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Starting the German Growth Engine Again

The German economy is currently in the throes of stagnation. Indeed, the forecasts for whole-year 2023 German GDP growth are mostly even slightly negative. Although Germany has always shown a high degree of adaptability and flexibility, it is currently falling behind in the international macroeconomic-growth stakes.

Consumption, construction investment and net exports are all contributing to the current bout of weakness. Energy prices and, as a result, the “terms of trade” in foreign trade as a whole have meanwhile eased from the burdensome extremes logged in 2022. Nevertheless, a structural effect remains: there is a danger of a lasting erosion in competitiveness.

The "Sick Man of Europe" metaphor is again being frequently applied to Germany. The focus of this issue of “Economic Update” is on the extent to which this assessment is justified. Our conclusion is that such weaknesses are counterbalanced by a number of locational strengths. Yet genuine structural concerns should be addressed with reforms reducing bureaucracy and restoring growth-friendliness.

Subsidizing the industrial-electricity price, on the other hand, would not make sense. That would entail considerable distortions, misdirected incentives and burdens.

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Starting the German Growth Engine Again

It is becoming increasingly apparent that the German economy is performing more poorly compared with other industrialised nations

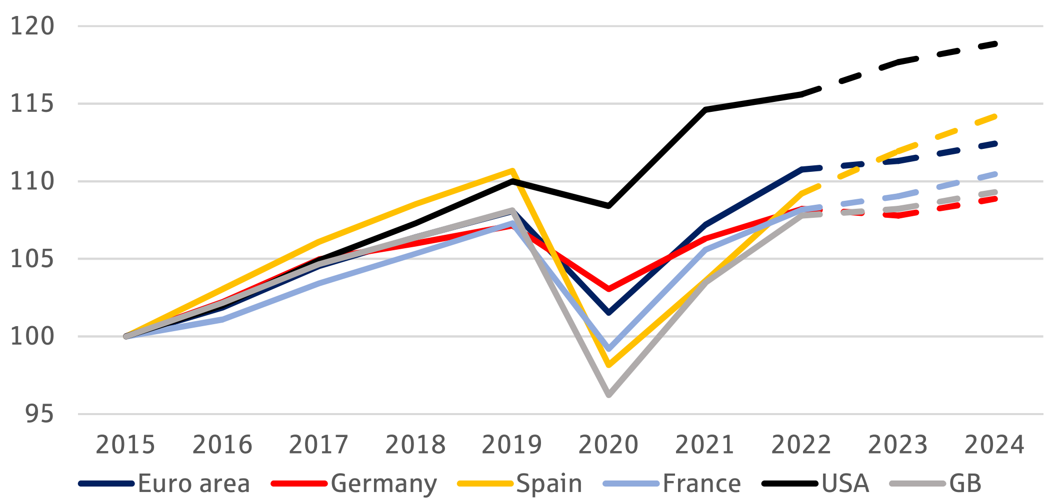
In inflation-adjusted terms, Germany's gross domestic product merely stagnated in the second quarter of 2023. "Once again," it has to be added. After all, the opening quarter of the year acquitted itself no better - indeed, aggregate economic output came in slightly below the zero line in Q1. This, combined with the fragile performance over the second half of 2022, means that German gross value added is currently once again down in year-on-year terms. For various phases in the recent past, terms such as "recession" or "stagnation" have to be adduced, or even - factoring in inflation, which has been trotting, if not galloping, for one and a half years now - "stagflation". The deeper truth is that the two components of the portmanteau term stagflation are causally related to one other at the present juncture: inflationary pressure, with the concomitant loss of purchasing power, is a major reason why the real economy is in such weak shape.

To be sure, the situation "on the ground" still does not feel like a recession. Very definitely the labour market is overheated still, for example. And there are also initial signs that inflationary pressure is slowing and that the monetary-policy countermeasures initiated in the summer of 2022 are beginning to take effect.

Nevertheless, the German economy is still caught between something of a rock and a hard place. The situation must be taken seriously as a challenge from two points of view in particular:

- the duration of the phase of weakness that has now accumulated,
- the poor performance of the economy on an international comparison.

Long-term GDP development on an international comparison,
Price-adjusted, indexed (2015 = 100), from 2023 projections



Source: Destatis, FED, ONS, 2023/2024 for the euro area and Germany from the Joint Forecast, the other updates from the IMF's July edition of the WEO

GDP development Germany, price- and seasonally-adjusted change in percent.

Quarter	qoq *	yoy **
2021 Q1	-1.3	-1.7
2021 Q2	2.2	11.2
2021 Q3	0.7	2.4
2021 Q4	0.0	1.6
2022 Q1	1.0	4.3
2022 Q2	-0.1	1.6
2022 Q3	0.4	1.2
2022 Q4	-0.4	0.2
2023 Q1	-0.1	0.1
2023 Q2	0.0	-0.6

* Change compared with previous quarter
** Change compared to the prior-year quarter

Source: Destatis

Boom of 2016/2017 was not even recognized as such at the time

The German growth trend buckled in response to the outbreak of the coronavirus pandemic in 2020. Before that, through to and including 2019, German gross domestic product was still keeping up quite well with the international pace of GDP growth. Indeed, it was only in retrospect that it became fully clear just how good macroeconomic growth had been in prior years, especially 2016 and 2017.

What is more, the situation at that time was not even considered a boom, even though it presumably deserved such an epithet. In those years, the German economy was marked by an over-utilization scenario which was not properly perceived amid all the short-term noise.

Inflationary pressure was "pent up," rather than overt, during this phase due to a hesitation on the part of many companies to raise prices because of what was perceived to be fierce competition. Until 2019, upward price adjustments had become very uncommon in many industries for years on end. Indeed, it can be argued that passing through higher costs to customers became an almost obsolescent strategy in some quarters. The negative-interest-rate policy being operated back then therefore did not immediately ignite inflation. De facto, however, those years created the basis for price developments to take off all the more dynamically, in the post-Covid-19 catch-up phase, and then more emphatically after the outbreak of Russia's war with Ukraine.

