

## Economic conditions in Germany

### Macroeconomic situation

*Continuation of growth path in 2015 Q3 ...*

The German economy remained on its growth path in the third quarter. According to the Federal Statistical Office's flash estimate, real GDP in the third quarter of 2015 was up 0.3% on the quarter after seasonal and calendar adjustment. The pace of growth was thus somewhat more moderate than the figure of 0.4% recorded in the second quarter and was broadly in line with potential growth. Buoyant consumption activity was the main driver of third-quarter economic growth, although it was not enough to fully offset the lack of stimuli from external demand. Aggregate capacity utilisation remained in the upper part of the corridor of normal capacity utilisation.

*... in the wake of buoyant consumption activity, but commercial investment and external demand lack impetus*

Consumption activity gave a new boost to domestic demand in the third quarter. As in the fourth quarter of 2014 and the first quarter of 2015, purchasing power gains owing to the decline in crude oil prices were one of the factors behind the stronger pace of growth in private consumption. Households' real income also benefited from the considerable acceleration in employment growth in the third quarter. Consumer demand was additionally boosted by the mounting influx of refugees, which led to a rise in transfer payments as well as in expenditure on staff, accommodation and non-cash benefits at central, state and local government levels. Housing construction investment probably continued its upward tendency, whereas enterprises remained cautious with regard to investment in machinery and equipment or new buildings. This may have been one of the reasons why external demand failed to provide any new impetus.

*Slowdown in exports of goods broadly based in regional terms ...*

Export business did not show any further growth in the third quarter of 2015 following a strong upturn in the second quarter. Exports of goods were down slightly by ¼% on the quarter in seasonal and price-adjusted terms. Goods

exports to other euro-area and non-euro-area countries are unlikely to have surpassed the sharply elevated level of the second quarter. According to the figures available up until August, the majority of trading partners in the advanced and emerging market economies experienced a slowdown following a regionally broad-based upward movement since the second half of 2014. There was a significant fall in exports to the USA, which had previously shown considerable growth. Exports to China continued their steep downward movement which had begun at the start of the year. In July and August, exports to the People's Republic were a striking 7¼% down on the year in terms of value. Exports of motor vehicles and motor vehicle parts to the People's Republic of China contracted by almost one-sixth and exports of machinery were down by nearly one-twelfth. The only exceptions to the weak export per-

#### Overall output

2010 = 100, price- and seasonally adjusted



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



formance in the third quarter were the central and east European EU countries, which showed a further distinct quarter-on-quarter rise in sales, and Japan. In addition, considerably more goods were being exported again to the OPEC countries, despite the low price of oil.

... but exports of consumer goods continue to expand

Most export sectors were lacking impetus, with exports of intermediate goods and capital goods undergoing a noticeable decline. Only export business in consumer goods continued to perform well in July and August.

Investment in machinery and equipment is again unlikely to have increased in the report-

ing period. The slack order situation gave industrial enterprises little cause to acquire movable fixed assets. Furthermore, it was possible to process the existing stock of orders without any problems using available capacity at normal utilisation levels. Nevertheless, vehicle fleets are likely to have seen some new additions, as is indicated by the increase in the number of new car registrations by commercial customers. Sales of computer, electronic and optical products and electrical equipment likewise increased at home and abroad. Enterprises remained reluctant to purchase new machinery, however.

Investment in machinery and equipment still subdued

Construction investment in the third quarter is likely to have shown only minor growth on the quarter. Following a sharp weather-boosted rise in the winter, construction output was up slightly on the clearly depressed level of the second quarter. In view of the upward tendency in demand for housing construction, investment activity in this sector is likely to have been quite robust.

Construction investment also muted

Domestic demand was driven by private consumption in the third quarter. There was a substantial increase in households' real spending capacity. This was not due solely to accelerated employment growth and considerable wage increases; additional relief came from lower energy costs resulting from the marked fall in crude oil prices since July. Much of the growth in real incomes has been used by households to buy more. Retail sales showed a steep rise. Information and communications technology (ICT) equipment featured most prominently on consumers' shopping lists. Hotels and restaurants also benefited from buoyant consumer sentiment. Furthermore, consumers took advantage of the low heating oil prices and filled their tanks in anticipation of the upcoming heating period. There are also likely to have been more purchases of motor vehicles, as is indicated by the higher numbers of new car registrations. Volkswagen's exhaust emission scandal is unlikely to have had an impact in the reporting period.

