

Economic conditions in Germany

Underlying trends

GDP rose slightly in 2013 Q1

The German economy grew only moderately at the beginning of 2013. The Federal Statistical Office's flash estimate shows quarter-on-quarter real GDP growth of 0.1% in the first quarter (after seasonal and calendar adjustment), compared with a decrease of 0.7% in the previous quarter. The fact that the expected countermovement was only subdued was due to the long winter, which mainly hampered the construction industry, although it also affected the transport sector. Leaving aside weather-related factors, economic output expanded roughly in line with potential growth, which meant that there was no further decline in macroeconomic capacity utilisation in terms of the underlying cyclical trend. This is consistent with the ongoing positive development in the labour market.

Even so, the engine of exports has not yet started up again and, in view of sufficient capacity, the propensity for industrial investment is still weak. Private consumption provided somewhat more robust stimulus at the turn of 2012-13, although there was a marked decline in households' demand for cars. Construction investment was hampered by adverse weather conditions in the period under review, but given the increasing demand for housing and a greater number of public contracts being awarded again recently, it is likely to return to a higher level of activity in the short term.

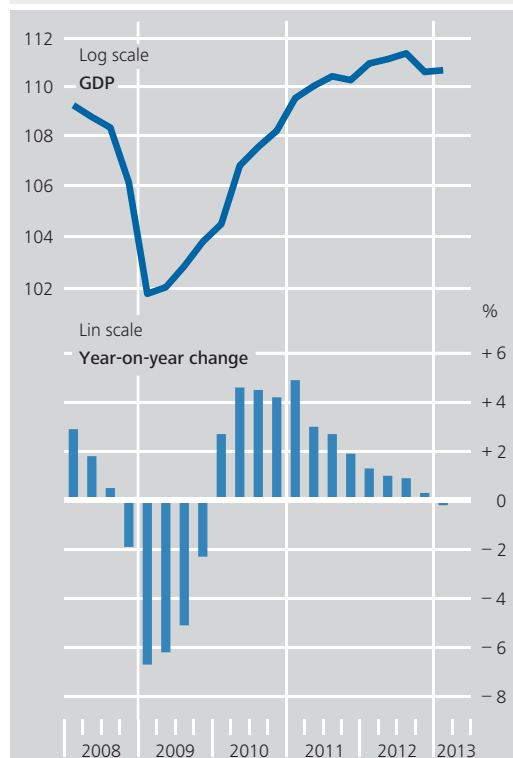
Exports and investments lacking momentum

Exports declined further in seasonally adjusted terms in the first quarter of 2013, after a 2% decline in the final quarter of last year compared with the summer level. A ray of hope can be seen in the fact that exports of goods to the euro area were able at least partly to offset the steep decline at the end of 2012. There were more exports to Italy and Spain again following an 18-month decline. After a lean period, German enterprises increased their exports to the Netherlands, whereas exports to France were tending to be weak, as they were in autumn 2012. Negative figures were predominant outside the euro area, even though the overall decrease in the period under review is not likely to be as strong as in the final quarter of 2012. There were fewer exports to Asian industrial countries and emerging market economies at the beginning of the year. One exception was China with somewhat more German-made goods being exported to that country again after a weak second half of 2012. In the case of exports to the USA, the adjustment following the exceptionally strong performance in summer last year does not appear to have been completed yet. Exports to OPEC countries also saw a sharp fall recently. The central and east European EU countries do not represent a dynamic sales market for German exporters at present, whereas exports to Russia picked up

Euro-area exports provide ray of hope, but lull in non-euro-area exports

Overall output

2005 = 100, price and seasonally adjusted



again recently. Much the same applies to the United Kingdom.

Again less demand for capital goods exports, but somewhat more for intermediate goods

In the period under review, it was primarily intermediate goods, such as chemical products, that were exported in larger quantities along with metals and metal products. Exports of capital goods were still in decline after the turn of the year, although the reduction was not on the same scale as in the final quarter of last year. In January and February 2013, exports of machinery were only slightly down on the quarter in seasonally adjusted terms. Export business with motor vehicles and motor vehicle parts was still having a strong dampening effect; sales of aircraft and railway vehicles were also declining towards the end of the period under review, however. By contrast, there was robust growth in exports of consumer goods.

Imports depressed by low energy deliveries

Seasonally adjusted imports were down again in the first quarter of 2013. This was due essentially to the considerable reduction in energy imports, which expanded strongly in the preceding quarter. By contrast, imports of intermediate goods as well as machinery, motor vehicles, computers and electrical equipment were pointing upwards. Nevertheless, the recovery was weaker in these categories of capital goods groups than it was in primary and intermediate goods. Likewise, more consumer goods were imported in the period under review than in the previous quarter.

Business investment still weak

Enterprises are still exercising caution with regard to investments. This is due mainly to the demand conditions, which broad sections of industry feel to be inadequate for lifting capacity utilisation above its normal level in the foreseeable future. Financing restrictions, on the other hand, are not playing a perceptible role. In many cases, enterprises' current earnings are giving them sufficient scope to fund themselves internally. Added to this, debt financing conditions are exceptionally favourable and there are no signs either that large firms or small and medium-sized enterprises in

