



Germany's Economy Chart Book

On the brink of recession?

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September 2019

thinkforward

ING 

Germany's Economy Chart Book

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2. How is the German economy doing?
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8. Migration and population
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Key takeaways

From stellar growth to the brink of a recession within less than a year. Germany needs more than good luck to return to Europe's pole position

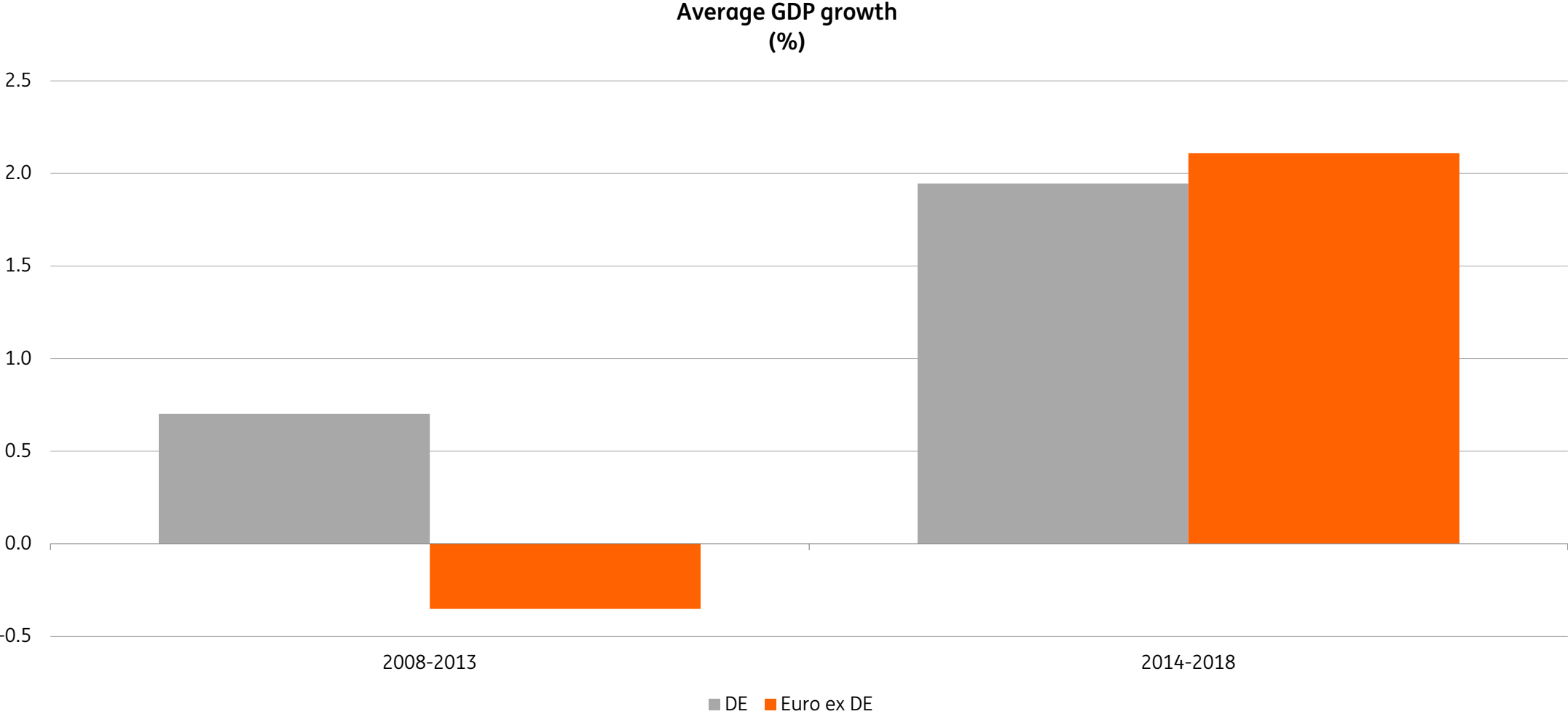
- The recent slowdown of the German economy has been a result of one-off, structural and external factors. Harsh winter weather, unusually high sick leave due to the flu, the timing of Easter, strikes and more recently, disruptions to commercial transport from low water levels, have all weighed on the economy. At the same time, Germany continues to suffer from a lack of investment in digital and traditional infrastructure and has seen hardly any significant new structural reform in the past 10 years. Add to that external uncertainties and the picture does not look too bright for the months to come. On a more positive note, fundamentals remain sound, interest rates are low and employment is at a record high.
- The future path of the economy clearly depends on which of these factors carries more weight. If one-off factors are mostly to blame, then a rebound of the entire economy looks plausible. If the problem is more structural, the German economy should be prepared for a long period of underperformance.
- Complacency is not an option. The German economy needs new investment and structural reforms. The recent announcement of a “Green Plan” is a good start but more is needed. As regards digitisation, Germany still has a long way to go before catching up with the global top performers. Improving the digital infrastructure is urgently needed. This is not only to get the German population up to speed but to ensure that German SME's- the hidden champions- do not fall behind international competition.