Private consumption driver of domestic demand

*Steep rise in imports*

Imports in the third quarter again managed to keep pace with the strong growth recorded in the final quarter of 2014 and the first three months of this year. There was a clear seasonally and price-adjusted quarter-on-quarter expansion (+3%) in imports of goods, with foreign manufacturers also benefiting from buoyant consumption activity. In addition, energy imports rose considerably in price-adjusted terms, and intermediate goods produced by foreign manufacturers were likewise in greater demand. By contrast, imports of capital goods showed little overall growth.

## ■ Sectoral trends

*Industrial output down slightly*

The earlier moderate upturn in industrial output did not continue in the third quarter of 2015. Manufacturers of intermediate goods cut back production somewhat more strongly than in the previous quarter (-3/4%). Output of capital goods moved sideways, albeit with diverging developments in the individual branches. The automotive industry, for example, expanded its production substantially (+13/4%) given that their order books were still well-filled, despite the slump in demand in the third quarter. Output was markedly scaled back in the case of machinery and electrical equipment, however. By contrast, production was stepped up in several consumer goods segments in the wake of buoyant consumption activity.

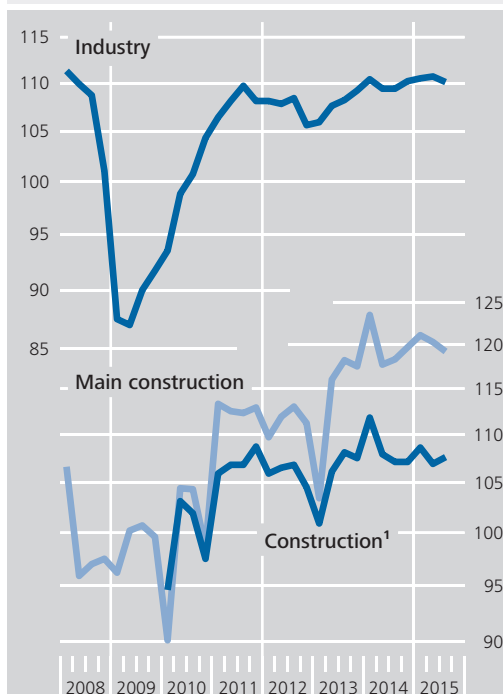
*Manufacturing capacity utilisation still at a normal level*

Industrial capacity utilisation remained unchanged despite the slight decline in industrial output. Enterprises taking part in the Ifo Institut's October survey reported that utilisation was running at 84¼% of normal full capacity, as had been the case three months earlier. Industrial capacity utilisation is thus still slightly above the long-term average of 84%, which may be interpreted as normal capacity utilisation.

Construction output was up slightly on the quarter (+3/4%) after adjustment for seasonal

### 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

variations. Output declined distinctly in the main construction sector (-1%). In the finishing trades, the data for which are admittedly subject to considerable revision, there was a very sharp increase, however. Energy production increased perceptibly by 1% in the third quarter.

