

## ■ The German economy

### ■ Macroeconomic situation

*Economic output in Germany stagnated in final quarter of 2019*

German economic momentum remained weak through the final quarter of 2019. According to the Federal Statistical Office's flash estimate, real gross domestic product (GDP) stagnated at the level recorded in the previous quarter after adjustment for seasonal and calendar variations. For 2019 as a whole, real GDP increased by 0.6%, thus confirming the first preliminary annual outturn. Economic growth thus lagged significantly behind the expansion of potential output last year. Capacity utilisation is likely to have shifted into normal range at the end of 2019.

*Two-speed German economic activity continues*

The sustained weak underlying cyclical trend was chiefly the result of the downturn in industry, which could still be observed at the end of the year. By contrast, the more domestically oriented services sectors continued to buoy economic activity. The still fairly positive income and labour market outlook for consumers had a substantial part to play in this regard. There are still no signs of any change in the two-speed economic activity at the start of 2020. On the one hand, leading economic indicators for manufacturing collectively do not suggest that this sector is already bottoming out. On the other hand, consumer sentiment is still buoyant and, following the lull at the end of the year, the construction boom is likely to continue, not least due to the favourable financing conditions.

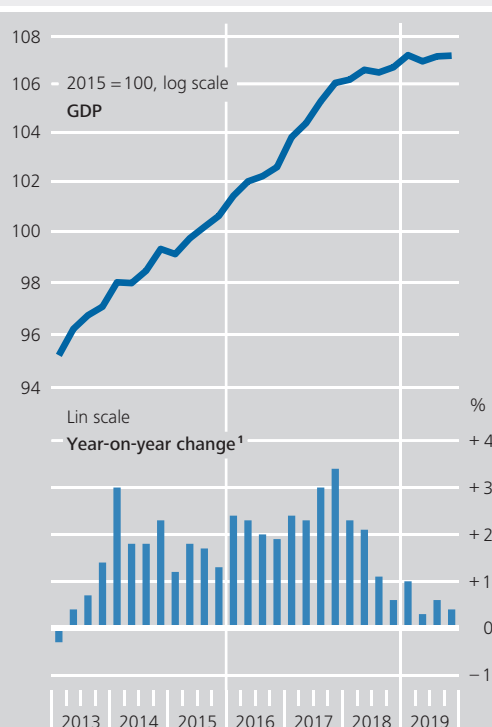
*Stronger drag on economic activity caused by industry*

Industry was the main factor weighing on aggregate output towards the end of 2019. Value added in the manufacturing sector continued its steep decline, for example. Moreover, the construction sector is likely to have curbed activity somewhat. This, however, was not attributable to cyclical factors; rather, enterprises in the finishing trades, in particular, are likely to have used the timing of the Christmas public holidays for extended plant shutdowns, which

means a considerable countermovement can be expected after the turn of the year given the high demand. By contrast, the services sector reported a marked rise in activity. In the final months of last year, retail sales remained at the Q3 level in price-adjusted terms, but wholesale sales rose considerably and hotel and restaurant services were also flourishing. In addition, output in the business-related services sectors excluding trade is likely to have increased somewhat. On the demand side, construction investment provided some impetus, yet private consumption is unlikely to have expanded further after the steep growth in the previous quarter. Government consumption also lost a great deal of momentum. Exports as defined in the national accounts declined slightly, although exports of goods, buoyed up by deliveries of other transport equipment, exceeded third-quarter figures. Furthermore, enterprises

#### Overall output

Price and seasonally adjusted



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



omies. Exports to central and east European EU countries were also noticeably higher than the level of the previous quarter. By contrast, exports of goods to the United States showed a steep decline. Moreover, the value of exports to the United Kingdom was well below its average of the third quarter. One factor in this development was a one-off effect relating to deliveries of precious metals; these had previously spiked before normalising in the reporting quarter. Broken down by category of goods, exports of capital and consumer goods saw a steep rise in real terms according to the data available up to November. In the case of capital goods, a significant increase in the other transport equipment sector was striking. By contrast, as in the previous two quarters, exports of motor vehicles and motor vehicle parts were down, as were exports of machinery. The volume of intermediate goods exports remained largely unchanged.

