

Economic conditions in Germany

Macroeconomic situation

Quite strong economic growth in 2015 Q2

The German economy's fairly robust upswing continued in the second quarter of 2015. According to the Federal Statistical Office's flash estimate, real gross domestic product (GDP) in the second quarter of 2015 grew by 0.4% after seasonal and calendar adjustment compared with the first three months of the year.¹ This means that economic output increased almost as strongly as in the two preceding quarters at an average of 0.5% per quarter. The underlying pace of growth since overcoming the cyclical lull in the second and third quarters of 2014 has been distinctly higher than the potential rate. The aggregate degree of capacity utilisation is likely to have been in the upper part of the corridor of normal capacity utilisation of late.

Economic activity in the second quarter was given a sharp boost by foreign demand, which was benefiting from the slight firming of the global economy following the sluggish start to the year and probably also from the euro's earlier depreciation, and returned to the faster pace seen in the second half of 2014. More buoyant export growth thus offset the fact that impulses stemming from domestic activity were less dynamic in the reporting period than they were in the fourth quarter of 2014 and the first quarter of 2015. The environment for consumer spending remains favourable given the positive labour market situation and considerable growth in earnings. Even so, private consumption was rather subdued in the second quarter following an expansion of the income base due to oil price-related gains in purchasing power, additional pension payments and the introduction of the general minimum wage, which had already led to a substantial adjustment in household spending patterns in the preceding two quarters. Quarter-on-quarter construction investment in the first half of the year was shaped by a special factor as building activity in the past winter was far less affected by the weather than usual. Despite perhaps somewhat muted procurement activities on the part of enterprises during the reporting period, the underlying trend in investment in machinery and equipment is still on a course of recovery.

Strong external impulses, domestic demand more subdued this time round

Overall output

2010 = 100, price- and seasonally adjusted



Source of unadjusted figures: Federal Statistical Office. ¹ Only calendar-adjusted.
 Deutsche Bundesbank

Exports showed very strong growth in the second quarter of 2015. The quarter-on-quarter increase in exports of goods, at 3% in price and seasonally adjusted terms, was particularly pronounced, aided by large-scale deliveries of products from the aircraft and aerospace industry. Yet even leaving those factors aside,

Marked growth in exports

¹ Following the usual mid-year revision of previous years' data, GDP growth in 2013 was revised upwards by 0.2 percentage point to 0.3%. The cyclical pattern in 2014 remained broadly intact, even though the quarterly pattern was somewhat flatter.

export dynamics were broadly based both regionally and in terms of product categories. Exports to euro-area as well as non-euro-area countries are likely to have increased perceptibly in the second quarter. The fact that an economic recovery is under way in most southern euro-area partner countries – according to the country structure available up until May – has been reflected for some time now in a rise in the demand for German products. Outside the euro area, the stimuli for foreign trade in the second quarter came primarily from industrial countries. Sales to the United States expanded considerably, as in the first quarter. German exports to central and east European EU accession countries and to the United Kingdom also picked up momentum again. By contrast, German firms’ business with Asia presented a mixed picture in the reporting period. Exports to China and Japan decelerated, whereas business with the newly industrialised Asian economies and the south and east Asian emerging market economies picked up markedly. Exports to Russia are at an exceptionally low level; the downward trend did, however, become slower of late.

Real imports up only slightly on previous-quarter level

The expansion in imports tapered off in the second quarter after picking up momentum in the preceding quarters. The loss of pace in domestic demand is likely to have played a part in this. Real goods imports in the second quarter were up only slightly on the quarter (+1/4%). Sales of intermediate goods abroad increased sharply despite the continuing lack of momentum in industrial activity, and imports of capital goods clearly picked up again. Although significantly fewer export orders were received by manufacturers of other transport equipment, strong growth was posted by motor vehicle imports, which had already shown a marked rise during the fourth quarter of 2014 and the first quarter of 2015. By contrast, there was no growth in imports of consumer goods, although they had expanded very strongly in the two preceding quarters. Energy imports also declined.

Underlying trends in foreign trade

Seasonally adjusted, quarterly



Source of unadjusted figures: Federal Statistical Office. ¹ Adjusted using the price indices for foreign trade.
 Deutsche Bundesbank

Against the backdrop of rising macroeconomic capacity utilisation and very favourable financing conditions, the conditions are in place for a further recovery in investment in machinery and equipment. According to the available indicators, enterprises are likely to have procured new machinery and equipment only on a very limited scale during the reporting period. This was probably due to the fact that enterprises did not invest quite as heavily in their vehicle fleets in the second quarter as they did at the beginning of the year. There was no further increase in the registration figures for commercial vehicles, for instance, and commercial customers registered distinctly fewer passenger cars

Investment in machinery and equipment up slightly at best, construction investment probably down slightly on the elevated prior-quarter level owing to the weather

than in the previous quarter, when an exceptionally sharp rise in registrations had been recorded. Domestic sales by capital goods producers went up only marginally in seasonally adjusted terms, whereas purchases by foreign manufacturers showed a significant increase. Construction investment is unlikely to have made further headway in the second quarter in seasonally adjusted terms. Nevertheless, it should be borne in mind that the first quarter saw a marked expansion in construction investment owing to the mild weather. The high level of equipment utilisation in the main construction sector suggests that, in cyclical terms, the construction sector is still in exceptionally good shape.

