarters. The largely mild weather is likely to have been a contributory factor here. In winter 2012, the seasonally adjusted official unemployment figure was 2.86 million. This represents a decline of around 46,000 on the quarter. As in the second half of 2011, this was predominantly driven by the favourable development in unemployment amongst persons receiving the basic welfare allowance, whilst there was only a minor improvement in the case of unemployed persons claiming insurance benefits. The official unemployment rate fell by 0.1 percentage point to 6.8%. Registered unemployment declined by 216,000 on the year, whilst total underemployment (excluding short-time work), which additionally takes account of changes in the active labour market policy, fell roughly twice as sharply. Seasonally adjusted unemployment went up somewhat in April 2012, not least due to the fact that figures were recorded at the end of the Easter holidays; the unemployment rate remained unchanged, however.

Strong immigration gains

The reduction in unemployment has, for some time, lagged the increase in employment in terms of numbers. This suggests that additional demand for labour is being covered less and less from the pool of unemployed. First, vacancies are being filled by persons in the latent labour force, which increases labour force participation. Secondly, there is increasing immigration from abroad. Provisional data of the Federal Statistical Office show a migration surplus of 279,000 persons for 2011. The eight central and east European EU member states (EU 8), to which complete free movement of workers has applied since May 2011, account for almost two-fifths of this, at around 103,000 immigrants in net terms. However, the effective date of the new ruling had a rather minor influence, as immigration from this group of countries had already shown a marked rise earlier. The same effect is also shown by migration streams from Romania and Bulgaria. Although

Labour market

Seasonally adjusted, quarterly



¹ Excluding seasonal jobs and jobs located abroad. ² From May 2009, unemployed excluding persons newly registered on the books of private employment agencies.

citizens of these two countries will not enjoy full labour mobility until the beginning of 2014, 58,000 persons on balance moved from there to Germany in 2011, a further one-fifth of all net migration. Migration gains are also showing a sharp trend rise compared with a number of countries in southern Europe, albeit at quite a low level.

Outlook for labour market remains favourable

The outlook for the labour market remains positive, although the available leading indicators indicate that development will be slower in the near future in line with the quieter underlying economic trend. The Ifo employment barometer, which measures the planned staffing levels in trade and industry over the next three months, was clearly in expansionary territory in the first quarter of 2012. Although the index decreased slightly for the fourth time in succession in the first quarter, it remained at a comparatively high level at the current end. The Federal Employment Agency index for job vacancies, which is based on information on the current level and intake of job vacancies reported to the Federal Employment Agency, peaked initially in January before declining slightly in seasonally adjusted terms by early spring. Even so, it is signalling a very high demand for labour. This picture is confirmed by the IAB Job Vacancy Survey, according to which there were around 965,000 unsubsidised vacancies in the first quarter of 2012. This is somewhat less than in winter 2011 but still almost 50% more than two years ago. In particular, there were fewer vacancies in the wholesale and retail trade, and in hotel and restaurant services, whilst business-related services reported significantly higher staffing requirements.

■ Wages and prices

Higher pay rates in 2012 pay round

This year's pay round is marked by considerable pay increases. Wage bargainers in the metalworking and electrical engineering industries for the district of Baden-Württemberg agreed to a pay increase of 4.3% from May 2012 for

the next 12 months. In the public sector, an agreement has been reached on a gradual increase of 3.5% in scheduled rates of pay for central and local government employees – over a two-year period – with retroactive effect from March 2012; a further rise of 1.4% in both January and August 2013 has also been agreed.³ A similar settlement in terms of total volume and profile was reached for the employees of Deutsche Telekom. Deutsche Post's pay settlement envisages a 4% increase in basic pay over a slightly shorter period of 15 months from April 2012.

The negotiated rates of basic pay show a discernible acceleration. According to the Bundesbank's negotiated pay rate statistics, their rise in the first quarter of 2012, at 2.5%, was significantly sharper than in the fourth quarter of 2011 (+2.1%).⁴ For negotiated rates of pay including all ancillary agreements, which are often subject to fluctuations due to one-off payments, growth, at 1.8% in the first three months of 2012, was also slightly higher than in the preceding quarter (1.7%). In the reporting quarter, the year-on-year increase in actual earnings was probably somewhat sharper than that in negotiated wages.

Stronger growth in negotiated wages continues

Upward pressure on prices strengthened noticeably at the start of 2012, at all stages of the economy. This was partly due to external influences, mainly the surge in crude oil prices and the perceptible increase in the pace of global economic activity, but also to the considerably weaker euro since last summer. Imports therefore rose significantly on the quarter by a sea-

Accelerated increase in import prices ...

