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The brake lights are on – internationally, and in Germany too

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Author:
Dr. Holger Schulz
Holger.Schulz@dsgv.de

Growth momentum has slackened noticeably this autumn in many regions of the world economy. Only the USA is still expanding at a very fast clip, and this may turn out to be just a flash-in-the-pan. The risks stemming from the various trade conflicts, Brexit, the interest-rate turnaround and mounting public debt are pretty much ubiquitous.

On equity markets, this cocktail of risks has led to major price setbacks, especially during October, and then again in December. Losses rippled through markets in developed nations and important emerging markets alike. The euro area has been affected as well, and has also been growing more slowly of late. In this part of the world, it is the conflict over the fiscal-policy stance of the Italian government which is holding centre stage. The protest wave, which has even led to violence in some cases, against the structural reforms in France has also been playing a role.

However, faltering production in some parts of the German economy also contributed to the euro area's weak growth performance in the third quarter. In seasonally-adjusted terms, Q3 GDP contracted by as much as 0.2 percent in Germany. Admittedly, this development can be explained by short-term special effects, above all the difficulties being encountered by the automobile industry in terms of getting new car models compliant with the new emissions testing regime. The decline in GDP is therefore being regarded in most quarters as a mere "dent" in growth. Thanks to the robustness of domestic factors (labour market, financing situation, favourable investment activity right up to the time of writing), there still is a good chance of the upswing resuming in 2019.

The brake lights are on – internationally, and in Germany too

There are now certain imbalances in the world economy

This autumn, growth momentum has been on decidedly diverse trajectories in the major regions of the world economy. What is more, these growing imbalances could drag down the global economy as a whole. The pace of macroeconomic growth has cooled above all in various emerging markets. A certain loss of momentum is unmistakable in the eurozone as well, and Germany is no exception here, even though the lull in growth in the Federal Republic can largely be explained by special factors.
Of the developed nations, it is above all the USA which is continuing to register really vigorous growth. But concerns are growing on the other side of the Atlantic too that the flash-in-the-pan which is still gleaming thanks to the expansionary effects of the tax reform and other fiscal-policy stimuli may soon fade away into the dark.

Growth slowdowns are predominating

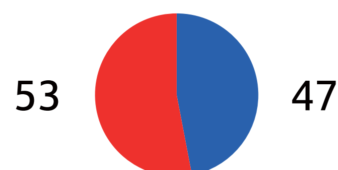
There has been a shift in the political framework conditions in the USA

In the wake of the outcome of the midterm elections to the US Congress, it is clear that the Trump Administration is going to have a harder time pushing through a persistently loose tax and expenditure policy now that the Republicans no longer have a majority in the House of Representatives. But such fiscal laxity would not have been a lasting option anyway in view of the trend in the US national debt. To that extent, the new "checks and balances" deriving from the shift in the House are to be welcomed; however, it does limit the conceivable short-term stimulus.

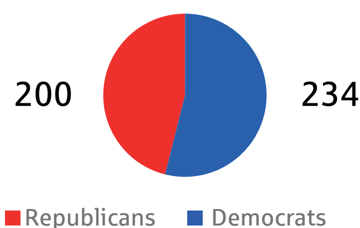
In the trade-policy arena, by contrast, the US President still retains his access to protectionist instruments, not least because the Democrats have not traditionally been strong advocates of free trade either. Further negative repercussions for world trade are therefore threatening from this quarter. As to trade relations between the USA and Germany/Europe, the topic of tariffs – aimed at the German automobile industry, for example – which has kept surfacing as a threat is still not definitively off the agenda in spite of the recent direct talks between President Trump and representatives from German car companies.

Balance of power in the USA,
after Midterm-Elections

Distribution of seats in the Senate



and in the House of Representatives



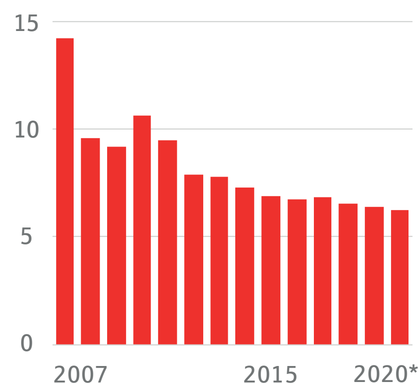
■ Republicans ■ Democrats

Source: CNN

A trade armistice between the USA and China?

But above all bilateral trade between the USA and China is already being crimped since tariffs have been slapped on most of the goods being shipped in either direction. It is true that the United States and the People's Republic agreed a kind of ceasefire on the margins of the G20 summit in Argentina in early December – the next round of tariff hikes is now going to be delayed. However, duties are already being imposed on a substantial volume of goods, and it is still anybody's guess what result the negotiations will produce at the end of the day.

Chinese gross domestic product,
real GDP growth in percent



*2018-2020 estimates
Source: International Monetary Fund

Cyclical cooldown in China

Meanwhile, growth momentum in China is showing initial signs of cooling. The trade dispute has not failed to take its toll. Moreover, the trade standoff is not the only factor putting a brake on growth in the Middle Kingdom: the country has recently been looking shakier from the domestic-economy point of view as well.