Private consumption still an important mainstay of domestic demand

Private consumption continued to be an important mainstay of domestic demand in the second quarter. There were no longer any strong growth stimuli like in the fourth quarter of 2014 and the first quarter of 2015, however, in view of the preceding rapid adjustment to the expanded scope for expenditure. The provisional figures show that real retail sales in the second quarter were, in fact, down somewhat on the prior-quarter level after adjustment for seasonal variations. This outcome is, however, essentially due to the fact that retail sales were at a very low level in June. The current report is subject to considerable uncertainty owing to the large percentage of estimates that it contains, and it is a distinct possibility that the index will be revised significantly upwards as further primary statistical data are incorporated. The number of new car registrations by households suggests that few motor vehicles were purchased in the second quarter, following an increase in the number of purchases in the preceding quarters. Furthermore, expenditure on heating oil in the first two months of the second quarter fell back below the depressed level of the fourth quarter of 2014 after households had substantially built up their stocks in the winter quarter. Households held back on filling up their oil tanks again as a result of the rising prices, especially as consumption in the preceding heating period is

unlikely to have reached the calculated level owing to the mild temperatures.

■ Sectoral trends

Industrial output once again increased only moderately in the second quarter of 2015. After seasonal adjustment, it was ¼% higher than in the first quarter. Output was lacking momentum in numerous industrial sectors following a marked expansion in the second half of 2014, and which also continued into the first quarter of 2015 in some sectors. The inflow of new orders slowed down distinctly in the first quarter, however. Manufacturing of intermediate goods failed to gain momentum in the second quarter (-½%). Production of capital goods went up only moderately (+½%). Output in the mechanical engineering sector grew strongly following a major cut-back in production in the first quarter. The automotive sector scaled back its output significantly, however, following a marked expansion in the fourth quarter of 2014 and the first quarter of 2015. Moreover, fewer computers, electronic and optical products as well as electrical equipment were produced. Production of other transport equipment was up only slightly on the high level of the previous quarter. By contrast, manufacturers of consumer goods, who have been benefiting from buoyant consumer spending for quite some time now, stepped up their output considerably (+1%), even though output was being dampened by food products, which are likewise assigned statistically to the consumer goods sector and also account for a comparatively large share of it.

Industrial output still showing only moderate growth

Industrial capacity utilisation declined only marginally in July and enterprises were operating almost at normal capacity levels. According to the Ifo business survey, manufacturing capacity utilisation stood at 84¼% of normal full capacity of late. Normal capacity utilisation, which can be approximated using the long-term average and amounts to 84%, was therefore exceeded once again, albeit only marginally.

Manufacturing capacity utilisation still at normal levels

Construction output down on weather-boosted prior-quarter level; increase in energy production

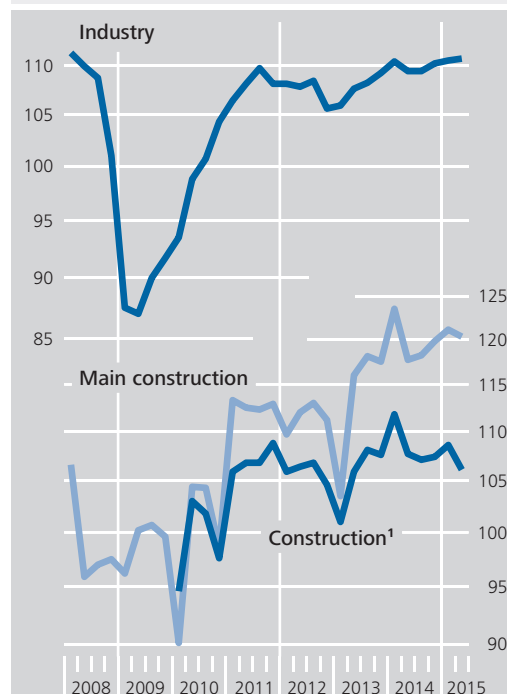
Construction output in the second quarter was down by a seasonally adjusted 2¼% on the previous quarter, the level of which had been elevated by the favourable weather conditions. This sharp decline was due primarily to lower output in the finishing trades, the figures for which are, however, highly susceptible to revision and thus subject to considerable uncertainty. By contrast, output in the main construction sector fell only slightly by ¾% and was therefore still up on the level of the final quarter of 2014. The decline in civil engineering was somewhat more pronounced than in building construction. Energy production increased substantially in the second quarter (+2¼%).

Further expansion in services sector

The upward movement in the services sector is likely to have continued in the second quarter. Furthermore, consumer-oriented service providers benefited from the extremely favourable consumer climate. The business activities of the industry-related service providers are also likely to have picked up on the whole. This is indicated by the strong improvement in the business situation as surveyed by the Ifo Institute. Motor vehicle sales, which had already posted significant growth in the first quarter, continued to rise sharply, too. Nevertheless, there are signs that industrial activity, which was pointing only moderately upwards during the reporting period, might have been impeding a pick-up in business activity in a number of economic sectors. The discernible decline in the mileage of domestic heavy goods vehicles subject to tolls on motorways suggests that the transport sector was one of the sectors affected. Moreover, wholesale turnover was probably down markedly on the level of the previous quarter, when, admittedly, strong growth had been recorded. Turnover in the hotel and restaurant trade is also unlikely to have matched the high level of the first quarter.