Underlying trends in foreign trade

Seasonally adjusted, quarterly

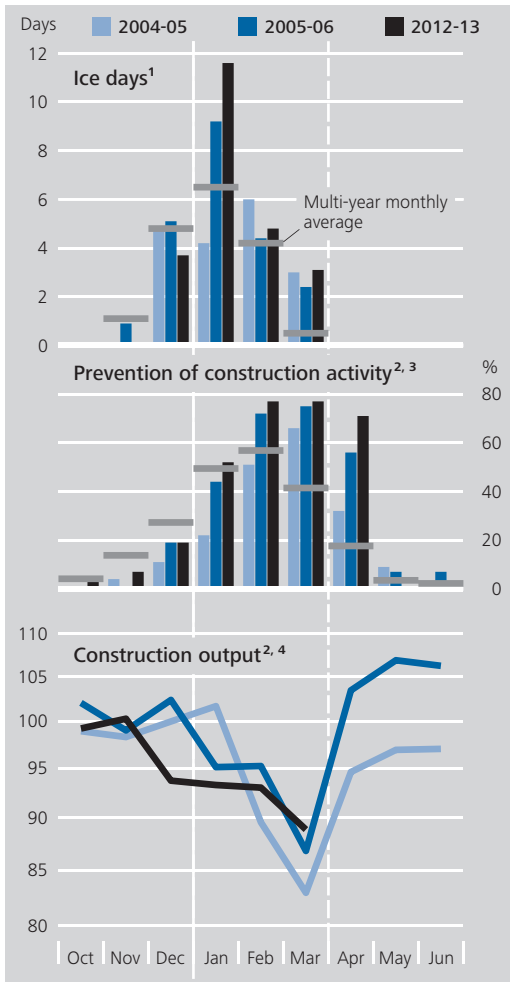


¹ Adjusted for the price indices for foreign trade.
 Deutsche Bundesbank

Germany are finding it noticeably more difficult to gain access to credit.

Although deliveries of machinery, computers and electrical equipment to domestic customers stabilised at a low level recently, automotive fleet business underwent a further fall. In the first three months of 2013, the number of new registrations for commercial vehicles was around one-tenth lower than in the previous quarter in seasonally adjusted terms. Registrations of commercially used cars fell by 1¼% latterly.

Impact of weather conditions on construction: long winters in comparison



1 In western Germany. 2 Main construction industry. 3 Source: Ifo business survey. 4 Seasonally adjusted. Level in preceding Q3 = 100.
 Deutsche Bundesbank

Long winter hampers construction activity

Construction investment suffered from the adverse weather conditions in the first quarter of 2013. With persistently low temperatures as well as snow and ice afflicting many parts of Germany up to early April, the usual seasonal upturn in construction activity did not take place this year until well into spring. In the period from January to March there were 22 ice days¹ on the national average, which is just under twice as many as the long-term average. The weak construction output in March is largely due to this extended forced break. Even though, according to the Ifo surveys, almost three-quarters of enterprises were still reporting weather-induced hold-ups in

April,² they were starting to catch up on the backlog from the middle of the month, if not earlier.

Private consumption made a good start to the year, after only minimal progress in 2012. The statistics show that consumers provided the retail trade with a marked increase in sales after the turn of the year.³ Households were reluctant to purchase cars. In seasonally adjusted terms, private passenger car registrations in the first quarter of 2013 were one-tenth below their level in the final quarter of 2012. Sales of light heating oil were also clearly down in spite of the long winter, as households had already built up their supplies strongly in autumn.

Marked pick-up in private consumption

■ Sectoral trends

Industrial activity was still feeble after the turn of 2012-13. With a seasonally adjusted increase of ½% in the first quarter of 2013, industrial output recovered only a little of the decline (-2½%) in the final quarter of 2012. An underlying tendency towards stagnation prevailed in the case of intermediate goods producers and in major branches of the capital goods sector, such as mechanical engineering and the production of IT equipment. The automotive sector and other transport equipment managed to perform better, however.

Industrial activity still lacking momentum

With only a moderate increase in output, there were further losses in industrial capacity utilisation. According to the Ifo surveys, the utilisation of tangible fixed assets in manufacturing declined to 81¾% of normal full capacity in April, compared with 82¼% in January. A com-

Capacity utilisation in manufacturing down again

1 An "ice day" is defined as a day on which the highest temperature does not go above freezing point. The indicator used here weights the results of various monitoring stations in accordance with the regional employment structure in the main construction sector.

2 The large percentage is due to the fact that enterprises are surveyed in the first half of the month.

3 However, it should be noted that new methods have been applied to deal with reporting gaps since the beginning of the year and it is unclear at the moment how this will affect the need to revise provisional data.

parison of these reported figures with the multi-year average of around 84% reveals that industry, unlike the economy as a whole, has been experiencing a noticeable underutilisation of capacities for some time now. The situation in the capital goods sector is particularly unsatisfactory; for nine months, utilisation was persisting at a level of 84¼% and was thus nearly 3 percentage points below the longer-term average. The decline in intermediate goods is 1¾ percentage points at present.

Steep weather-related decline in outdoor construction, but clear growth in finishing trades

