

Economic conditions in Germany

Macroeconomic situation

Robust economic growth ...

The upturn in German economic activity, which began at the end of 2014, continued into the early months of 2015. According to the flash estimate of the Federal Statistical Office, real GDP in the first quarter of 2015 was 0.3% up on the previous three-month period after seasonal and calendar adjustment. However, despite buoyant domestic activity, the expansion failed to match the rapid pace of 0.7% set in the preceding period. While the dip in global activity put a brake on exports, imports showed substantial growth. Aggregate production capacity utilisation remained within normal bounds.

... sustained by strong impulses from domestic activity

Domestic demand was still expanding strongly. Private consumption continued almost seamlessly at the rapid pace set in the second half of

2014. Favourable underlying conditions had been in place for some time, such as the labour market being characterised by rising employment, declining unemployment and perceptibly higher wages; an additional boost now came from the gain in purchasing power linked to the dramatic fall in crude oil prices at the end of 2014, which was still having an impact going into 2015. Moreover, various economic policy measures (full pension at 63, the additional mothers' pension and the new general statutory minimum wage) were supporting consumer spending over the short term. Housing construction likewise remained on the up. The fact that orders remained healthy, even though the intake was falling somewhat, as well as the exceptionally mild winter are likely to have played a part in this. Enterprises also increased their investment for the first time in almost a year.

Overall output

2010 = 100, price- and seasonally adjusted



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

By contrast, German firms' export business in the first quarter of 2015 failed to maintain the momentum of the second half of 2014. The impact of the rather subdued pace of global activity at the beginning of the year outweighed the stimulating effects of the sharp depreciation of the euro, the impact of which is likely to become apparent only after some time has elapsed. In price and seasonally adjusted terms, exports of goods just about held up at the admittedly high level of the previous quarter. While exports to countries in the euro area remained buoyant, exports to non-euro-area countries are unlikely to have entirely matched their volume in the final quarter of 2014. On the one hand, according to the regional data, which are available only up to February, German enterprises significantly increased their exports of goods to the United States and Switzerland and expanded their sales somewhat in central and east European countries. On the other hand, they saw a decline in their exports to Asia. The minor growth in sales to Japan and the new industrial countries in Asia

Exports subdued, however

failed to offset the marked fall in exports of goods to China and the south and east Asian emerging market economies. Sales in the OPEC countries also underwent a slight decline. The downward trend in exports to Russia became more marked; in terms of value, exports in the first two months of 2015 were roughly one-third down on the year.

Rise only in exports of intermediate goods

In terms of the range of exports, in the first two months of the year it was only intermediate goods that showed a price and seasonally adjusted increase on the average of the final quarter of 2014. Sales of metal and metal products went up in particular, while sales of chemical products failed to match the volume of the preceding three-month period. On the whole, exports of capital goods roughly maintained their level of the previous quarter. Exports of computers, electronic and optical products as well as electrical equipment performed very well, while sales of motor vehicles and motor vehicle parts remained muted and machinery saw a sharp fall. Exports of consumer goods fell somewhat.

Marked rise in imports

By contrast, goods imports experienced marked growth in real terms during the reporting period, after trailing behind final demand in the second half of 2014. In seasonally adjusted terms, there was an increase of 2¾% compared with the final quarter of last year. The rise in imports from non-euro-area countries was much more marked than that in imports from the euro area. More capital goods were imported chiefly in January and February. This applied to motor vehicles and motor vehicle parts in addition to computers, electronic and optical products as well as electrical equipment. Furthermore, following a six-month lull, a significantly larger number of machines was imported again. There was a continuation of the moderate upward movement in imports of intermediate goods. Imports of consumer goods remained muted as in the second half of 2014, and the volume of energy imports was roughly at the level of the preceding period.

Underlying trends in foreign trade

Seasonally adjusted, quarterly



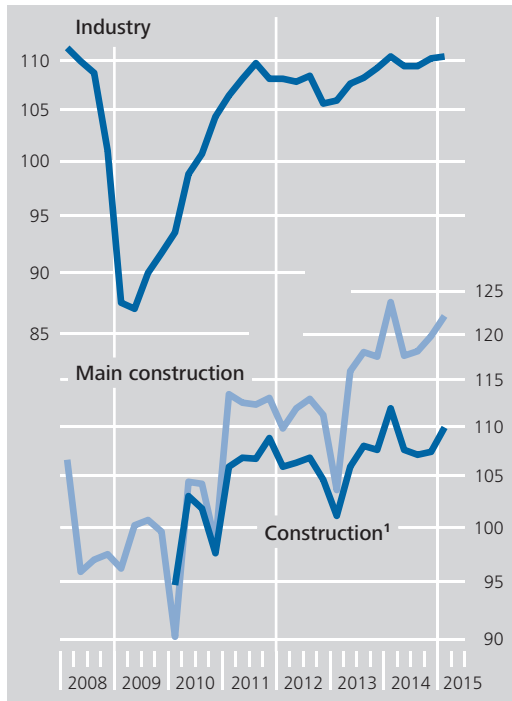
Source of unadjusted figures: Federal Statistical Office. ¹ Adjusted using the price indices for foreign trade.
 Deutsche Bundesbank

Investment in machinery and equipment showed a marked increase in the first quarter of 2015 after generating virtually no stimuli in the previous three quarters. Firms invested more, above all, in their motor vehicle fleets; businesses reported a substantially larger number of passenger cars and commercial vehicles. They procured markedly more machinery, both domestic and imported. Additional computers, electronic and electrical equipment were procured chiefly from abroad, while purchases of domestically produced items did not exceed the level of the final quarter of 2014.