A structural break in macroeconomic growth since the pandemic

In real economic terms, developments since 2020 have been - and remain - very disappointing. Paradoxically, Germany came through the first phase of the pandemic even better than other countries. Other nations, such as Spain and Italy, were more severely affected from a medical perspective by the first waves of the virus and were battered disproportionately from an economic point of view because of the large dimensions of their tourism sectors. For this reason too, the setback in GDP was greater in the euro area as a whole than it was in the case of Germany.

The post-pandemic recovery turned out to be weaker in Germany

The fact is, though, that most of the Federal Republic's competitors and partner countries then managed to catch up better during more recent phases. Spain has been conspicuous for its pronounced growth rally for some time now. France was on a par with Germany up to 2022 (in terms of cumulative growth relative to the 2015 reference year chosen as a baseline for the above chart). But most current forecasts now see France set to pull away significantly from its eastern neighbour in 2023 and 2024. Outside the European Monetary Union, the United Kingdom - although it has suffered a "double whammy" of shocks, first Brexit and then the pandemic - is at least faring no worse than Germany.

As to the United States, the chart on the previous page makes it clear that the USA has shaken off its competitors and is well ahead of the pack in the growth stakes. When making this classification, it needs to be added for the sake of fairness that the "Land of the Free" on the other side of the Atlantic is far away from the war in Eastern Europe simply because of its geographical location. Moreover, the USA is largely self-sufficient in terms of its energy supply. In certain areas, the country was - and is - even a beneficiary of the crisis, for example as a gas exporter.

The trend in Germany, by contrast, has suffered something of a structural break, with the past ten years breaking down clearly into two halves: the strong growth phase prevailing up to 2019 and then the (on balance) sideways phase from 2020 onwards. And the current weak phase is already quite likely to be prolonged this year and, to a certain extent, next year as well.

Forecast for 2023 and 2024

The Joint Forecast by the Chief Economists of the Savings Banks Finance Group …

In the chart on page 2, the trajectories plotted on the basis of the official data up to 2022 for Germany and for the euro area have been extrapolated for 2023 and 2024 using the projections from the latest "Joint Forecast" by the Chief Economists of the Savings Banks Finance Group from the end of August. (The GDP levels for other countries in the chart, not explicitly generated in the Joint Forecast, have been extrapolated using the inputs from the International Monetary Fund's latest issue of "World Economic Outlook.")

… envisages a subdued outlook

The entire data set of the current "Joint Forecast" for Germany can be found in the following table:

Germany	Actual values 2022	Forecast for 2023	Forecast for 2024
Gross domestic product[1)]	+1.8	-0.4	+1.0
Private consumption	+4.6	-0.5	+1.0
Government consumption	+1.1	-2.3	+1.2
Construction investment	-1.6	-1.5	-1.0
Equipment investment	+2.5	+3.0	+1.5
Exports	+3.2	-0.1	+2.0
Imports	+6.7	-0.9	+2.7
Employees[2)]	45,600	45,900	46,000
Unemployment rate[3)]	5.7	5.6	5.5
Consumer prices[4)]	+7.9	+6.1	+3.3
Core rate[4)] (excluding energy. food. alcohol. tobacco)	+3.9	+5.2	+3.2
Savings rate[5)]	11.1	11.0	10.7

1) GDP and breakdowns: not calendar-adjusted, real year-on-year change in %.
2) Number of employed persons with place of work in Germany, in thousands.
3) Unemployment rate as defined by the Federal Employment Agency, in %.
4) Change from previous year, in %.
5) Savings rate of private households as % of disposable income.

German GDP growth is expected to accelerate in 2024; accordingly, the country should extricate itself from the current phase of stagnation. However, the projected growth rate of 1.0 percent is not exactly overwhelming. Indeed, such a rate of change is barely better than the potential growth rate and to that extent "inert". The inescapable inference of such a merely incremental growth rate is that 2024 will not provide any catch-up either. In the wake of a four-year weak phase marked (on balance) by no more than a sideways movement, this has to be described as a relative disappointment. One could certainly have expected more. The gap that was torn open is not being closed, and the differential between the actual growth trajectory and the hypothetically extrapolated higher trend from the years before 2019 is not reduced.

A look at the breakdown of GDP reveals that the weakness forecast for 2023 is very broadly spread across virtually all components. Not that this is any great surprise. After all, it was already the scenario sketched by the official data for the first half of the year. In H1 already, almost all expenditure-side components of GDP were either stagnating or declining. These trends will not yet be reversed in any radical manner in the second half of the year either.

The reasons for the weakness in almost all GDP components can be quickly summarized: private consumption is suffering from the loss of purchasing power due to inflation; government consumption is being (sensibly) cut back after the pump-priming measures implemented during the concatenation of crises (pandemic, war, energy); construction investment is caught in the pincer grip of simultaneously rising material prices and rising interest rates; while net exports continue to lack impetus thanks to the sluggishness of the global economy and due to the currently waning competitiveness of Germany as a business location.

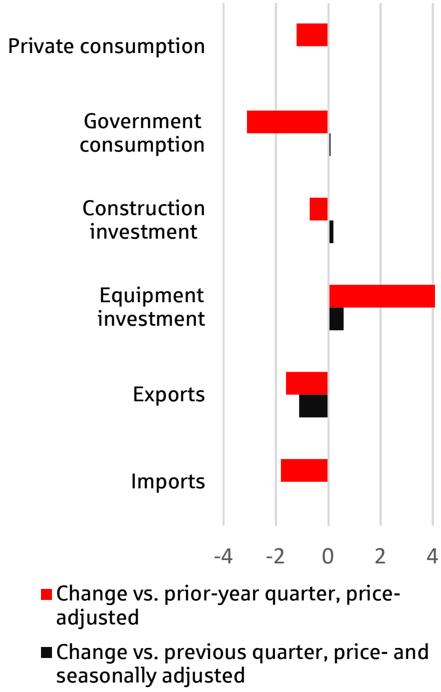
The only laudable exception to this rule is equipment investment. In aggregate, this item of GDP is proving to be very interest-rate-inelastic and is expanding - and this holds true for both the reported data up to mid-2023 and for the forecast trend going forward. This is evidence of how great the structural need for new equipment is in Germany in the digitalisation domain and when it comes to recalibrating energy use. Such projects are being pushed through even in the face of significantly higher interest rates.