³ In line with a bill passed by the Federal Cabinet, the settlement will be adopted for Federal civil servants, albeit lowered by 0.2 percentage point at each step. Civil servants employed in local government are usually remunerated in accordance with the Collective Agreement for the Public Sector of the Federal states.

⁴ The Federal Statistical Office, whose index excludes civil servants, reports an increase of 2.0% for negotiated rates of basic pay in the first quarter of 2012, compared with 2.1% in the final quarter of 2011. Differences from the Bundesbank's pay index result from the fact that the Federal Statistical Office reports only the monthly figure for January for the first quarter and thus does not include the public sector pay rise from March 2012 onwards.

sonally adjusted 2.4%. As inflation was even stronger at the beginning of 2011, the year-on-year rate fell to +3.4%, however.

... sales prices
 in the industrial
 sector ...

At the beginning of 2012, producers of commercial goods achieved domestic and export prices which were, respectively, just under and just over 1% higher – in euro terms – than in the preceding quarter. This partly reflects the depreciation of the euro. In addition, the positive overall economic situation in Germany probably played a role. The corresponding year-on-year figures fell to +3.3% and +2.0%. There was a further deterioration in the terms of trade.

... and construction
 and real estate
 prices

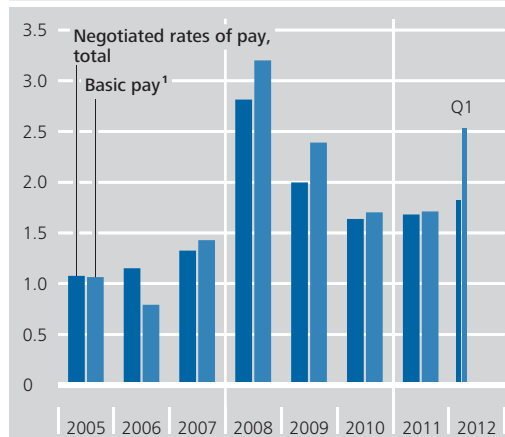
The clearly upward trend in construction activity and the higher prices of raw materials drove up construction prices perceptibly. There was an increase of 1.2% on the quarter and 3.2% on the year. According to calculations by the Association of German Pfandbrief Banks (*Verband deutscher Pfandbriefbanken*), purchase prices of owner-occupied housing went up by 0.8% compared with the end of 2011 and by 2.5% on the year.

Broad-based rise
 in consumer
 prices

The rise in consumer prices in the first quarter of 2012 was even somewhat sharper (seasonally adjusted 0.6%) than in the fourth quarter of 2011. It was mainly the prices of petroleum products that were driven up perceptibly by the sharp increase in crude oil prices, but the prices of gas and electricity rates were also raised. Energy prices were up 7.3% in total on the year. The fairly steep upward trend in food prices continued, reinforced at times by very unfavourable weather conditions. For other goods, robust domestic demand facilitated the pass-through of price increases at the upstream levels of the economy. Services were noticeably more expensive, not only on account of higher rates charged in healthcare. The rise in rents remained moderate, however. The year-on-year rise in food prices was 2.8%; other goods excluding energy were 1.9% up on the year and services (including housing rents) 1.2%. The inflation differential reflects both the fa-

Negotiated rates of pay

Year-on-year percentage change, on monthly basis



¹ Excluding additional benefits and lump-sum payments.

Deutsche Bundesbank

vourable global economic situation – with the exception of the euro area – and the still subdued rise in labour costs and disposable income in Germany. As the very sharp rise in the index in the first quarter of 2011 dropped out of the calculation of the year-on-year rate, this fell in the national CPI from +2.4% to +2.1%. In the Harmonised Index of Consumer Prices (HICP), the annual figure was +2.4% compared with +2.7%.

Consumer prices rose again in April by a seasonally adjusted 0.2%. Fuel prices accelerated again. After seasonal adjustment, travel and holiday services also became considerably more expensive. However, this was countered by the abolition of student tuition fees in Baden-Württemberg as a special factor. The annual CPI and HICP rates declined to +2.1% and +2.2% respectively.