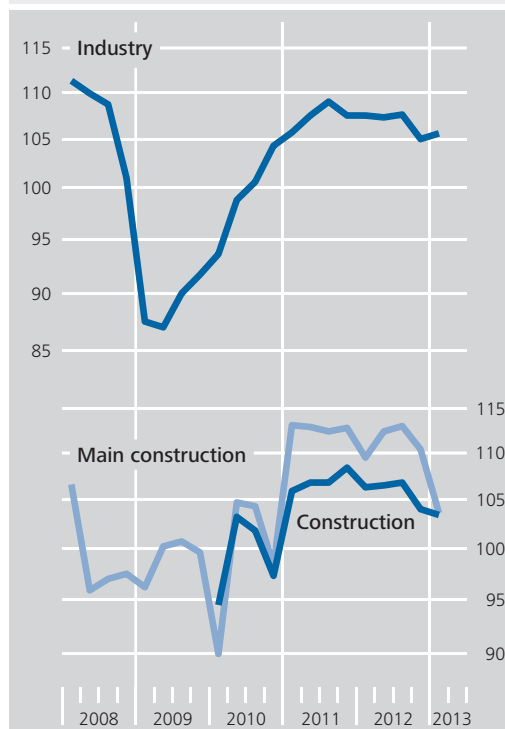
Construction output decreased by a seasonally adjusted ½% in the first quarter of 2013. The decline was due to the main construction industry, where the considerable weather-related hold-ups in production led to a 6¼% drop in output towards the end of the winter. The disruptions caused by frost, snow and ice affected civil engineering (-8½%) more severely than building construction (-5%). Since the beginning of 2013, the Federal Statistical Office has also been providing up-to-date reporting on output in the finishing trades. The new indicator records the volume of (mainly) craft activities in and on buildings,⁴ the value added of which is, in fact, slightly greater than that of the main construction sector; it showed a considerable increase of 5¼% after seasonal adjustment in the first quarter of 2013 following a significant decline in autumn. This might reflect the fact that construction sector output attained a very high level in the third quarter of last year. It is obvious that the finishing trades follow shell construction work with a time lag. However, the available time series data are still too short at present to allow a reliable estimation of the extent of this relationship and the time lag involved.

Further fall in energy output

Energy production declined by a seasonally adjusted 2% after the turn of 2012-13, following a perceptible dampener of -4¼% in the autumn. The publication of the January results also introduced a methodological change in these statistics. Electricity generation from renewable energies is now captured in a better

Output in industry and in construction

2010 = 100, seasonally adjusted, quarterly, log scale



Deutsche Bundesbank

way by incorporating wind and solar electricity into the monthly extrapolation.

At the beginning of 2013, the economic situation in the services sectors was more favourable than in the production sector. Even so, these sectors were not generating any strong impulses for overall economic activity, especially as weather effects were having a noticeable impact in the transport sector. This is evident, for instance, in the seasonally adjusted 1¾% decrease in the mileage of domestic heavy goods vehicles on motorways in the first quarter of 2013 compared with autumn 2012. The retail and wholesale trade are likely to have started the year well, whereas the motor vehicle trade was feeling the effect of weak demand for cars. According to the Ifo surveys, the

Situation for service providers better overall than for production sector

⁴ These are construction installation activities, which are fitted by electricians and plumbers. Added to these are trades such as painting and plastering, installation of doors, windows and kitchens as well as floor coverings.

business situation assessments of service providers were, on average, better in the period from January to March than they were before the start of the new year.

Employment and labour market

Labour market defies economic weakness

Enterprises continued to hire significant numbers of additional employees in the winter in spite of the subdued economic activity. According to estimates by the Federal Statistical Office, the seasonally adjusted number of persons in work in the first quarter of 2013 went up by 90,000 on the quarter to 41.81 million, which corresponds to an increase of 0.2%. The increase in employment was due solely to additional regular jobs subject to social security contributions. Self-employment and one-euro jobs are both still on the decline with, not least, the reduction in labour market policy measures being a contributory factor. According to initial estimates by the Federal Employment Agency, the raising of the ceiling for mini-job earnings from €400 to €450 per month at the beginning of the year has not led to a marked increase in this form of employment.

More jobs subject to social security contributions

In the case of regular jobs subject to social security contributions, there was a seasonally adjusted increase of 116,000 in the first two months of 2013 compared with the final quarter of last year. This corresponds to an increase of 0.4%. The expansion was due chiefly to additional jobs in business-related services (excluding temporary employment), which increased by almost 1¼%.⁵ Moreover, there was also a significant increase in jobs in health and social services as well as – despite the cyclical weakness – manufacturing. By contrast, employment in the domestic trade sector remained unchanged. The decline in the number of temporary employees, which persisted throughout last year, did not continue at the beginning of 2013. In this sector, there are around 8% fewer employees subject to social security contributions at the current end than there were at the

end of 2011, which saw temporary employment reaching its highest level to date.

Seasonally adjusted unemployment dipped slightly in winter following the muted increase in the previous nine months. After seasonal adjustment, an average of 8,000 fewer persons were registered as unemployed during the reporting period than in the fourth quarter of 2012. The unemployment figure was 2.93 million; the unemployment rate remained unchanged at 6.9%. The cold and snowy winter weather weighed on the labour market, especially at the end of the reporting period. This also applied to the first half of April, which probably also contributed to the fact that there was no seasonally adjusted fall in registered unemployment in that month.

Slight fall in registered unemployment

The fact that the sharp rise in the number of employees was not accompanied by a marked decline in unemployment is a phenomenon that has been characteristic of the German labour market for some time now. The reserve pool of unemployed persons, which has shrunk sharply in recent years, can now cover only a small part of the corporate sector's additional demand for labour. Instead, persons close to the labour market are being activated from the latent labour force, which is being reflected in increasing participation in the labour force. Additionally, Germany is experiencing considerable labour market-oriented immigration on a scale not seen for quite a long time. According to provisional data of the Federal Statistical Office, there was a migration surplus of 369,000 persons in 2012, which clearly exceeded the high net immigration in the previous year (+279,000). The influx was concentrated on three regions of origin. In 2011, 117,000 persons immigrated on balance from the EU member states of central and eastern Europe, which were granted freedom of move-

Immigration rose further in 2012

⁵ With regard to the year-on-year comparison, which allows a more disaggregated analysis, professional and technical services as well as the property and cleaning industries contributed to the expansion of employment in this area.

ment more than two years ago (EU-8). At around 70,000 persons, just as many persons from the four south European euro-area countries of Italy, Spain, Portugal and Greece moved to Germany as they did from Romania and Bulgaria, although restrictions still apply to the recruitment of their citizens.