Capital stock restructuring is underpinning investment, but the phasing-out of the "obsolete" is straining production capacities

As much as the structural transformation is shoring up current investment activity, it simultaneously involves a devaluation of the existing physical capital stock. Even though they may have already been written down completely, old production facilities that were still productively active, and (in future) no longer used forms of energy generation, are dropping out of the equation.

This entails a loss of production factors. And the trend is no different if one looks beyond the production factor “capital”. In view of projected demographic prospects, the size of the potential workforce is also limited and, if anything, declining. The glaring shortage of (skilled) workers in Germany has become almost legendary and is certainly being lamented all

Expenditure Components of GDP in Germany in the second quarter of 2023, in percent



Note on reading the chart: Private consumption and imports are not missing in the chart as a change from the previous quarter, but are simply exactly 0.0

Source: Destatis

over the country. To make matters worse, energy has also become scarcer and more expensive.

Production is bumping up against supply-side barriers

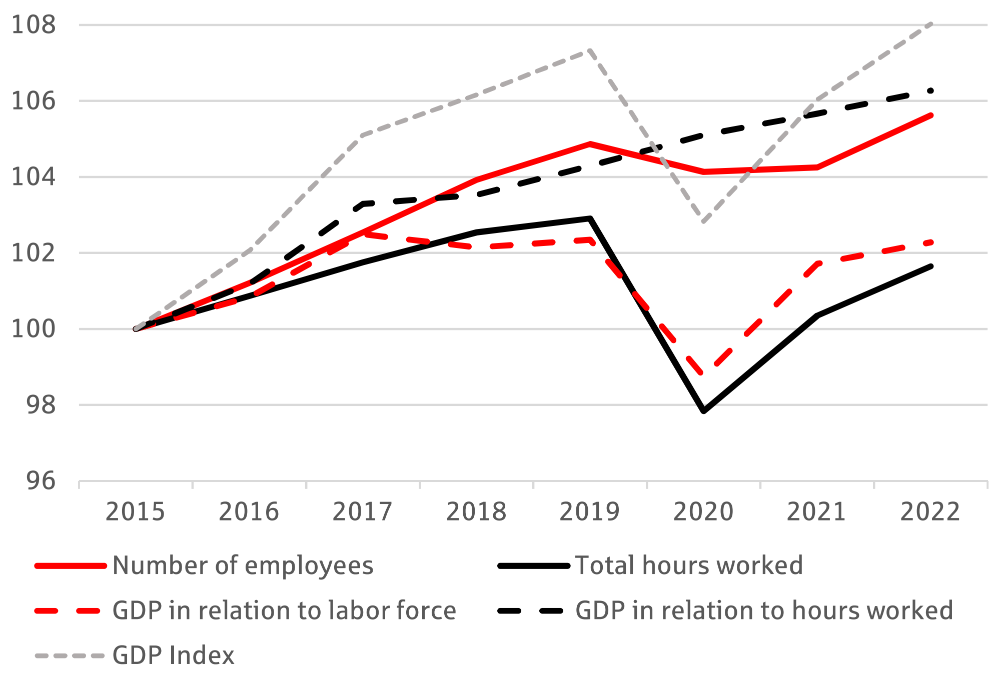
Given this constellation, it is no great surprise that production and gross value added are coming under pressure from the supply side. As a consequence, only a stagnation scenario is achievable, as can be gauged from the merely sideways movement in GDP over the past three to four years.

Labor-market robustness is proving an ambivalent factor

On the positive side, the labor market is robust - despite the stagnation in GDP and the various crises, we are seeing virtually no increase in unemployment. This is an important stabiliser in economically weak times, as it prevents a self-reinforcing cycle of mounting joblessness, falling incomes and declining consumer demand. Stagnation under such a scenario would not merely be cyclical but rather structural, and therefore chronic, in nature.

In the present situation, the labor shortage is being exacerbated by companies' hoarding workers, which makes sense and is definitely comprehensible from the corporate point of view. Such behavior stabilizes the situation, preserves skills and is part of the robustness alluded to above. On the other hand, though, such an approach puts a brake on the dynamically efficient allocation of scarce labor and is associated with a weak trend in productivity.

The employment trend, total hours worked and productivity in Germany, Index (baseline 2015 = 100)



Source: Destatis, own calculations

The weak "numerator" in the productivity equation is production, which has now been stagnating for four years. This is correspondingly reflected in the various productivity ratios, with hourly productivity outperforming per-capita productivity. A weak trend in productivity flattens a society's prosperity curve and aggravates distributional conflicts, especially when compounded by further exacerbating factors such as quickening inflation and worsening terms of trade, as was the case in 2022.

Discussion flares up about Germany as „ Sick Man of Europe “

A few weeks ago, the British magazine "The Economist" asked rhetorically “Is Germany once again the sick man of Europe?". Since then, the metaphor has been taken up in many quarters. Historically, the term goes back to the "sick man of the Bosporus" - the politically, institutionally, economically and structurally unstable situation prevailing in the Ottoman Empire in the late 19th and early 20th centuries. Around the turn of the century, the term was applied to Germany for the first time: the "New Sick Man." Is the situation now comparable to that which existed 20 to 25 years ago? Where are the parallels and differences?

Anaemic growth and the fact that Germany has been falling behind its European partner countries on both occasions are one obvious common feature. The same holds true for the trend in productivity. Quite evidently structural sclerosis is assumed to have been prominent in both periods. But what was the cause of this at the turn of the millenium, and what is the source of the current constraint on growth?

The "Sick Man of 2000” was clearly ailing on account of unemployment

Around the year 2000, the main problem area was the labor market, albeit with a completely different slant than today. At that time, unemployment figures that had become unacceptably high were a burden on the economy and on society in general. Work incentives and interaction with the social-security systems had to be readjusted. These problem zones were then addressed, starting in 2002, with the Schröder government’s “Hartz” carrot-and-whip labor-market reforms, which helped lay the foundations for the "German employment miracle" which came to pass in the 2010s.