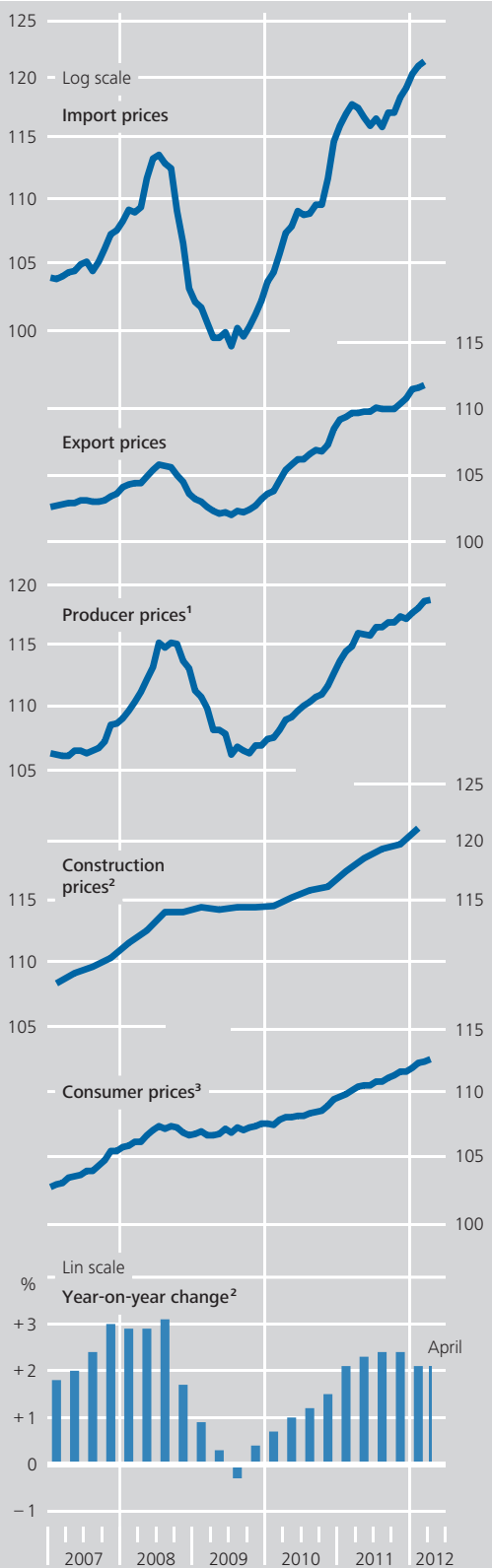
Orders received and outlook

In terms of the underlying trend, the economic upturn could remain in place in Germany during the second quarter. Industry, however, is likely to play no more than a comparatively small part in this, as, given continuing waning demand from the euro area, impulses from non-euro-area countries will hardly be enough

Further economic rebound possible in spring

Import, export, producer and consumer prices

2005 = 100, seasonally adjusted, monthly



1 Producer price index for industrial products in domestic sales. **2** Not seasonally adjusted, quarterly. **3** National consumer price index.

at present to boost output significantly beyond the normal level of utilisation. This also places limitations on investment picking up again. By contrast, construction is expected to make a significant contribution to growth. It is not only demand that continues to flourish in this sector; catching-up effects related to the weather-related slowdown in February will also be significant in the short term. Moreover, the exceptionally positive situation in construction is having a knock-on effect on other sectors of the economy. Craft and construction-related services will probably benefit from this in particular. In addition, there is consumer spending associated with moving into new apartments and homes.

Statistics for industrial new orders show an accentuation of the economic picture of accelerating demand for intermediate goods, while capital goods demand could initially remain subdued. Orders of capital goods rose by a seasonally adjusted ¾% in the first quarter of 2012, which was the first increase for three quarters. The pick-up in orders from countries outside the euro area was slightly stronger (+1¾%). In the reporting period, customers from euro-area partner countries ordered just under ¼% more intermediate goods, whilst growth in Germany was ¾%. Manufacturers of machinery and equipment had to contend with the fact that investment in Germany and abroad is currently in a resting phase. Mechanical engineering is suffering most from this; it had to cope with a decline of 2¾% at the beginning of the year, following a slump of 3¼% in the final quarter of 2011. Losses in domestic and export orders occurred from a level of economic recovery. By contrast, demand for machinery and equipment from the euro area has been subdued for quite some time given the acute underutilisation in many places. Furthermore, euro-area orders for motor vehicles dwindled considerably after the turn of 2011-2012. There was a 10% fall in orders received from the euro area by the German automotive industry, in line with the sharply declining registrations in new motor vehicles in this area.

Demand impulses from non-euro-area

There was a strong upsurge in demand in non-euro-area countries for automobiles (+5¾%) in the first three months of 2012, following no more than a small increase in autumn. The period of stagnation for German car manufacturers persisted on the domestic market.

