

## The German economy

### Macroeconomic situation

*Distinct growth in German economy in winter 2019, mainly thanks to one-off effects*

The German economy got off to a good start in 2019, after economic output had largely stagnated in the second half of 2018. According to the Federal Statistical Office's flash estimate, real gross domestic product (GDP) was 0.4% up on the quarter after seasonal and calendar adjustment. Temporary factors played a big part in this marked increase, however. For example, the expansionary fiscal measures that entered into force at the start of the year probably gave an additional boost to private consumption, which is likely to have received further impetus from car purchases that had been put on hold earlier. In the second half of 2018, a considerable number of car purchases had been deferred because of supply shortages caused by the introduction of the new Worldwide Harmonised Light Vehicle Test Procedure

(WLTP) for motor vehicle emissions. Construction activity was buoyant over the winter months, which was made possible primarily by the favourable weather conditions. Disregarding these one-off factors, the underlying cyclical trend remained weak overall however, as it has been since mid-2018. This is likely to be true of the current quarter, as well. Following the decline in the preceding six months, aggregate capacity utilisation stayed at a level that was still significantly higher than average.

The construction, hospitality and retail sectors – flanked by the one-off effects – were clear sources of impetus. Commercial services, too, are likely to have shown marked growth in the reporting period. By contrast, the broad-based downturn in industry continued. On the demand side, the key driver of growth was probably private consumption, which thus overcame the period of sluggishness it underwent in the second half of 2018. Despite anaemic industrial activity, business investment in new machinery, equipment and plants probably showed a distinct increase. Construction investment, too, expanded significantly. Growth was likewise achieved in exports.

*Impetus stemming chiefly from private consumption and construction investment*

German enterprises' export business expanded markedly, in real terms, in the first quarter of 2019. Broken down by regions, there was a fairly broad-based rise in exports. Exports to euro area countries increased significantly. There was a somewhat smaller increase in exports to non-euro area countries. Exports to the United Kingdom rose sharply – possibly in part due to frontloading effects in connection with the UK's withdrawal from the EU, which was originally scheduled for the end of March. They were supported, in particular, by deliveries of motor vehicles, which had fallen sharply when the new emissions test was introduced last summer. German products were in greater demand in China and the United States, too. German exporters further reported strong sales

*Exports expanded considerably*



growth in Russia, in Japan and in the newly industrialised Asian economies. There was an especially sharp increase in the value of exports to Turkey, which had earlier undergone dramatic declines (see also the box on pp. 48 f.). Exports to the south and east Asian emerging market economies, by contrast, fell considerably. German enterprises were also facing lower demand from central and eastern European EU countries.

*Despite weak industrial activity, probably still perceptible propensity to invest*

Commercial investment in machinery and equipment is expected to have risen perceptibly in the first quarter of 2019 despite persistently weak industrial activity and, along with this, declining capacity utilisation in this sector. In value terms, imports of capital goods were down considerably, but this was more than offset by domestic producers' strong sales of capital goods on the domestic market. In this context, domestic producers of computers and electronic and optical products, in particular, considerably increased their turnover. German mechanical engineering firms also benefited from the buoyant demand for capital goods. In addition, the automotive sector reported a considerable increase in sales in domestic business. It can be assumed, however, that this was partly due to catch-up effects following the weak second half of 2018, which suffered from the introduction of the new WLTP emissions testing procedure. Irrespective of this, however, companies also stepped up investment in their vehicle fleets. This is suggested by the fact that there was a sharp rise not only in the number of registrations for commercial passenger cars, but also in those for commercial vehicles. The latter are likely to have been left largely unscathed by the turmoil resulting from the new emissions testing procedure. They should therefore be seen as an indication that the underlying propensity to invest remained relatively high in the German economy.

*Strong expansion in construction investment*

Construction investment rose steeply in the first quarter of 2019. This buoyant growth was due chiefly to the favourable weather conditions in February and March. Turnover in the main con-



struction sector, the figures for which are available up to February, was quite considerably higher than in the previous quarter. Both housing investment and commercial construction activities are likely to have expanded strongly.

Private consumption is thought to have expanded sharply in the first quarter of 2019. This was in part the result of the expansionary fiscal measures which entered into force at the beginning of this year and catch-up effects in terms of households' car purchases. Private consumption thus overcame the weakness it had experienced in the last six months of 2018. This is signalled, first and foremost, by retail