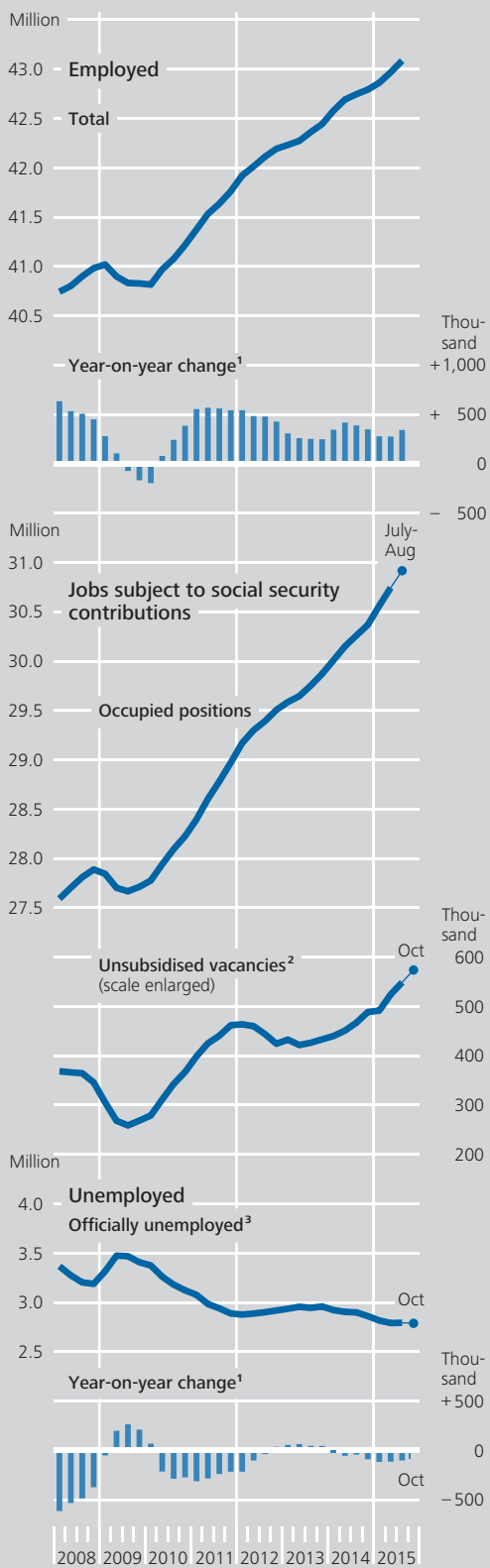
*Construction output somewhat higher, energy production increased*

The services sector is likely to have expanded strongly in the third quarter and supported economic growth to a significant extent. Strong stimuli were generated by dynamic consumption activity. Retailers recorded a marked rise in sales, hotels and restaurants were flourishing and motor vehicle sales held up at the very high level of the previous quarter. The business of some, mainly industry-oriented service providers is likely to have been dampened owing to weaker industrial activity. Wholesale sales were down again. All things considered, the positive knock-on effects of consumption activity are likely to have prevailed, including for business-related service providers. This is indicated by their very favourable assessments of

*Considerable momentum in services sector*

## 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 business situation reported to the Ifo Institute, which showed a further improvement in the summer.

## Employment and labour market

The labour market remained in very good shape in the third quarter. Employment growth gained momentum, the number of reported vacancies went up and unemployment held steady at a low level. The growing demand for labour is still being met to a considerable extent by immigrants, especially from other EU countries. By contrast, only a small proportion of the large number of refugees who have come to Germany this year is likely to have taken up gainful employment to date.

*Labour market in very good shape*

The seasonally adjusted number of persons in employment in the third quarter of 2015 rose sharply by 119,000, or 0.3%, on the quarter. Furthermore, the employment situation in the first half of the year now looks even more positive following the sharp upward revision of the preliminary figures. In spite of the steep fall in persons working exclusively in low-paid part-time employment since the introduction of the minimum wage, employment growth, with an increase of 187,000 persons during the first half of the year, was not weaker than in previous years.

*Strong employment dynamics*

The very steep upturn in employment subject to social security contributions continued. According to the initial figures of the Federal Employment Agency, an estimated 144,000 additional workers were hired in positions subject to social security contributions in July and August alone, which represents an increase of 0.5% on the average of the second quarter. Whereas job growth in the manufacturing and construction sectors was below average (+¼% in both cases), there was a sharp rise again in a number of services sectors. A particularly large number of new jobs were still being created in logistics and hotels and restaurants (+1% in

*Steep rise in employment subject to social security contributions*

each case), in the health and welfare sector as well as in business-related services (¾% in each case). The growth rates of the first six months of this year were no longer being matched, however.