Migrants frequently take up work

Employment services registered a year-on-year increase of 87,000 employees from EU-8 countries on average in 2012, with more than 90% of them in regular jobs subject to social security contributions.⁶ The fact that the increase is so high in relation to the migration surplus is because the figure includes not only persons who immigrated in 2012 for the purpose of taking up work, but also those who were already living in Germany and who have now entered employment. Effects of this kind were irrelevant to the increase of paid employment of persons from the four south European countries (+29,000). In view of the restrictions on the free movement of labour that are still in place, it is striking that there was a relatively steep growth in employees from Romania and Bulgaria (+25,000), of whom 85% are in employment subject to social security contributions. In these cases, use was obviously made of the exemption clause which applies to seasonal workers, applicants in shortage occupations and highly qualified individuals.

Stable outlook for labour market

The Ifo employment barometer, which provides information on the employment plans of trade and industry and business-related services over the coming three months, showed a significant fall in early spring. As with expectations for the economy, however, this was merely a correction of the upward movement since the fourth quarter of last year. On balance, the indicator is in line with the outlook of a moderate expansion in employment. The Federal Employment Agency's BA-X job index recorded a marked

⁶ See Bundesagentur für Arbeit (2013), Auswirkungen der Arbeitnehmerfreizügigkeit und der EU-Schuldenkrise auf den deutschen Arbeitsmarkt, Berichtsmontat Februar 2013, Hintergrundinformationen, Nuremberg, April 2013 (available only in German).

Labour market

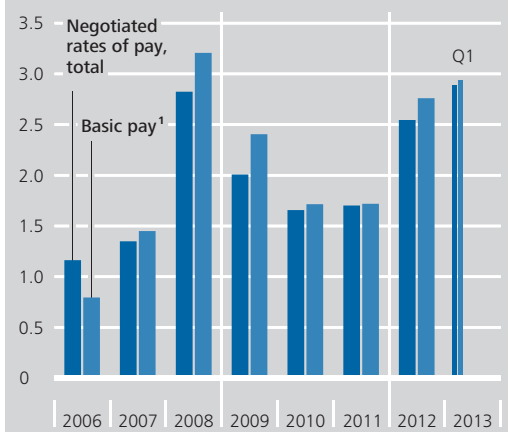
Seasonally adjusted, quarterly



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

Negotiated rates of pay

Year-on-year percentage change, on monthly basis



¹ Excluding additional benefits and lump-sum payments.
 Deutsche Bundesbank

decline last month. Both the inventory and the access components played a part in this respect. The decline in the reported number of vacancies subject to social services contributions was very largely attributable to the “other business-related services” sector, which includes temporary agency employment. In the first quarter of 2013, the IAB Job Vacancy Survey showed a smaller decline in job vacancies in the economy on the whole than in the number of reported vacancies.

Wages and prices

As in the last quarter of 2012, negotiated rates of pay rose by 2.9% on the year in the first quarter of 2013. This corresponded to the increase in the basic rates of pay. This co-movement reflects the fact that one-off payments, as a negotiated wage component, have not been a factor in the collective agreements of most sectors for some time now.

This year’s pay round has thus so far continued the pattern of primarily agreeing increases in scheduled rates of pay. The negotiations concluded since March are also characterised by the fact that the social partners have reached agreement quickly and without major disputes on quite balanced increases, amounting to a

volume of between 2½% and 3% in annualised terms. There were larger differences in terms of their duration, however. In the public sectors of federal state government, postal services and hotels and catering, the collective wage agreements are to run for a minimum of two years. In the production sector, there were initially two settlements of relatively short duration (15 months in the steel industry, 13 months in construction). The metal-working and electrical engineering industries recently concluded a wage agreement for 20 months.

With regard to minimum wages, there were recently agreements that could give rise to cost pressure in the sectors affected. The minimum wage levels for skilled and unskilled labourers in the west German construction industry, which are already fairly high, will have been increased to €14.70 and €11.30 per hour respectively by 1 January 2017. In addition, the existing minimum wage for unskilled labourers in eastern Germany will be brought completely into line with the west German level by that date. In the hairdressing sector, the social partners agreed to a phased increase in the regional minimum hourly rates to a uniform €8.50 by 1 August 2015.⁷ The aim is to reach a generally binding collective agreement. Particularly in the east German federal states, where earnings have sometimes been less than €4 an hour in the lowest pay categories up to now, the wage increase would be extremely high.

Minimum wages in construction and hairdressing set at fairly high level

After going up sharply in the fourth quarter of 2012, import prices showed a seasonally adjusted fall of 0.8% on the quarter in the first three months of 2013 owing to the appreciation of the euro, while domestic producer prices continued their upward trend with an increase of 0.3%. The appreciation had the effect of lowering prices in all the import components. By contrast, it was only the increase in

Diverging price trends at the upstream stages

Growth in basic rates of pay drives wage increases

Balanced approach maintained so far in this year’s pay round

⁷ The responsible regional associations must agree to the outcome of the negotiations by the end of June for the pay agreement to enter into force. The guild associations of some of the federal states have already announced that they do not wish to join the minimum wage agreement.

the prices of intermediate goods that came to a halt at the domestic producer level. Domestic sales prices of capital and consumer goods rose quite considerably in some cases, with the tendency towards an accelerated increase in wage costs likely to make itself felt over time. The sharp increase in the renewable energy (EEG) levy played a key role in the substantial rise in producer prices for energy. The euro's appreciation caused domestic export prices to decline distinctly by 0.4%, which is likely to have been accompanied by a compression of margins. As the decline in export prices was somewhat lower than that of import prices, there was a slight improvement in the Terms of Trade.