Output in industry and in construction

2010 = 100, seasonally adjusted, quarterly, log scale



Source of unadjusted figures: Federal Statistical Office. ¹ Main construction sector and finishing trades.
 Deutsche Bundesbank

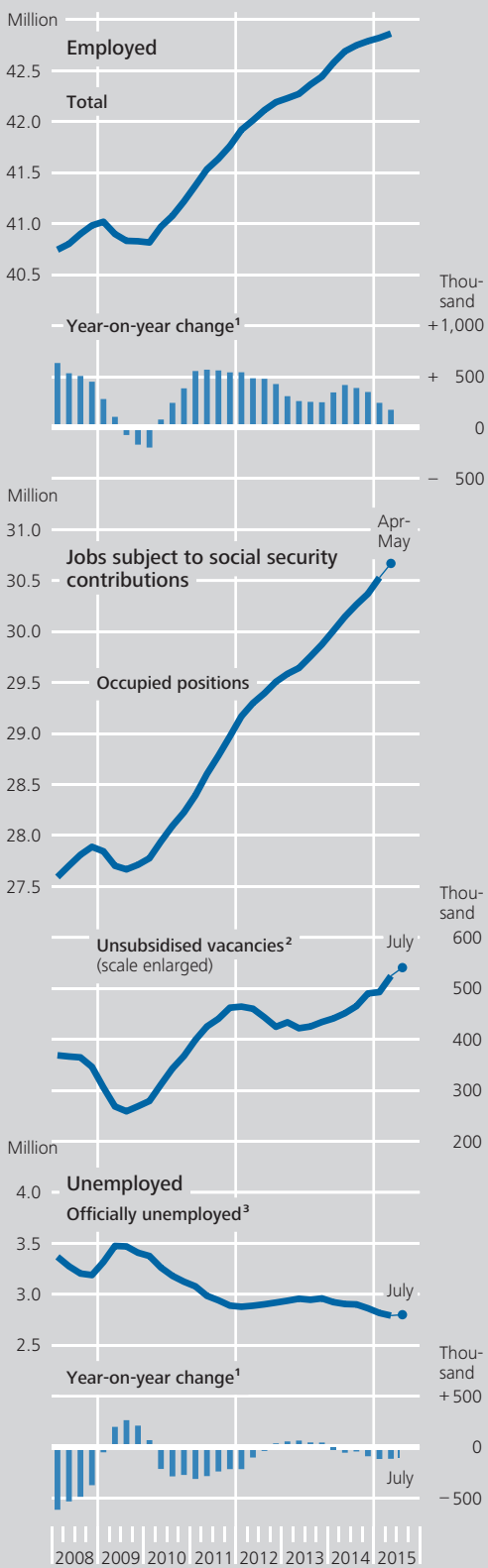
Employment and labour market

The labour market situation showed a further improvement between April and June. Employment and the number of vacancies rose again, while unemployment fell. The remarkably sharp decline in mini-jobs since the beginning of the year, coupled with a comparatively strong expansion in jobs subject to social security contributions in some relatively labour-intensive services sectors, can probably be interpreted largely as an adjustment response by enterprises to the introduction of the statutory general minimum wage. Apart from this transformation effect, the impact of introducing the minimum wage on the total number of hours worked appears to be very limited in the context of the present favourable economic setting.

Positive labour market developments

Labour market

Seasonally adjusted, quarterly



Source of unadjusted figures: Federal Statistical Office and Federal Employment Agency. **1** Not seasonally adjusted. **2** Excluding seasonal jobs and jobs located abroad. **3** From May 2009, unemployed excluding persons newly registered on the books of private employment agencies.

Deutsche Bundesbank

The seasonally adjusted number of persons in work in Germany in the second quarter of 2015 went up by 42,000, or 0.1%, on the quarter. The increase was therefore somewhat higher than in the first quarter of the year. Besides a smaller number of persons working exclusively in low-paid part-time employment – the average for April and May alone was down by 46,000 on the average of the first quarter – there were also 30,000 fewer self-employed persons between April and June than in the first quarter. By contrast, according to initial figures provided by the Federal Employment Agency, an estimated 125,000 additional workers were hired in positions subject to social security contributions in April and May alone, which represents an increase of 0.4% on the average of the winter months. Looking at the individual sectors, the comparatively small contribution of the production sector to the increase in jobs subject to social security contributions is striking. On the other hand, other services sectors are also showing considerable increases along with the business-related services sectors and the health and social work sector, which have been posting strong growth for quite some time.

Steep rise in employment subject to social security contributions

Since the turn of the year, employment subject to social security contributions has been expanding fairly strongly, especially in those services sectors in which an above-average percentage of workers is employed in low-paid part-time work. In the wholesale and retail trade, the hotel and restaurant sector, the transportation and storage sector as well as in other services sectors, the increase in employment subject to social security contributions during the last six months – the period for which data are currently available and in which employment effects are to be expected following the introduction of the minimum wage – was more than twice as high in seasonally adjusted terms as in comparable periods over the past two years. Between November 2014 and May 2015, more than 60,000 new positions were created in these sectors in addition to the existing upward trend. During this period, the

Possible merger of mini-jobs into employment subject to social security contributions

number of mini-jobs was reduced by over 140,000 taking all these economic sectors together. Although no sectoral data are available at present, around one-half of all workers in low-paid part-time employment are employed in the economic sectors under consideration. The results therefore suggest that a transformation or a merger of mini-jobs into employment subject to social security contributions has taken place as a response to the introduction of the statutory general minimum wage. One incentive from the employer's perspective could have been the lower non-wage labour costs.² Furthermore, the administrative and documentation requirements for mini-jobs have become more onerous.