	2018	2019	2020	2021
GDP growth	1.4	0.6	1.0	1.2
Inflation	1.9	1.5	1.4	1.6
Unemployment	3.4	3.4	3.4	3.4
Current account (% of GDP)	7.3	7.1	6.8	6.5
Government debt (% of GDP)	60.9	57.4	55.0	52.0

How is the German economy doing?

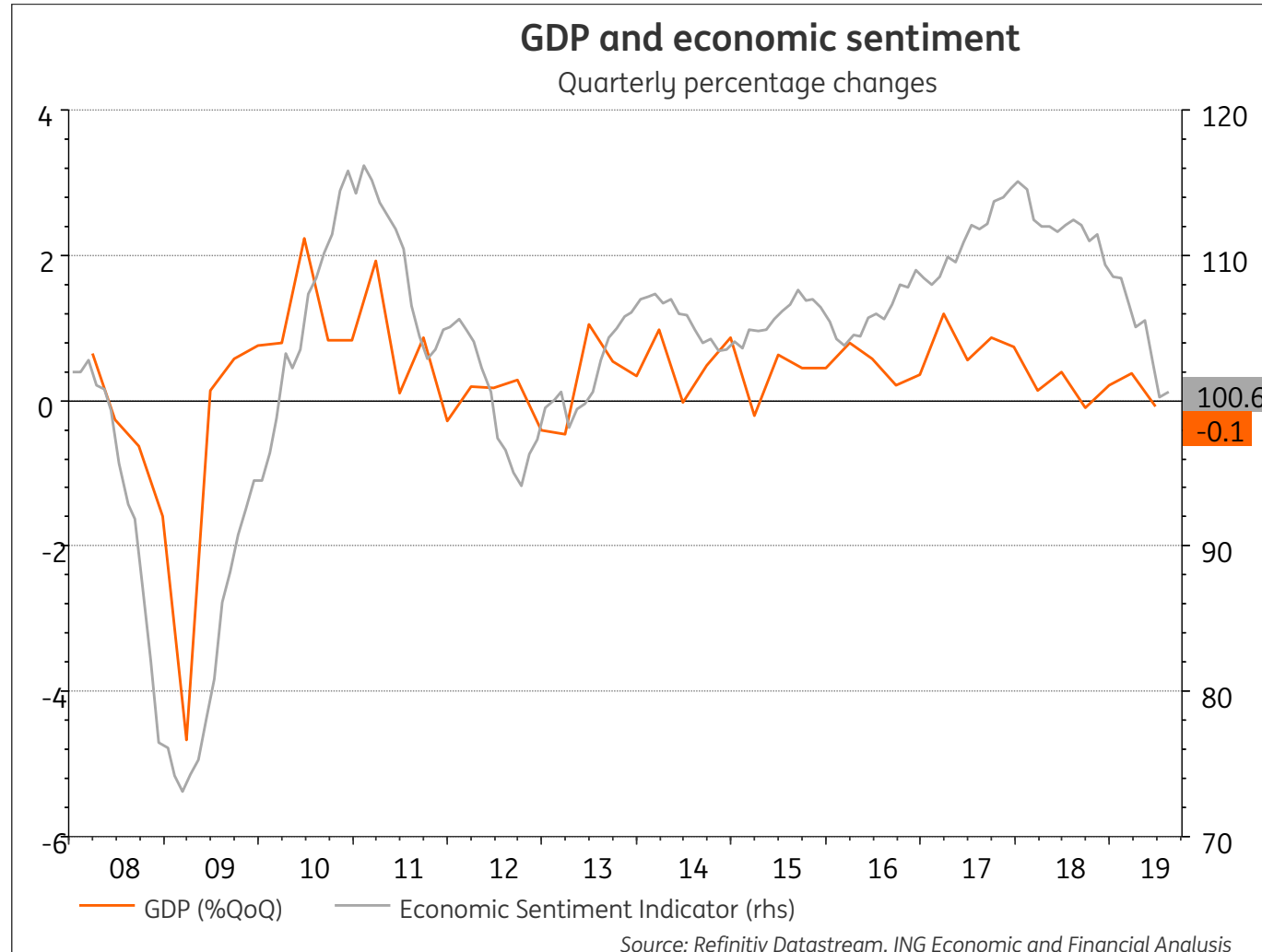


Still the strong man of Europe?