One common feature which today's situation shares with that prevailing slightly over two decades ago is the Federal Republic’s deteriorating international competitiveness in both periods. Back then, Germany was running a current-account deficit, but this was still due to the aftermath of Reunification and the country’s external position then changed rapidly in the 2000s. Today, Germany is running up handsome surpluses. Yet the foreign-trade balance is an ambivalent indicator. At first glance, surpluses of such a magnitude appear to be proof of a country’s success on goods markets. But they can also be a sign of an unattractive investment location, since - in pure, plain balance-sheet arithmetic - they involve nothing other than a net outflow on the capital account. Germany has been experiencing such a capital outflow for years, and the asymmetry of the balance of outflows and inflows is particularly conspicuous in the case of the country’s direct-investment account.

One driver of such shifts in location can be a creeping deterioration in price competitiveness. And, on this score, there are indeed some parallels between today's situation and that to be observed in around the year 2000.

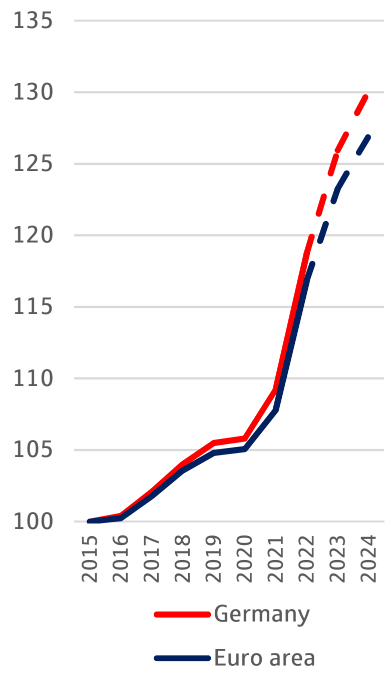
At the time, Germany entered monetary union with a certain overvaluation when the exchange rates were fixed for entry into the single currency. Even before the official start of monetary union in 1999, exchange rates had not been adjusted for some time. Rather, after the experience of the crisis in the European Monetary System in 1992/93, the Deutsche Mark had deliberately been allowed a certain overvaluation as a safety margin against renewed turbulence.

Such currency overvaluation was justified, and was, furthermore, offset as a location factor by the lower interest rates that the Deutsche Mark enjoyed thanks to its status as a reserve currency. After the onset of monetary union, however, the country-specific interest-rate differentials levelled out to a great extent - in retrospect, one would probably have to say: to an excessive great extent - in that "honeymoon" phase. As a result, Germany was at a disadvantage, on balance, due to this overvaluation scenario and had to subsequently re-establish new sustainable real ratios by achieving several years of below-average inflation rates by comparison to the other countries in the fledgling monetary union. Thus, Germany needed - and got - a marginally deflationary inflation trend, the unfortunate flipside of which was higher unemployment.

In 2022, 2023 and beyond, such a relative overvaluation is threatening to rear its not exactly handsome head once again. The main drivers on this front are now the structurally higher energy prices prevailing in the Federal Republic. The latter severely damaged Germany's terms of trade in 2022. Import prices had exploded and could only be passed on to export prices to a disproportionately low extent. The country's prosperity and purchasing power suffered a severe blow in consequence.

Unfortunately, this deterioration in the terms of trade did not improve the country's competitiveness at all, as is usually the case as a counter-effect, for instance when the deterioration derives from exchange-rate effects. In the case of Germany’s recent terms-of-trade shock, it was precisely (energy) costs that became more expensive and therefore directly assailed the country’s price competitiveness.

HICP Germany and euro area, Indexed (2015 = 100), from 2023 forecast values from the Joint Forecast



Source: Eurostat

A creeping deterioration in price competitiveness

Germany is gradually and unobtrusively becoming more expensive on the basis of broader metrics too

The price impulse is broadening out. Even in the more broadly-based price indices, under the Harmonised Index of Consumer Prices (HICP) methodology, the gap is widening, slightly but still visibly, between Germany and its partner countries. The Federal Republic is by no means the most extreme case in the field of countries that is now diverging more sharply once again on the price front. Of late, the Baltic countries, which are, of course, geographically exposed directly on the Russian border, have been in the worst position. Yet the German inflation rate has recently also been a little above the average for the European Monetary Union: at last count, in August 2023, Germany’s annual HICP rate of change weighed in at 6.4 percent, compared with a 5.3 percent print for the currency area as a whole. For whole-year 2023 too, the Joint Forecast by the Chief Economists of the Savings Banks Finance Group referred to above is predicting a HICP inflation rate of 6.0 percent for Germany versus 5.5 percent for the euro area in its entirety.

A gap of a good two percentage points has accumulated to Germany's disadvantage in the compararive price index since the base year of 2015.

Such dimensions are not yet, of course, dramatic. However, this trend must not be permitted to persist; otherwise Germany's competitiveness will continue to erode if the country's goods become more expensive more quickly than those of its competitors.[1]

Pullback from price spikes in 2022 provides important relief

Prices have retraced from their threatening and extremely burdensome peaks

But there is also good news from the price front: the price peaks towering over us in 2022 now largely seem less threatening. At that time, producer prices were at times rising at exorbitant rates in excess of 40 percent year-on-year. The "winter of gas shortages" feared at the time was successfully averted. Market prices subsequently declined significantly. The extremely dramatic inflation breakout induced by Russia's onslaught on Ukraine has largely retraced. Import prices and producer prices have even been running at negative year-on-year rates of late.