Slight fall in registered unemployment in Q2

Registered unemployment in the reporting period was down by 26,000 persons on the quarter after adjustment for seasonal variations. 2.79 million persons were registered as unemployed on an average of the second quarter. The unemployment rate fell by 0.1 percentage point to 6.4%. Despite this perceptible quarter-on-quarter decline, it is striking that the downward momentum tailed off considerably over the second quarter and that there was a slight seasonally adjusted month-on-month increase in unemployment in July for the first time in just under a year. The slowdown might have been connected with the mild winter weather at the beginning of the year, which is likely to have dampened the usual spring pick-up.

Outlook for employment remains positive

The leading labour market indicators suggest that employment will expand further in the coming months. The Ifo employment barometer, which provides information on the employment plans of trade and industry over the coming three months and which already incorporates the July survey results, points to a further increase in employment. Nevertheless, the barometer did not fully maintain its high level in the last two months, which is an indication that a slower pace is quite possible. By contrast, the Federal Employment Agency's BA-X job index, which contains information on

both the existing number of reported vacancies and their dynamics, showed a further increase. The driving force behind this was, above all, the greater number of vacancies registered with the Federal Employment Agency. Growth in the number of vacancies for unsubsidised positions subject to social security contributions was reported above all in other business-related services (including temporary agency work) as well as in other services sectors – those sectors in which it can be assumed that mini-jobs will be transformed or consolidated into employment subject to social security contributions. The labour market barometer of the Institute for Employment Research (IAB), which is based on surveys conducted among all the managers of local employment agencies regarding unemployment developments over the coming three months, declined slightly of late after being in neutral territory.

■ Wages and prices

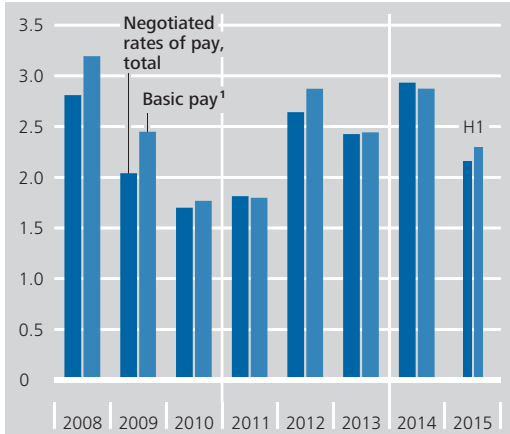
The year-on-year rise in negotiated rates of pay in the second quarter of 2015, at 2.2%, was barely any higher than in the previous period (+2.1%). The fact that the increase in negotiated wages during the period under review also fell perceptibly short of the year-on-year growth rate of 2.9% underlines the moderate basic tenor of the current pay round. This pattern is also visible in the contractually agreed basic rates of pay, which were up 2.3% in the second quarter compared with the previous year's figure (having risen by the same figure of 2.3% in the first quarter and by 2.9% in 2014 as a whole).

Increase in negotiated rates of pay in 2015 Q2 again considerably lower than in 2014

² For the same gross hourly wage, employers are required to pay social security contributions amounting to just 20.7% for employees subject to social security contributions, compared with as much as 30.9% (including lump-sum taxes) in the case of mini-jobbers. Given that low-paid part-time workers pay only a low level of taxes and other contributions, if at all, enterprises could, up until now, partly compensate for the higher taxes and other contributions by paying lower gross wages. For particularly low wages, this option no longer exists owing to the minimum wage.

Negotiated rates of pay

Year-on-year percentage change, on monthly basis



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

Further moderate wage agreements on the whole in the current pay round

Wage developments were dampened by the “zero” months (months with a pay freeze) that were a widespread component in the latest pay settlements; only in a small number of sectors, such as in wholesale and foreign trade and in the insurance sector, were these effects offset by one-off payments. Furthermore, the increase in wages remained moderate owing to the fact that pay increases in the new wage agreements in the services sectors – which are typically broken down into two stages – do not provide for an increase of over 3% in scheduled rates of pay, even in the more substantial first stage, and as a result of the second stage not becoming effective until some time in following year.³

Growth in actual earnings influenced by general minimum wage

The increase in actual earnings in the reporting period probably again outstripped growth in negotiated pay rates. The first quarter of 2015 had witnessed a positive wage drift for the first time in just over two years. This turnaround was chiefly attributable to the introduction of the general minimum wage.⁴ At any rate, the figures contained in the quarterly earnings survey of the Federal Statistical Office for the first quarter of 2015 provide clear indications of a significant wage drift, specifically for low-skilled workers and some services sectors in eastern Germany (for further details, see the box on pages 55 and 56).

On the whole, prices returned to an upward trajectory in the second quarter. This turnaround in import, producer and consumer prices can largely be explained by the fact that crude oil prices were rebounding from their low January level well into May. In addition, the euro depreciated again slightly. Domestic price trends were still pointing upwards. Oil prices have weakened significantly again on the international markets of late. While this has initially led to an easing, in particular, of import prices, it is likely to have a knock-on effect on downstream prices as well.