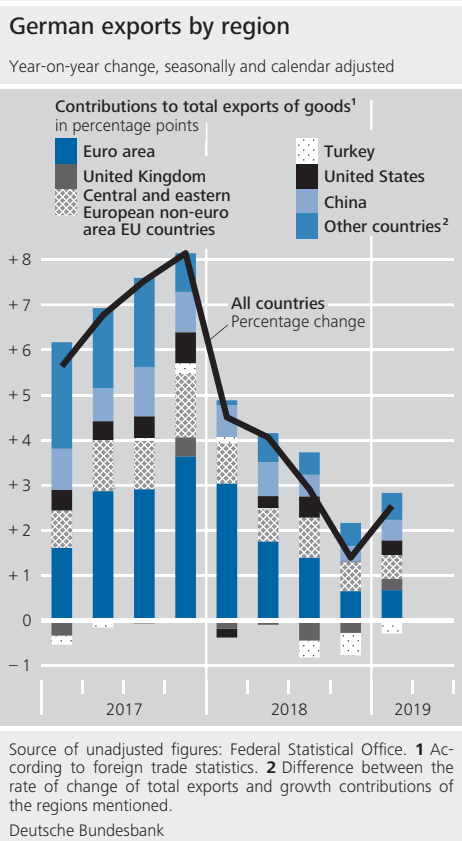
*Private consumption is likely to have seen strong growth in the first quarter*

## The financial and economic crisis in Turkey and its impact on German exports

Germany's export business lost considerable momentum during the course of last year. While revenue from the export of goods was up by 8¼% on the year in calendar-adjusted terms in the final quarter of 2017, growth slowed to 1½% by the end of 2018. In regional terms, this slowdown was very broadly based. Turkey made a fairly high individual contribution in arithmetic terms, although the country, with a share of less than 2% of exports of goods, is not one of the German economy's most important export markets. Nevertheless, the financial and economic crisis in Turkey meant that German exports to Turkey in the final quarter of 2018 were almost 30% down on the previous year's level in value terms.

A factor contributing to the onset of the crisis in Turkey was a general deterioration in

emerging markets' external financing conditions last year after US monetary policy was normalised. Turkey was particularly vulnerable and reliant on a steady inflow of foreign capital because of its large stock of short-term external liabilities. In this environment, foreign investors' increasing doubts about Turkish policymakers' commitment to macroeconomic stability proved fateful. Following the attempted coup in Turkey in mid-2016, the government and central bank considerably boosted domestic demand by means of an extremely accommodative monetary policy and large-scale granting of credit guarantees.<sup>1</sup> At the end of 2017, signs of overheating began to spread again and the inflation rate rose to 12%. Nevertheless, the authorities scaled back their expansionary policy stance only slightly.



In August and September 2018, the situation in the Turkish financial markets took a turn for the worse. The lira depreciated massively. It temporarily lost almost half its value against the US dollar in comparison with the start of the year. The lira was able to recoup some of its losses only after the policy rate was drastically raised to 24%.<sup>2</sup> However, now the real economy increasingly began to slow down. Real GDP fell by 4% overall in seasonally adjusted terms between the second and fourth quarters of 2018, largely as a result of a marked drop in domestic demand. This was accompanied

<sup>1</sup> The credit guarantees were taken on by the public "Credit Guarantee Fund", whose volume increased tenfold in 2017 to a ratio of around 7% of gross domestic product (GDP). For more information, see International Monetary Fund (2018).

<sup>2</sup> The one-week repo rate acts as the official policy rate in Turkey. At times, however, specifically in 2017, the central bank provided commercial banks with liquidity primarily or exclusively via the marginal lending facilities.

by a dramatic decline in real imports, due in part to the strong depreciation of the lira. Against this backdrop, Turkey's very large current account deficit moved back into positive territory for the first time since 2003.

In the fourth quarter of 2018, Turkey's imports of goods were down by just over one-quarter in real terms compared with the year-earlier period. China was most affected by this decline, followed by Germany. Together with Russia, which mainly provides energy products, these countries constitute Turkey's main trading partners. Other European countries also suffered a considerable drop in their trade with Turkey. On a macro-economic scale, the shortfall in demand was particularly significant in south-eastern Europe. Broken down by categories of goods, the decline in Turkey's import demand was broadly based. From the German perspective, too, revenue from exports in many product categories fell sharply, including machinery; computers, electronic and optical products, as well as electrical equipment. In terms of value, motor vehicle deliveries plummeted by around two-thirds.

In recent months, various indicators have suggested that the economic situation in Turkey is stabilising. Import demand revived somewhat, which also benefited German exporters. Furthermore, sentiment brightened among enterprises and households. Nonetheless, it is questionable whether the economy has in fact bottomed out. For instance, seasonally adjusted unemployment rose again significantly to almost 14% in the first quarter of 2019. Moreover, the Turkish government announced plans to consolidate public finances, which are yet to be implemented.<sup>3</sup> Lastly, private Turkish banks are currently holding off on granting loans. Their balance sheets have deteriorated considerably due to a sharp increase in loans at risk of default.