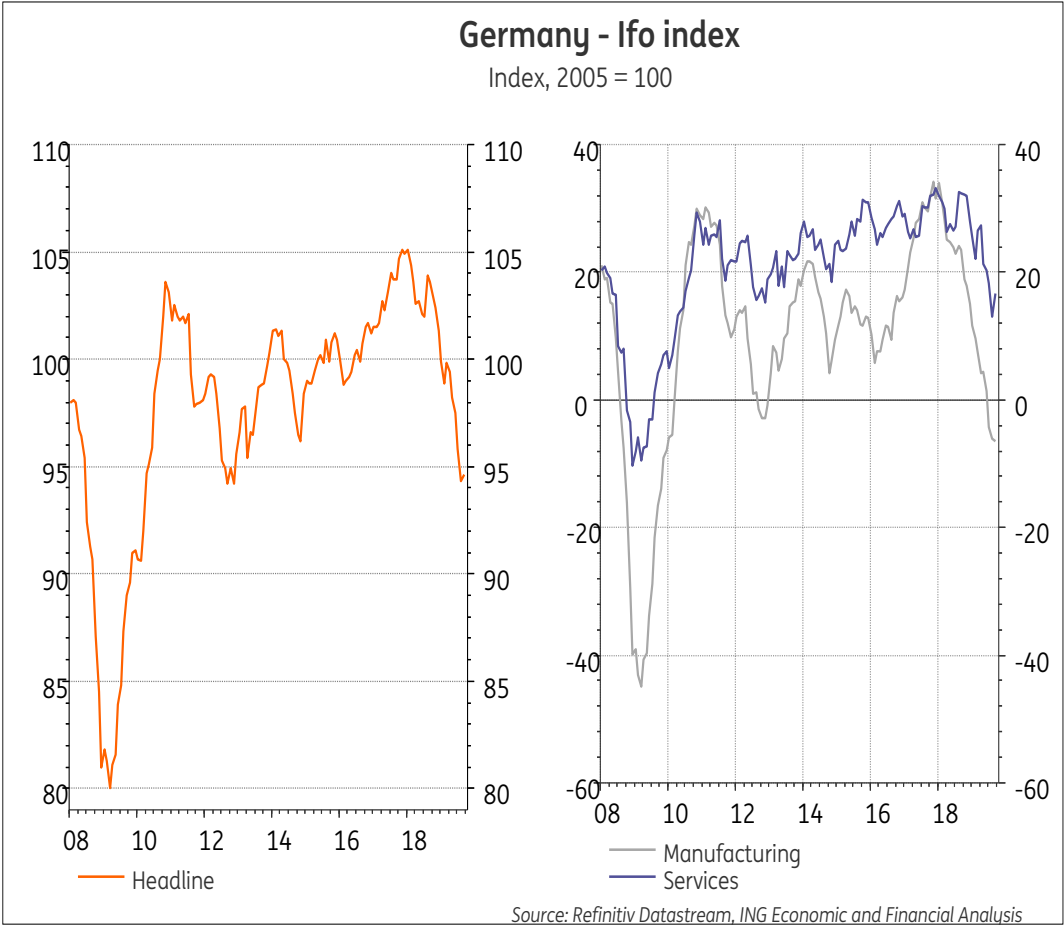
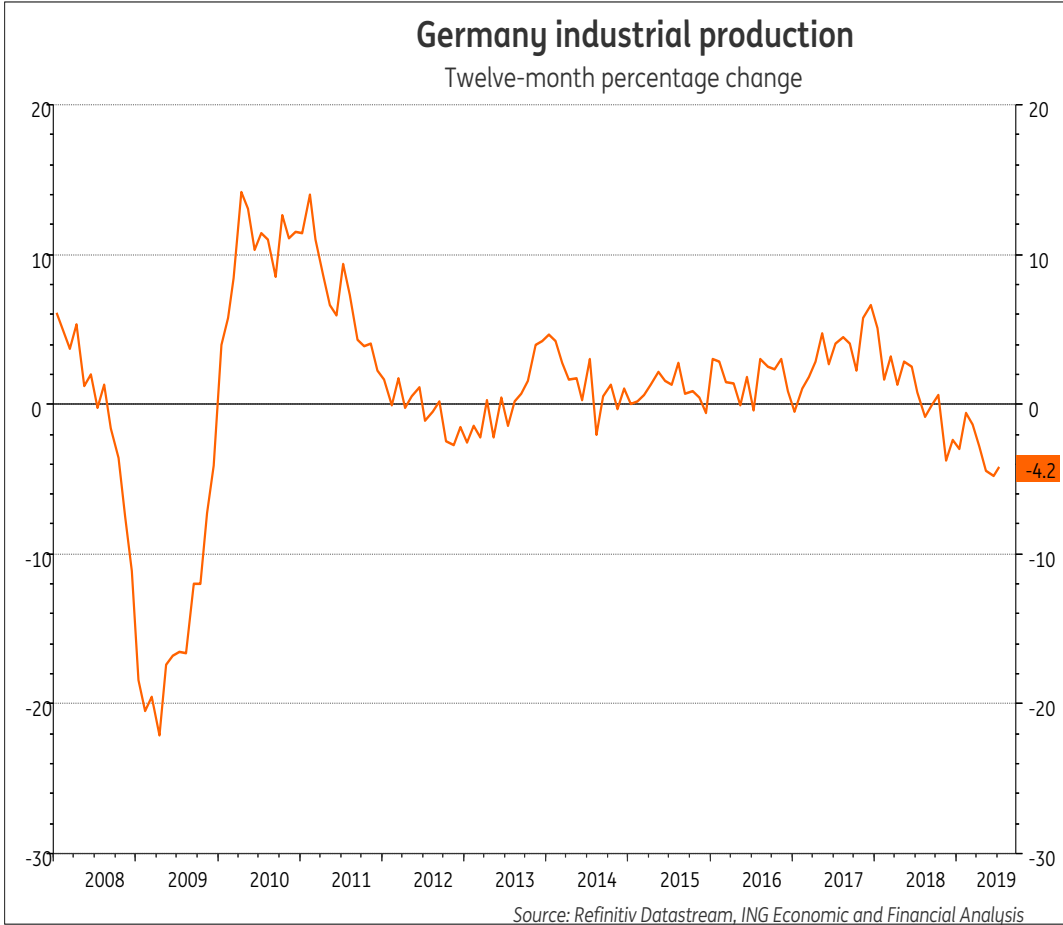
Source: Refinitiv Datastream, ING Economic & Financial Analysis

Economic sentiment keeps deteriorating...