Investment in commercial machinery and equipment is likely to have dropped in the final quarter of 2019. Industrial firms' propensity to invest is likely to have remained subdued against the backdrop of the below-average utilisation of production capacity in industry. Considerably more capital goods were imported from abroad, but capital goods producers' sales in Germany plunged. German producers of computer, electronic and optical products posted falling sales figures. At the same time, car registrations by commercial customers were up considerably compared with the average of the third quarter, which indicates that enterprises have stepped up investment in their vehicle fleets. However, the strong growth rate is probably attributable primarily to anticipatory effects regarding the stricter carbon emission targets set by the EU, which came into effect for the majority of new vehicles on 1 January 2020. Accordingly, a dampening countermovement is to be expected for the first quarter of 2020. In addition, registrations of commercial vehicles in the reporting period were quite considerably lower than in the previous quarter.

*Commercial machinery and equipment down*

are likely to have invested less in machinery and equipment.

*Increase in exports of goods*

After price adjustment, German enterprises' exports were distinctly higher – measured in terms of goods exports – in the final quarter of 2019. While exports of goods to euro area countries declined, deliveries to non-euro area countries were up substantially overall. This particularly holds true for Asia. With a sharp increase, not only business with China was a clear source of impetus. German exporters also reported significant sales growth in the newly industrialised economies in Asia and in the south and east Asian emerging market econ-

*Construction investment likely to be somewhat higher*

Construction investment is likely to have grown only at a moderate rate in the final quarter of 2019. A major factor in this was probably the fact that mainly enterprises in the finishing trades are likely to have used the timing of the Christmas public holidays for extended plant shutdowns. Figures for turnover in the main construction sector, which are available up to November, indicate there could be a slight drop in housing investment, whilst investment in commercial and public construction is expected to be higher.

*Private consumption unchanged*

Private consumption is likely to have taken a breather at the end of 2019 after posting significant growth in the third quarter. Consumers held back in particular with their retail shopping, with purchases of electrical household appliances and furniture and furnishings affected in particular. However, households also made fewer purchases of textiles, clothing and footwear. The warmer-than-average weather in December was probably a factor here. Furthermore, households purchased fewer new passenger cars than in the third quarter. Private consumption received a positive boost from hotel and restaurant services, however, where turnover showed strong growth in the reporting period.

*Import demand still pointing upwards*

German imports of goods rose moderately in real terms in the final quarter of 2019. According to the data, which are available up to November, price-adjusted imports of chemical and pharmaceutical products experienced particularly strong growth. In addition, there was also a significant increase in imports of computers, electronic and optical products and electrical equipment. By contrast, imports of motor vehicles and machinery were down. Furthermore, on the back of a strong rise in crude oil prices and the rather mild weather conditions, real imports of energy fell off sharply. Broken down by geographical origin, the volume of imported products from the euro area went down, while the inflow of goods from non-euro area countries rose substantially.

## ■ Sectoral trends

The downturn in industry persisted in the final quarter of 2019. Industrial production decreased steeply from its Q3 level in seasonally adjusted terms (-2¼%). The mechanical engineering and automotive sectors saw a particularly strong decline in output. By contrast, production in the area of other transport equipment was up substantially and thus had a stabilising effect. However, output of capital goods was significantly lower than the overall third-quarter average. On the other hand, the intermediate goods industry experienced a significantly smaller contraction in production. The production of consumer goods remained at the same level as in the previous quarter, but the fact that there was no decrease was due to the pharmaceutical industry, in which output grew very strongly in the reporting period.

*Industry still in a downturn*

Although production fell strongly up to the end of 2019, industrial enterprises reported a slight rise in their utilisation of production capacity at the beginning of 2020. According to the Ifo Institute, capacity utilisation of tangible fixed assets in manufacturing edged slightly upwards again, although it remained clearly below average and not all sectors saw a rise. While manufacturers of consumer and intermediate goods saw an increase in the utilisation of tangible fixed assets, the degree of capacity utilisation in the capital goods industry continued to decrease unabated.