*Immigration of refugees: negligible impact on German labour market so far*

The substantial rise in the influx of refugees in the third quarter is unlikely to have had an impact on the labour market so far. It is principally recognised refugees who are granted open access to the labour market. However, processing times for asylum applications and a certain backlog in processing delay the decision about recognition of an application.<sup>1</sup> In addition, refugees need time to acquire language skills and they often lack the qualifications and skills required in Germany, at least initially. Since the second quarter, asylum seekers have been able to take up employment as early as three months after making their application, but this has to be preceded by the Federal Employment Agency carrying out a priority check for a further 12 months. Persons with uncertain residence status probably have very little chance of being employed under a normal work contract. This suggests that asylum seekers take up temporary or low-paid part-time work at best.

*Still high immigration from EU countries*

The German labour market continues to absorb a large number of EU nationals who have recently relocated to Germany. Although the increase was somewhat smaller recently, the number of workers subject to social security contributions and low-paid part-time workers from other EU countries went up by 223,000 between September 2014 and September 2015. The number of immigrants from Romania and Bulgaria is particularly high at the current time; they have had unrestricted access to the German labour market since the beginning of 2014. Since July 2015, freedom of movement has also been granted to Croatian nationals.

*Registered unemployment stable at low level in Q3*

The number of persons registered as unemployed has persisted at a low level for the past six months. On an average of the reporting period, the seasonally adjusted unemployment figure remained unchanged on the quar-

ter at 2.79 million and the unemployment rate was 6.4%. Unemployment also remained at this level in October. However, the fact that the overall number was largely unchanged conceals opposing lines of development with regard to persons drawing unemployment benefits and recipients of basic social security payments. On the one hand, the number of the more short-term unemployed claiming insurance benefits continued to fall – albeit slowly – to 840,000 in October, thus reaching its lowest level since the extensive labour market reforms of more than ten years ago. On the other hand, bucking the trend of past years, the number of unemployed persons receiving basic social security payments showed a slight increase.

According to the leading labour market indicators, employment growth could be even stronger over the next few months. The Ifo employment barometer, which surveys the employment plans of trade and industry over the coming three months, rose to its highest level for around four years in October. The Federal Employment Agency's BA-X job index, which contains information on both the existing number of reported vacancies and their dynamics, stood at its highest level since its introduction in 2004. Job vacancies for more straightforward service activities appear to be particularly plentiful at present. Growth in vacancies for unsubsidised positions subject to social security contributions was reported, above all, in sectors such as other business-related services (which includes temporary employment agencies, private security activities, cleaning of buildings, and call centres), the wholesale and retail trades as well as hotel and restaurant services. The autumn survey conducted by the Association of German Chambers of Commerce

*Outlook for employment remains positive*

<sup>1</sup> There has been a moderate increase so far this year in the number of recognised refugees. According to the immigration monitor of the Institute for Employment Research (IAB) for October, only an estimated 47,000 refugees of working age were granted protection status and therefore unrestricted access to the German labour market in the first nine months of this year. See H Brückner, A Hauptmann, E Vallizadeh, Zuwanderungsmonitor Oktober 2015, IAB-Aktuelle Berichte, Nuremberg.



and Industry (DIHK) on the employment plans of enterprises confirms that recruitment intentions in the services sector are more marked overall than in the manufacturing and construction sectors. The IAB labour market barometer, which is based on surveys of all managers of local employment agencies, indicates that registered unemployment is likely to remain constant or show a marginal fall over the next three months.

## Wages and prices

*Stronger rise in negotiated pay rates in Q3 than in previous periods; higher growth in actual earnings continues*

The rise in negotiated rates of pay including all additional benefits in the third quarter of 2015, at 2.4% on the year, was somewhat stronger than in the second quarter (+2.2%). The annual rate of growth in actual earnings in the third quarter is again likely to have been markedly higher than the increase in negotiated wages. The main reason for this is the introduction of the general statutory minimum wage at the beginning of the year. In conformity with the transitional statutory provisions, rates below the hourly minimum wage of €8.50 will now be paid only in the lowest pay groups of individual sectors. This will apply in eastern Germany to temporary agency work, large laundries and the textile industry until mid-2016 in most cases. The lowest sectoral minimum wage

levels of €7.20 (east) and €7.40 (west) are currently set in agriculture and forestry and in horticulture. Moreover, the Minimum Wage Act (*Mindestlohngesetz*) allows newspaper delivery firms to remunerate their staff at €6.38 this year and €7.23 next year.