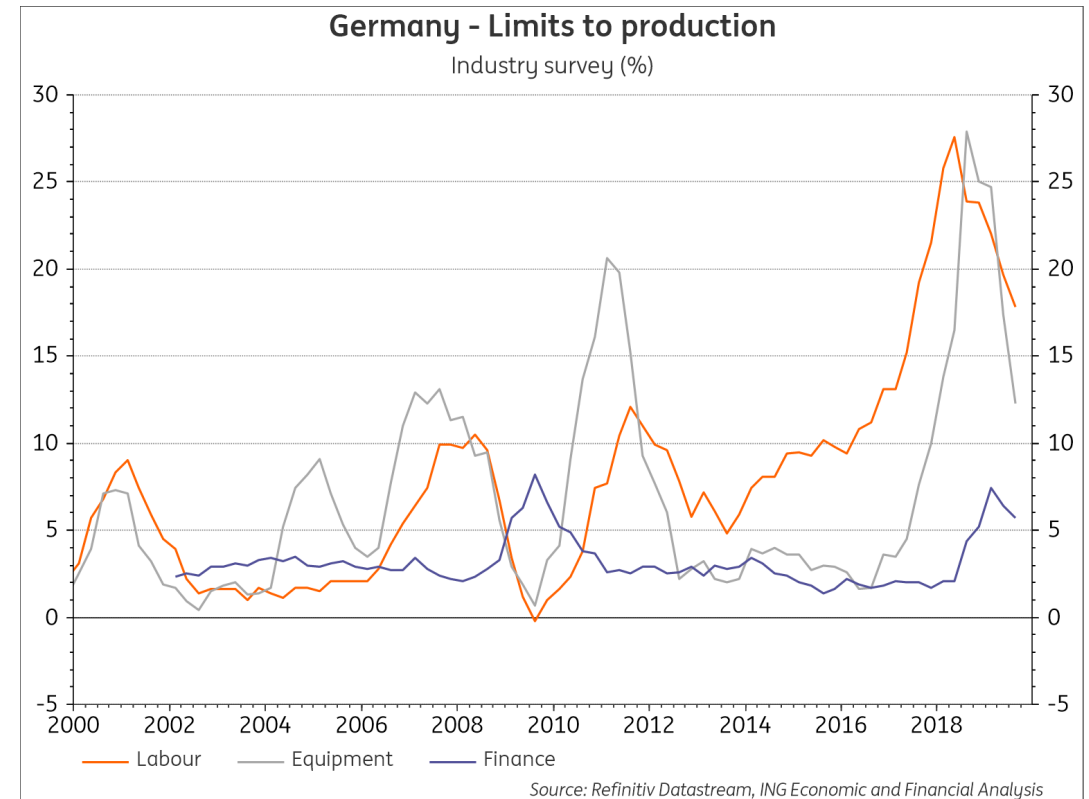
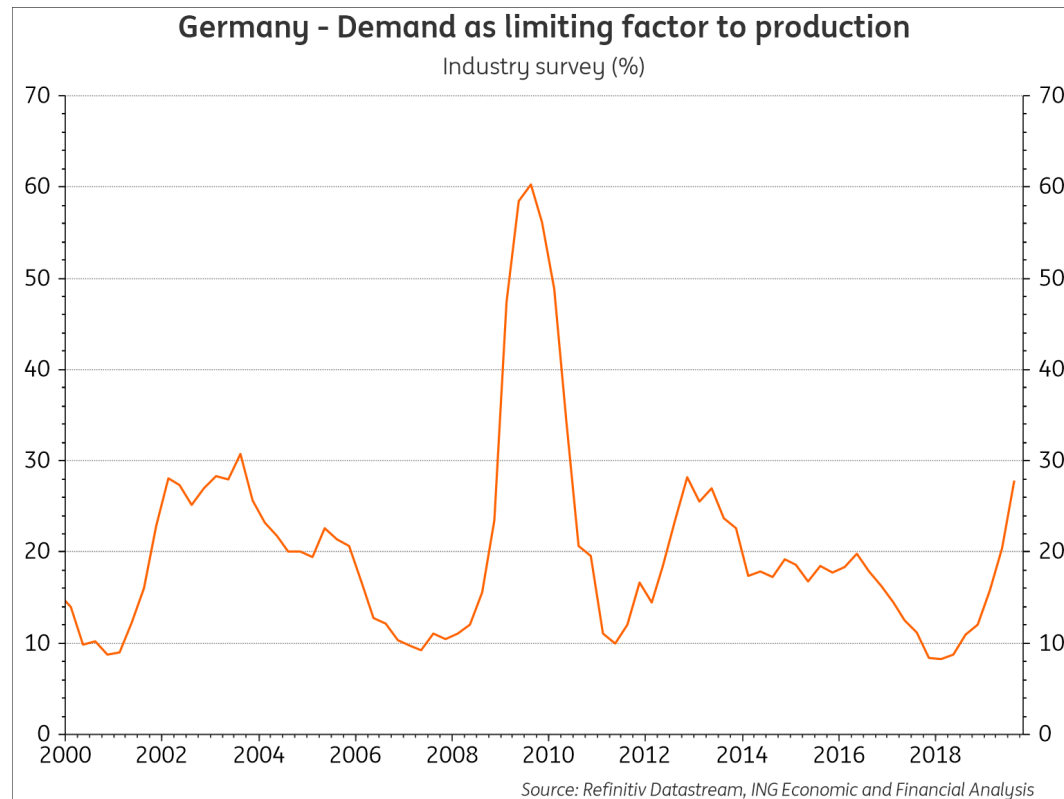
...with the industrial sector already in recessionary territory...