Sharp increase in machinery and equipment ...

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

may also have been connected with the increased completion of new apartments. By contrast, consumers were not so keen to buy electrical household appliances or ICT equipment. Households are also likely to have acquired a somewhat larger number of motor vehicles. In view of the very low prices, they also began to fill up their heating oil tanks at the beginning of the year. Furthermore, they increased their spending on hotel and restaurant services.

■ Sectoral trends

Industrial output rose at no more than a moderate pace, which is consistent with the rather sluggish intake of orders. Industrial output in the first quarter of 2015 went up by only ¼% in seasonally adjusted terms compared with the final three months of 2014, which saw a rise of ¾% following a slowdown in production in the second and third quarters of last year. At +¾%, intermediate goods producers markedly stepped up their output for the second quarter in succession, while, in the first three months of this year, capital goods producers did not, on average, fully maintain the outcome achieved in the final quarter of 2014 (-¼%). It was mainly the production of machinery that underwent a quite sharp decline, at 1¾%, following a steep upward movement in the second half of 2014. It should be taken into account, however, that large-scale orders have led to pronounced fluctuations in the seasonally adjusted quarterly pattern. Output in the automotive sector was somewhat down on the quarter (-½%). Production of computers, electronic and optical products and electrical equipment showed a sharp increase in seasonally adjusted terms during the reporting period (+1½%), whereas there had not yet been any significant growth in the previous quarter. Exceptionally buoyant consumption was also evident after the turn of the year in the production of durable goods, which held up well at the sharply increased level (2¾%) of the fourth quarter of 2014. Nevertheless, this category of

Only slight increase in industrial output

... and in buildings

There was also strong growth in construction investment in the reporting period. The mild weather at the start of the year is likely to have played a part in this. According to the data on turnover in the main construction sector in the first two months of this year, private housing construction was extremely buoyant, while commercial and industrial construction was marking time. There was also a marked increase in turnover in public sector construction projects, however.

Private consumption still clearly pointing upwards

Private consumption continued its marked upward movement into the early part of the year, thus remaining an important mainstay of growth. Sharp growth in real incomes had not yet been fully absorbed in the fourth quarter of 2014, leading to a marked rise in the saving ratio; against this backdrop, households made a further marked increase in their retail spending. Clothing and footwear were in particular demand during the period under review along with mainly furniture and furnishings, which

goods accounts for no more than 2½% of overall industrial output. Food production, which is counted as part of non-durable goods production, and the production of pharmaceuticals underwent a decline in the first quarter, however. Owing to the higher weighting of these industries, the output of the consumer goods industry was ½% down overall on the quarter.

Utilisation virtually unchanged

With the upturn in output in the fourth quarter of 2014 and the first quarter of 2015, industrial capacity utilisation has now gone back up slightly above the longer-term average. According to the Ifo Institute, manufacturing firms once again reported that utilisation was running at 84½% of normal full capacity; the average of the period from 1995 to 2014 was just under 84%.

Marked rise in construction output also due to the weather

Not least owing to the mild weather, construction output in the first three months of this year showed a sharp seasonally adjusted rise of 2¼% on the quarter. In the main construction sector, the weather effect in January was the key reason for output in the period under review being well up on its level in the final quarter of 2014. While there was a clear increase in building construction in the first quarter, civil engineering showed only a small rise. Following two quarters with losses, activity in the finishing trades showed a significant improvement again. Energy production saw a perceptible expansion (+1%).

Services sector activity underpinned by consumption

Services sector activity is benefiting at present from buoyant private consumption. In the reporting period, there was a further sharp increase in retail and motor vehicle sales. Wholesale business also picked up. Hotel and restaurant turnover likewise increased. The mostly business-related service providers surveyed by the Ifo Institute have been rating their situation as quite positive for several months. There is an identifiable upward trend in those sectors, such as leasing, which have a particularly close relationship with industry. In view of the mileage covered by domestic motor vehicles subject to

motorway tolls, which showed a seasonally adjusted increase of 1% on the quarter, this probably also applied to the goods transport sector.

Employment and labour market

The upward trend in the labour market continued at the beginning of 2015. There was a marked decline in unemployment. Employment overall increased only marginally in the first quarter of the year, however. According to initial estimates by the Federal Employment Agency, this was due to a sharp decline in low-paid part-time employment. Such jobs are particularly affected by the general statutory minimum wage, as it is estimated that nearly half of those persons in such “mini jobs” were previously receiving hourly wages below the current minimum wage level. In many cases, “mini jobs” have probably been transformed or combined into jobs that are subject to social security contributions. At all events, since autumn 2014, sectors with an above-average percentage of marginal employment, such as trade, logistics, and hotels and restaurants have been increasingly reporting employment subject to social security contributions.