One indicator that China is, on the whole, being regarded more sceptically at the moment is the exchange-rate trend. The renminbi yuan has lost around 10 percent against the US dollar since the highs scaled in April of this year. True, the degree of depreciation relative to the euro has been somewhat less pronounced but the trend in CRY/EUR is looking similar.

The US Administration is once again accusing China of deliberately pursuing a policy of managed currency depreciation. However, the currency-manipulation reproach is no longer as valid as it was some years ago, at least no longer exclusively in the direction of actively managed undervaluation. On the contrary, the Chinese government has rather attempted to curb capital outflows, and associated bouts of currency devaluation, in many phases during the recent past.
In view of the ambivalent nature of the government's intervention aims, the yuan is, on balance, taking on ever more characteristics of a flexible exchange rate, replicating market-driven influences to a greater extent. In that sense, the yuan depreciation we have witnessed during 2018 is a (counter-)reaction to the tariff measures imposed by the USA. The tariff escalation would appear to be the true driver behind the downtrend in the CNY/USD cross rate – purely chronologically, at any rate, the exchange-rate adjustment has been very closely correlated with the further flare-up in trade jitters.

The yuan exchange rate is looking increasingly flexible

CNY/USD exchange rate

Source: FED

In a bid to stabilise the weak state of the domestic economy, the Chinese leadership may resort to tax-relief packages. This would almost amount to an imitation of President Trump's measures, which have sparked a significant stimulus in the USA, at least in the short term.

Equity-market turbulence in the developed world indicates uncertainty about the robustness of growth

Even though the USA is currently the frontrunner among developed nations in the 2018 growth stakes, and even though American corporations are reporting excellent figures for current earnings, US equity markets have not managed to fly clear of the turbulence rocking global stock markets this autumn. Indeed, US stock exchanges have, at times, even been posting the heaviest losses.

Synchronous slump in equity prices

Virtually all major stock markets suffered substantial price losses, above all in October. Admittedly, markets repeatedly attempted to stage a recovery at some points during November, but after renewed drops in early December significant setbacks have, on balance, been the name of the game almost everywhere. The two equity benchmarks Dow Jones Industrials and DAX have recently been trading nearly 10 percent off their late summer highs. From the point of view of the full-year performance, the 2018 "equity vintage" seems to have been effectively ruined as a result.

Dow Jones,
daily closing prices

Dax,
daily closing prices

Source: Deutsche Börse

Is the gathering scepticism on equity markets a function of the shift in expectations regarding the future earnings cycle due to a looming growth slowdown? Or is a higher risk of recession even being priced in? A third mode of interpretation would be that the recent price losses reflect a reassessment of equity values in the light of the ongoing interest-rate cycle, i.e. a different discount rate for future earnings flows.

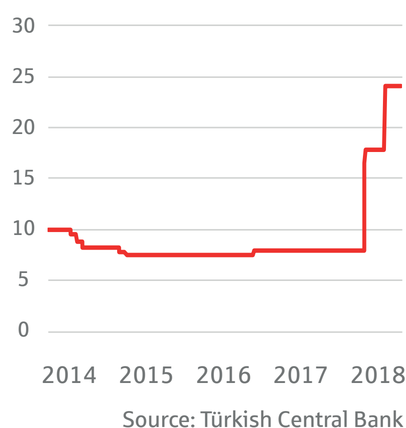
It is presumably a mixture of all three factors which has been at work. Moreover, it is not really possible methodologically to separate these three price determinants; it is rather the case that they can mutually reinforce one another. The higher interest rates, which (in purely arithmetical terms) are resulting in a different discount factor for securities prices, as well as for real-estate prices, would theoretically conspire to put a brake on real economic activity by reducing demand on goods markets.

Such growth-braking processes, resulting from stock-market turbulence and interest-rate hikes, can be observed in particularly acute form in the case of Turkey.

The emergency braking manoeuvre in Turkey has at least made the crisis less acute

The crisis on the Bosphorus which escalated in the summer of 2018 was the principal thematic focus in the previous (September) issue of "Economic Update." At that time, we commented on the massive key-rate hike – 625 basis points to 24 percent – which the Turkish Central Bank had just implemented. It has become clear in the interim that this measure has had the effect of at least calming the decidedly jumpy exchange-rate trend. Having plunged to lows of TRY/EUR 8:1 in the middle of August, the Turkish lira has stabilised to a marked extent by now, trading at TRY/EUR 6:1 at last reading. Volatility has smoothed out to a considerable extent as well, and capital outflows have declined.

Turkish Key Rate, in Percent



Source: Türkish Central Bank

Recession and inflation can presumably hardly be avoided …

All the same, the genie of a potential recession, emanating from the crisis of confidence, the draconian tightening of the monetary reins and the surge in inflation triggered by local-currency depreciation, is undeniably out of the bottle. A recession in Turkey remains likely to materialise in 2019. The inflation rate leapt to 25.2 percent in October, although this was probably just a short-term spike – consumer-price inflation eased again slightly for the first time in November (21.6 percent).