The industry sector has seen a complete reversal within the short period of one year



...and demand starting to falter

For a long time, supply side constraints have been the limiting factors to production. Now, demand is emerging as the main limiting factor



But the labour market remains strong...

The unemployment rate hit another post-reunification low. However, the labour market is losing steam



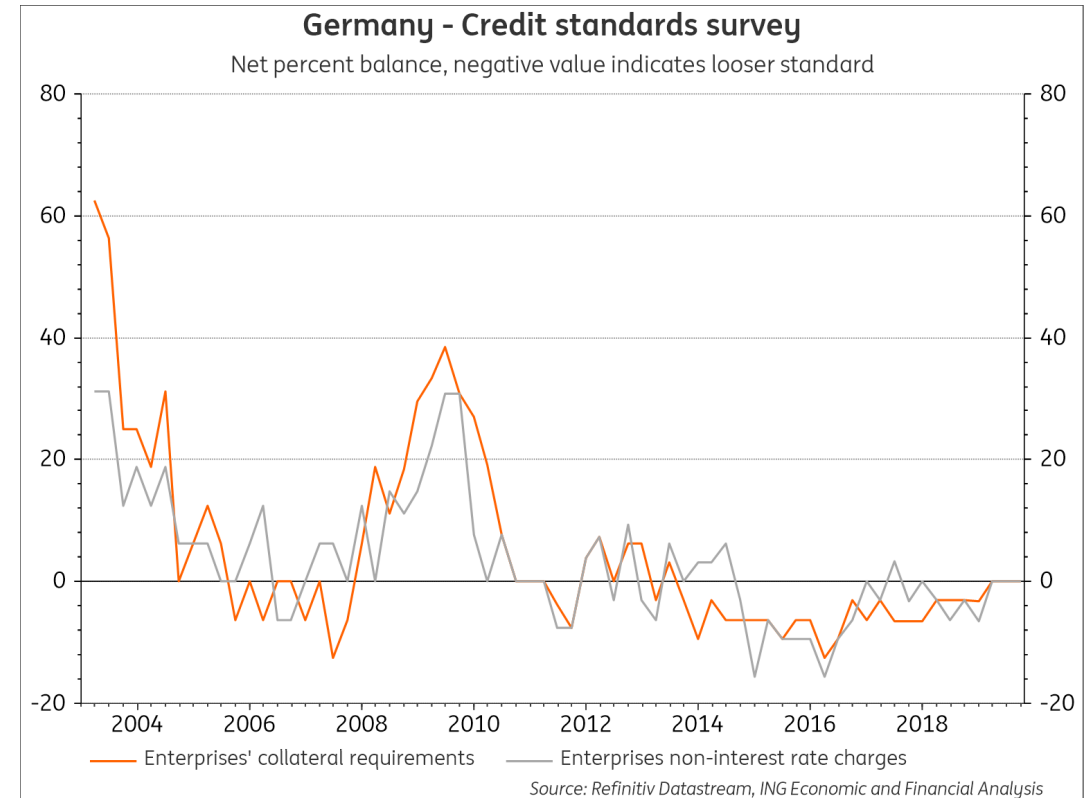
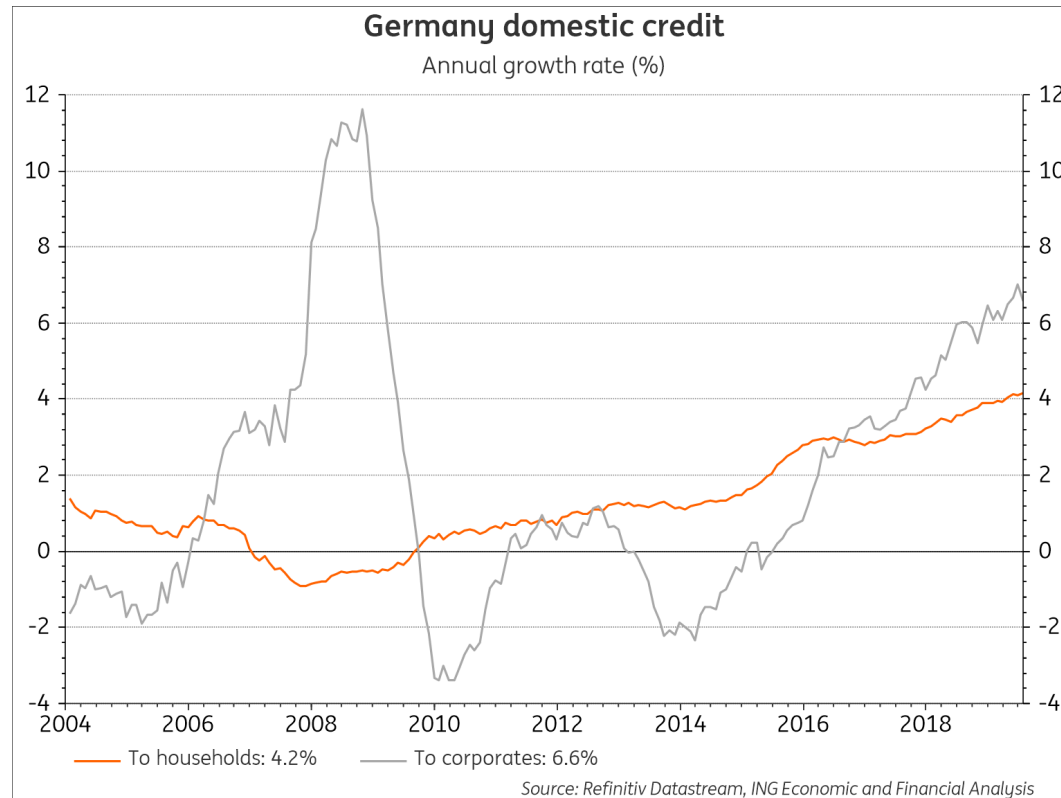
Source: Refinitiv Datastream, ING Economic & Financial Analysis