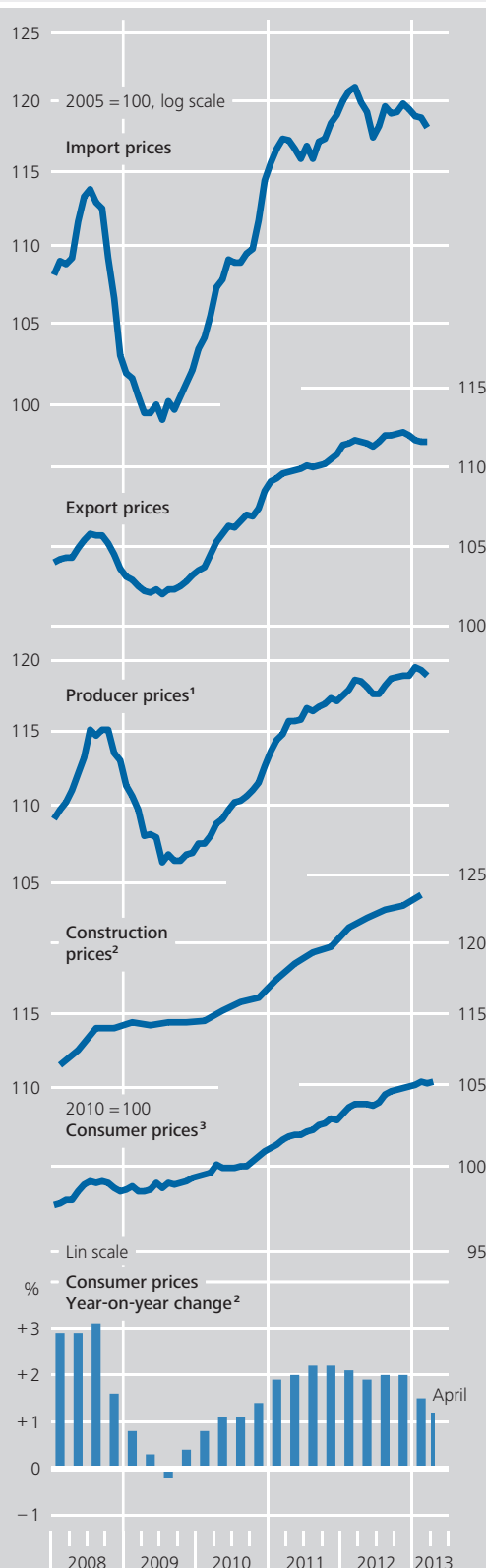
The marked differential between short-term changes in foreign trade prices, on the one hand, and domestic sales prices, on the other, was also reflected in the year-on-year rates of change. A decline of 1.6% was recorded in the case of import prices, while producer prices revealed an average rise of 1.1%, and export prices remained almost unchanged. Accordingly, the terms of trade showed a distinct improvement on the year, although they were still a long way from matching the levels of earlier years.

Further rise in property prices

Residential construction prices continued to climb in the first quarter of 2013, although the increase for structural work slowed to 1.8% on the year owing to lower prices for intermediate goods, while the rate for completion work remained almost unchanged at 2.4%. According to data of the Association of German Pfandbrief Banks (Verband deutscher Pfandbriefbanken, vdp), the increase in the prices of owner-occupied housing, at 3.4% year-on-year, was again stronger than the rise in construction prices. The cost of apartment buildings has gone up by 3.7% since the first quarter of 2012. The vdp's quarterly price reporting for commercial property at present covers this type of use as well as office buildings, for which prices have increased by 5.2%. (An overview of the currently available price indices for commercial property including conceptual consider-

Import, export, producer, construction and consumer prices

Seasonally adjusted, monthly



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

ations with regard to their definition and classification may be found on pages 53 to 55).

Consumer price rises very subdued

There was no more than a muted rise in seasonally adjusted consumer prices in the first three months of 2013, with a quarterly rate of only 0.3%. In the two preceding quarters, the figure was as much as 0.5% in both cases. Alongside the appreciation of the euro, a number of special effects played a part. Despite the decline in prices for refined petroleum products on the back of the stronger euro, the increase in the renewable energy (EEG) levy made energy significantly more expensive. The rate of price increase for food and other goods became perceptibly slower, a development in which world market factors may also have played a part. The ceasing of upward price pressure in the case of services was linked to the abolition of the surgery visit charge. There was a slightly stronger increase in the rent index; this includes mainly existing rents, which follow rents for new lettings with a significant lag and modest fluctuations.

In the first quarter, the annual rate of inflation as measured by the national Consumer Price Index CPI went up by 1.5%, while the Harmonised Index of Consumer Prices (HICP) indicated a rise of 1.8%. The exceptionally large difference between the annual CPI and HICP rates derives mainly from a particular feature of the hotel services sub-index.⁸ The annual CPI rate fell to 1.2% in April, while the HICP rate went down to 1.1%. This was due mainly to the early date of Easter, which resulted in the typically high prices in the Easter holidays, such as those for travel and holiday services, already being recorded in March. By contrast, the year-on-year comparison in April is based on lower prices in the reporting period and high prices in the same period last year. Somewhat higher rates of inflation can be expected from May onwards.