However, oil prices and gasoline prices picked up again in July and August

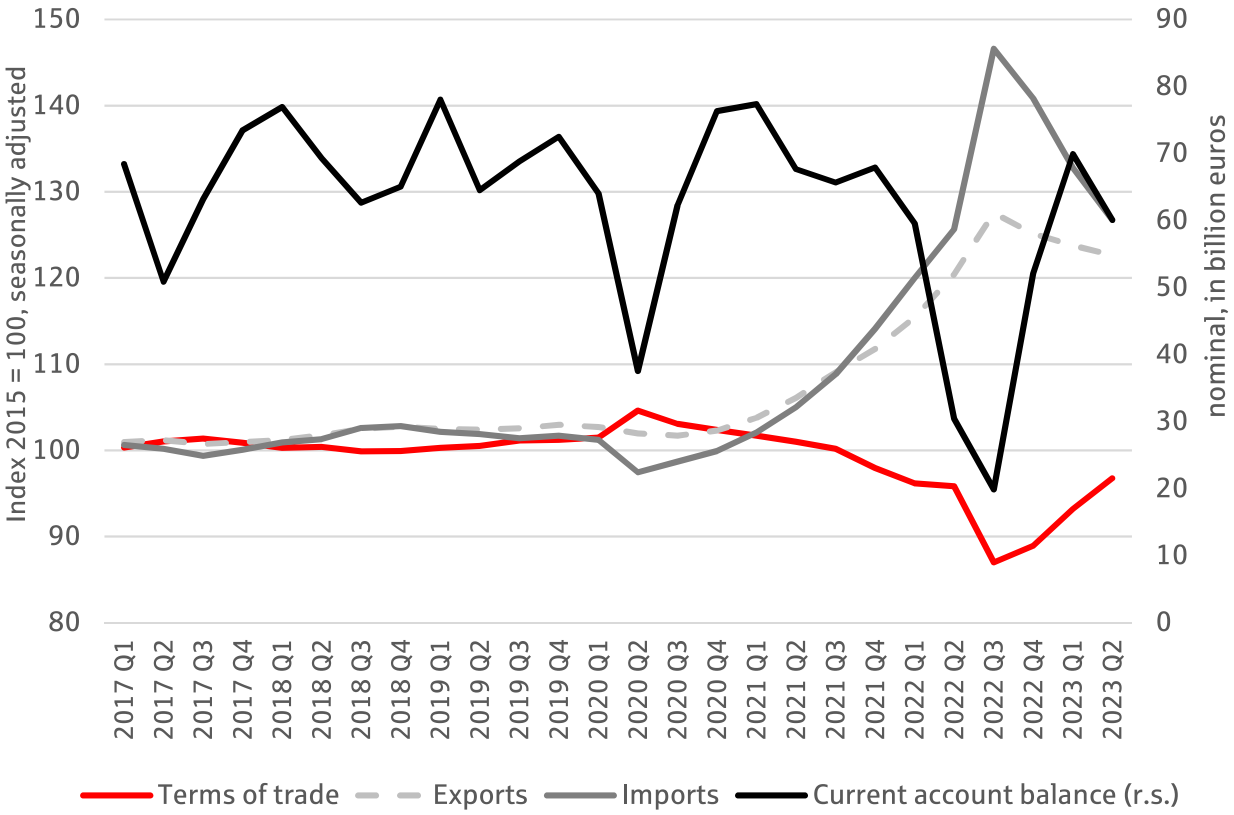
As a countermovement to the countermovement, however, a certain increase in prices has set in again during the past two months. The price of crude oil, in particular, spiked again quite significantly in July and August, followed by the price of retail gasoline at filling stations and, to a more marginal extent, by the price of gas. The bottom line is that energy prices remain structurally higher than before the war, but nowhere near the panic level they scaled in 2022. The same applies to foreign-trade prices as a whole: in that sphere too, the 2022 shock has already partially faded in the meantime.

Germany's terms of trade have now recovered to a noticeable extent. Part of the import-price increase was passed along to export prices from the very outset. Nevertheless, the slump in the ratio between the index of export prices and the index of import prices ("terms of trade") in the autumn of 2022 was still substantial. About two-thirds of this lost ground has now been made good again because import prices have fallen back much more than export prices. This recovery in the national terms of trade has reduced Germany's prosperity losses and, to quite a pronounced extent, defused the distributional conflicts that have arisen.

These positive news must be taken into account when assessing the "stagnation" scenario facing Germany. Stagnation accompanied by a further deterioration in the terms of trade would be a much harsher fate!

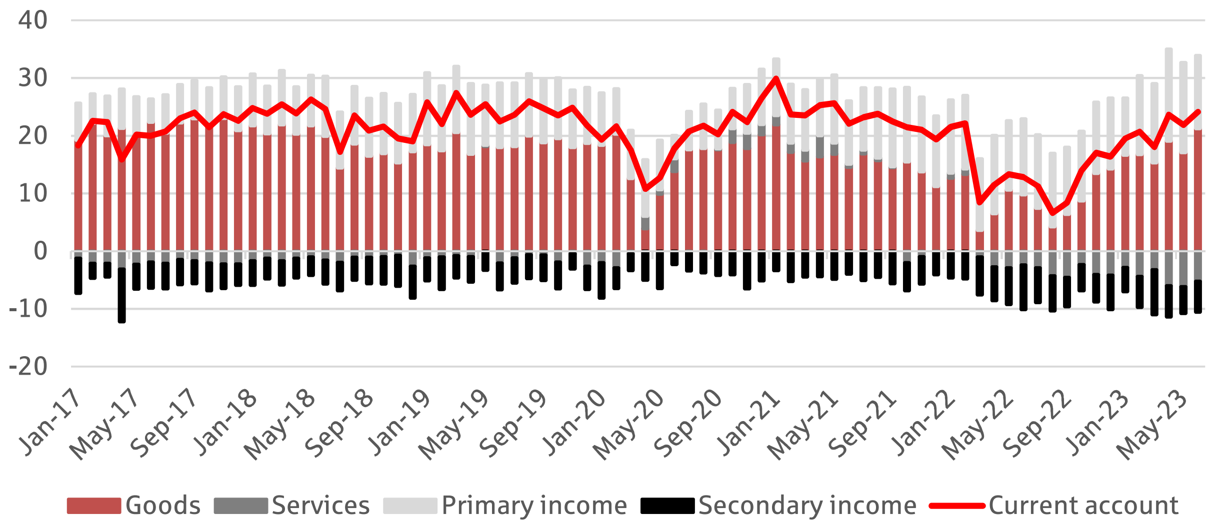
[1] Methodological note: Strictly speaking, arguments about price competitiveness should be based on the trend in national GDP deflators rather than on consumer prices. This is because the consumer-price metric (CPI) also includes imports, the price of which says nothing at all about the price competitiveness of the domestic economic location. The surge in energy prices which we have witnessed is, to a large extent, such an imported factor. Sooner or later, however, energy costs will also be passed on as a production factor to gross value added in the Federal Republic. In this respect, the broader price indices including imported components, even if simplifying the situation, already provide a suitable advance warning.