...with wages growing and many unfilled job positions

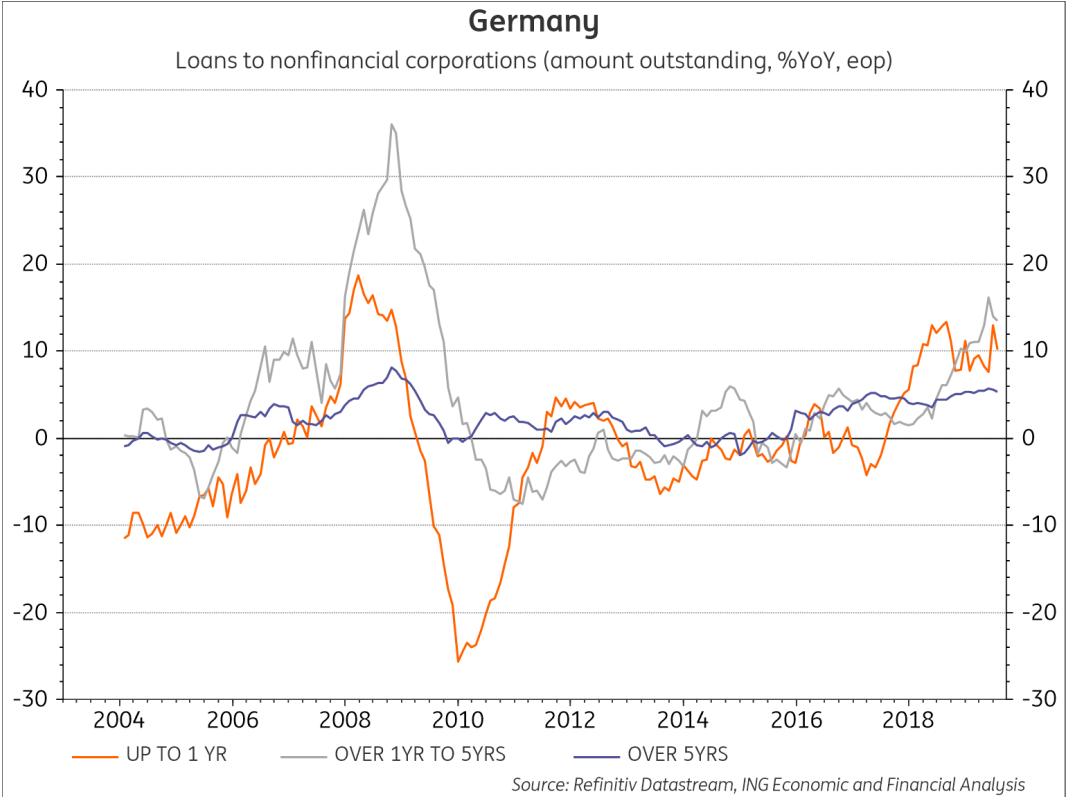
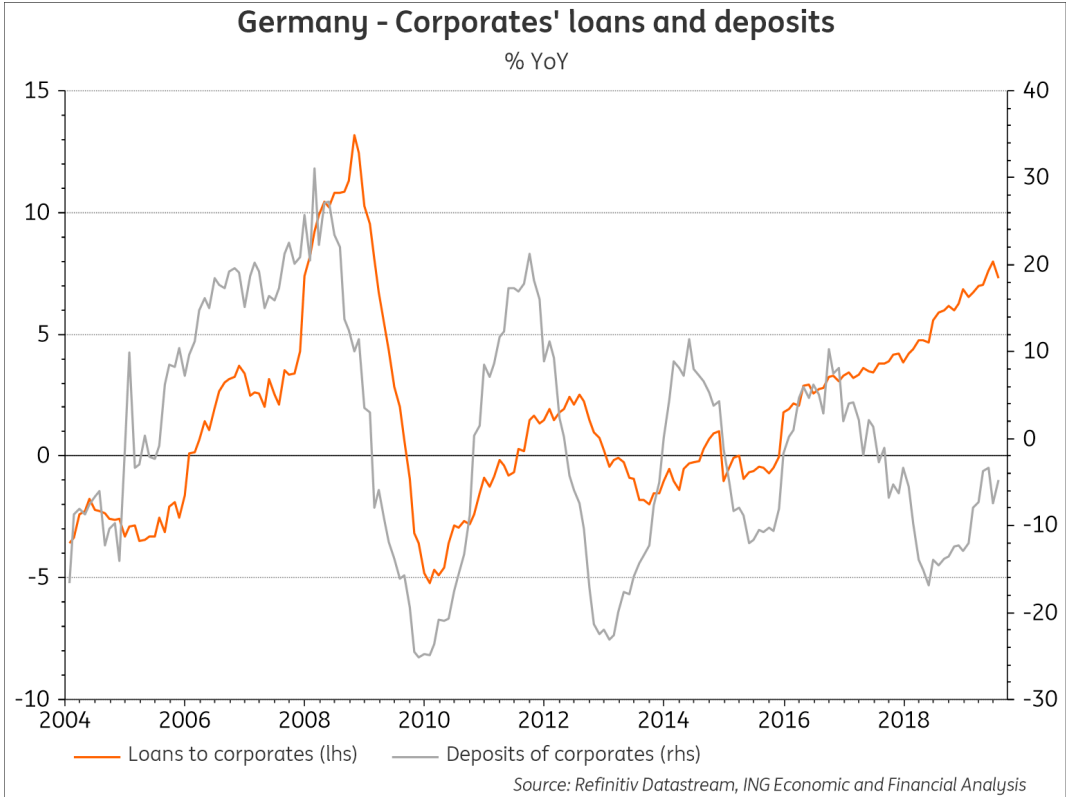