### Turkey's economic output and imports

Q1 2016 = 100, seasonally and calendar adjusted, log scale



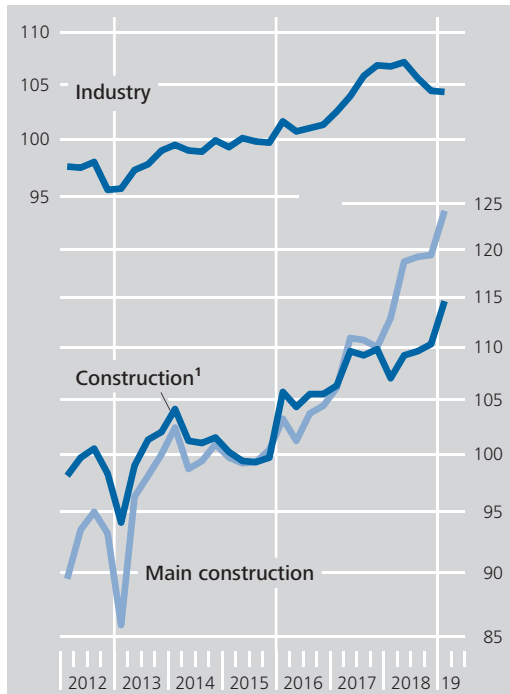
Sources: Turkish Statistical Institute and German Federal Statistical Office. <sup>1</sup> According to foreign trade statistics.  
 Deutsche Bundesbank

As this report went to press, the situation in Turkish financial markets remained fragile. Since February, the lira has again depreciated considerably in an environment characterised by domestic and geopolitical uncertainties. Another factor which contributed to the weakening of the lira was growing doubt as to whether the central bank would maintain its tight monetary policy stance. Consumer price inflation fell only moderately from the peak it reached in October 2018 (25%) to just under 20% most recently. Medium-term inflation expectations are also still considerably above the monetary policy target rate of 5%. Furthermore, it is unclear how sustainable the improvement of the current account balance is. Thus far, it has been driven mainly by the import side. In the event of a cyclical recovery of the Turkish economy, the current account deficit could be expected to grow again.

<sup>3</sup> According to the medium-term economic plan approved in September 2018, the government is striving for a primary surplus of 0.8% of GDP for 2019, compared with 0.1% of GDP last year. Fiscal consolidation is to be achieved primarily by means of expenditure cuts. In actual fact, however, government spending in the first quarter of 2019 exceeded the previous year's level by one-third.

### Output in industry and in construction

2015 = 100, seasonally adjusted, quarterly, log scale



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

sales, which rose sharply in real terms in the reporting quarter. Food retailers, for instance, reported a considerable increase in sales. Sales of textiles, clothing and shoes were also booming. The retail sector also benefited from buoyant demand for domestic appliances. The particularly strong growth in sales of do-it-yourself (DIY) and home improvement goods as well as in sales of furniture and furnishings was probably due to the extremely warm weather conditions during the winter months, which allowed buoyant construction activity. By contrast, there was a slight contraction in online trading and mail order business, which had clearly been supporting private consumption in the previous quarter. High street demand for IT and telecommunications equipment was also lower. Besides retail sales, spending in the hotels, restaurants and catering sector also grew significantly. In addition, households' car purchases largely recovered, having been significantly dampened in the second half of 2018 by the supply shortages associated with the

introduction of the new emissions testing procedure.

German imports of goods rose sharply in the first quarter of 2019 in price-adjusted terms. This was mainly attributable to considerably higher crude oil imports, which could be linked to the sharp fall in oil prices. However, demand for non-energy imports remained subdued. Only foreign manufacturers of intermediate goods recorded a slight increase in sales overall in Germany. Looking at the geographic origin of the imported goods, developments were mixed. For instance, the value of imports from the euro area countries expanded considerably. What is especially striking here was the sharp increase in motor vehicle imports, which is probably related to catch-up effects following the introduction of the new WLTP emissions testing procedure last year. By contrast, the value of imports of goods from non-euro area countries showed a perceptible decline.

*Imports of goods up sharply*

## ■ Sectoral trends

The downturn in the manufacturing sector continued. Industrial output in the first quarter of 2019 stagnated at the previous quarter's level, after having, in fact, fallen sharply in the second half of 2018. A considerable expansion in the manufacture of computers and electronic and optical products provided a boost in the reporting period. By contrast, output in the automotive sector rose only slightly. Catch-up effects after the WLTP-related decline in the second half of last year are likely to have been largely eclipsed by weaker global demand for cars and possibly also by production being relocated to other European countries. Output in the pharmaceutical sector largely stabilised. In the final quarter of 2018, output had been cut back by more than one-fifth as part of a one-off development unrelated to cyclical factors.

*Industry still in a downturn*

The ongoing weakness in the industrial sector means that utilisation of existing production capacities is falling. According to ifo Institute

*Lower capacity utilisation in the industrial sector*

data, capacity utilisation of tangible fixed assets in manufacturing was down for the third time in succession in the first quarter of 2019. Nonetheless, it was still clearly above its long-term average. Producers of intermediate goods recently experienced an especially pronounced drop in capacity utilisation. In the consumer goods sector, by contrast, capacity utilisation actually rose somewhat.