Employment in the first quarter of 2015 was only 21,000 up on the quarter (+0.0%) in seasonally adjusted terms, compared with a 0.2% increase in the final quarter of last year. This slowdown in the pace of employment growth is due primarily to the above-mentioned fall of 100,000, or 2%, in low-paid part-time employment over the last three months up to February.

Conversely, new jobs subject to social security contributions were being created continuously. On an average of January and February, a total of 127,000 additional jobs were filled in seasonally adjusted terms, which was an increase of 0.4% compared with the fourth quarter of 2014. Growth in employment was especially strong in the services sector and was broadly

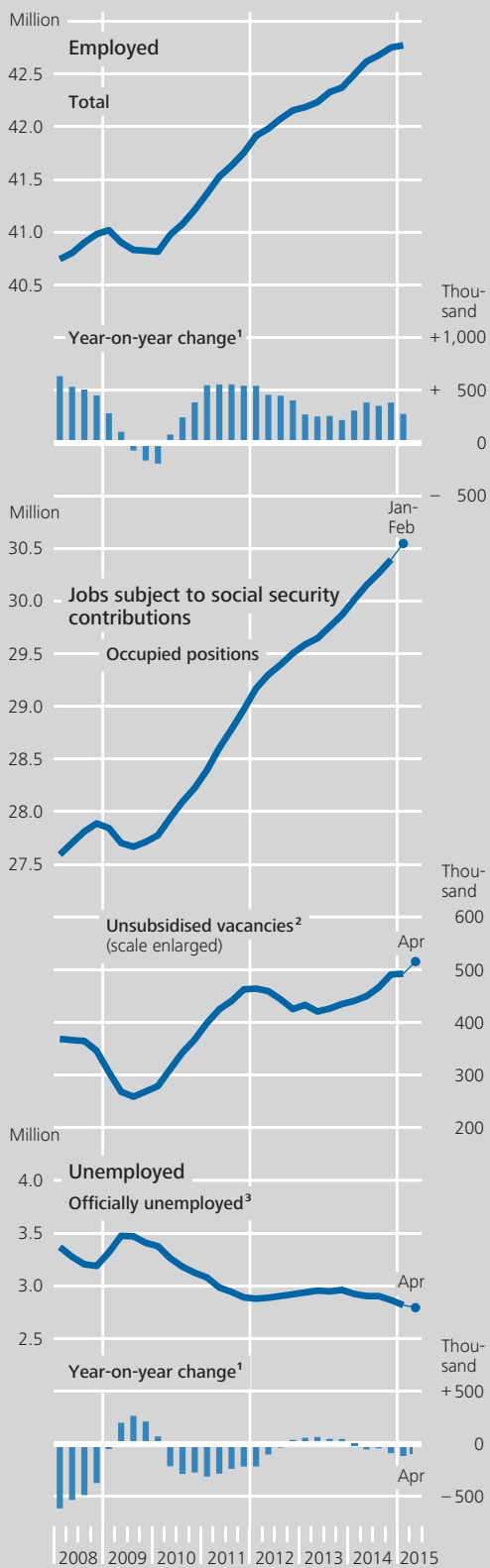
Further improvement in the labour market at the beginning of 2015, but perceptible impact of the general statutory minimum wage

Employment stable with sharp fall in the number of persons exclusively in part-time low-paid work ...

... and strong growth in jobs subject to social security contributions

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

based. The number of persons working in the construction sector saw a marked rise, too. There was only a slight increase in manufacturing, however.

The seasonally adjusted official unemployment figure went down significantly by 48,000 to 2.82 million in the first quarter of the year. The unemployment rate fell by 0.1 percentage point to 6.5%. The decline among persons receiving benefits under the statutory unemployment insurance scheme was somewhat stronger than that among those receiving the basic allowance. After going up in the meantime, unemployment within the statutory insurance scheme, which is more frictional and cyclical in nature, has not yet entirely matched its lowest level reached at the end of 2011. Even so, it is unlikely that the number of 880,000 unemployed persons in the insurance scheme – which corresponds to a proportionate unemployment rate of 2.0% – could be reduced much further even in a boom period. At 1.93 million, the number of persons receiving the basic allowance has reached its lowest level since it was introduced in 2005. Nevertheless, the reduction of such predominantly structural underemployment is proceeding only very slowly. Registered unemployment declined further in April 2015, albeit at a slower pace than in the first three months of 2015. According to the figures of the Federal Employment Agency, 2.79 million persons were without work in April, which is equivalent to an unemployment rate of 6.4%.