Price trends at all stages of the economy pointing upwards in 2015 Q2

Seasonally adjusted import prices went up by 1.4%, one-half of which was due to higher energy prices. The year-on-year figure remained negative on the whole (-0.9%). If energy is excluded, however, the year-on-year figure expanded strongly again to +2.9%. This applied to both imports (excluding energy) from non-euro-area countries (+4.5%) and imports from euro-area countries, which moved into positive territory (+0.7%). Higher production costs in other euro-area countries owing to the depreciation of the euro are also likely to be reflected here. Domestic sales prices remained broadly unchanged on the quarter. The surge in crude oil prices that has since occurred also placed upward pressure on domestic sales prices. Looking at the energy component, however, the effects on electricity and gas prices were more than offset by the lagged effects of the preceding fall in crude oil prices, even though the reaction was significantly weaker than in the past. Excluding energy, domestic sales

Excluding energy: import prices still clearly rising, producer prices slowly following suit

³ One exception to this is the pay settlement that was agreed between Deutsche Bahn AG and the German Railway and Transport Union (EVG), where a 3.5% increase in basic pay was agreed in the first stage, followed by a further rise of 1.6% in the second quarter of the following year.

⁴ The Bundesbank’s negotiated pay rate statistics are usually based on an agreed basic pay rate, which presupposes completed vocational training and several years of professional experience, whereas the minimum wage predominantly affects segments with lower qualifications and skills requirements. However, in individual sectors in eastern Germany, the introduction of the general minimum wage also led to adjustments in the agreed basic pay rate in the Bundesbank’s negotiated pay rate statistics, which means that the wage drift is not affected.

Initial indications of how the minimum wage is affecting the increase in earnings

A general statutory minimum wage of €8.50 gross per hour was introduced in Germany at the beginning of 2015. The quarterly earnings survey of the Federal Statistical Office for the first quarter of 2015 provides initial indications of its impact on wage developments for the production and services sectors. There follows an analysis of the increases in earnings of categories of employees with low salaries where the minimum wage is likely to be having a particularly strong effect (less qualified and low-skilled employees and predominantly low-paid sectors). The impact on low-paid part-time workers is likely to have been widespread and quite significant. However, as the quarterly earnings survey does not contain any information on the hourly earnings for this category, we cannot discuss this in greater detail here.

In the first quarter of 2015, the gross hourly wages (excluding special payments) of unskilled and semi-skilled employees in eastern Germany rose by 9.3% and 6.6% respectively, which was roughly three times and twice as high as the increase in the upper two work categories (senior specialists and managerial employees). Even in the very heterogeneous category of specialists, the increase still matched the figure for employees in total, although this had been raised by the minimum wage. The figure was thus significantly higher than that for the upper two work categories. Looking at wage developments including special payments (see table at the top of page 56) in order to take account of the possibility that enterprises have sought to counteract the minimum wage-related increases in basic rates of pay by means of cuts in special payments, a very similar picture emerges.

The differences are less marked in western Germany, probably on account of the higher level of earnings at the lower end: the overall increase in earnings categories with simple, routine activities was scarcely higher than the average for all employees. In previous years, however, increases in the case of unskilled

and semi-skilled workers were still mostly below those of the other work categories, as was also the case in eastern Germany.

A noticeable increase was likewise recorded in the first quarter of 2015 in industries with predominantly low rates of pay. This is again especially true for the hourly earnings of full-time employees in eastern Germany. In western Germany, there was a pronounced increase only in some sectors such as accommodation, textile manufacture and the food industry (see table at the bottom of page 56). The very high pay increases of 11.5% in the east German food industry are due in part to the collective wage agreements and the industry-specific minimum wage in the processing of meat products. The pay increase would have been higher still if the legal transitional arrangement had not been applied, like it was in the east German textile industry. The transitional arrangement allows the general minimum wage level to be undercut for a limited period by concluding a collectively agreed minimum wage level which is declared to be generally binding. In the sector of other personal service activities (including hairdressing, laundering and dry-cleaning) the minimum wage in eastern Germany is likely to have contributed to a considerable increase in pay both in the run-up to its introduction and in early 2015. Part of this wage surge is due to generally binding sectoral agreements on a minimum wage. A sectoral generally binding minimum wage, which differentiated between east and west, entered into force in the hairdressing trade as early as November 2013 and was increased further in August 2014. A minimum nationwide pay level of €8.50 per hour will apply from 1 August 2015. Sectoral generally binding minimum wages are also playing an important role in other industries such as temporary employment and landscape service activities.

Industries with a low level of coverage by collective bargaining agreements, such as east German food services and security services, likewise posted very strong year-on-year

Average gross hourly earnings according to performance group in 2015 Q1*

Full-time and part-time employees (excluding low-paid part-time employees), Percentage change in the quarter on a year earlier

Work categories	West	East
Total	1 1.8	4.2
Managerial employees	2.7	3.0
Senior specialists	1.9	3.2
Specialists (with completed vocational training)	1.8	4.2
Semi-skilled workers	2.5	6.4
Unskilled workers	1.8	9.4

Source: Quarterly earnings survey of the Federal Statistical Office, Fachserie 16, Reihe 2.1. * Production and services sectors, including special payments. 1 Percentage shifts in favour of lower work categories dampen the average rise in gross hourly earnings across all work categories.