*Construction output increased sharply, largely because of the weather*

Construction output in the first three months of 2019 rose strongly on the quarter in seasonally adjusted terms. The main reason for this sharp increase was the exceptionally warm weather in February and March. The expansion of construction output in the finishing trades was only marginally weaker than in the main construction industry, where civil engineering activities experienced the strongest growth. Even after adjustment for the additional stimulus provided by the favourable weather conditions, the figures suggest that the construction boom in Germany was continuing.

*Services sectors likely still on a growth trajectory*

Business in the services sectors weathered the period of weak industrial activity and probably continued its upward movement in the winter of 2019. Real sales in the retail trade and in the hotels, restaurants and catering sector saw a sharp increase. Sales in the wholesale trade also grew considerably in real terms. Driven by catch-up effects following last year's upheaval in connection with the new emissions testing procedure, the motor vehicle trade is also likely to have registered a clear rise in sales. In addition, business activity in the other services sectors excluding trade probably remained fairly buoyant. This is suggested by the assessment of the business situation for this industry. According to the Ifo Institute, it remained at a very high level despite a slight downward revision in the reporting period.

## ■ Labour market

The labour market continued to improve in the first quarter of 2019 despite the slower under-

lying pace of economic activity since mid-2018. This meant that employment creation continued and unemployment declined, albeit only slightly. As before, employment rose largely thanks to positive developments in jobs subject to social security contributions. By contrast, the number of self-employed persons and persons working exclusively in low-paid part-time jobs continued to go down. The number of job vacancies remained at the high level it reached a few months earlier. According to the leading indicators, gloomier recruitment plans have so far largely been confined to manufacturing. On the whole, labour demand remains on an upward trajectory.

In the first quarter of 2019, the number of employed persons in Germany increased by 149,000 (or 0.3%) after seasonal adjustment, a slightly stronger rise than in the previous three quarters. This growth was driven solely by the expansion of employment subject to social security contributions. According to a first estimate by the Federal Employment Agency, the number of people in jobs subject to social security contributions went up by 162,000, or 0.5%, in the first two months of the reporting quarter alone compared with the average for the final quarter of 2018.

From a sectoral perspective, there is a striking shift of emphasis within the production sector. In manufacturing, stagnant or declining demand meant that employment subject to social security contributions was rising more slowly towards the end of the period under review. Meanwhile, in the construction sector – which had been operating at close to full capacity and was having trouble finding new staff in 2018 – the employment figures were now going up at a higher rate. Significant improvements in pay in the construction industry last year may have boosted the sector's relative attractiveness. In addition, business-related services (excluding temporary employment) and IT experienced the strongest employment growth. Across the other services sectors, employment growth also remained high. In the financial and insur-

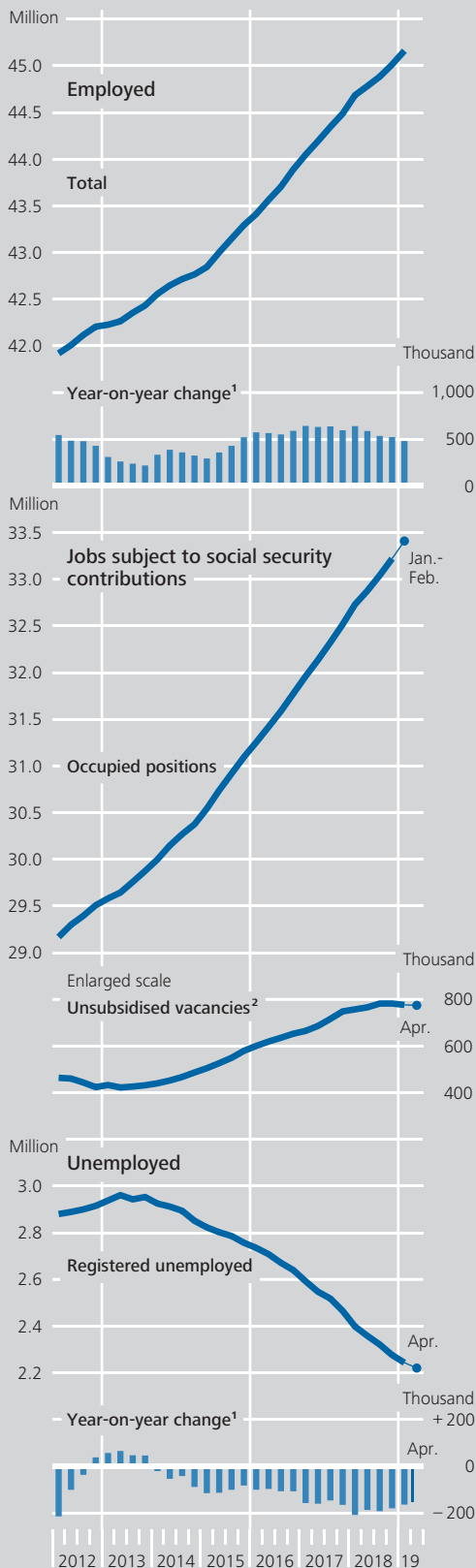
*Labour market withstanding present slower underlying cyclical momentum*