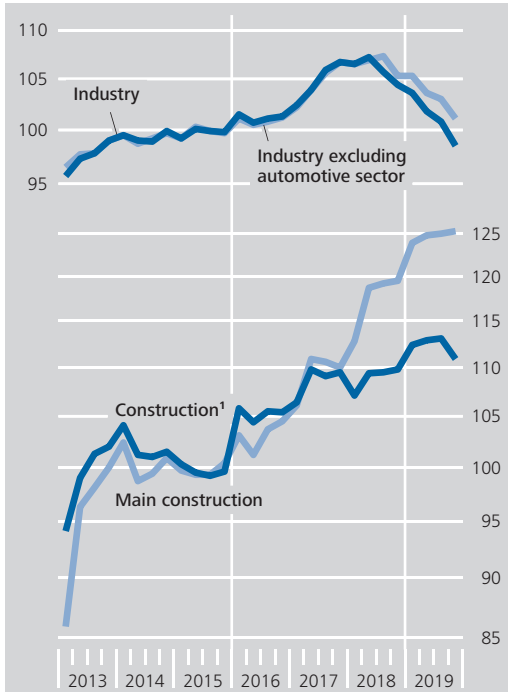
*Rise in capacity utilisation*

Construction output experienced a strong quarter-on-quarter decline in the final quarter of 2019 (-2%), which was mainly attributable to a significant decrease in construction activity in the finishing trades. This contraction is not a sign that the construction boom is coming to an end, however. The above-mentioned timing of “bridge days” could have played a part. Furthermore, initial data for finishing trades are prone to revision. Compared with the previous quarter, however, output in the main construction sector was up slightly on the back of a marked increase in activity in building construc-

*Strong decline in construction output but no signs of boom coming to an end*

### Output in industry and in construction

2015 = 100, seasonally adjusted, quarterly data, log scale



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

tion. On the other hand, civil engineering work remained at a high level.

*Services sectors still on growth path*

Overall, output in the services sectors probably continued on its upward trajectory in the final quarter of 2019. Real retail sales moved sideways but wholesale trade continued on its growth path even though weakness persisted in the industrial sector. Taking the average of October and November – the period up to which statistical data are currently available – price-adjusted wholesale sales were clearly higher than the level of the third quarter. Steep growth was also recorded in business activity in hotel and restaurant services. By contrast, car dealers suffered a distinct drop in sales compared with the very strong previous quarter. Economic activity in the other services sectors is likely to have improved slightly. This is suggested by the assessment of the business situation in this sector which, according to the Ifo Institute, recovered somewhat in the reporting

period following the strong decline in the first half of 2019.

## Labour market

The two-speed nature of economic activity which persisted in the fourth quarter was also reflected in the labour market. In this context, net employment gains continued to be observed in most sectors other than temporary work and manufacturing. Unemployment remained broadly unchanged at a low level. The number of employees in economically induced short-time work rose considerably, but not dramatically. The leading labour market indicators suggest that, over the coming months, employment will continue to grow and unemployment will remain largely stable.

*Two-speed nature of economy impacts labour market*

In the final quarter of 2019, seasonally adjusted domestic employment went up by 81,000 persons, or 0.2%. This rise was about twice as high as in the previous quarter. Employment growth was mainly attributable to the increase in jobs subject to social security contributions. According to the Federal Employment Agency's initial estimate, in the first two months of the reporting quarter alone such employment increased by 113,000, or 0.3%, compared with the average of the third quarter. By contrast, the number of self-employed persons was lower. The Federal Employment Agency's reporting of low-paid part-time employment was interrupted at the current end due to recording problems.

*Marked rise in employment owing to increase in employment subject to social security contributions*

Employment subject to social security contributions rose in most economic sectors up until the end of the period under review. On the one hand, there were major recruitment drives in construction and large parts of the services sector, with the strongest growth recorded in IT. Moreover, notable employment growth was recorded in personal service activities such as healthcare and social work, education, restaurants and hotels, but also in public administration and business-related services apart from

*Decline in employment mainly for temporary workers; growth in many services sub-sectors*

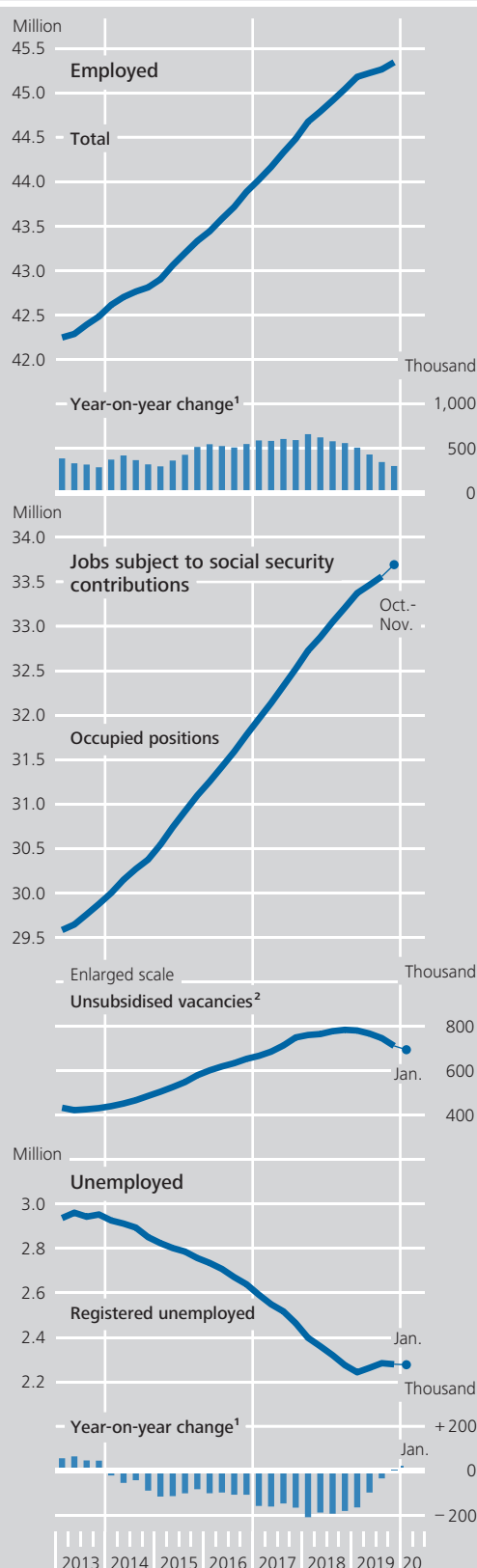
temporary agency employment. Temporary agency employment, whose employees are often deployed in industry, and manufacturing are located chiefly on the other side of the two-speed economy. That said, the decline in temporary employment slowed towards the end of the period under review.