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Average gross hourly earnings in selected economic sectors in 2015 Q1*

Full-time employees Percentage change in the quarter on a year earlier

Economic sector (classification)	West	East
Total	2.4	3.5
Manufacture of food products	3.9	11.5
Manufacture of textiles	4.7	8.1
Wholesale	1.7	3.8
Retail	1.2	3.7
Accommodation	5.4	9.5
Food services	1.9	12.6
Employment activities	2.1	3.9
Security and investigation activities	0.6	12.0
Services to buildings and landscape activities	4.1	3.9
Residential care activities	2.8	5.4
Social work activities without accommodation	2.5	5.0
Other personal service activities (hairdressing, beauty treatment, laundries, dry cleaners etc)	-1.5	9.8

Source: Calculations based on indices of the quarterly earnings survey of the Federal Statistical Office, Fachserie 16, Reihe 2.2. * Production and services sectors, excluding special payments.

Deutsche Bundesbank

growth in double figures in the first quarter of 2015. In addition, rates of pay had already been increased relatively sharply in preceding quarters, which points to anticipatory effects of the national minimum wage. The accommodation and social work activities sectors, where collective bargaining agreements are few and far between, also saw a marked surge in earnings in the first quarter of 2015.

Overall, the results of the quarterly earning survey indicate that the introduction of the minimum wage has had a strong influence on the wage structure. Low-skilled and employees in low-paid sectors in eastern Germany have been particularly affected as low-paid part-time workers are likely to have been in Germany as a whole, although no hourly earnings are available for these in the quarterly earnings survey. The growth in pay triggered by the minimum wage in these areas at the lower end of the pay scale is so strong that it is also reflected in the average rates of pay. In an initial rough estimate, it is assumed that, without the introduction of the minimum wage, wage developments for full and part-time employees (excluding low-paid part-time workers) in eastern Germany in the three lower work categories would have been similar to the average of the previous three years. However, wages in the upper two work categories also rose more sharply in the first quarter of 2015 than on an average of the past three years. This increase may have also affected the other three work categories to a similar extent and it cannot be attributed to the minimum wage. Adjusting additionally for this increase results in a wage-raising contribution of some 1¾% for eastern Germany. Even assuming that the introduction of the minimum wage in western Germany had no impact whatsoever on wage developments among employees outside the low-paid part-time sector, a contribution of about ¼% to the increase in wages for Germany is calculated. Projections based on the Socio-Economic Panel (SOEP) suggest that this figure could roughly double if the impact on the earnings of low-paid part-time workers in Germany as a whole were also to be taken into account.

prices did not show a further decline, but went up slightly instead. On the whole, the year-on-year decline narrowed to -1.4% (excluding energy: -0.3%). The positive price trend in export sales continued: year-on-year export prices rose 1.4% on the whole during the reporting period, after 0.8% in the previous quarter. For the first time in three years, the terms of trade showed a perceptible deterioration in the second quarter compared with the previous quarter, which was due to the primarily oil-price-induced significant rise in import prices.

Rise in construction and housing prices

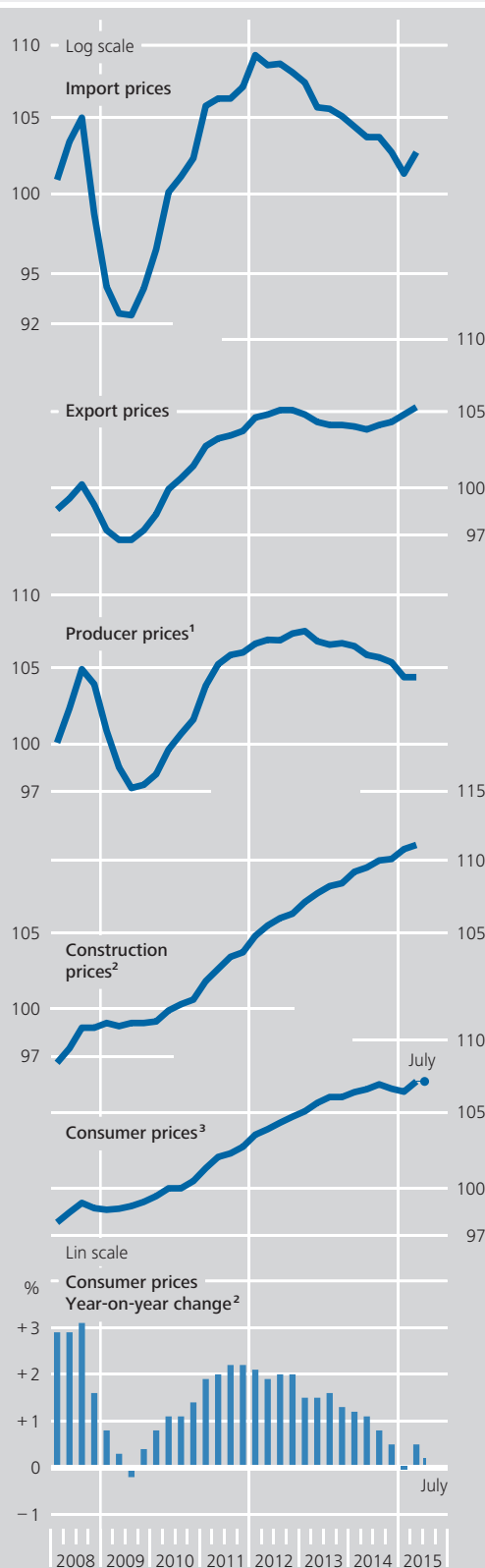
The pace of price inflation for domestic construction work slowed down recently in seasonally adjusted terms. Nevertheless, the year-on-year increase remained at 1.5%. Price movements in the case of both structural work and the finishing trades were negligible overall. Price inflation on the housing market has shown a moderate increase on the whole since the turn of 2014-15, following a period of calmness in the preceding year. One striking development of late has been the comparatively sharp rise in the prices of owner-occupied housing.

