Germany: Orders, wages and politics

New orders rebounded in December but as the economy gathers pace, political developments are attracting more attention

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New orders recover

German new orders rebounded in December, providing further evidence of the strong industrial recovery. New orders increased by 3.8% MoM, from a 0.1% MoM drop in November (revised up from -0.4%). With inventories low and capacity utilisation at its highest level since 2008, industrial production should start the new year exactly as it ended the last one: on a strong footing.

Union talks

While the economy continues demonstrating its strength, political developments currently attract more attention. Last night, the regional wage negotiations between the country's largest union IG Metall and employers in Baden-Wuerttemberg came close to agreeing on a nominal wage increase of 4.3% and the right to lower working hours to 28 hours per week for a period of up to 24 months but without wage compensation. Also, employees will get small one-off payments and a higher base wage starting in 2019. This agreement applies to 900,000 employees but should be a leading example for the other six regional wage negotiations currently going on. In the broader European context, the fact that this wage settlement was agreed for a period of 27 months underlines that it is not the start of an upward wage-price spiral in Germany. In fact, spreading a 4.3% nominal increase over more than two years would actually create less, not more upward pressure on wages compared with recent years. Adding all other elements to the nominal wage increase yields a total annual nominal wage increase of some 3%, broadly in line with overall wage developments in Germany in recent years.

Coalition talks

Finally, German coalition talks once again entered another overtime last night. Initially, the talks were supposed to end last Sunday but unsolved issues in the areas of healthcare and the labour market required another delay. We stick to our view that the negotiations will yield a coalition agreement but that the much higher hurdle to take will be the SPD member vote. The result of this vote is too close to call and the latest inflow of (strategic) new members has added another unknown to the equation. To complicate things even further, according to German news reports the Constitutional Court is currently looking into complaints on whether the member vote is actually legally correct.

Well, did anyone ever say that German politics were boring?

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