*Only minor employment adjustments in manufacturing, but reduced working hours and short-time work*

The number of jobs subject to social security contributions was only marginally lower in the manufacturing sector, which is suffering in particular from the current slowdown in economic activity. One contributory factor in this was that not all economic sectors in industry were equally affected by a downturn in demand. To wit, whereas the automotive industry, manufacturers of electrical equipment and manufacturers of metal products reduced their workforces moderately, employment adjustment in the mechanical engineering sector has thus far been minimal. Manufacturers of computers, electronic and optical products, food products and other transport equipment and in the field of repair and installation of machinery and equipment actually even added jobs. Furthermore, many enterprises in the affected sectors responded to the production losses by taking other adjustment measures. The rationale behind this strategy is probably that if, as expected, economic activity picks up in the future, the hiring of new staff might become laborious due to the persistently high demand for skilled workers. Alongside lower labour productivity, which led to a rise in unit labour costs, overtime was reduced, positive balances on working time accounts scaled back and more short-time work introduced. According to provisional data from the Federal Employment Agency, in October, the most recent month for which data are available, 87% of the just under 100,000 short-time workers were employed in manufacturing. More than half of these alone were located in three subsectors: metal working and processing, the manufacture of fabricated metal products and mechanical engineering.

## Labour market

Seasonally adjusted, quarterly data



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

*Unemployment  
moving  
sideways*

Registered unemployment remained virtually unchanged in the fourth quarter of 2019 after seasonal adjustment. The number of persons registered as unemployed averaged 2.28 million over the reporting quarter, as in the previous quarter. Accordingly, the unemployment rate held steady at 5.0% throughout this period, where it remained in January. Even so, the economic downturn was reflected in the unemployment insurance scheme, with the number of people registered as unemployed again higher than the average of the previous quarter. The figure stabilised, however, during the year-end period and has not risen any further of late. There was a reverse development for job seekers receiving the basic welfare allowance. The decline prevailing so far, which was apparent again in quarter-on-quarter terms, ended in December and gave way to a minor improvement. A factor in this development may be that, after just over a year with increasing cyclical unemployment, it is likely this effect is filtering through to the basic welfare allowance scheme.

*Leading labour  
market indica-  
tors stabilised*

There was no further deterioration in leading labour market indicators during the past few months. However, there are only signs of the beginning of an upturn at most, with the labour market likely to continue to run at two speeds for the time being. The Ifo employment barometer, a survey of the recruitment plans of trade and industry over the next three months, was up again slightly towards the end of the period under review. Services, and not manufacturing, appear to be driving this slight recovery, however. The number of reported vacancies continued to fall, albeit at a slower pace than in the third quarter. The decline is once again mainly attributable to other business-related services, which are shaped by developments in temporary employment. Furthermore, the number of vacancies in manufacturing and the trade sector decreased. The Federal Employment Agency's BA-X job index, which records stock figures as well as the inflow of reported vacancies, stabilised, as the intake of jobs was up again slightly in the last three

months.<sup>1</sup> The labour market barometer of the Institute for Employment Research (IAB) is still clearly in positive territory, suggesting further job growth. The leading indicator for unemployment in the IAB labour market barometer has recovered somewhat and returned to neutral territory. Unemployment could thus remain stable over the next three months.