The price climate continues to be characterised by fluctuations in crude oil prices, which were on their way back down in the third quarter, causing prices at all stages of the economy to fall again. This movement was amplified somewhat by the falling prices of other commodities. Consequently, even if energy is excluded, prices were also declining again at the upstream stages in some instances. Consumer prices, excluding energy, were still rising, however, albeit somewhat more slowly than in the previous quarter.

*Prices influenced by fluctuations in commodity prices*

Import prices not only dropped sharply across the board by a seasonally adjusted 2.0% in the third quarter, they also showed a marked fall even if energy is not taken into account. Primarily inputs, but also food products, became significantly less expensive as a result of the decline in commodity prices. Other consumer and capital goods, which had undergone steep price increases in the preceding quarters in the wake of the euro's depreciation, now became somewhat cheaper or were no longer showing an obvious price increase. Hence, the year-on-year figure for imports excluding energy, at +1.6%, was clearly more moderate than in the second quarter and, including energy, the decline in prices, at 3%, was quicker than before. Domestic producer prices also went down in seasonally adjusted terms. This was due solely to lower energy prices. Small reductions in inputs and food products offset price increases of similar magnitude in other consumer and capital goods. The latter were probably due to lagged effects of the euro's past depreciation. The annual inflation rate thus remained clearly negative. It was still possible to achieve higher prices in foreign sales, even though the year-on-year rate was, at 0.8%, lower than in the second quarter. The terms of trade improved

*Decline in prices at upstream stages of the economy*

again due to the strong price reductions in the case of imports.

*Moderate rise in construction prices*

Construction prices continued to rise moderately. The year-on-year rate of 1.4% was at much the same level as in the previous quarters. Price inflation on the housing market has accelerated again in the course of the year so far. This has been due chiefly to rising prices for owner-occupied housing, while prices for freehold apartments have been going up at a similar rate to last year.

*Rise in consumer prices, excluding energy, in summer ...*

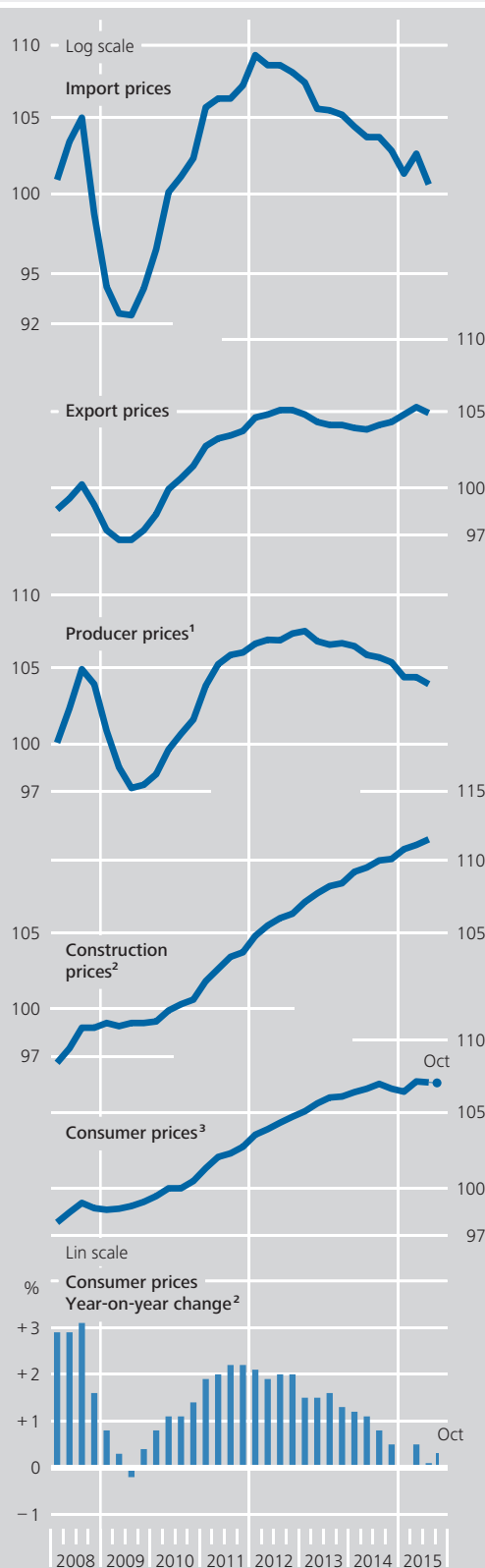
Following the steep rise in the second quarter, consumer prices declined slightly in the summer months by a seasonally adjusted 0.1% on the quarter. This was due mainly to significantly lower energy prices. Excluding energy, however, the upward pressure on prices was almost as strong as in the second quarter. While food prices remained unchanged overall, the prices of other commercial goods rose again steeply by 0.4%. A part in this was also played by the fact that it was not until the third quarter that cigarette prices were adjusted to the final stage of the increase in tobacco tax from January this year. Prices for services rose moderately and the increase in housing rents was also rather muted. Annual inflation as measured by the national consumer price index (CPI) fell from +0.5% to +0.1% and according to the Harmonised Index of Consumer Prices from +0.4% to 0.0%. Excluding energy, the rate remained at somewhat above 1% in both indices.