Sharp rise in consumer prices in the second quarter, ...

Consumer prices went up sharply in the second quarter by a seasonally adjusted 0.7%, after having fallen by 0.2% in the first three months of the year. Just under one-half of this increase was due to the recovery of crude oil prices in the meantime, resulting in a rise of just over 2½% in energy prices, even though consumers are still paying 10% less for refined petroleum products than they were a year ago. Consumer price inflation excluding energy also went up to 0.4%, after 0.3% and 0.2% in the two preceding quarters. The prices of foodstuffs rose distinctly. The pace of price inflation for other goods accelerated markedly on the back of the euro's depreciation. Year-on-year inflation stood at over 1% again for the first time since the end of 2012. Following the fairly sharp seasonally adjusted price rises of the past few quarters, price inflation for services was more

Import, export, producer, construction and consumer prices

2010 = 100, seasonally adjusted, quarterly



Source of unadjusted figures: Federal Statistical Office. **1** Producer price index for industrial products in domestic sales. **2** Not seasonally adjusted. **3** National consumer price index. Deutsche Bundesbank

moderate again in the second quarter.⁵ Further price adjustments stemming from the introduction of the general minimum wage are likely to have been on a very limited scale at the end of the period under review. The moderate upward trend in housing rents continued. Consumer prices as measured by the national consumer price index (CPI) went up by 0.5% overall in the second quarter compared with the previous year, after remaining unchanged in this three-month period; in the Harmonised Index of Consumer Prices (HICP), the corresponding figures were +0.4%, compared with -0.1% in the first quarter.⁶

... but went down again of late on the back of plummeting crude oil prices

At the end of the first half of the year, year-on-year consumer price inflation declined again perceptibly on the back of declining crude oil prices. Excluding energy, the rate remained largely unchanged. In July, both the Consumer Price Index (CPI) and the Harmonised Index of Consumer Prices (HICP) stood at +1.0%. On the whole, however, the figures were +0.2% and +0.1% respectively. Should these lower crude oil prices become entrenched, the headline inflation rate will probably hover around 0% in the coming months before rising again towards the end of the year, driven mainly by the baseline effect in the energy component, which means that the underlying upward trend is likely to be more visible.

■ Orders received and outlook

Further fairly strong economic growth to be expected ...

As things stand, the conditions are currently in place for fairly strong economic growth in the second half of 2015, fuelled by both foreign and domestic demand. The upward tendency in the domestic demand components will feature more prominently in the second half of the year – in contrast to the dynamics in the second quarter of 2015, which were dominated by special factors. This will push up not only consumer spending, which remains buoyed by the highly favourable underlying setting, but also investment, particularly as enterprises that may soon be facing above-

average capacity utilisation levels are becoming increasingly likely to invest in capacity expansion. Export business may benefit, first, from the ongoing recovery in the euro area. Second, the economic outlook for the United States and the United Kingdom, which are traditionally major sale markets for German exports outside the euro area, is also comparatively favourable. The euro's low external value will also help to boost exports to non-euro-area countries. But it should also be borne in mind that external demand is currently facing downside risks, too, stemming largely from the emerging market economies.

The mixed signals coming from the global economy are consistent with the rather subdued expansionary business and export expectations of industry. According to the Ifo business survey, sentiment in the manufacturing sector has been somewhat more favourable since the second quarter than it was at the turn of the year, mainly because enterprises are rating their current situation more optimistically. In those sectors that are focused on the domestic economy, such as service providers, but also in the wholesale trade, there has, in fact, been increasing optimism since the second quarter; in the retail trade and in the construction sector it has remained broadly unchanged at a good level.

... owing to greater level of confidence among enterprises ...

Industrial activity received a boost from the strong inflow of new orders in the second quarter. The increase in new orders by a seasonally adjusted 3% on the quarter more than offset the earlier setback in the winter months. The marked rise was attributable primarily to

... and buoyant intake of new orders

⁵ The introduction of the new “purchaser principle” (ie whoever commissions the estate agent must pay the estate agent's fee) in the rental housing market in June had a distinct dampening impact on the prices of services in the month of its introduction, although the effect on the quarterly average was marginal.

⁶ With the publication of the final figures for April, the Federal Statistical Office revised the index values for the HICP from January 2015 onwards, which was necessary owing to a calculation error in the “health care services” sub-component. The annual HICP rate was consequently up by 0.1 percentage point in the first quarter.