*Sharp rise in jobs subject to social security contributions ...*

*... shifting from manufacturing to the construction sector*

## Labour market

Seasonally adjusted, quarterly



Sources of unadjusted figures: Federal Statistical Office and Federal Employment Agency. **1** Not seasonally adjusted. **2** Excluding seasonal jobs and jobs located abroad.  
 Deutsche Bundesbank

ance sector, the decline in the number of employees came to a halt, at least for the time being. The number of employees subject to social security contributions in the temporary employment sector fell considerably again in the course of 2018.

In February 2019, 671,000 more jobs subject to social security contributions were filled than in the same month last year. In the period under review, demand for labour rose significantly faster than the domestic labour supply. Despite falling unemployment and the growing participation of domestic workers in the labour force, in arithmetical terms, it was possible to fill only just under half of the new positions with persons possessing German citizenship. Though immigration from abroad is still considerable, the trend is slightly downwards.<sup>1</sup> Around one in five of the new positions were filled by someone from countries that have joined the EU since 2004. In addition, the integration of migrants into the labour market is making rapid progress.

*Domestic sources insufficient to satisfy demand for labour*

Registered unemployment fell slightly in the first quarter in seasonally adjusted terms. Averaged over the reporting period, 33,000 fewer persons were unemployed than in the previous quarter; rounding meant that the unemployment rate remained unchanged. In April, the number of registered unemployed showed a further fall, the unemployment rate now being 4.9%. This decline is entirely due to a drop in the number of unemployed persons receiving the basic welfare allowance. By contrast, the number of unemployed persons claiming insurance benefits has been at its current low level for one year now. Without the increased use of active labour market policy measures, the figure would probably even have gone up during the period under review. Overall underemployment (excluding short-time working), which

*Unemployment on the decline only among those receiving the basic welfare allowance; active labour market policy expanded*

<sup>1</sup> According to migration statistics published by Germany's Federal Statistical Office, the migration surplus with the rest of the world was as high as 500,000 in 2016, falling to 416,000 persons in 2017, and amounting to 386,000 persons in 2018 according to preliminary data.

also includes persons taking part in active labour market policy measures, rose slightly in April. Since the beginning of the year, there has been a significantly more frequent deployment of, in particular, short-term measures for getting people into work and integrating them into the job market, besides for vocational training.

*Short-time working still very low*

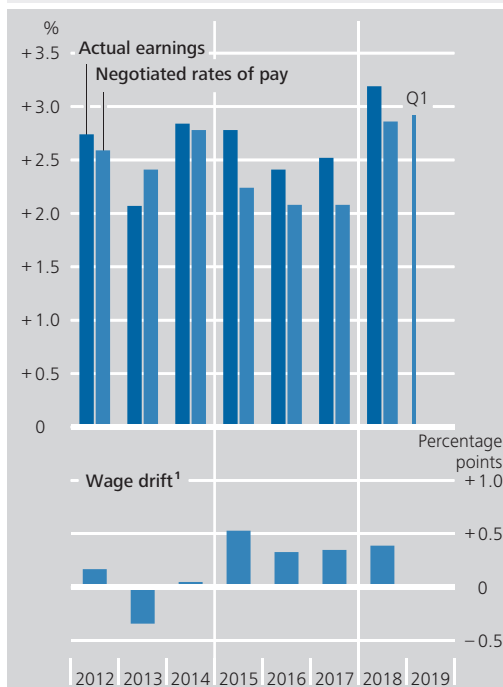
The number of short-time workers doubled in the late summer of 2018 from what was historically an extremely low level.<sup>2</sup> The increase was mainly due to the downturn in manufacturing. Since then, however, the number of reports of short-time work for economic reasons – for which data are available up to March of this year – has remained broadly constant and is still at a low level. A further increase is therefore not to be expected in the short term.

*Labour demand outside the manufacturing sector still expansionary*

The leading indicators suggest that there has so far been no deterioration in the labour market outlook outside the manufacturing sector. Enterprises are still indicating a strong willingness to recruit new staff, with both the labour market barometer of the Institute for Employment Research (IAB) and the Federal Employment Agency's BA-X job index maintaining their very high level over the past few months. The ifo employment barometer, which enquires about the recruitment plans of trade and industry over the next three months, declined perceptibly towards the end of the period under review. This is chiefly attributable to depressed sentiment in the manufacturing sector, however. All in all, there was a pronounced shortage of labour. This is shown in the continuing increase in the duration of vacancies, for example.<sup>3</sup> The leading indicator for unemployment in the IAB labour market barometer fell somewhat and is now in neutral territory. Registered unemployment is therefore not expected to decline further in the next three months.