Further fall in registered unemployment in 2014 Q4

Enterprises' recruitment practice will probably continue to be geared to expansion over the next few months. The Ifo employment barometer, which provides information on firms' employment plans over the short term, has remained at the high level of the past few months. Despite already having reached a high level, the Federal Employment Agency's BA-X labour market index, which records stock figures as well as the inflow of newly reported vacancies for unsubsidised jobs, is showing an ongoing slight upward tendency. The fact that vacancies are at a very high level might also be a reflection of

Positive outlook for employment

greater difficulty in filling them due to experienced skilled workers retiring on a full state pension at the age of 63, the number of whom may have increased sharply again in the first quarter of 2015. The IAB labour market barometer, which is based on surveys of the managers of local employment agencies, had moved back into neutral territory at the end of the period under review. This means that the decline in the unemployment figures in the final quarter of 2014 and the first three months of this year is unlikely to continue for the time being.

■ Wages and prices

Muted growth in negotiated rates of pay in 2015 Q1

The rise in negotiated rates of pay in the first quarter of 2015 was significantly weaker than in the preceding period. This applies to the contractually agreed basic rates of pay (+2.3% year on year, compared with +2.9%), but even more so to negotiated rates of pay including one-off payments and ancillary agreements (+2.1%, compared with +2.8%). The main reasons for this are months with a pay freeze in some sectors, a negative base effect owing to a back payment negotiated in the retail trade one year before as well as low incremental pay increases resulting from agreements in the previous year. In line with the agreements that have been concluded, the pace of growth in negotiated pay rates is likely to increase slightly in the second quarter of 2015 but not quite match the growth rates of 2014.

Minimum wage likely to increase actual earnings

In contrast to previous quarters, actual earnings in the first quarter may have risen somewhat more sharply than negotiated rates of pay. The key reason for a reversal in the wage drift should have been the introduction of the general statutory minimum wage of €8.50 per hour from 1 January 2015, which has probably led a number of sectors to perceptibly increase earnings in the lower wage segments.¹

Rather moderate wage rise in the 2015 pay round so far

The 2015 pay round settlements thus far provide for quite moderate wage increases. In this connection, it should also be noted that, in a



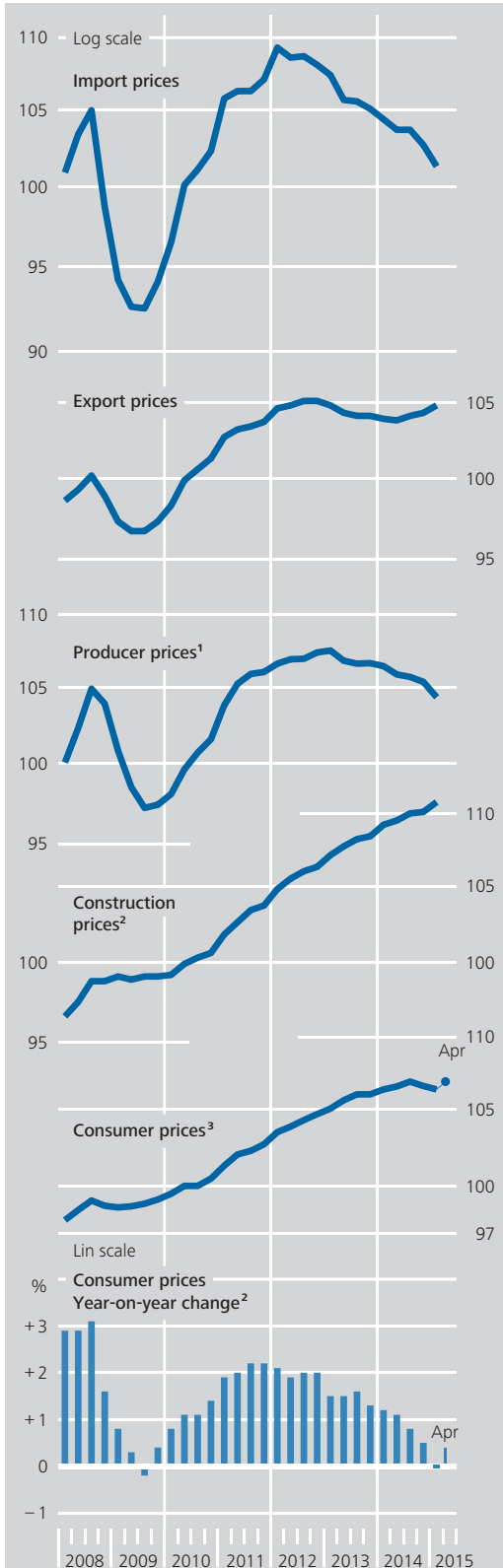
number of cases, the social partners have agreed on additional measures that benefit employees and entail costs for employers. In the metal-working and electrical engineering industries, the new pay agreement runs for 15 months with a one-off payment of €150 for the first three months as well as a 3.4% increase in basic rates of pay from April 2015. Added to this are new agreements with regard to employees' entitlements to qualifications and phased retirement. For the chemicals industry, the wage bargainers agreed a pay increase of 2.8% running for 17 months. Furthermore, payments into the sector-specific demography fund were considerably increased. In the public service of the state governments (excluding Hesse), the wage bargaining partners agreed on a phased increase of 2.1% in scheduled rates of pay – over a two-year period – backdated to March 2015 and a further 2.3% in March 2016; in the second phase, a guaranteed additional income of €75 will bring a disproportionately high increase in the earnings of the lower and middle pay groups.² This will mean a further

¹ The introduction of the general minimum wage barely has any direct impact on the Bundesbank's pay index, as this relates to developments in middle pay groups ("benchmark pay rates") where the hourly rates are above the €8.50 threshold in the majority of cases.