## ■ Wages and prices

Like in the third quarter, basic negotiated rates of pay were up only moderately in the fourth quarter in year-on-year terms (+2.3%), representing a continuation of the trend, seen in the previous two quarters, of lower growth in the production sector than in the services sectors. Including additional benefits, wage growth in the final quarter was at a level similar to that for basic rates of pay, after a clearly higher rise was recorded in the third quarter, mainly owing to special payments due for the first time in the metal-working and electrical engineering industries. Due to the continuing tightness of the labour market in many services sectors, actual earnings growth may also have strongly outpaced negotiated wages in the fourth quarter.

*Muted growth  
in negotiated  
rates of pay in  
fourth quarter*

In the fourth quarter, new collective pay agreements were completed in the chemical industry, insurance and temporary employment, amongst others. In the chemical industry, employers and trade unions concluded a collective agreement with an increase of only just under 2% in annualised terms against the backdrop of the downturn in the industry. The new collective agreement in insurance likewise envisages only moderate wage growth, which also reflects the challenging situation in this sector. By contrast, relatively steep rises in negotiated

*New collective  
pay agreements  
with mixed  
picture*

---

<sup>1</sup> The current release of the Federal Employment Agency's BA-X job index was rebased from 2004 to 2015, which led to a lowering and compression of the index. In addition, values and seasonal factors for earlier periods were formalised. Cf. Statistics provided by the Federal Employment Agency (2020).

wages were agreed for salaried employees in temporary employment.

*Clear rise in negotiated pay rates and actual earnings last year*

As in the previous year, negotiated wages were up quite strongly, at just below 3%, in 2019 overall. Initial figures calculated by the Federal Statistical Office indicate that, on an annual average, the actual earnings growth was somewhat higher still owing to the tight labour market, with services sectors, in particular, showing a positive wage drift once again.

*Wage round 2020; job security also relevant alongside wage hike*

This year's fairly small wage round will affect around 7½ million employees. In the metal-working and electrical engineering industries, dialogue between trade unions and employers, initially conducted at regional level, will include, in particular, topics relating to measures promoting job security and creation of new employment prospects through on-the-job training, alongside wage increases. Further large sectors where wage negotiations are pending include the main construction sector in the second quarter and central and local government in Q3.

*General minimum wage now at €9.35 per hour*

The general statutory minimum wage, which was raised from €9.19 to €9.35 per hour on 1 January 2020, also factors into the wage negotiations in some sectors. In system catering, for example, the *Nahrung-Genuss-Gaststätten* (NGG – food, beverages and catering industry) union is demanding a clear difference between collectively bargained starting pay and the general statutory minimum wage.

*Consumer prices up moderately in Q4 2019 ...*

In the final quarter of 2019, consumer prices (HICP) continued to rise at a moderate pace, increasing by 0.3% in seasonally adjusted terms compared with the preceding three-month period. There was a significant rise in prices for services, in particular, at the end of the period under review, with marked price increases being recorded most notably for travel services. Prices for industrial goods excluding energy likewise maintained their upward trajectory, with clothing and shoes, in particular, becoming markedly more expensive on the back of

### 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

higher import prices. By contrast, food prices were virtually stagnant. Energy prices, which fell further as a result of lower crude oil prices, had a dampening effect. Annual headline HICP inflation rose slightly from 1.0% in the third quarter to 1.2% in the final quarter. Excluding energy and food, the rate of inflation even spiked from 0.9% to 1.6%. The one-off effect of package holidays, which had put an especially severe damper on annual inflation in the third quarter, no longer had any net impact on average over the quarter.<sup>2</sup>

Averaged across 2019, the inflation rate, at 1.4%, was significantly lower than in the previous year (1.9%). This was mainly attributable to energy price inflation slowing down considerably. However, excluding the volatile energy and food components, inflation rose slightly to 1.4%. By contrast, in the past year the increase in rents recorded in the official consumer price

*... but averaged across 2019 at a slower pace than 2018 owing to energy*

<sup>2</sup> See Deutsche Bundesbank (2019a).

### Import, export, producer and consumer prices

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

statistics decelerated (see the box on pp. 51 ff. for house price developments).

*Decline in core inflation at current end only temporary*

In January 2020, consumer prices were up by 1.6% on the year and thus somewhat higher than at the end of 2019. Core inflation fell distinctly from 1.7% to 1.3%, however. This was a reflection not only of the reduced VAT rate for long-distance rail travel as part of the climate package,<sup>3</sup> but also of an unusually strong decline in prices for package holidays. It is possible that the latter effect will only dampen the rate temporarily, should package holiday prices return to normal. With regard to the impact of the climate package on consumer prices, the

increase in aviation tax in April will probably elevate prices to much the same extent as they were pushed down by the above-mentioned reduction in the VAT rate.