## Rates of pay and wage drift

Year-on-year percentage change, on monthly basis



Sources: Federal Statistical Office (actual earnings) and Deutsche Bundesbank (negotiated rates of pay). <sup>1</sup> The wage drift is calculated as the annual change in the ratio of actual earnings to negotiated rates of pay.  
 Deutsche Bundesbank

## Wages and prices

Negotiated wages continued to rise steeply in the first quarter of 2019. This is mainly due to the previous year's wage settlements, which were higher than before on account of the pronounced tightness of the labour market. Negotiated pay rates, including additional benefits, were 2.9% up on the year, as in the final quarter of 2018. The increases in the production sector (including construction) were still significantly higher than in the services sector. Growth in actual earnings may have again been greater than that in negotiated rates of pay.

*Negotiated pay rates continue to rise steeply*

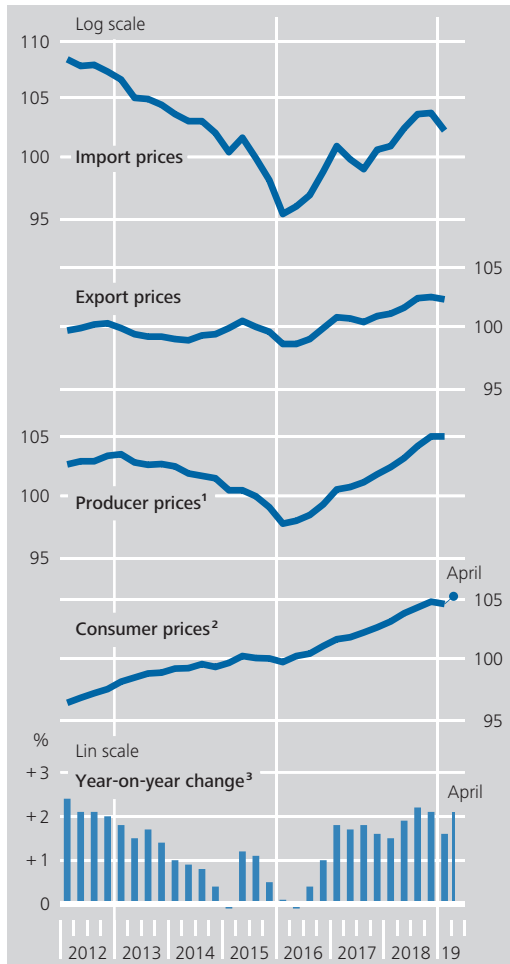
<sup>2</sup> Data on short-time work as a whole are available only with a longer time lag and currently extend only up to October 2018.

<sup>3</sup> The Federal Employment Agency measures the vacancy period from the desired starting date to when the position is withdrawn.



### Import, export, producer and consumer prices

2015 = 100, seasonally adjusted, quarterly



Source of unadjusted figures: Federal Statistical Office. **1** Producer price index for industrial products in domestic sales. **2** Harmonised Index of Consumer Prices. **3** Not seasonally adjusted.

Deutsche Bundesbank

*Wage settlements in the current wage round mostly higher so far than in years 2015 to 2017*

Like last year, the new agreements concluded in the 2019 pay round mostly envisage steeper wage rises than in the years from 2015 to 2017. In annualised terms, wages have gone up by 3¼%<sup>4</sup> in the public sector of federal state government and by 3%<sup>5</sup> in the steel industry. The considerably longer durations of the collective wage agreements – at 33 and 26 months respectively – are worth noting. After tough negotiations, the printing industry, which is going through a period of structural upheaval, also concluded a new collective agreement with a term of 36 months. The current wage round focuses on the services sectors. The wage demands for sectors where an agree-

ment is still pending are between 5% and 6.5% over a term of 12 months and are thus slightly higher than in the previous year. Wage negotiations are currently being held between management and labour in the retail and wholesale trade, in private banking and in the regional automotive trade. The individual options of more leisure time or a higher pay rise remain a key element in some sectors.

As of the reporting month January, the national consumer price index (CPI) for Germany was rebased on the year 2015. Methodological adjustments were made to the way in which prices are collected in the statistics for rents and package holidays. The latter led to not only the CPI being recalculated back to the new base year, as is usual, but also the harmonised indices of consumer prices (HICP), which is more important for European monetary policy.<sup>6</sup> First, this involved a marked upward revision of headline and core inflation in 2015. Second, the fluctuations in the prices recorded for package holidays appear to have become even more pronounced compared with the previous year, which is also likely to have heightened the volatility of headline and core inflation.