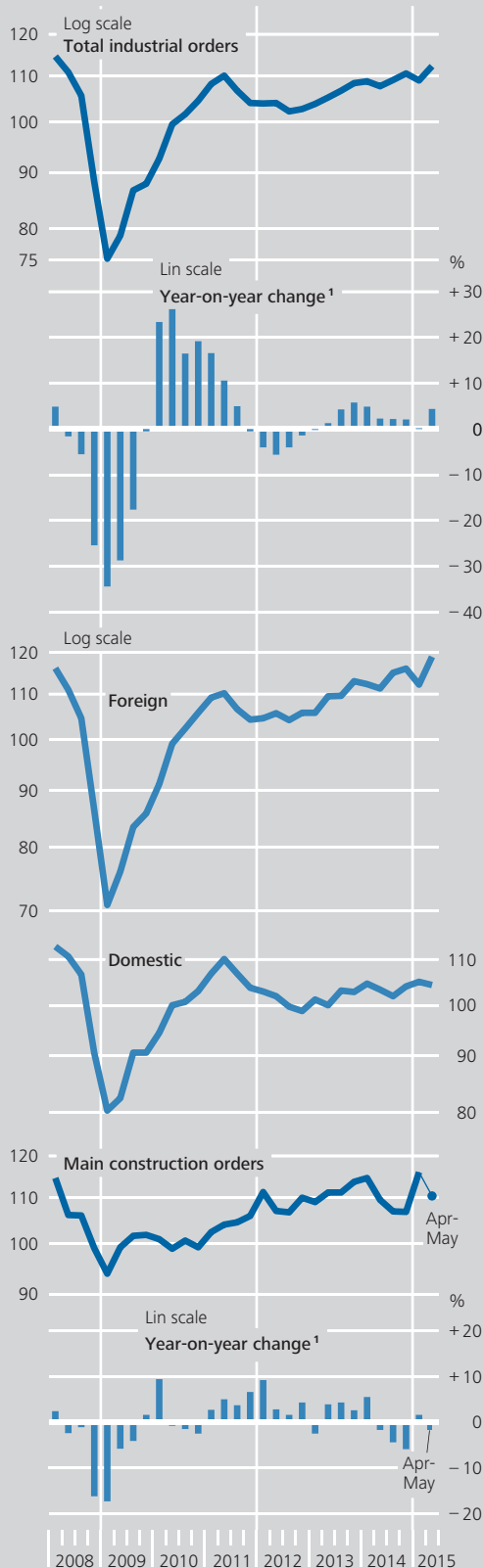
export orders, which rose by 6%. Large orders from euro-area and non-euro-area countries also played a part in this, although growth was still very substantial leaving these orders aside. Demand from within the euro area picked up particularly strongly (+8¼%). Significantly more orders were also received from countries outside the euro area (+4½%), with the high level recorded at the end of 2014 almost being regained even if large orders are excluded. Domestic orders were down slightly compared with the first quarter (-¾%). Apart from the large orders which significantly increased the volume of orders in the preceding quarter, domestic demand was, however, likewise clearly pointing upwards.

Capital and consumer goods in strong demand

Capital goods producers benefited the most from the pick-up in demand in the second quarter (+4¼%). Very strong impulses were received from abroad, although significantly more domestic orders were also received if large orders are not taken into account. The number of new orders for machinery grew particularly strongly (+4¾), with considerably greater demand from both foreign and domestic enterprises (+5% and +3¾% respectively). Orders in the automotive industry rose very strongly owing to the increase in export demand and, following a decline in the first quarter of the year, were up on their markedly elevated level in the fourth quarter of 2014. Orders for computers, electronic and optical products as well as electrical equipment also showed an increase. Orders of other transport equipment experienced a marked rise, which was due primarily to an increase in foreign orders for ships, but also for railway vehicles. Demand for intermediate goods was also stronger again (+1%), although the increase in domestic orders was rather subdued. The consumer goods industry also saw sharp growth in orders (+3¼%) after no more than a small increase at the beginning of the year. This was due chiefly to foreign demand, but there was also a marked rise in the inflow of domestic orders.

Demand for industrial goods and construction work

Volume, 2010 = 100, seasonally adjusted, quarterly



Source of unadjusted figures: Federal Statistical Office. **1** Only calendar-adjusted.
 Deutsche Bundesbank

Clear upward trend in construction demand

Demand for construction work remains strong, even though the exceptionally high level of orders recorded in the first quarter could not be maintained in the first two months of the second quarter (more recent data are not yet available). This was due to a number of major orders in industrial and public sector construction received in the first quarter, which filled the order books of construction firms over an extended period of time. On the whole, the volume of construction orders received in the first five months of this year was up by an average of 6½% on the depressed level of the previous six months. Demand for residential construction was on a stable upward trend path. On an average of April and May, the estimated volume costs of approved housing units in new and existing buildings were up by a seasonally adjusted 1% on the quarter, after going up by

1½% in the first quarter and by ½% in the final quarter of 2014.

In the second half of the year, private consumption is likely to provide stronger impetus for economic activity again than it did in the second quarter. The recent increase in household's real scope for expenditure constitutes a sound basis for this. For example, oil prices have fallen again significantly following a partial recovery between January and May, and overall inflation is very low. Furthermore, surveys by the consumer research institution, Gesellschaft für Konsumforschung (GfK), show that, in the light of the favourable outlook for the labour market and pay, income expectations have shown a further improvement on the earlier record high in the preceding quarter.

Private consumption still a mainstay of economic activity