Small volume in large orders

The lack of large orders in the reporting period was one reason why the flow of industrial orders did not show a positive development overall. Between January and March, orders in other transport equipment, where large orders are particularly frequent, were around one-seventh down on the favourable level of the second half of 2011. There is an even greater decline compared with the first half of last year, when many large-scale orders were received. Given long processing times, the backlog of orders is likely to have been the reason for utilisation in this industrial sector remaining at a high level up to now. Whilst incoming orders, including the manufacture of other transport equipment, declined by a seasonally adjusted ¾%, there was a slight increase if this sector is excluded.

Expectations in industry cautiously optimistic ...

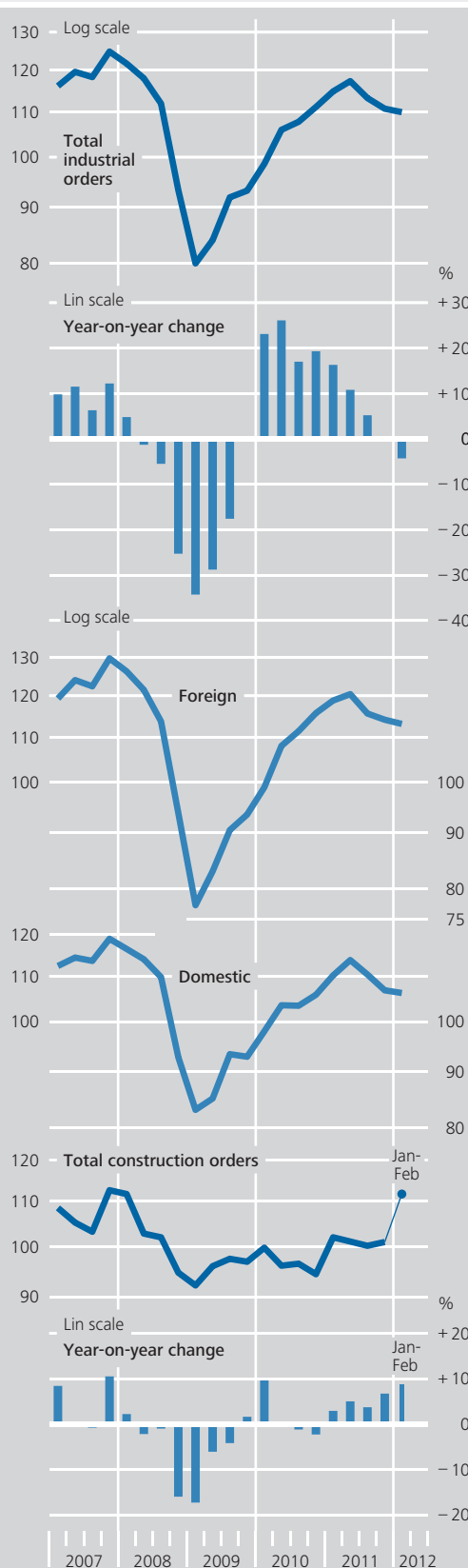
Business expectations in industry in the past few months have risen continuously from the temporary low in autumn 2011. However, the mood is far removed from the pronounced optimism prevailing until spring 2011. Confidence is evidently being depressed by the continuing weakness in the European sales market, which is still important for German goods, despite the global economy's recovery.

... but buoyant mood in construction

The rosy expectations in construction are sustained by broad-based impulses. New orders in the construction sector in January and February – more recent data are not yet available – were up one-tenth on the quarter. Besides the continued favourable development in orders in housing construction and commercial construction, public sector construction also made a substantial contribution this time. After two rather subdued years in terms of awarding contracts, January and February 2012 saw more public construction projects being commis-

Demand for industrial goods and construction work

Volume, 2005 = 100, seasonally adjusted, quarterly



sioned than at any time since the economic stimulus packages in late 2009 and early 2010. In addition, there were numerous new road construction projects. The underlying trend in housing construction remains impressive, even though far fewer building permits were granted at the beginning of 2012 than in the previous final quarter of last year. The point in time to which the statistics are allocated can sometimes have a considerable influence on the monthly growth profile.

Conditions are still advantageous for the favourable labour market setting and positive income prospects being able to prevail in terms of consumer sentiment. Employee income will increase considerably. The latest dampener on the propensity to purchase nevertheless makes abundantly clear that consumer demand grows best in an intact price climate.

*Dampener
in consumer
sentiment*