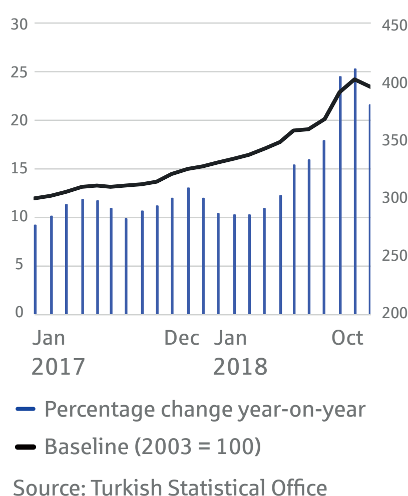
… but the interest-rate hike has interrupted the depreciation spiral

If the stabilisation in the exchange rate persists, this should also spell relief on the import-price side. This dimension of the latest trend in inflation rates also means that the extent of September's hike in the one-week repo rate was well judged because it kept real interest rates virtually at zero even as CPI was peaking and is now putting them back in positive territory. A self-consuming vicious circle involving negative real returns has been staved off.

TRY/€ Exchange Rate

Source: EZB

Turkish consumer-price inflation



Source: Turkish Statistical Office

An interest-rate turnaround in developed nations
Such linkages are also taking effect in developed nations, albeit on a far more stable and moderate level. By taking action at an early date, the Federal Reserve has stayed ahead of the curve, even though US inflation has, at times, overshot the Fed's target.

The ECB ends its net purchases

Where monetary-policy normalisation will probably be some time in coming in the case of Japan, there are now gradually more signs of the upcoming sea change in euro area monetary policy. The ECB will be ending net purchases under its bond purchase programme at the turn of the year. Details on the structure of replacement purchases (which securities category, which maturities) have not yet been announced; all that we have heard from the ECB so far is that such replacement purchases will aim, as far as possible, at market neutrality in order to avoid interfering with the market price formation mechanism.

By contrast, the ECB's current forward guidance rules out increases in policy rates "at least through the summer of 2019" – even though HICP inflation already converged with the central bank's target this summer. Mounting wage pressure will probably stoke general inflation in the medium term. Nevertheless, inflation is probably not going to overshoot in the phase ahead of us, during which the ECB will continue to voluntarily bind itself to an expansionary policy stance.

The oil price is on a roller-coaster ride

On the contrary, more and more factors have recently been pointing to a slowdown. This holds true for cyclical momentum (the pace of which is being slowed, to a not unappreciable extent, by Germany), for the risk situation (Italy!) and for the trend in inflation. While the core inflation rate is still languishing a good long way below the target, headline rates too may well fall back to low levels in the coming months. One reason for this is the sharp decline in oil prices over the past few weeks – by as much as 30 percent, or thereabouts, between the beginning of October and the end of November.

Oil price (Brent crude),
barrel price (USD)

Source: US Energy Information Administration

On the other hand, two of the most prominent oil-producing countries, Russia and Saudi Arabia, agreed in early December on output curbs, which did indeed push up market quotations to a noticeable extent at first. The OPEC meeting which took place on 6th December was pursuing the same objective, albeit with limited success so far.

It has a certain qualitative importance for the world economy whether the fact that oil is, on balance, still cheaper mirrors a stabilisation in crisis-ridden supplier countries or is to be explained by a decline in global demand.

In the case of energy-importing countries, however, the direct impact of the slide in oil quotations is clear: the result is an improvement in their terms of trade, i.e. enhanced purchasing power.

France protests against (yesterday's) trend in oil prices

Violent "yellow vest" protests

This development is certainly suiting the Macron government in France – at least in principle. After all, the protests by the "yellow vest" movement have been driven to a decisive extent by anger at higher fuel prices for consumers – at least rising fuel taxes were the initial match which lit the tinder of rebellion. Due to the now declining price trend, however, this protest narrative is currently losing momentum. At any rate, the French government's plans to raise the carbon tax on vehicle fuel have been shelved for the moment as a reaction to the civil commotion.

Naturally, the root-causes of the protests sweeping France are deeper and more complex: what is really at issue is social participation, economic uncertainty, the wealth gap, questions of distribution – or at least the "perception" of these matters. But what the wave of protests reveals, in any case, is what deep rifts have opened up in Western societies, whether in France or in other developed nations. And it drives home how difficult it is becoming these days to muster acceptance for reforms aimed at boosting a country's economic strength and competitiveness.

Italy is on a collision course with European institutions and markets

These are doubtless all developments which the Italian government is watching and noting carefully. Disastrously, it is quite possibly the case that the politicians in Rome even feel vindicated regarding the course they are steering, which involves suppressing necessary reform steps and instead focusing on redistributional largesse in the social-policy and tax-policy fields.

Admittedly, Rome has recently made initial cautious concessions in the institutional confrontation with the European Commission concerning the sovereignty of Italy's fiscal policy, on the one hand, and its sustainability, on the other. Yet the underlying conflict is still persisting.

Do risk premiums discipline fiscal policymakers?

The sharp spike in risk premiums embedded in market yields on Italian government bonds is sending out a strong signal. Germany's Council of Economic Experts ("Wise Men") described this as "functioning market discipline" in its recent annual report.

What is positive about the repercussions of Italy is that hardly any contagion effects have so far spilled over into other euro area member countries. Nowadays, markets differentiate more clearly on the basis of developments in individual countries than they did even ten years ago. In such an environment, ring-fencing problem areas and taking disciplinary action can indeed work. All the same, Italy's poker-players are playing with fire: a conflagration could begin to spread at any moment.