*... continued in October*

In October, consumer prices increased slightly on the whole after adjustment for seasonal variations. Although the price of crude oil in euro terms was somewhat above its September level, retail prices for energy continued to fall. This is likely to be due in part to something of a return to normal in refining margins, which had seen an exceptionally sharp increase in the summer months. There was a further increase in prices if energy is excluded. As there had been quite a significant decline in consumer prices in October last year, the overall annual CPI rate went up from 0.0% to +0.3% and the

### Import, export, producer, construction and consumer prices

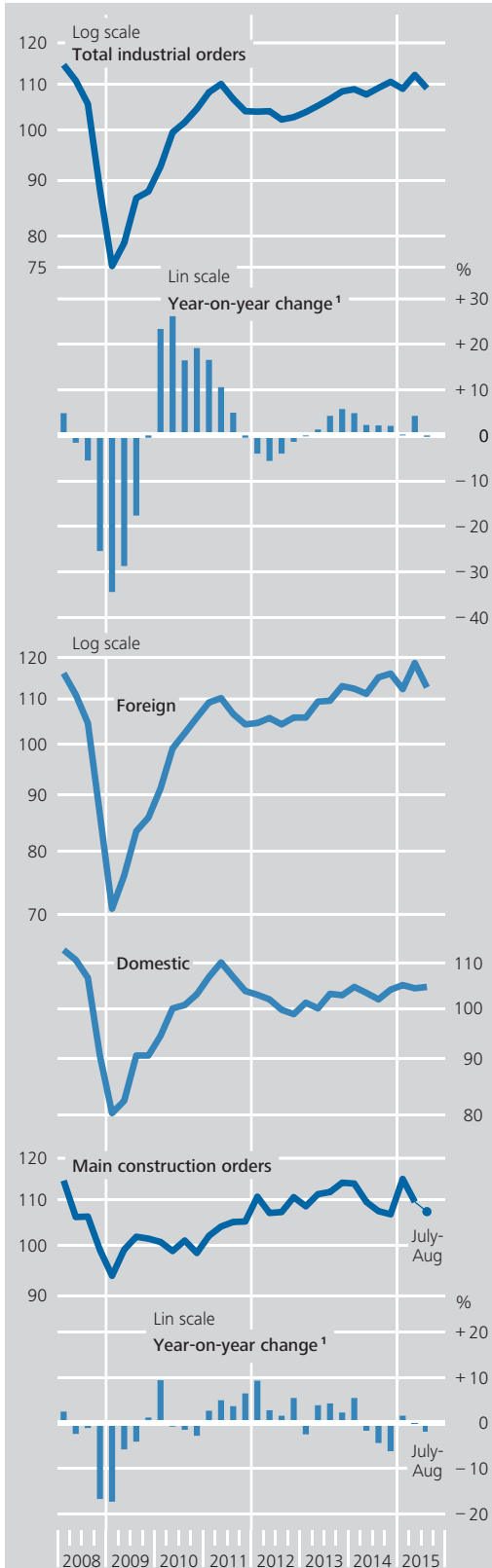
2010 = 100, seasonally adjusted, quarterly



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

### 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

annual HICP rate increased from -0.2% to 0.2%. Excluding energy, consumer prices were up from +1.1% in September to +1.4% according to both the national CPI and the HICP. The headline inflation rate will probably continue to go up in the coming months on account of the sharp fall in crude oil prices in late 2014/early 2015 and price inflation, in particular for services.