### Order books and outlook

There are still no signs of a fundamental cyclical change in Germany for the first quarter of 2020. The domestic economy will probably continue to provide momentum, and industry to have a dampening impact. In light of the ongoing robustness of the labour market and rising wages, domestic economic activity will be supported by private consumption. In addition, there is still no end in sight to the boom in the construction sector. With regard to industry, the downward trend in new orders persisted until the end of 2019, though the momentum continued to wane. However, according to the Ifo Institute, sentiment in this sector recently improved noticeably. Enterprises were once again taking a less pessimistic view of the future and current business was also being assessed more favourably. In addition, short-term production expectations brightened considerably after the start of the new year and are now in positive territory. The survey results could indicate that the downward pressure on industrial production is gradually subsiding. This is consistent with the fact that utilisation of production capacity in industry recently rose again somewhat.

*No fundamental cyclical change expected for start of 2020*

Nevertheless, economic risks have emerged with regard to the outbreak of the coronavirus in the People's Republic of China. It is likely that a temporary decline in aggregate demand in China would dampen German exports. In addition, some global supply chains could be negatively impacted by the safety precautions that have been implemented. This would result in supply bottlenecks in certain individual sectors in Germany.

*Coronavirus epidemic poses downside risk to economy*

<sup>3</sup> See Deutsche Bundesbank (2019c).



## House prices in Germany in 2019

The broadly based, strong upward pressure on house prices in Germany continued last year in a somewhat weaker form. There was a distinct slowdown in the rates of price increase in German towns and cities, with the growth rate for Germany as a whole also being lower. A part in this was played by the fact that demand for housing became somewhat calmer, while there was probably no loss of pace in the expansion of the housing supply in the reporting year. From a macroeconomic perspective, house prices continued to be largely consistent with the supply and demand-side determinants.<sup>1</sup> House prices in the towns and cities, meanwhile, were still significantly above the level that would appear justified by the longer-term economic and sociodemographic determinants.

According to data from the Association of German Pfandbrief Banks (*Verband deutscher Pfandbriefbanken* – vdp), prices for owner-occupied housing climbed by 6¾% in the reporting year, compared with a 7¾% rise in the previous year. With an increase of 5¼%, the house price index of the Federal Statistical Office likewise shows a lower rate of inflation for the first three quarters of 2019 than in the previous year. Meanwhile, Hypoport AG's Europace house price index (EPX) indicates that house prices in Germany grew by 9½% in 2019, which was considerably stronger than in the previous year.<sup>2</sup>

In the towns and cities, there was a perceptible slowdown in house price growth across all segments. According to figures based on bulwiengesa AG data for 127 German towns and cities, prices were up by 6% last year, which was 2¾ percentage points less than on an average of the past

three years. The upward pressure on house prices weakened most significantly in the seven major cities, which showed a 6½% increase in prices in 2019.<sup>3</sup> According to vdp data, too, prices for residential property in the seven major cities rose at a considerably slower pace in the reporting year than in the year before. While mainly house price growth, in particular, was weaker in Germany as a whole, there was also an easing of upward pressure on prices for freehold apartments in towns and cities, which had previously been in higher demand.

The more moderate growth in house prices in the towns and cities also reflects the fact that adjustment pressure decreased in the case of rents. Figures based on bulwiengesa AG data indicate that the increase in rents for new lettings in towns and cities in 2019, at 2¾%, was down on the previous year's already comparatively low rate of growth. In the seven major cities, the rise in rents for new tenancies, at 2½%, was also much more moderate than before. Rents in the towns and cities thus went up at their lowest rate since 2010. According to vdp, rent adjustments for new lettings in Germany as a whole were, however, at much the same level as in the previous year.