Foreign trade prices, terms of trade and current account balance for Germany



Source: Destatis, Deutsche Bundesbank

Germany's Current account balance and its sub components,
in bn. Euro



Source: Deutsche Bundesbank

The significant reduction in the price component embodied in the “import bill” has simultaneously restored Germany’s current-account balance, bringing it back close to its old record levels. True, Germany's current-account surplus was only half its usual level during much of 2022; but this narrowing was almost entirely attributable to trade in goods. The other sub-accounts (especially income and transfers) remained largely constant. The fact is that trade in goods, from which Germany's high surpluses usually derive, was strongly depressed, partly because of changes in volumes, e.g. due to the restocking of imported goods after certain supply bottlenecks had been overcome, but above all because of high import prices, which negatively bloated the bill.

The sub-accounts of Germany’s current-account balance have now normalized again

However, as argued above, a high current-account balance is not a positive value per se. If perceived as a problem, it may also help to stoke international tensions again to a greater extent. But at least the Germans can now once again afford their service imports, which, in a balance-of-payments perspective, mainly stem from travel. For this too is evident from the chart above: The Federal Republic’s seemingly perennial services-account deficit, which had disappeared for two years by the beginning of 2022, has reappeared since the Germans have been free to travel again now that the pandemic has been overcome.

Concluding remarks on the "sick man" thesis

Returning to the "sick man" metaphor, one might object: "Surely a sick man does not travel quite so industriously!”

At least the supposed sick man Germany can afford to do so, both in terms of the balance of payments and with regard to the country's fiscal position. On the fiscal side, the Federal Republic continues to be quite favourably placed in the international league-table, at least if the demographically foreseeable burdens are not directly factored into the picture. Germany has significantly lower current deficits and - perhaps even more important in times of rising interest rates - low debt-to-GDP levels

So how sick, on balance, is the Germany of 2023? This is our diagnosis in schematic form:

<u>There are arguments supporting the thesis, identifying weaknesses and envisaging parallels to the situation at the turn of the millennium:</u>

Is Germany a sick man again? To us, the picture looks mixed

- Multi-year growth weakness (rather structural than cyclical in origin);
- An underwhelming productivity trend / a flat potential-growth path
- A threatening/creeping loss of international competitiveness;
- A heavy cost burden (especially in the energy domain at present);
- The relatively high proportion of "old" industries, and the fact that Germany is lagging behind in the digitalisation race;
- Dependence on raw-material imports, and exposure to geopolitical crises;
- Infrastructure deficiencies in the energy and transport fields;
- Structural rigidities in the spheres of bureaucracy, education and administration;
- A complicatedly labyrinthine tax and fiscal-charge system entailing high rates that harm economic incentives.

At the same time, however, arguments can be mobilized against the "sick man" thesis:

- Flexibility of the medium-sized business;
- Innovative new departures within the framework of the green transformation;
- A decidedly favorable earnings situation, overall, coupled with corporate robustness;
- The broad sectoral mix enjoyed by the German economy;
- The fact that public finances are in decidedly solid shape (partly thanks to the debt-brake mechanism).

One factor is looking ambivalent:

- The domestic labor market: its resilience is remarkable. Unlike at the turn of the millennium, unemployment is not currently an issue at all. But in its form as a shortage of (skilled) labor, joblessness is an absolutely crucial bottleneck factor on the supply side.

All things considered, one must probably say that the patient is "ailing". The case is not pathological; but reforms enabling a full recovery would be advisable.

Get the German rail car out of the sidings, but do not derail the locomotive by subsidizing the industrial-electricity price

Slimming down bureaucracy would be an important contribution

The good thing about the new "Germany as a sick man" avatar is maybe that it will function as a wake-up call, signalling the need for economic-policy reform. Many of the proposed solutions, for example in the Berlin government's new Growth Opportunities Act, certainly address the right issues. Accelerating planning and approval procedures and slimming down bureaucracy are certainly not wrong-headed approaches. They are quick to formulate as general goals and as an airily abstract commitment, but it is usually more difficult to translate such conceptions into concrete terms and to work conscientiously through the details.

Greater differentiation of supplier ties is called for

Diversification of supply routes and broader protection of supply chains, which are also formulated as goals in the new act, are certainly also advisable. Companies are already pursuing such measures in their own interests. But it would, of course, be helpful if this were accompanied by a foreign, security and trade policy that kept open, and actively broadened, access to world markets. Desiderata on this score include rapid further negotiation of free-trade agreements such as the one with MERCOSUR.

A "root and branch" major tax reform can certainly no longer be expected in the current legislative period, ending in 2025, given the current political constellation.

However, it is equally important to refrain from adopting harmful measures.

A prime example of such a negative elephant in the room would be a subsidised industrial-electricity price for large, energy-intensive companies. That would be tantamount to a sweet poison. At a superficial first glance, its logic is compelling: if elevated energy prices - these, it should be noted, are still higher, on balance, than before Russia's incursion into Ukraine - are one of the main reasons for Germany's recently weak growth performance, why not target precisely this issue? And focusing on energy-intensive companies, for which this is the most decisive factor, would (speciously) appear to promise precise targeting accuracy.