### Orders received and outlook

The slight slowdown in German economic growth in the third quarter of 2015 could also continue into the final quarter. The basic conditions for robust growth in private consumption are still in place. Unfunded government transfers for refugees are also likely to generate additional stimuli. The favourable labour market outlook and persistently low mortgage rates are also boosting housing construction. According to the Ifo Institute, business expectations in the retail trade, in the case of other service providers and in construction are correspondingly positive.

*Economic growth still sustained by consumption ...*

Hardly any stimuli are to be expected from industrial activity before the end of the year, however. The sharp decrease in orders in the third quarter, especially from non-euro-area countries, indicates that industrial activity will remain weak up to the end of the year and that export activity will not gain traction either. This means that firms will probably be more cautious in their investment planning. Their still fairly optimistic short-term export and production expectations indicate that enterprises see the impact of a cooling of demand in China and other emerging market economies as limited.

*... but lack of stimuli from exports in the short term*

According to the Ifo surveys, the outlook for business in trade and industry has brightened again somewhat recently. Nevertheless, uncertainties regarding growth prospects in emerging market economies and their effects on the advanced economies, too, have left their mark

*Uncertainties have increased*



on enterprises' assessments. The latest DIHK survey indicates that foreign demand is now seen as the greatest risk to future business growth and that industry has slightly scaled back its medium-term investment and employment plans.

*Clear fall in incoming orders due to sharp decline in demand from non-euro-area countries*

The reporting period saw a distinct deterioration in demand conditions in industry on the back of a clear seasonally adjusted 2¾% quarter-on-quarter decline in incoming orders. This was due to the marked 8½% overall decline in demand from non-euro-area countries. However, growth in orders from the euro area was markedly smaller, too. Although the inflow of orders from the euro area showed moderate growth, there was likewise a contraction leaving aside orders from the aircraft and aerospace industry, part of which is likely to originate from non-euro-area countries. In practical terms, domestic orders moved sideways.

*Automotive industry particularly affected by decline in demand from non-euro-area countries*

In the third quarter, it was mainly capital goods manufacturers who felt the effects of the slow-down in demand from non-euro-area countries. The automotive industry was hit particularly hard. Following exceptionally robust demand in the preceding quarters, orders slumped by almost one-fifth. In spite of further marked inflows of orders from the euro area, this sector thus recorded a 9% overall decline in orders in the third quarter. The manipulation of exhaust emissions at Volkswagen is unlikely to have been a significant factor as it did not become known until shortly before the end of the quarter. However, there was less demand overall for intermediate and consumer goods than in the preceding quarter.

Construction business activity is still pointing upwards. Even in the short term, the marked pick-up in demand for housing construction in the third quarter is likely to make itself felt. On an average of July and August, the number of permits and orders for housing were clearly up on their level in the first half of the year. By contrast, the other two construction subsectors were receiving no new stimuli. Demand for both commercial and public sector construction tailed off into the summer months and, in July and August, was significantly below the average of the first half of the year.

*Housing construction still pointing upwards, lack of new impetus for commercial and public sector construction*

The favourable outlook for the labour market and pay, together with strong immigration, is creating the necessary conditions for buoyant consumption activity to continue. This is consistent with assessment by the market research institution Gesellschaft für Konsumforschung (GfK) that consumer sentiment is still decidedly positive. The consumer climate has become somewhat gloomier in recent months, probably reflecting the fact that consumers no longer expect to be able to benefit from energy price-driven growth in purchasing power to the same extent as before. Moreover, the economic outlook has been rated as much less favourable. According to GfK data, however, this was mainly related to the more unfavourable assessment of the underlying conditions on the labour market as a result of the immigration of refugees and only to a small extent to the individual workplace situation. This has had a relatively minor impact on the propensity to spend.

*Consumption activity still driver of domestic demand*