■ Orders received and outlook

On an average of the first quarter of 2013, seasonally adjusted industrial orders rose by only ½% on the final quarter of 2012. However, after a decidedly poor start to the year, the situation picked up markedly in the course of the reporting period. The new momentum was not confined only to intermediate goods; the order books of capital goods manufacturers also improved. Orders for motor vehicles, trailers and semi-trailers had recovered significantly by March, following a relatively small intake of orders in January. A number of large-scale orders were behind the favourable March result in the mechanical engineering sector. By contrast, seasonally adjusted orders of consumer goods were weaker after the turn of the year than before.

Distinct improvement in industrial orders during the quarter

The improvement in short-term production expectations is consistent with the appreciably higher number of intermediate goods ordered by German industry. The seasonally adjusted volume of orders not only surpassed the weak result of the final quarter of 2012 by 2¼%, but also the volume of new orders placed in the summer months. The rise in orders of capital goods, which was likewise 2¼% quarter-on-quarter, was primarily driven by the fact that more orders for motor vehicles and IT equipment were being placed than in the final quarter of 2012. In mechanical engineering, however, the reporting period did not see any seasonally adjusted increase in domestic orders compared with the fourth quarter of 2012.

Significant improvement in domestic orders recently ...

After seasonal adjustment, foreign demand for industrial goods in the first three months of 2013 was 1% down on the quarter, which had admittedly shown a distinct increase on the summer quarter of last year due to a relatively high level of orders from outside the euro area. The economic slowdown in countries outside

... but decline in foreign orders

⁸ See Deutsche Bundesbank, The contribution of the hotel services sub-index to explaining the current deviations between CPI and HICP inflation measures, Monthly Report, April 2013, p 7.

Commercial property prices in Germany: conceptual considerations and statistical status quo

Information on commercial property prices is as relevant for macroeconomic analyses as it is for questions of financial stability. In one major point such information augments reporting on stocks and construction activities on the markets for, say, office property, retail property and logistics buildings. The prevailing conditions of supply and demand on those markets as well as potential risks can thus be investigated more comprehensively.

How properties are categorised generally depends on whether the perspective of the owner or the user is taken. The broad definition of commercial property is based on the owner concept, with the designation "commercial" being applied to those properties which the owner has acquired primarily with the intention of making a profit. This includes properties on which production and trading activities take place or which serve as office or storage space (referred to below as commercial buildings). From the owner's vantage point, rented residential property also falls into this category. In terms of its actual use, however, it belongs – together with owner-occupied residential property – to the housing market stock. Depending on the perspective, apartments and houses which are rented out are capital or consumer goods. They cannot be classified generally, but only in relation to the concrete objective of the study.

From an economic perspective, there are a number of reasons for classifying properties, first and foremost, according to the criterion of use. This is suggested by considerations of economic theory and empirical findings alike. Price movements on the property markets are connected with imbalances between supply and demand. In cyclical terms, these correspond to the con-

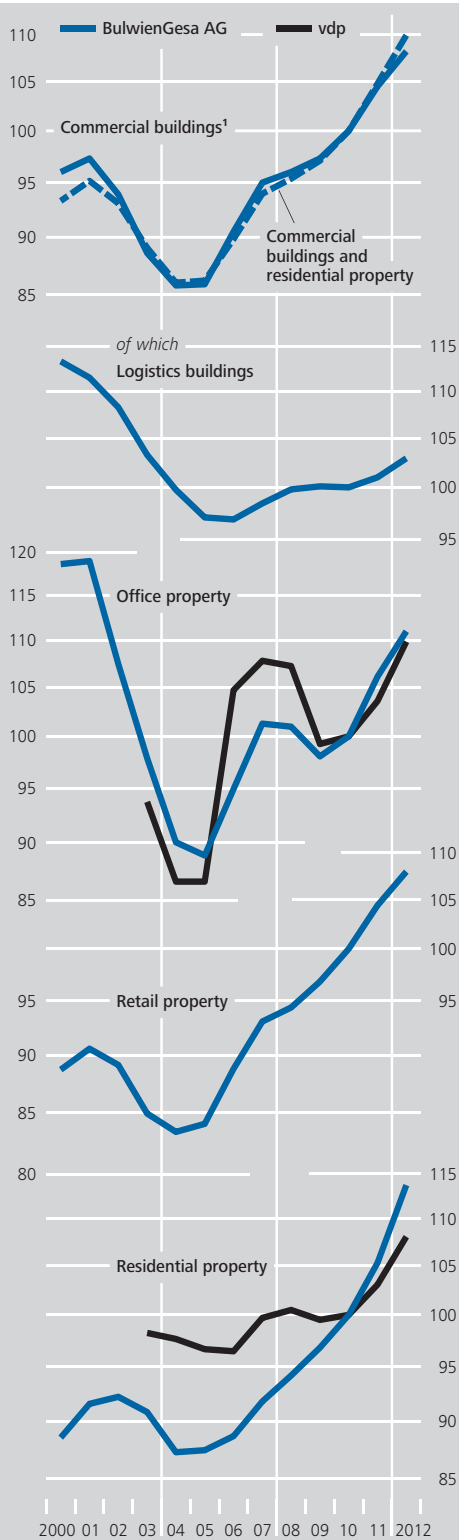
struction activities that usually also help to create market equilibrium. Differences in the speeds of adjustment along with differences in interest sensitivity lie behind the fact that housing market cycles may show considerable divergence from the fluctuations in the commercial investment sector. Added to this is the fact that stocks of residential property and commercial buildings are shaped in the long term by different factors. For example, the demand for apartments and houses over this time horizon depends mainly on socio-demographic factors (such as resident population, age structure, household sizes) as well as households' income prospects and living preferences. By contrast, enterprises plan to buy or rent properties used in the value added process over the medium to long term depending on the conditions of production and the sales outlook for their goods and services.