*Changes in methodology used for consumer prices and resulting steep upward revision of inflation rate in 2015*

The annual inflation rate fell significantly from 2.1% to 1.6% in the first quarter.<sup>7</sup> At the current end, this was due to a seasonally adjusted 0.2% decline in prices compared with the final quarter of 2018, mainly as a result of lower energy prices. The latter continued to fall on the back of lower crude oil prices at the end of last year, even though there was a marked hike in electricity and gas prices for households. By contrast, there was little change in food prices overall. The rise in the price of processed prod-

*Energy main reason for perceptible year-on-year fall in consumer price inflation in first quarter*

<sup>4</sup> Calculation based on a representative recipient of the agreed basic pay rate who benefits from the minimum amounts in 2019 (€100), 2020 (€90) and 2012 (€50).

<sup>5</sup> Salaried employees in the steel industry can convert the additional negotiated remuneration amounting to €1,000 due for the first time at the end of July 2020 into up to five work-free days.

<sup>6</sup> See Deutsche Bundesbank (2019); and European Central Bank (2019).

<sup>7</sup> The corresponding CPI figure was +1.4% compared with +2.0%.

ucts was offset by a countermovement in unprocessed food. In the case of non-energy industrial goods, perceptible price increases in the early stages were passed on to consumers. Services also became noticeably more expensive. Even so, at 1.4%, the annual increase in the HICP excluding energy and food was no stronger than it was in the fourth quarter of 2018. This was because the relatively early date of Easter meant that price dynamics in the first quarter of 2018 were at much the same high level as in the reporting quarter.

*Prices up steeply in April mainly due to energy and late date of Easter*

Seasonally adjusted consumer prices in April were up by a substantial 0.6% on the month. The resurgence in crude oil prices was not the only reason why energy became more expensive. In fact, profit margins were up in the case of refined petroleum products, too. Food prices rose somewhat. Another reason why industrial goods became noticeably more expensive was that lower prices for clothing from the previous month were reversed again. Prices for services were also up markedly on the month. The rise in prices for package holidays was sharper than is already suggested by the late date of Easter. The underlying trend in services price inflation was also quite strong. In line with this, core inflation increased to 2.0%. The headline rate went up to 2.1%.

*Strong volatility in inflation rates likely in near future*

Owing to the comparatively late date of Whitsuntide, both headline and core inflation are likely to contract again markedly at first and then go up again in the current and the next month. However, it is unlikely that the April rates will be matched again.

## ■ Order books and outlook

*Moderate economic output expected in second quarter*

The pattern of a two-speed economy that has been shaping economic activity in Germany since the summer of 2018 will remain in place in the second quarter of 2019. While the downturn in industry will continue, the expansionary forces in the more domestically-oriented sectors are still intact. The overall outcome of this

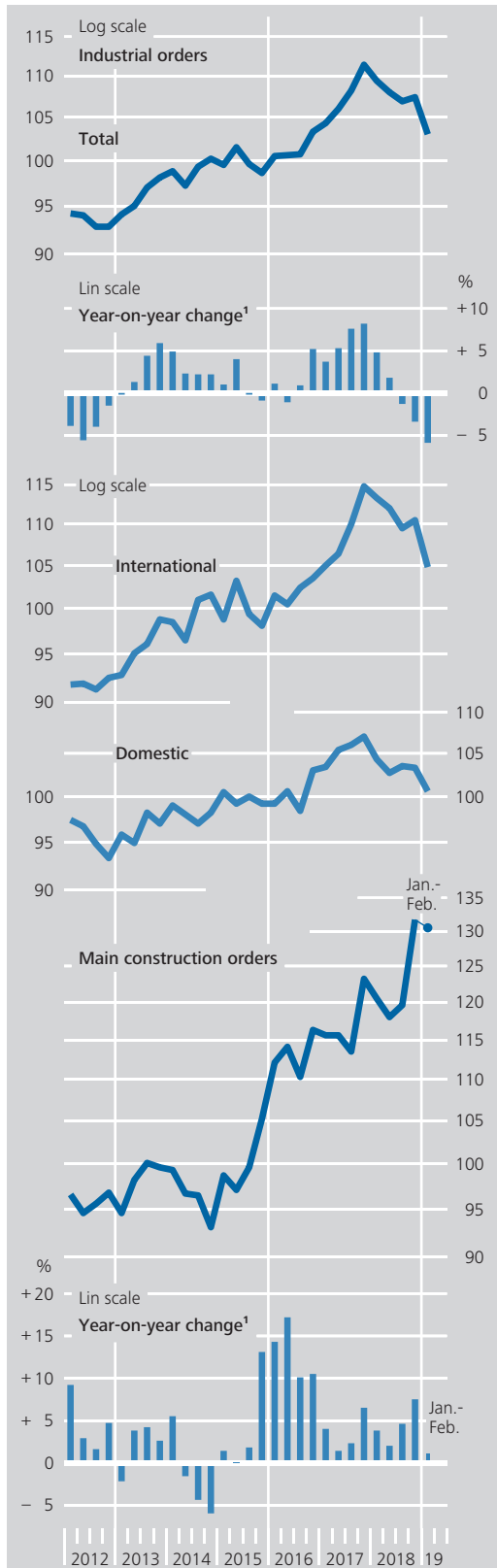
is an ongoing weak underlying cyclical trend. Given this setting, German economic output in the second quarter of 2019 is likely to barely exceed the level reached in the first quarter, which was boosted by a number of one-off effects. These special factors, which were major drivers of growth after the turn of the year, are expected to come to an end or even go into reverse. The added stimulus to private consumption provided by fiscal measures could ease off for a time in the second quarter before other measures boosting purchasing power reach households in the second half of the year. Furthermore, it is likely that the catch-up process behind new car purchases is largely complete. Not least, a negative rebound effect may be expected in the construction sector following the very strong weather-related increase in the first quarter. Moreover, downward forces continue to dominate in industry, and may even gain some further momentum. One indication of this is the very sharp, broad-based decline in new industrial orders since the start of 2019. Apart from this, the business climate index for the manufacturing sector declined for the eighth time in succession. Output and export expectations were also scaled back once again. In line with this, data provided by the Association of the Automotive Industry (VDA) show a quite considerable seasonally adjusted fall in the numbers of passenger cars produced in April. A gradual rebound in economic activity can be expected only in the wake of a global economy recovery in the second half of the year.