² The collective agreement is usually transferred to civil servants in federal (and thus also) local government, albeit sometimes at a later date and not in full.

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

flattening of the already compressed wage structure in the public sector. In addition, the social partners agreed on a considerable increase in the contribution rates – to be paid by both employees and employers – for financing supplementary old-age provisions.

Price developments throughout the first quarter of 2015 were shaped by the sharp decline in oil prices that continued into January. After seasonal adjustment, not only import prices, but also industrial producer prices and consumer prices were down on their levels in the final quarter of 2014. The consequences of the euro's depreciation have been apparent so far mainly in the import prices of consumer goods. This will be reflected in consumer prices over the coming months.

Prices under the impact of lower oil prices and euro depreciation

In terms of imports, the fall in oil prices led to energy prices on an average of the first quarter of 2015 being almost one-sixth lower than in autumn 2014. The composite index for import prices also showed a marked seasonally adjusted decline of 1½%, although there was a perceptible, chiefly depreciation-related increase, if energy is excluded. Excluding energy, import prices were 2.1% up on the year. The impact of the euro's depreciation was also revealed by the fact that prices for imports from non-euro-area countries went up by 3.6%, whereas imports from other euro-area countries showed a further slight fall of 0.5%. There was a particularly sharp increase in the case of imported consumer goods. The year-on-year increase in import prices for clothing rose to 5.2% (and to as much as 6.6% in March) and to 3.4% for furniture (March: 4.3%). Going by all experience, such strong price rises are reflected quite rapidly in retail prices. In the case of industrial producer prices, the impact of favourable energy and commodity prices was still predominant in domestic sales at the beginning of 2015. Prices showed a further seasonally adjusted fall on the quarter both overall and if energy is excluded. The (negative) year-on-year rates increased to -2.0% and -0.5% respectively. By contrast, domestic enterprises percep-

Import prices excluding energy clearly pointing upwards

tibly increased their earnings per unit in euro terms in their export sales. Export prices were 0.8% higher year on year. With a 2.9% decline in import prices, the terms of trade improved considerably.

Slower rise in construction prices

The pace of price inflation for domestic construction work slowed down again in the first quarter of 2015 and the annual rate fell to 1.5%. This was due to structural work, which contrasted with slightly faster price inflation in the finishing trades. Prices in the real estate market have increased again following a slow-down last year. According to data provided by the Association of German Pfandbrief Banks (Verband deutscher Pfandbriefbanken, vdp), prices for owner-occupied apartments in the first quarter of 2015 were 5.0% up on the year following an increase of 4.3% in the fourth quarter of 2014.

Consumer disinflation process probably at an end

In the first three months of 2015, seasonally adjusted consumer prices were 0.2% down on the quarter, having already fallen by 0.3% in the final quarter of 2014. The decline was essentially due to the sharply reduced energy prices up to the end of January. Food products also played some part in the lower prices, however. The costs of industrial goods (excluding energy) rose faster than in the final quarter of 2014, however. Consumers also had to pay more for services. The introduction of the minimum wage played a part in this and is likely to have contributed around 0.3 percentage point overall so far to the higher cost of services with a much stronger impact in some subsectors (see the box on pages 64 to 66). Housing rents continued their muted upward trend. The annual figure as measured by the national consumer price index (CPI) showed a further decline to 0.0% and, in fact, turned slightly negative (-0.2%) as defined by the Harmonised Index of Consumer Prices (HICP). This is likely to have been a short-lived development, however. Indeed, in quarter-on-quarter terms, the price tendency went into reverse under the impact of the partial recovery in crude oil prices and the depreciation of the euro. The increase in

prices continued in April and the annual CPI rate went up to +0.5%; the annual HICP rate increased to +0.3%.

■ Orders received and outlook

The German economy will probably go on expanding over the coming months. Households are increasingly using their growing scope for expenditure for consumption purposes. Consumer spending is therefore set to bolster macroeconomic growth further, even though most of the purchasing power effect due to the sharp fall in oil prices has probably already been felt. The broad-based surge in orders in the construction sector at the beginning of this year gives reason to believe that construction activity might gain more momentum. Investment in machinery and equipment is likely to increase at a rather subdued pace. Even though capacity utilisation is now at a high level, mixed signals coming from the external environment mean that enterprises feel it to be inappropriate at present to make a large investment in expansions. In the industrial sector, in particular, the economic upswing is intact, but is likely to remain rather sluggish initially in view of the overall disappointing growth in orders at the start of the year. Nevertheless, in a setting of euro-area recovery and strengthening global economic activity, there exists the expectation that new export opportunities will be opened up, not least given the euro's comparatively low external value.