For this reason, the ECB is monitoring what is going on, in Italy as on the markets, very carefully. The central bank has been helping to ensure that market discipline takes hold, and has rightly shown no intentions of being prepared to bail out Italy. Schemes such as the OMT Programme could only provide support in any case if the boot-shaped peninsular were prepared to comply with conditionality and submit to a stabilisation programme. And it does not look at all as though Rome's political caste would be willing to go down such an avenue. If the Italian government behaved in a correspondingly stability-oriented fashion, an assistance programme would not be necessary in the first place. There is a paradox here: OMTs can only be activated when they are not needed.

Financial assistance would only be justified if there was a willingness to cooperate

New longer-term refinancing operations from the ECB? – but not on Italy's behalf please!

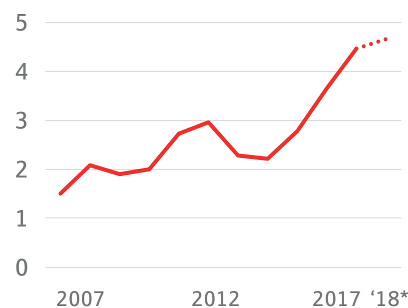
However, the top echelons at the ECB have been considering launching a new set of targeted longer-term refinancing operations (TLTROs). True, these would still – or rather once again – be unconventional monetary-policy instruments. However, they would, at least, not be quite as unconventional as the soon-to-be-terminated (net) bond purchases are from the point of view of ultimate risk assumption, degree of market distortion and proximity to monetary financing of public debt.

The latest round of TLTROs, launched in 2016 and 2017, will be falling due in 2020 and 2021. The ECB rightly argues that these balance-sheet items at counterparty banks no longer count as long-term refinancing sources from a supervisory perspective, due to their short residual maturities, one year prior to redemption. This is certainly true, but it is still questionable how much demand there really is for a new replacement.

New TLTROs are not needed from a liquidity viewpoint

Purely from a liquidity viewpoint, the European banking system does not require any fresh TLTROs: the system is rather already awash with surplus liquidity. The volume of central-bank money created by means of Quantitative Easing – which was more or less foisted upon credit institutions – exceeds the (by comparison) tiny need for minimum-reserve coverage by roughly EUR 2,000 billion. These two trillion euros of surplus liquidity reflect virtually half of the Eurosystem's decidedly bloated balance sheet.

Eurosystem's balance-sheet total, in Trillion €



*cut-off date: 30th November 2018

Source: European Central Bank, own calculations

In view of the fact that the ECB is only shutting down its net purchases under the APP but will still be making replacement purchases for years to come, balance-sheet reduction of the kind currently being practised by America's Federal Reserve is not going to be on the agenda any time soon. The fact is that an extremely high degree of political and monetary-policy-related determination would be required (for example) to scale back

holdings of Italian government bonds some time soon contrary to the market trend.

If that is out of the question in the foreseeable future, the only way to more or less automatically shrink the Eurosystem's balance sheet would be to run off and redeem existing TLTROs without launching fresh ones.

For this reason too, the ECB would be wrong to prematurely create expectations that a new round of TLTROs will be launched to replace those which are maturing. There is sufficient liquidity to partially offset the bloated volumes sloshing around within the commercial bank-central bank loop.

This is certainly true from the macro point of view. Admittedly, it does not necessarily hold true on the micro level for every single bank. Not every credit institution which is holding a good deal of the surplus liquidity which is a burden because still earning a negative return has forthcoming TLTRO redemptions.

Reviving the interbank money market would make an important contribution towards normalisation

But there is also an opportunity here: how about leaving it up to the market to offset these liquidity positions? That would be a possible way of trying to partially revive the interbank market which has largely seized up in recent years thanks to the flood of central-bank money. Qualitatively speaking, that too would be an important contribution towards normalising the monetary-policy alignment. And there would presumably be a welcome side-effect as well: TARGET2 (im-)balances would be reduced to some extent.

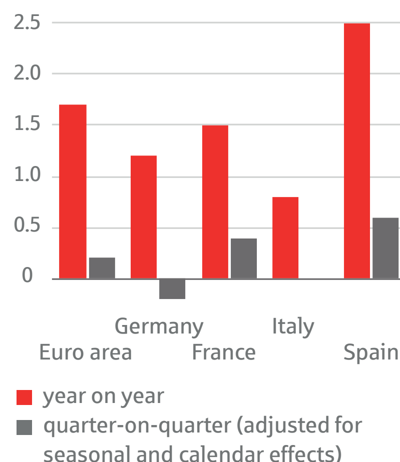
There are therefore good reasons to be opposed to the launch of a new round of TLTROs, although such a move would admittedly still be a lesser evil compared with even more interventionistic support measures on behalf of Italy.

The euro area is growing more slowly, but it is still growing!

Regarding the ongoing normalisation process, what is most important is that the upswing in the eurozone remains in place. The zone's GDP performance has inspired distinctly less euphoria of late. The euro area economy only grew by 0.2 percent in seasonally-adjusted terms in the third quarter of 2018 – half as fast a pace as in the first two quarters of the year, and an even more marked slowdown compared to the rather more handsome growth rates witnessed over the course of 2017.