Surveys by the ifo Institute indicate that the downward spiral in sentiment in the German economy since the summer of last year has largely tailed off towards the end of the period under review. Looking at the individual sectors of the economy, however, this was due to a noticeably mixed development. Manufacturing enterprises, for example, were still taking an increasingly pessimistic view of the future, with their assessment of both the business situation and business expectations continuing to deteriorate. The short-term export and production

*Mixed sentiment across the sectors in period under review*

### Demand for industrial goods and construction services

Volumes, 2015 = 100, seasonally adjusted, quarterly data



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

expectations for this sector also fell again somewhat and are below their long-term average. By contrast, sentiment in the other sectors – in trade, other services and main construction – became somewhat brighter again after hitting a low at the beginning of the year and is, in all of these sectors, above the long-term average.

In the first quarter of 2019, the order situation in German industry became increasingly gloomy on a broad front. This is also true if the typically irregular inflow of large orders is not included. In a regional breakdown, the lack of new orders from non-euro area countries was particularly noticeable, although the inflow of orders from Germany and the euro area also showed a steep decline. With regard to the individual sectors, German manufacturers of machinery had to cope with a very severe slump in demand. There were also significantly fewer new orders in the automotive sector than in the previous quarter. While orders of motor vehicles from the euro area increased substantially and those from Germany stagnated, the volume of new orders from non-euro area countries fell sharply. This is probably attributable to the positive stimulus from the euro area and stable domestic demand, as well as to catch-up effects after the WLTP-related delays in the second half of 2018. The results of the Ifo Institute's survey on the volume of orders still being processed in the manufacturing sector also point to a further overall deterioration in the order situation of German industrial enterprises. Federal Statistical Office data also indicate a contraction in industrial orders, with the March level being significantly lower than the average for the final quarter of 2018.

*Sharp deterioration in industrial orders*

Construction output in the second quarter of 2019 is likely to increase only slightly on the quarter in seasonally adjusted terms. This is due to a rebound effect following a strong, temporary expansion in construction output in the first quarter as a result of favourable weather conditions. Aside from this special factor, the boom in construction is likely to continue un-

*Only slight increase in construction output expected in second quarter due to weather-related rebound effect*

abated. New orders received by the main construction sector on an average of January and February – data are available up to this time – showed a significant decline compared with the previous quarter. However, the inflow of orders in the final quarter of 2018 was exceptionally strong and characterised by large-scale orders, so this does not indicate weaker construction activity. Other economic indicators also suggest continued strong underlying momentum in the construction sector. Towards the end of the period under review, equipment utilisation and the reach of orders books in the main construction industry remained only marginally down on their peak levels, according to the ifo Institute. At the same time, following a temporary decline in the second half of 2018, there was a significant increase again in the percentage of construction firms reporting a shortage of skilled workers as the most significant factor hampering production.

Private consumption will probably remain a major source of growth in the second quarter of 2019 as well. Employment developments are still very favourable and wage growth is strong. Private consumption is likely to grow at a perceptibly slower pace than in the previous quarter, however. This is due to two one-off effects which boosted private consumption at the start of the year and which have now come to an end. The added impetus provided by the expansionary fiscal measures that entered into force in the first quarter should gradually fade out. Furthermore, the process of catching up on car purchases following the WLTP-related delays in the second half of 2018 is likely to be coming to an end. This is suggested by new passenger car registrations, with the first quarter of this year already seeing them match their level prior to the introduction of the new emissions test procedure.

*Private consumption still a major, albeit less powerful source of growth*

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