The national accounts likewise break down construction investment and fixed assets according to their predominant use into residential and non-residential property. In surveys on construction permits and completions a distinction between residential and commercial property is made in a similar fashion. Within the category of "multiple family dwellings", the number of authorised and/or completed owner-occupied and rented apartments is reported separately at a subordinate level. However, this consists of forecasts by property developers, which may differ from (subsequent) actual use.

The statistical recording of commercial property prices, unlike owner-occupied housing, is much less satisfactory. Owing to the lack of official figures, price analysis has to rely on data from private information services. These mostly provide profitability

Commercial property prices in Germany

2010 = 100, annual, log scale



Source: Association of German Pfandbrief Banks (Verband deutscher Pfandbriefbanken, vdp) and Bundesbank calculations based on BulwienGesa AG data. ¹ Logistics buildings, office property and retail property.
 Deutsche Bundesbank

ratios for potential investors. Only in a few cases are the data detailed enough to allow sufficiently representative indicators for pure price changes (ie ones adjusted for quality effects) to be derived from them. In this connection, the annual German Property Index (GPI) for commercial property in 127 towns and cities published by BulwienGesa AG should be mentioned as one source of data. Second, the Association of German Pfandbrief Banks (Verband deutscher Pfandbriefbanken, vdp) recently began to publish a quarterly price index for office buildings.¹

From a statistical point of view, the price data of BulwienGesa und vdp differ in a number of key features. In particular, this includes, along with frequency and regional coverage, the type of quality adjustment, the underlying price concept and the method of aggregation. Quality adjustment in the BulwienGesa indices is performed using the method of typical cases, while vdp applies hedonic regression methods. Eliminating price-determining factors such as location, size, age and fittings poses an even greater challenge in the case of commercial property than it does for private apartments and houses, however, since these types of use are generally characterised by relatively small numbers of observations and a high degree of heterogeneity.² The Association of German Pfandbrief Banks (vdp) bases its calculations on data obtained in the context of mortgage collateralisation. They are therefore transaction-based, whereas BulwienGesa also uses information from surveyors' appraisals, expert

¹ In conceptual terms, the aggregated data on office, retail, industrial and residential buildings provided by the Investment Property Databank (IPD) are capital value indices. They do not measure pure price changes since they are, among other things, not subject to any quality adjustment.

² This is due to the fact that such properties are often individually adapted to the needs of the current owner and may therefore display a large number of special features.

assessments and target group surveys. Even though this does not reflect just purchase prices, it is consistent with internationally widespread practice. Nevertheless, valuation-based indices tend to show a smoother progression than transaction-based data.³ Furthermore, they may also show something of a time lag.⁴

Commercial property prices have been on a steady upward path since 2005 following a substantial decline during the period of persistent economic stagnation in the first half of the last decade. While prices have since been trending clearly upwards in the case of retail property, both BulwienGesa data and the vdp indicator show prices for office property falling for a time following the severe recession in the final quarter of 2008 and first quarter of 2009. Since the middle of the last decade, no more than a moderate increase in prices is shown for logistics buildings. In 2012, the prices of properties used for the distribution of goods were still just under one-tenth lower than in 2000, whereas the prices of commercial buildings were roughly one-eighth higher overall than they were at that time.

Especially for questions of financial stability, it is advisable to analyse commercial property from the owner perspective – ie including residential property,⁵ which accounts for somewhat more than half of the market value of this broadly defined stock of property.⁶ According to the BulwienGesa data, the price increase for residential property since 2005, at an average of 3¾% per year, has been more than twice as high as shown in the vdp capital value index for rented properties (1¼%). This discrepancy is due in part to the fact that the BulwienGesa price data refer solely to 127 towns and cities, while the vdp index also contains information from rural areas. As is well documented for owner-occupied housing in comparable definitions,⁷ the price increase in urban areas is likely, for some years now, to have

been higher than average in the case of multi-family dwellings, too.

The index series of BulwienGesa und vdp display some shortcomings as well, however. The BulwienGesa information, which is confined to 127 towns and cities, is not representative regionally. Furthermore, data on prices for production facilities are not available. In the vdp data, too, there are gaps with regard to the coverage of all types of use. The fact that this family of indices is soon to be extended by a price indicator for retail property is therefore to be welcomed. Nevertheless, this will still omit the important subsector of industrial and logistics buildings.

Information on commercial property prices is among the data required for the Financial Soundness Indicator of the International Monetary Fund (IMF).⁸ As a contribution to closing the existing information gap concerning commercial property prices in Germany, the annual data of BulwienGesa will be posted on the Bundesbank's website with immediate effect.⁹

3 In the results available for Germany so far, this is shown in the prices for office properties.

4 This is likely to be due to the fact that surveyors are guided strongly by the average of past successful sales. See inter alia D Geltner (1991), Smoothing in appraisal-based returns, *The Journal of Real Estate Finance and Economics* 4, 3, pp 327-345.

5 Although a comparatively large percentage of residential property in Germany is owned by private individuals, it is quite similar to commercial property insofar as it forms part of sole proprietors' private assets and is used as loan collateral.