Continued perceptible economic growth

The business climate in the corporate sector has shown a perceptible improvement over the past half year, but is not without a downside. According to a survey conducted by the German Chamber of Industry and Commerce (DIHK) at the beginning of 2015, industrial enterprises, in particular, are feeling heightened cost pressure, which might have an impact on business within the euro area. Surveys by the Ifo Institute for the manufacturing sector show that, despite the sharp depreciation of the euro, there has been no further improvement

Enterprises' economic optimism not without a downside

Impact of the introduction of the minimum wage on consumer prices – initial findings

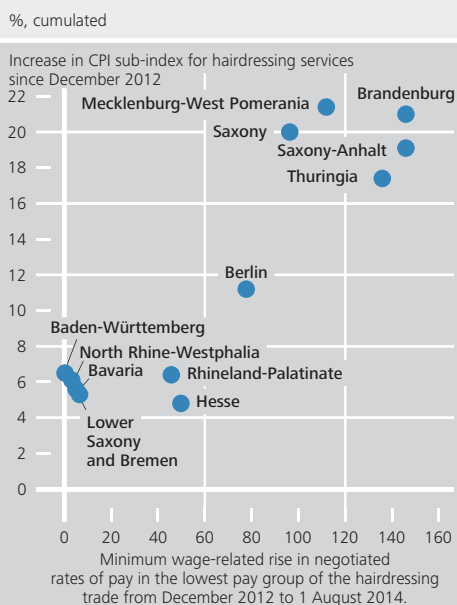
A national statutory minimum wage of €8.50 gross per hour was introduced in Germany on 1 January 2015. Prior to this, it was already the case in several sectors that collectively agreed minimum wages had been declared generally binding by way of a statutory order. In many sectors, the new general statutory minimum wage brought a steep rise in hourly wages in the lower pay groups. Experience has shown that such a surge in costs influences enterprises' price setting.

Nevertheless, there are likely to be marked differences between the sectors. No price effects were to be expected in cases where mostly higher sectoral minimum wages had already been set in recent years, such as in the construction sector, since the new general statutory minimum wage had not

pushed up wages in this instance. Generally speaking, low wages do not play all that great a role in industry. By contrast, there are a number of services sectors where low-paid jobs predominate and where labour costs also account for a considerable share of the total costs. Very different adjustment strategies were selected here in some instances, which had implications for the strength and timing of the price impulse triggered by the minimum wage. Furthermore, the conditions set by the regulatory framework are playing a major role in some sectors.

In the hairdressing trade, for example, a generally binding sector-specific minimum wage of €7.50 per hour for western Germany and €6.50 for eastern Germany was introduced on 1 November 2013 in anticipation of the general minimum wage; this was increased to €8.00 and €7.50 respectively on 1 August 2014. The uniform minimum wage of €8.50 will not come into force in Germany as a whole until 1 August 2015. Use will thus be made of the transitional regulations envisaged in the Minimum Wage Act (*Mindestlohngesetz*). According to the Collective Agreement Archive of the Institute of Economic and Social Research (WSI), the collectively agreed hourly wage in the lowest pay group previously ranged between €5 and €8 in western Germany, whereas it did not amount to much more than €3 in some federal states in eastern Germany. Although the increase in the lowest pay group is an extreme example, negotiated wages in the other groups also showed a clear rise. Thus hairdressing services were already becoming distinctly more expensive before the introduction of the general minimum wage, and price inflation in eastern Germany was

Consumer prices and minimum wage-related rise in negotiated rates of pay in the lowest pay group of the hairdressing trade



Sources: Regional statistical offices and Bundesbank calculations.
 Deutsche Bundesbank

clearly stronger than in western Germany in line with the wage increases.

Since December 2012, prices for hairdressing services in Germany have been raised by more than 8%, while the previous decade had seen price inflation of no more than just over 1% per year. Prices for hairdressing services were up by one-sixth on average in the east German federal states, with the increase being only one-third as strong in western Germany.¹ The price impulses were spread fairly evenly over an extended period of time. This is probably due primarily to the fact that small proprietor-run businesses predominate in the hairdressing sector, and price adjustments are therefore carried out to a large degree in a decentralised manner.

By contrast, on 1 January 2015, taxi firms raised wages fairly abruptly from between €6 and €6.50 per hour in western Germany² and from significantly lower amounts in eastern Germany³ to the general minimum wage level of €8.50. It should be noted, however, that taxi firms have hitherto often paid employees on a commission basis and that only a typical hourly wage can be given. There can, however, be no doubt about the sharp cost-raising effect of the general minimum wage, which has also had a direct impact on consumer prices.