Lending conditions remain very favourable...

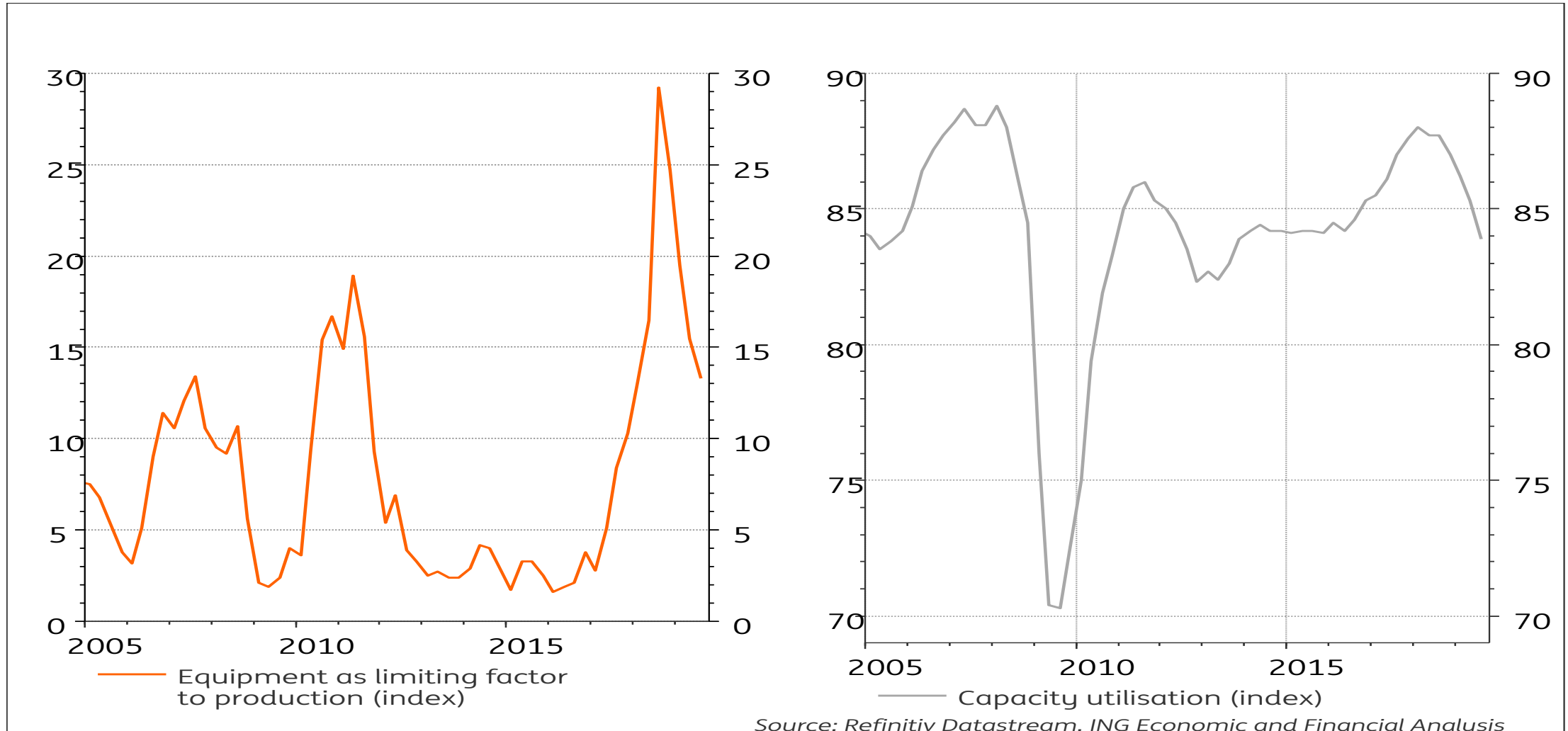
Credit growth to households and NFCs was broadly in line with nominal GDP growth