The extremely strong pace of growth in housing demand thus far is likely to have

---

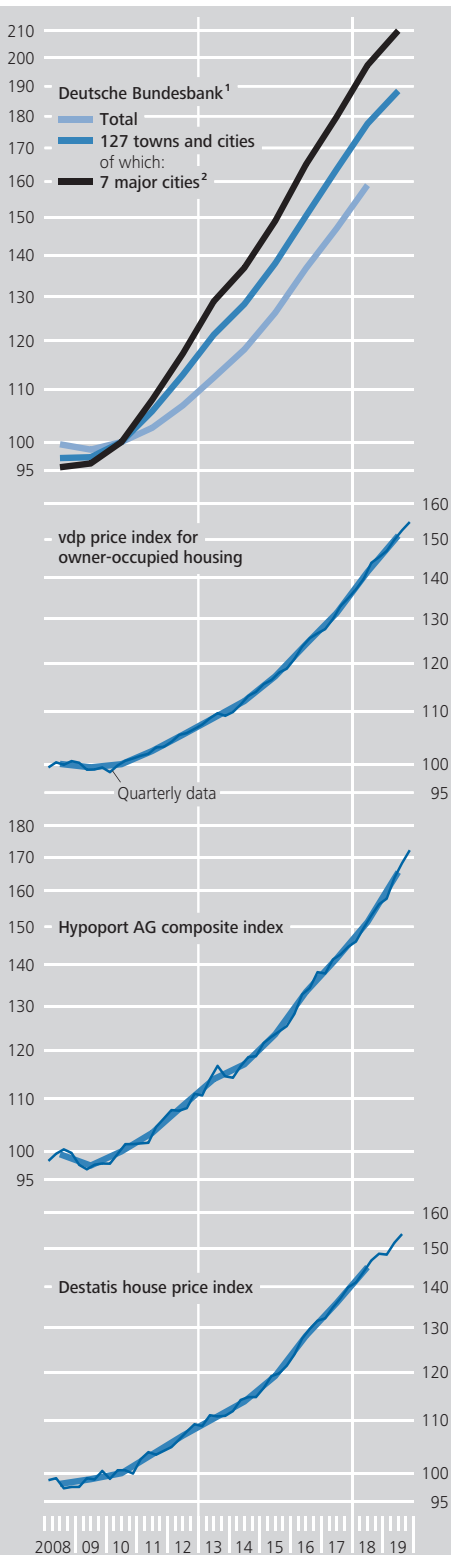
<sup>1</sup> These comments relate to how price developments in the housing market are to be seen in the context of the real economy. For an assessment from a financial stability perspective, it is also necessary to take a look at housing funding aspects.

<sup>2</sup> Hypoport AG recently announced a revision of the index calculation (<https://report.europace.de/epx/europace-hauspreisindex-dezember-2019>). This figure should therefore be regarded as provisional.

<sup>3</sup> The seven biggest cities are Berlin, Cologne, Düsseldorf, Frankfurt am Main, Hamburg, Munich and Stuttgart.

### Price indices for housing

2010 = 100, annual data, log scale



**1** Weighted by transaction. Bundesbank calculations based on price data provided by bulwiengesa AG. **2** Berlin, Cologne, Düsseldorf, Frankfurt am Main, Hamburg, Munich, Stuttgart.  
 Deutsche Bundesbank

slackened last year. This is due to in part to the somewhat less rosy outlook for incomes compared with earlier years as well as declining immigration. By contrast, additional demand impulses came from the continuing favourable financing conditions. The average rate for mortgage loans, which was already at a historical low, fell to 1.6% in the reporting year. All things considered, there was, however, no additional relief for households when purchasing residential property, partly because house prices were still rising more sharply than disposable household income.<sup>4</sup>

The additional supply of housing in 2019 is likely to have been at least as high as it was in 2018, when almost 290,000 new dwellings were completed. This means that the number of completed dwellings persisted at its highest level since the beginning of the current real estate boom.<sup>5</sup> Moreover, the number of building permits, at approximately 350,000, settled at a higher-than-average level last year. This was also reflected in the extremely high degree of capacity utilisation in the construction sector. Construction prices went up by 4.3%, as in the previous year, and thus significantly more sharply than construction costs, which rose by an estimated 2.1%. In line with this, construction firms, given the extremely positive orders situation in this sector, considerably expanded their margins in the reporting year. By contrast, the shortage of building land does not appear to have in-

**4** See Deutsche Bundesbank, System of indicators for the German residential property market, available at <https://www.bundesbank.de/en/statistics/sets-of-indicators/system-of-indicators-for-the-german-residential-property-market/system-of-indicators-for-the-german-residential-property-market-795268>.

**5** Nevertheless, on an average of the period from 1990 to 2018, just under 330,000 dwellings were completed per year. This, of course, includes the overshooting construction activity in the preceding housing boom of the mid-1990s, which increases the reference figure in arithmetical terms.

tensified to the same extent as previously. According to Federal Statistical Office data, prices of building land were going up at a rate of 3¾% in the first half of 2019, which was considerably more subdued than in previous years. Overall, these figures indicate that the housing supply has now become significantly more convergent with the heightened demand.