In Q3 2018, the real year-on-year growth rate relative to the third quarter of 2017 was down to only 1.7 percent whereas, for a long time previously,

Quarterly growth rates for selected euro area states



Source: Eurostat

there had been a “two” before the decimal point. Of course, it was inevitable that the pace of growth would slow as the upswing matured, but the brakes have definitely been jerked on pretty abruptly this time round. This development is most readily explicable if one takes a look at the growth contributions of individual countries (seasonally-adjusted quarter-on-quarter figures in each case). Spain continued to expand at an above-average clip (0.6 percent), France’s growth rate accelerated in the July-to-September period to 0.4 percent, up from 0.2 percent. Italy, by contrast, was mired in stagnation in the third quarter (not all that surprising in the wake of all the political disruptions). However, it was the euro zone’s largest member country which made the largest negative contribution in straight mathematical terms: Germany recorded a Q3 rate of change of -0.2 percent, the first time since early 2015 that growth has been in negative territory.

The dent in German GDP growth is explicable

The car industry is caught up in the stalling registration procedure

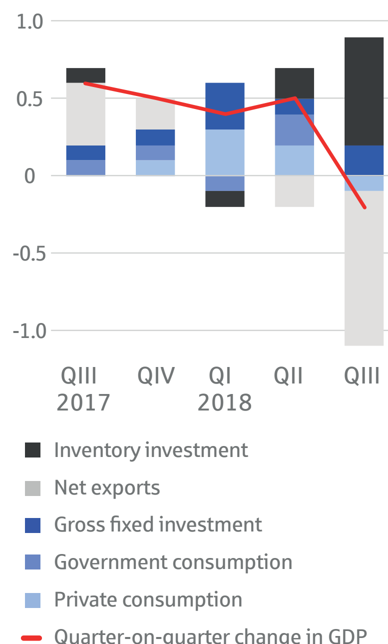
Although it is true that there are a number of fundamental indications of a growth slowdown in Germany, the decline in output during the third quarter has been clearly overstated due to special factors which are readily explicable.

Above all the new emissions testing standards and registration procedure affecting the automobile industry have been much commented on. These have led to a substantial procedural backlog. Many models have not been available to be sold, and many manufacturers have reacted by cutting back on production. The impact of these value-added losses has not been limited to the vehicle industry itself, having negative multiplier effects for many sub-supplier industries and motor-vehicle inputs.

Without these burdening factors, the third-quarter GDP growth rate would presumably have been on the right side of zero, albeit not as dynamic as in the previous quarters.

It is instructive here to take a closer glance at the way the expenditure side of GDP in the national accounts looked in the third quarter. This accounting procedure reveals the special effects referred to but points, in addition, to some interesting structural trends in German GDP.

Growth contributions to real GDP, adjusted for seasonal and calendar effects, in percent



Source: destatis

The interplay between net exports and inventory investment

Production is currently being stockpiled rather than exported

The domestic economy was actually on a very strong growth path in the third quarter, with the seasonally-adjusted rate of expansion weighing in at 0.8 percent. It was the net-exports item which upset the apple-cart. Where imports were 1.3 percent higher in real terms, confirming the strength of rapidly-growing domestic demand, exports were down by 0.9 percent. The special effect hampering vehicles, an important export industry for Germany, is fully visible here. On balance, then, foreign trade made a negative contribution to GDP of a full percentage point.

GDP will get off to a poor start in 2019 because of the low statistical overhang from the present year

This was exactly counterbalanced by the one-percentage-point positive contribution made by inventory investment. We are talking here about a big swing in the inventory cycle. Inventory investment is, in effect, stockpiled production. Once the vehicle-registration procedure has been successfully completed, the "stockpiles" in question will probably flow to a decisive extent into exports, leading to an inventory drawdown. But this would also mean that there is not, on balance, going to be as strong and swift a countervailing stimulus for GDP in the fourth quarter because the dent in value added, buffered by the warehousing effect, has not been as pronounced as the dent in the sales figures. The fourth quarter is likely to be marked above all by a reversal between inventory investment and exports, items which net out.

A further inference, then, is that growth in the second half of 2018 as a whole will turn out to be significantly weaker than in the first half of the year. The statistical overhang, 2018's gift for 2019, will therefore prove to be very much on the small side. Even if cyclical activity does gain momentum again over the course of the year, the annual average growth rate will be depressed by this effect (at least in purely mathematical terms).

A growth rate in line with the potential rate still looks a possibility

This is also a reason why more recent growth forecasts have been revised on all sides. Germany's Council of Economic Experts is now only projecting a 2019 growth rate of 1.5 percent in its annual report. The OECD sees Germany growing by somewhere in the same range in the coming year, predicting a rate of change of 1.6 percent in the issue of Economic Outlook published in late November.

On the surface, such 2019 growth rates are only going to be in line with the potential growth rate; in practice, though, the underlying cycle is stronger than it appears if such growth numbers are achieved without the help of a sizeable statistical overhang from 2018. Looked at positively, such a rate of growth would entail further employment gains; looked at more negatively, it would further aggravate the lack of skilled workers which is already prevailing.