However, such a strategy would bring weighty disadvantages with it: the bottom line is that such an interventionistic approach would do much more harm than good. It would (as it were) be a subsidy against Germany's comparative-cost situation. The latter has now, in fact, changed. To strive to achieve energy prices in Germany that were at the same levels as in the USA, for example, would be to turn a blind eye to the natural conditions. All that would really help, in actual fact, would be an expansion of the energy supply and a building-out of energy sources. But if policymakers at the same time wish to opt out of nuclear power and coal and to discontinue gas imports from Eastern Europe, while being opposed to fracking in the country (even though there may well be very good reasons for all these moves), then a certain energy shortage is a logical consequence. And privileged allocation of this scarce energy to "energy-intensive" production would border on wastefulness.

Creating incentives to maintain energy-intensive production in Germany runs diametrically counter to the climate targets set and to an efficient CO2 price proving effective. It would slow down the process of structural change and prevent efforts to switch to more efficient technologies and solutions.

Nor is the idea suitable as a bridge solution for a limited period. Of course, structural change always causes costs and pain, especially when it strikes suddenly. But dragging it out along the timeline is not the answer. What is more, such misguided incentives, displacing efficient responses, would only work with provisional subsidies. And a later phase-out would not get any easier politically or economically. Subjectively, there is never a right time to withdraw a subsidy: that is certainly the hard lesson that many countries which have introduced energy subsidies have had to learn.

A subsidized industrial-electricity price would be a very bad idea from the point of view of both climate incentives, distributional effects, allocation efficiency and costs

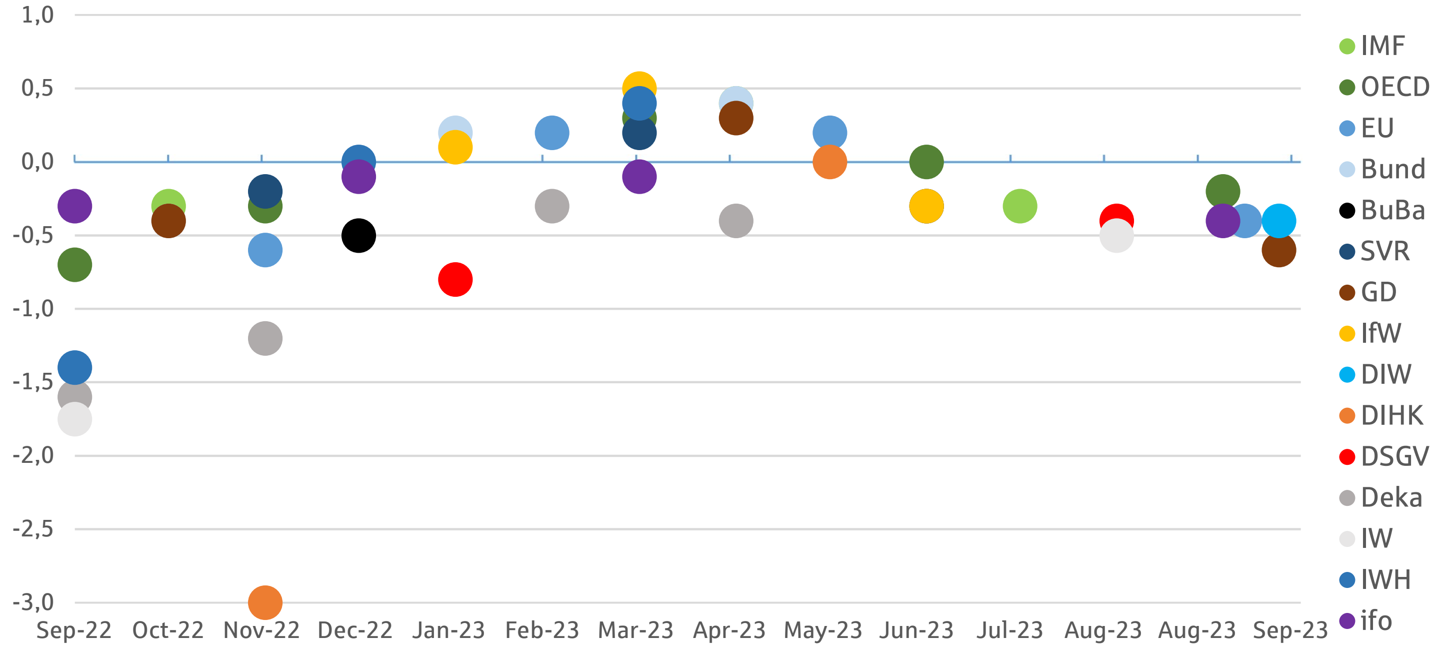
Last but not least, a subsidized industrial-electricity price would have to be financed by all other agents in the national economy concerned. No matter whether it was funded through higher electricity prices for consumers or for energy-saving or small companies, or else from the tax-financed general government budget, it would hit the wrong people. The redistributional effects could not be justified. Germany as a business location would be weakened even further by such a measure, which would (as it were) seek to subsidies in the face and in the teeth of natural conditions, and would lose competitiveness across the board in all sectors. To return a last time to the "sick man" metaphor: a patient treated with such a drug would only get "sicker".

A. Growth of world economic regions, change on previous year

	2021	2022	2023*	2024*
World trade volume	10.4%	5.2%	2.0%	3.7%
GDP – World	6.2%	3.5%	3.0%	3.0%
USA	5.9%	2.1%	1.8%	1.0%
Japan	2.1%	1.0%	1.4%	1.0%
China	8.4%	3.0%	5.2%	4.5%
Euro area	5.3%	3.5%	0.9%	1.5%
Germany	2.6%	1.8%	-0.3%	1.3%