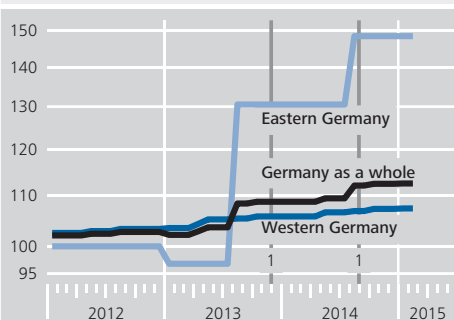
¹ Data for eastern and western Germany are Bundesbank calculations based on information provided by the regional statistical offices. The sub-indices for the federal states are aggregated with the federal state weightings used in the consumer price index. Eastern Germany: Brandenburg (2.6%), Mecklenburg-West Pomerania (1.6%), Saxony (4.3%), Saxony-Anhalt (2.4%) and Thuringia (2.3%). Western Germany: Baden-Württemberg (14%), Bavaria (16%), Bremen (0.9%), Hesse (7.7%), Lower Saxony (9.6%), North Rhine-Westphalia (22.8%), Rhineland-Palatinate (4.8%) and Saarland (1.2%). Schleswig-Holstein and Hamburg do not publish their own consumer price indices.

² Information provided by the *Deutscher Taxi- und Mietwagenverband e.V.* (BZP).

³ The Regional Association of taxis and hire car companies in Saxony calculates a gross hourly wage of €5.50 for Leipzig.

Negotiated rates of pay in the hairdressing trade*

2010 = 100, basic rates of hourly pay, log scale

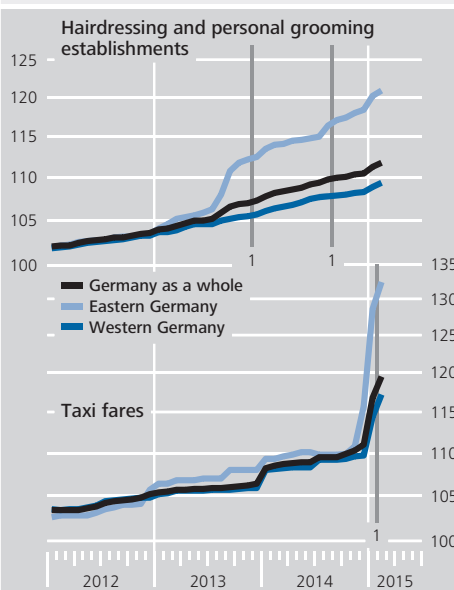


* For eastern Germany the negotiated rate of pay is based on the minimum wage, for western Germany on a person working autonomously. **1** Introduction of and/or increase in the generally binding (sectoral) minimum wage.

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Consumer price index for hairdressing services and taxi fares

2010 = 100, log scale



Source: CPI for Germany as a whole: Federal Statistical Office. CPI areas: Bundesbank calculations based on information provided by the regional statistical offices. **1** Introduction of and/or increase in the generally binding (sectoral) minimum wage.

Deutsche Bundesbank

According to the official consumer price statistics, the average taxi fare in Germany suddenly rose by 5.2% at the beginning of 2015. The increases in eastern Germany of just over one-tenth were again significantly sharper than in western Germany, at 4½%. There were further marked price increases in the following months. Prices have risen

by some 10% overall since the beginning of the year. The fact that taxi fares are subject to local government approval was probably a key reason for the minimum wage-related cost surge being passed through to prices in such a short period of time.

On the whole, the minimum wage has thus shown a very clear impact on consumer prices in some services sectors, which are perceptibly more marked in the east German federal states than in western Germany. The implications for the consumer price index overall are likely to remain limited, however. The minimum wage is likely to have had a notable effect on just under one-third of the services represented in the consumer price index, for example.⁴ In the first few months of 2015, annual price inflation in these sectors was slightly higher than average, contributing more than 0.1 percentage point to the overall CPI rate.

However, the price adjustment process is probably not yet complete, especially in those sectors making use of the transitional periods of the Minimum Wage Act. In addition, there may have been smaller price effects in the retail trade and in hotels, restaurants and catering, which are not taken into consideration here, and there will still be some lagged wage increases, so that the overall effect is likely to be somewhat greater.

⁴ Components of the CPI basket of goods which are likely to be particularly affected by the minimum wage (CPI weighting): Dry-cleaning, washing and repair of clothing (0.107%), services for the maintenance and repair of dwellings (0.412%), street cleaning (0.114%), charges for garden maintenance (0.162%), repair of furniture and furnishings (0.081%), domestic and household services (0.291%), taxi rides (0.122%), combined passenger transport services (1.06%), furniture transport (0.046%), postal services (0.235%), catering services (3.423%), accommodation services (1.044%), hairdressing and personal grooming establishments (0.995%), social services (1.135%), funeral services (0.114%).

in short-term export expectations following the recovery in the autumn months. Assessments thus fall well short of the optimism that prevailed for a time, say, one year ago. The fact that the strength of the cyclical pick-up in industry is predominantly being rated with some caution is revealed by business expectations for the next six months.

No improvement in the orders situation in industry of late ...