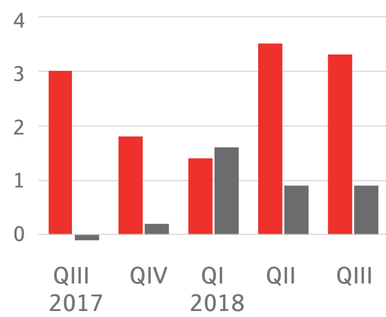
Consumption is down too – but investment, of all things, is proving the proverbial "rock in turbulent waters"

The jump in the savings ratio is an inverse reflection of the dent in private consumption

But let us take another look at the structure of the expenditure side of GDP in the third quarter. Private consumption likewise sprung a surprise by generating a negative growth rate to the tune of -0.3 percent. It would be plausible to assume that a significant portion of the automobile effect had a negative impact here. Foregone, or at least postponed, consumption was mirrored in the savings rate at private households: having clung so tightly to the ten-percent mark for years, this ratio suddenly made an upward leap to a seasonally-adjusted level of 10.7 percent.
What was conspicuous in the third quarter – moving in the opposite direction to the other components – was investment activity. Machinery-and-equipment expenditure climbed by 0.8 percent in Q3 on a real, seasonally-adjusted basis. This GDP item therefore came in 3.7 percent higher than in the same quarter of 2017, even though that quarter had already been a strong one.

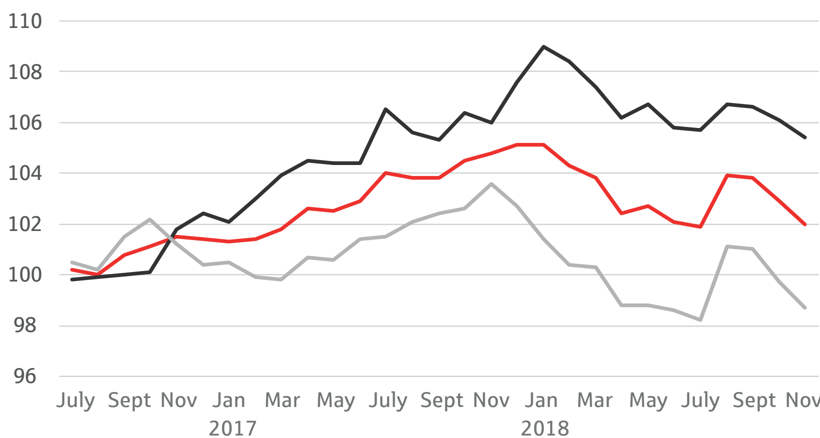
Construction investment even powered ahead by as much as 0.9 percent in the third quarter, with the year-on-year rate accordingly rising to 3.3 percent. Taking a different perspective (the output approach to GDP), gross value added in the construction trade was a full 4.2 percent up on the same quarter of the previous year whereas the overall economy only inched ahead by 1.0 percent on the basis of this value-added approach. The trend in the building industry remains favourable right up to the present: incoming orders were up by 3.6 percent month-on-month in September.

Real growth rates for construction investment, in percent



Source: destatis

Ifo Business Climate Index (2015=100, seasonally adjusted), in percent

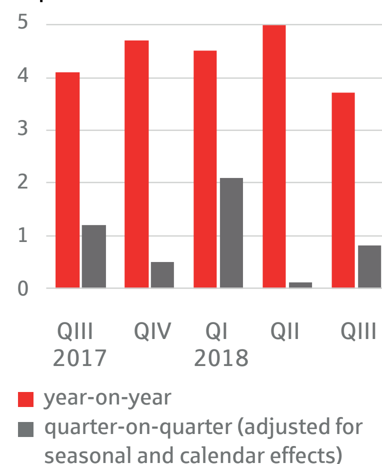


Source: ifo-Institute

Investment has not been as procyclical as usual

It is more than unusual that investment activity, of all things, has proved to be the component stabilising growth in the mature phase of the present upswing. Normally, investment activity is the flywheel amplifying fluctuations in economic cycles and ultimately derailing upswings.

Real growth rates for machinery-and-equipment expenditure, in percent



Source: destatis

However, in the long and steady upswing which we have observed over the past few years, investment activity has proved to be decidedly subdued. Even though interest rates have been extremely low, there has not been an exuberant investment boom. It has been possible to gauge corporate restraint on the investment front from rising equity ratios and high liquidity levels but also from the fact that the theoretical savings rate in the company sector has, untypically, regularly even exceeded net investment.

This may have put a drag on growth momentum in earlier stages of the upswing, but it is now lending robustness and reducing setback potential.

But uncertainty is growing in Germany as well

That certain risks to the economic outlook nevertheless remain is indicated by the renewed decline in the ifo Business-Climate Index. This is also corroborated by the Economic Sentiment Indicator modelled by the European Commission. A threat of recession is not the main scenario for 2019, but neither is recession merely a peripheral risk to be completely neglected.

What is reassuring with respect to the situation in Germany is that the country definitely still has dry ammunition thanks to its favourable fiscal position, and could use this to take countermeasures if required. Monetary policymakers have not yet worked to create such leeway for themselves; their task clearly remains to normalise their policy stance.

If needed, ammunition for a fiscal-policy stimulus would be available in Germany

At least in Germany, fiscal policy could potentially take up the slack caused by a possible crisis in demand – provided that there was enough political determination. For it has to be said that the future political landscape has recently become more difficult to predict in Germany's case as well. Nonetheless, such a need for intervention is not the main scenario. The most probable narrative will be "the dent is being ironed out again." German has a chance of extending the long upswing in the coming year as well and of seeing aggregate economic output expand in line with potential growth for a further twelve months.