* July 2023 forecasts by the International Monetary Fund

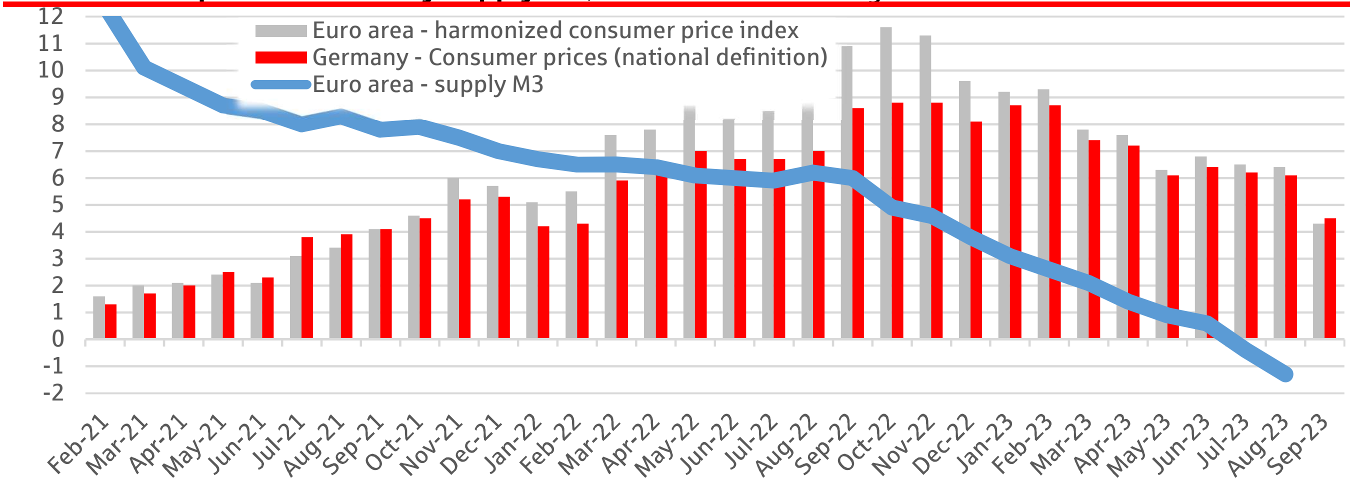
B. Economic growth forecasts for Germany for 2023, in %



C. GDP in Germany and the wider euro area

	Year 2022 real growth vs. previous year	Q III - 2022	Q IV - 2022	Q I - 2023	Q II - 2023
		Real growth versus same quarter of previous year quarter and seasonally-adjusted real growth compared with the previous quarter			
Euro area GDP	+3.3%	+2.3% +0.3%	+1.7% -0.1%	+1.1% +0.1%	+0.5% +0.1%
Germany GDP	+1.8%	+1.2% +0.4%	+0.2% -0.4%	+0.1% -0.1%	-0.6% +0.0%
Private consumption	+4.6%	+1.8% +0.7%	+0.2% -1.0%	+0.2% -0.3%	-1.2% -0.1%
Gross capital investment	+0.2%	-1.7% -1.0%	-0.8% -1.3%	+0.1% +1.7%	+1.0% +0.4%
Exports	+3.2%	+5.3% +1.0%	-0.2% -1.1%	+1.8% +0.4%	-1.6% -1.1%
		Level, not rate of change; quarterly figures, seasonally adjusted			
Savings rate	11.1%	11.1%	11.1%	10.7%	11.9%

D. Consumer prices and money supply M3, annual rates of change in %



E. Monthly economic indicators Germany

	May	June	July	August	September
Prices (national definition)	Change from the same month of the previous year				
Consumer prices	6.1%	6.4%	6.2%	6.1%	4.5%
– excluding food and energy (core inflation)	5.4%	5.8%	5.5%	5.5%	4.6%
Producer prices for industrial products	1.0%	0.1%	-6.0%	-12.6%	-
Import prices	-9.1%	-11.4%	-13.2%	-16.4%	-
Sentiment indicators					
ifo Business Climate Index	91.7	88.6	87.4	85.8	85.7
ZEW Economic Sentiment Survey	-10.7	-8.5	-14.7	-12.3	-11.4
Incoming orders	Change from the same month of the previous year				
Manufacturing industry	-7.2%	6.6%	-10.5%	-	-
from within Germany	-5.4%	1.5%	-9.8%	-	-
from abroad	-8.4%	10.0%	-10.9%	-	-
Capital-goods producers	-3.0%	15.2%	-9.8%	-	-
Production	Working-day-adjusted change compared to the same month of the previous year				
Overall manufacturing industry	0.0%	-1.5%	-2.1%	-	-
thereof: construction	-0.2%	-2.8%	0.1%	-	-
thereof: industry	1.6%	0.0%	-1.3%	-	-
Foreign trade	Change compared to the same month of the previous year				
Exports	-3.4%	1.7%	-1.6%	-	-
Imports	-10.2%	-9.3%	-12.4%	-	-
Labour market	Unemployment rate / change in the jobless total compared to the same month of the previous year (1,000s)				
Unemployment rate	5.5%	5.5%	5.7%	5.8%	5.7%
Jobless total	+284	+192	+147	+148	+141
Employed persons (with place of work in Germany)	+339	+313	+339	+347	-
Employees subject to social-security contributions	+253	+234	-	-	-

F. Commodity, foreign exchange and financial markets

	May	June	July	August	September
Brent oil price in US $	84.64	75.47	80.11	86.15	94.01 (25th)
Exchange rates					
US-dollar / EUR	1.0868	1.0840	1.1058	1.0909	1.0684
Japanese yen / EUR	148.93	153.15	155.94	157.96	157.80
Stock markets					
DAX German benchmark share index, end-of-month	15,664	16,147	16,446	15,947	15,387
Change compared to the same month of the prev. year	8.7%	26.3%	22.0%	24.3%	27,0%
Money and capital market interest rates					
Call money (€STR)	3.080%	3.238%	3.402%	3.642%	3.747%
Current yield of German government bonds: – with a residual maturity of one year	2.97%	3.43%	3.39%	3.34%	3.58%
– with a residual maturity of ten years	2.28%	2.43%	2.52%	2.51%	2.87%
Interest rates of credit institutions, in new business					
Daily deposits of private households in Germany;	0.30%	0.34%	0.41%	0.51%	-
for comparison across the euro area	0.21%	0.23%	0.27%	0.31%	-
Deposits from private households up to 1 year in DE;	2.58%	2.78%	2.94%	3.12%	-
for comparison across the euro area	2.49%	2.73%	2.83%	3.04%	-
Corporate loans of up to € 1 million over 5 years in DE;	4.22%	4.31%	4.35%	4.46%	-
for comparison across the euro area	4.08%	4.17%	4.30%	4.37%	-

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