Even though there was a weakening of house price dynamics in the towns and cities, prices last year, too, exceeded the level indicated by the sociodemographic and economic fundamentals. According to current estimates, upward price deviations in the towns and cities were between 15% and 30%.<sup>6</sup> Further standard indicators for assessing house prices likewise point to ongoing marked price exaggerations in the urban housing markets. For example, the price-rent ratio for apartments in towns and

cities in the reporting year was roughly 25% above its multi-year mean since reunification; in the seven major cities it was somewhat more than 30% higher.

---

<sup>6</sup> These figures are based on updated results of a regionally differentiated estimation model. They relate to an estimated fundamental residential property price, which is based conceptually on the sustainable components of economic and sociodemographic variables. See Kajuth, Knetsch and Pinkwart (2016). Regionally differentiated price data for 2019 were available at the time of publication only for urban districts. The estimates on which the current figures for overvaluations are based refer to the reference period until 2018; district-specific price information for Germany as a whole is currently available up to that date.

*Economic sentiment improved in Q4, but deteriorated slightly in January again*

According to the Ifo Institute, sentiment in the German economy worsened slightly at the beginning of 2020 after it had shown a steady improvement throughout the final quarter of 2019. The deterioration in the business climate index in January 2020 was attributable to the less optimistic business expectations overall, while the assessment of the business situation remained on its upward trajectory. Broken down by sector, the sentiment indicators produced a rather mixed picture. In manufacturing, business expectations as well as – for the first time in one-and-a-half years – the assessment of the business situation were distinctly higher. In wholesale trade, which is heavily dependent on industrial activity, enterprises also showed more optimism for the future and greater satisfaction with the current situation. By contrast, both sentiment components fell significantly in the main construction sector, albeit from a very high level. The business climate in retail trade also became somewhat gloomier, owing to a marked deterioration in the assess-

ment of the business situation. In the other services sector, excluding trade, a perceptible deterioration in business expectations contrasted with a slight improvement in the assessment of the current situation.

Industrial new orders in Germany were down again in the fourth quarter of 2019. In regional terms, demand from Germany and from non-euro area countries contracted but new orders from the euro area showed a very strong increase. However, this was mainly attributable to the irregular influx of large orders in other transport equipment. Excluding this sector, there were also fewer orders from euro area partner countries. Broken down by sector, German manufacturers of machinery reported a particularly strong deterioration in order book levels. Manufacturers of computers, electronic and optical products also received fewer orders. By contrast, new orders in the automotive sector were markedly higher. In line with the regional breakdown, the other transport equip-

*Orders situation still weak*

### Demand for industrial goods and construction services

Volumes, 2015 = 100, seasonally adjusted, quarterly data



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

ment sector recorded by far the largest increase in orders overall. New orders for capital goods were nevertheless down significantly on the average of the third quarter when looking at the whole picture. On the other hand, producers of intermediate and consumer goods enjoyed higher demand for their products. According to the Ifo Institute, manufacturing firms still assessed their stocks of orders as too small and their inventories of finished goods as too large.

The boom in the German construction sector is likely to continue. On an average of October and November (data are available up to then), orders received by the main construction industry showed a very strong seasonally adjusted rise compared with the third quarter thanks to a number of large orders. At the same time, rebound effects are expected in the finishing trades following the strong dampening effect from the “bridge” days in December. The favourable weather conditions experienced so far could also provide a boost. Nonetheless, at the beginning of 2020, construction output is not expected to be significantly higher than its last peak. This is because the sector is still operating at close to full capacity although equipment utilisation declined slightly of late according to the Ifo Institute.

*Construction boom likely to continue*

Private consumption is set to go up in the first quarter of 2020. Irrespective of the modest aggregate growth, the income and labour market outlook for consumers remains fairly positive. Their purchasing appetite is likely to have supported the domestic economy at the beginning of the year, too. In line with this, the GfK consumer confidence index recently rose again slightly from a high level.

*Private consumption pointing upwards again at beginning of year*

## ■ List of references

Deutsche Bundesbank (2019a), Dampening special effect in the HICP in July 2019, Monthly Report, August 2019, pp. 57-59.

Deutsche Bundesbank (2019b), The impact of the Climate Package on economic growth and inflation, Monthly Report, December 2019, pp. 29-33.

Kajuth, F., T. Knetsch and N. Pinkwart (2016), Assessing House Prices in Germany: Evidence from a Regional Dataset, *Journal of European Real Estate Research* 9 (3), pp. 286-307.

Statistics provided by the Federal Employment Agency (2020): Grundlagen: Methodenbericht – Revision des BA-Stellenindex (BA-X), Nuremberg, January.