After seasonal adjustment, the intake of industrial orders in the first three months of 2015 was 1½% down on the final quarter of last year. This means that there was initially no continuation of the upturn that set in around the middle of 2014. The main dampening effect stemmed from the export markets and was felt in all the major industrial sectors. The marked decline was due in part to the fact that relatively few major export orders were received in the first quarter, while there had been a very large number of them between October and December 2014. The very strong inflow of orders from non-euro-area markets did not

continue in the first three months of this year (-2¾%). Orders from the rest of the euro area were as much as 4¼% lower than in the previous quarter, although the level in the final quarter of 2014 had been relatively high. Seasonally adjusted orders from domestic customers were 1% up on their prior-quarter level, however, not least owing to a large order in other transport equipment.

Orders placed with producers of intermediate goods in the first quarter of 2015 were 1½% down on the quarter in seasonally adjusted terms. There was a somewhat stronger decline in the case of capital goods at -1¾%. Furthermore, there were clearly fewer orders for computer, electronic and optical products and electrical equipment than on an average of the final quarter of 2014. There was also a marked quarter-on-quarter fall in orders (-1½%) for automotive products. Given the sharp rise in the final quarter of last year, the orders situation in this branch of industry may still be seen as

... with both intermediate and capital goods affected

extremely favourable. Demand conditions in the mechanical engineering sector are not so good, however. The decline in orders in the final quarter of 2014 was followed by another fall after the turn of the year (-1¼%). Seasonally adjusted quarter-on-quarter growth in consumer goods orders in the reporting period amounted to ¼% following a marked rise in the previous quarter. The past half year has seen increased demand for durable goods in particular.

Sharp pick-up in construction demand

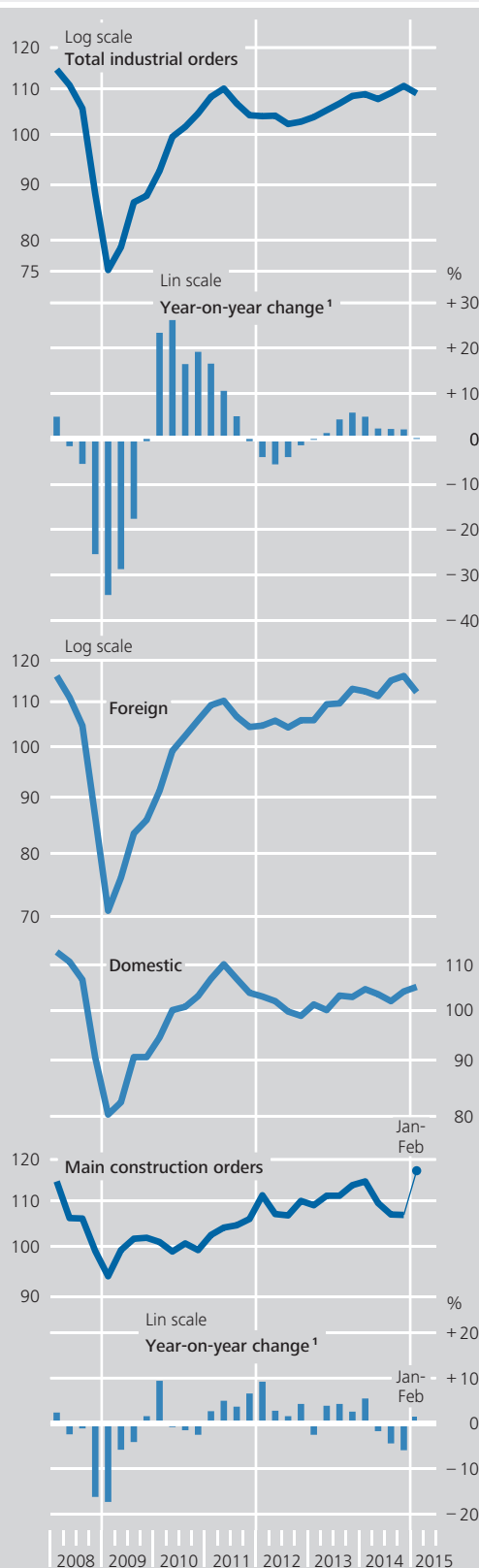
Construction demand has picked up sharply since the beginning of 2015. This new momentum has been felt by all construction subsectors. It is particularly obvious in civil engineering, which is due mainly to the fact that public sector customers have not been as hesitant as in the second half of 2014. Moreover, construction firms received more orders for building commercial properties. Housing construction demand also saw an increase. The estimated costs of approved housing units in new and existing buildings on an average of January and February 2015 were 1% up on the average of the preceding three-month period.

Private consumption to remain the primary engine of the economy in the short term

The conditions for marked expansion of private consumption are still in place, even though it can probably no longer be assumed that growth rates in the near future will be on the scale of those in the last three months of 2014 and the first quarter of this year. The gains in purchasing power due to the slump in crude oil prices at the end of last year are allowing consumers to enjoy a higher level of consumption, to which they have adapted quite quickly. Much the same applies to the additional scope for expenditure stemming from pension policy measures. Even so, given the existing marked propensity to consume, rising employment and higher rates of pay (which – in view of very low inflation at present – perceptibly increase the scope for expenditure) mean that there is further potential for expansion. Added to this are the income-increasing effects of the minimum wage, which are likely to become apparent especially in the case of households with relatively high consumption ratios.

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