6 Residential property is included with a significantly lower weight in the overall index of BulwienGesa. This takes account of the fact that residential property is obviously tradeable to a lesser extent, especially in comparison with retail property.

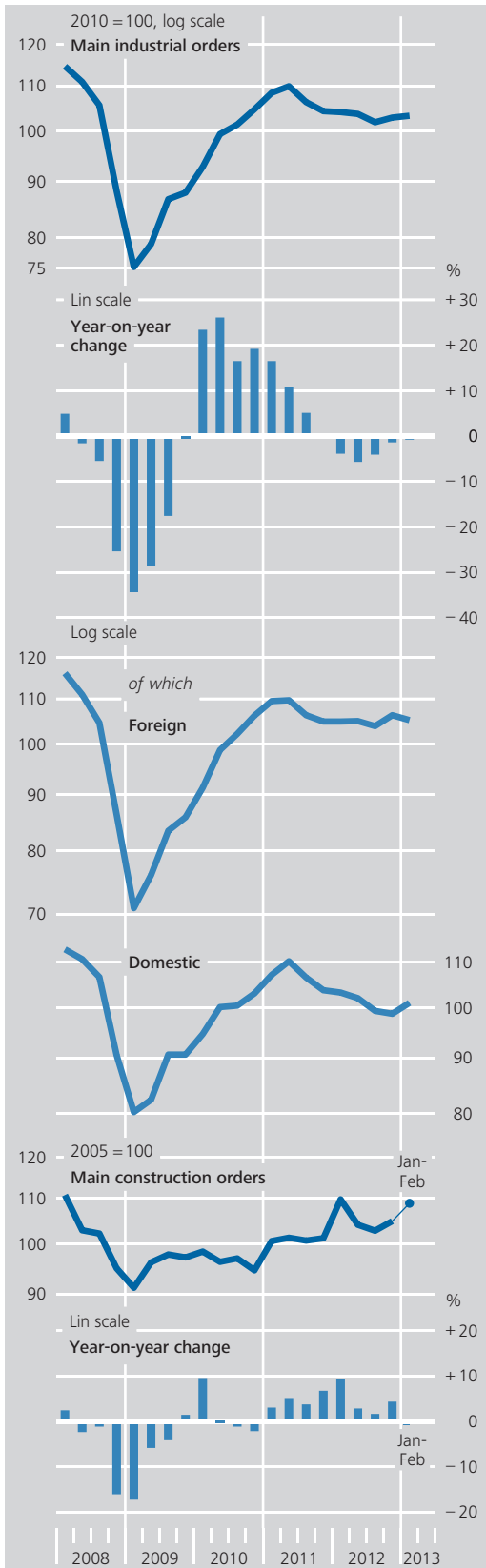
7 See Deutsche Bundesbank, *House prices in 2012 in Germany*, Monthly Report, February 2013, pp 53-55.

8 See IMF (2006), *Financial Soundness Indicators: Compilation Guide*, p 101ff.

9 Deutsche Bundesbank, *Financial Soundness Indicators, Indicators 2010-2012*, http://www.bundesbank.de/Navigation/EN/Statistics/IMF_related_data/FSI/Indicators_2010_2011/indicators_2010_2012.html?nsc=true

Demand for industrial goods and construction work

Volume, seasonally adjusted, quarterly



Europe was reflected in orders received by the manufacturers of intermediate goods, which were weaker than any time during the last three years. The decline in the capital goods sector is put into perspective by the fact that many of the sizeable orders of aircraft and spacecraft from non-euro-area countries are not assigned in the statistics to their region of origin; instead, they are classified as subsequent orders in the context of combined European production, and thus boost the figure for euro-area orders. This was the key reason for the slight increase in demand for industrial goods from the euro area. Excluding aircraft and spacecraft, orders from the euro area have continued their decline. Only IT equipment experienced a sharp increase, albeit after a decidedly weak performance in the second half of 2012. By contrast, euro-area orders for the automotive and mechanical engineering industries fell further in seasonally adjusted terms.

Demand for construction work received new impetus at the turn of 2012-13 after slackening somewhat in the autumn. Housing construction was given an added boost by more single-family and two-family houses being approved in January and February in seasonally adjusted terms than on an average of the preceding three-month period. The large volume of approvals in the construction of apartment blocks from autumn was almost maintained at the beginning of the year. Indicators for public sector construction suggest that the phase of subdued awarding of contracts is over for the time being. Over the past two years, only large-scale projects succeeded in raising the volume of orders in the short term, but there appears to have been a more broadly based pick-up of late. The commercial sector has not provided any expansionary stimuli for construction demand recently. However, in comparison with the pronounced weakness in investment in machinery and equipment, construction activities planned by enterprises have held up well.

New impetus in construction demand

Households remain willing to consume. In early spring, the consumer climate reached a figure

*Pronounced
consumer
sentiment*

that was unprecedented in the current business cycle. This was partly due to still very optimistic income expectations, which are wholly justified in view of the robust labour market situation and continuing marked growth in earnings. On the other hand, the strong willingness of households to make major purchases also mirrors their reduced propensity to save.

*Economic recovery expected in
second quarter*

An increase in economic growth is expected for the second quarter of 2013. This is indicated not only by the likely catching-up effects in response to the weather-related downturn in

construction activity during the past winter. With industrial new orders picking up appreciably after a poor start to the year, there is reason to hope that exports and investment in machinery and equipment – the demand components that can usually be relied on most to set the pace for the German economy – will recover as well. Nevertheless, given the poor economic conditions in many parts of the euro area and the existing problems in connection with the sovereign debt crisis, the macroeconomic risks remain high.