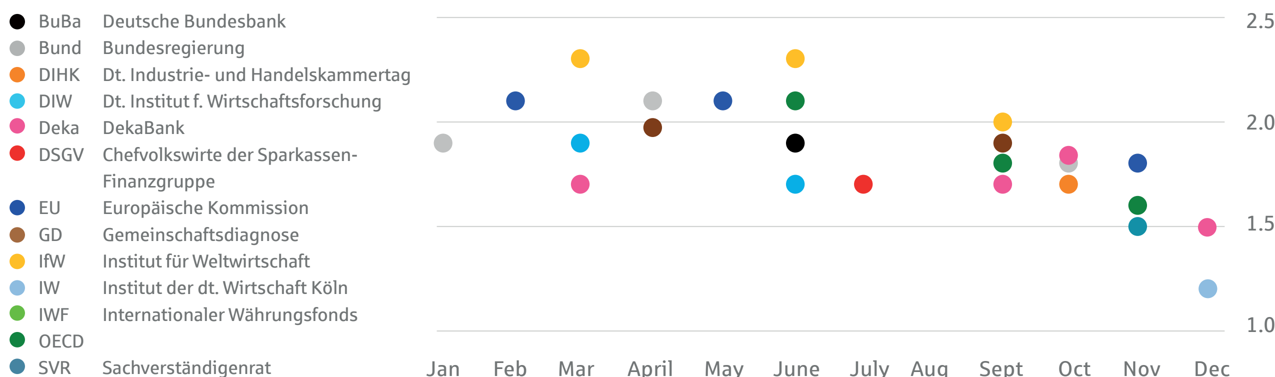
A continuation of the upswing remains the main scenario

A. Growth in global economic regions, percentage change in year-on-year terms

	2016	2017	2018[1]	2019[1]
Global trade volume	+2.4 %	+4.2 %	+4.0 %	+3.9 %
Gross domestic product - World	+3.2 %	+3.6 %	+3.7 %	+3.7 %
USA	+1.5 %	+2.2 %	+2.3 %	+1.9 %
Japan	+1.0 %	+1.5 %	+0.7 %	+0.8 %
China	+6.7 %	+6.8 %	+6.5 %	+6.3 %
EU	+2.0 %	+2.3 %	+2.0 %	+1.8 %
Euro area	+1.8 %	+2.1 %	+1.9 %	+1.7 %
Germany	+2.2 %	+2.5 %	+1.9 %	+1.9 %

[1] International Monetary Fund projections, April 2018, adjusted for working-day variations

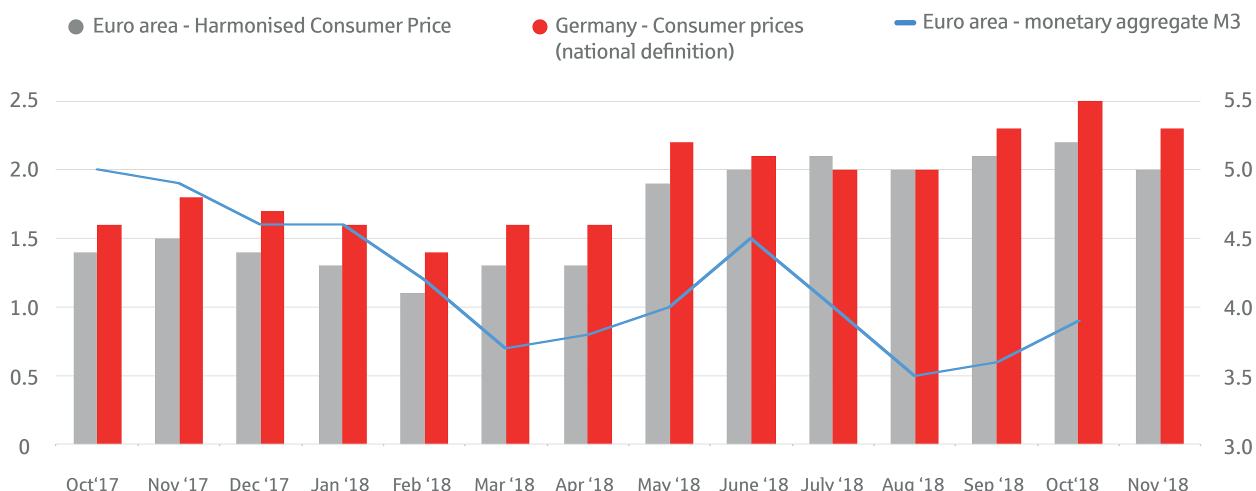
B. Projections for 2018 German economic growth, in %



C. GDP in Germany and in the euro area as a whole

	Year 2017	Q IV - 2017	Q I - 2018	Q II - 2018	Q III - 2018
	real yoy	real growth relative to the same quarter of previous year and seasonally-adjusted real quarter-on-quarter growth			
Euro area Gross domestic product	+ 2.4 %	+ 2.5 % + 0.7 %	+ 2.1 % + 0.4 %	+ 2.3 % + 0.4 %	+ 1.7 % + 0.2 %
Germany Gross domestic product	+ 2.2 %	+ 2.2 % + 0.5 %	+ 1.4 % + 0.4 %	+ 2.3 % + 0.5 %	+ 1.1 % - 0.2 %
Private consumption	+ 1.8 %	+ 1.1 % + 0.2 %	+ 1.6 % + 0.5 %	+ 1.0 % + 0.3 %	+ 0.5 % - 0.3 %
Gross fixed capital formation	+ 2.9 %	+ 2.8 % + 0.3 %	+ 2.2 % + 1.4 %	+ 3.4 % + 0.5 %	+ 3.0 % + 0.8 %
Exports	+4.6 %	+ 4.7 % + 1.7 %	+ 2.1 % - 0.3 %	+ 4.3 % + 0.8 %	+ 1.1 % - 0.9 %
		Level not rate of change; seasonally-adjusted quarterly figures			
Savings rate	9.9 %	10.1 %	10.1 %	10.2 %	10.7 %

D. Consumer-price inflation (LHS) **and monetary aggregate M3** (RHS), percentage change year-on-year



E. Monthly economic indicators for Germany

	Jul. '18	Aug. '18	Sep. '18	Oct. '18	Nov. '18
CPI (national definition)	Percentage change year-on-year				
Consumer-price inflation	+2.0 %	+2.0 %	+2.3 %	+2.5 %	+2.3 %
- without food and energy (core inflation)	+1.4 %	+1.3 %	+1.5 %	+1.7 %	-
Producer prices for industrial goods	+2.9 %	+3.1 %	+3.2 %	+3.3 %	-
Import prices	+4.8 %	+4.8 %	+4.4 %	+4.8 %	-
Sentiment indicators					
ifo Business-Climate Index	101.9	103.9	103.8	102.9	102.0
ZEW Economic Sentiment Index	-24.7	-13.7	-10.6	-24.7	-24.1
Incoming orders	Percentage change year-on-year				
Manufacturing industry	+2.1 %	-1.9 %	-5.4 %	+2.4 %	-
domestic	+3.8 %	-4.7 %	-4.8 %	+0.6 %	-
foreign	+0.8 %	+0.4 %	-5.8 %	+3.7 %	-
Capital-goods producers	-0.4 %	-0.4 %	-5.7 %	+1.1 %	-
Production	Change yoy (adjusted for working-day variations)				
Producing sector as a whole	+1.5 %	+0.2 %	+0.7 %	+1.6 %	-
thereof: construction	+3.5 %	+2.4 %	+4.9 %	+5.0 %	-
thereof: industrial sector	+ 1.0 %	-0.4 %	+0.1 %	+1.6 %	-
Foreign Trade	Percentage change year-on-year				
Exports	+7.7 %	+2.4 %	-1.0 %	-	-
Imports	+12.4 %	+6.8 %	+5.6 %	-	-
Labour market	Unemployment rate; change relative to the same month of previous year				
Unemployment Rate	5.2 %	5.2 %	5.0 %	4.9 %	4.8 %
Jobless total	-193	-194	-192	-185	-182
Actively employed (working in Germany)	+548	+557	+561	+559	-
Regular employees paying social insurance	+708	+714	+675	-	-

F. Commodity, foreign-exchange and other financial markets

	Aug. '18	Sep.'18	Oct. '18	Nov. '18	10th Dec. '18
Oilprice Brent in US $	72.53	78.89	81.03	64.74	60.97 (5th)
Exchange rates					
US-Dollar / EUR	1.1549	1.1659	1.1484	1.1367	1.1425
Japanese yen / EUR	128.20	130.54	129.62	128.79	128.79
Equity Markets					
German stock index DAX, EOM figures	12.364	12.246	11.447	11.257	10.622
Percentage change year-on-year	+2.56 %	-4.54 %	-13.47 %	-13.57 %	-
Money-market and capital-market rates					
Overnight money (EONIA)	-0.36 %	-0.36 %	-0.37 %	-0.36 %	-0.36 % (6th)
1-month rate (EURIBOR)	-0.37 %	-0.37 %	-0.37 %	-0.37 %	-0.37 % (7th)
3-month rate (EURIBOR)	-0.32 %	-0.32 %	-0.32 %	-0.32 %	-0.32 % (7th)
Running yield on German government bonds with a residual maturity of ten years	0.35 %	0.49 %	0.40 %	0.33 %	0.27 %
Bank interest rates, new business					
Overnight deposits for private households in 0.03 Germany and in the euro area as a whole	0.01 % 0.03 %	0.01 % 0.03 %	0.01 % 0.03 %	- -	- -
Deposits of up to 1 year for private households Germany and in the euro area as a whole	0.30 % 0.29 %	0.31 % 0.31 %	0.28 % 0.30 %	- -	- -
Rates on 5-year corporate loans of up to EUR 1 m in Germany and in the euro area as a whole	1.86 % 1.80 %	1.94 % 1.80 %	1.92 % 1.81 %	- -	- -

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Deutscher Sparkassen- und Giroverband
Abteilung Volkswirtschaft, Finanzmärkte
und Wirtschaftspolitik
Charlottenstraße 47
10117 Berlin
Telefon: 030 20225-5300
DSGV-Volkswirtschaft@DSGV.de
www.DSGV.de

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Responsible

Pia Jankowski – DSGV
Head of Department Economics, Financial Markets
and Economic Policy
Pia.Jankowski@dsgv.de

Dr. Reinhold Rickes – DSGV
Head of Economics
Reinhold.Rickes@dsgv.de

Author

Dr. Holger Schulz
Holger.Schulz@dsgv.de

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