...and loans to corporates are on the rise



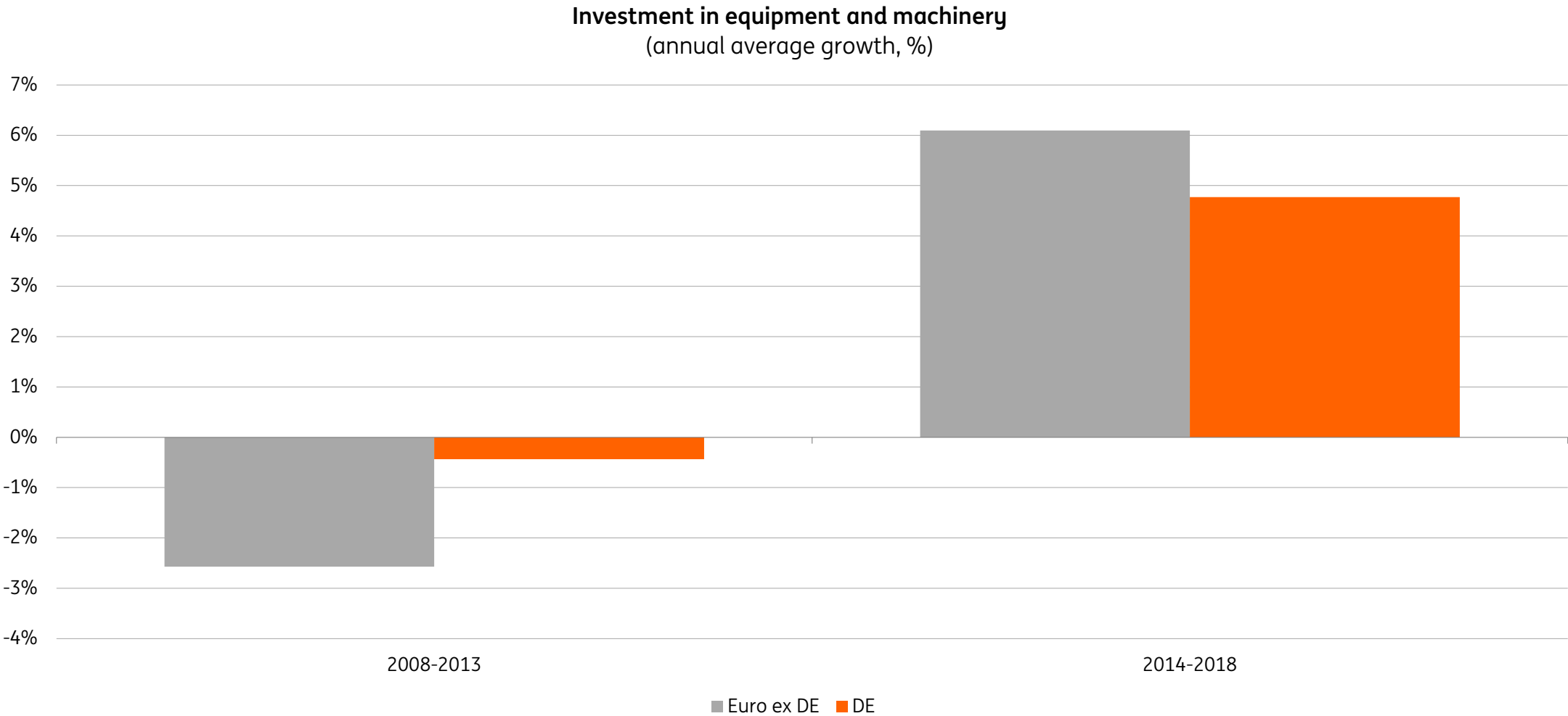
But equipment is no longer a pressing factor limiting production





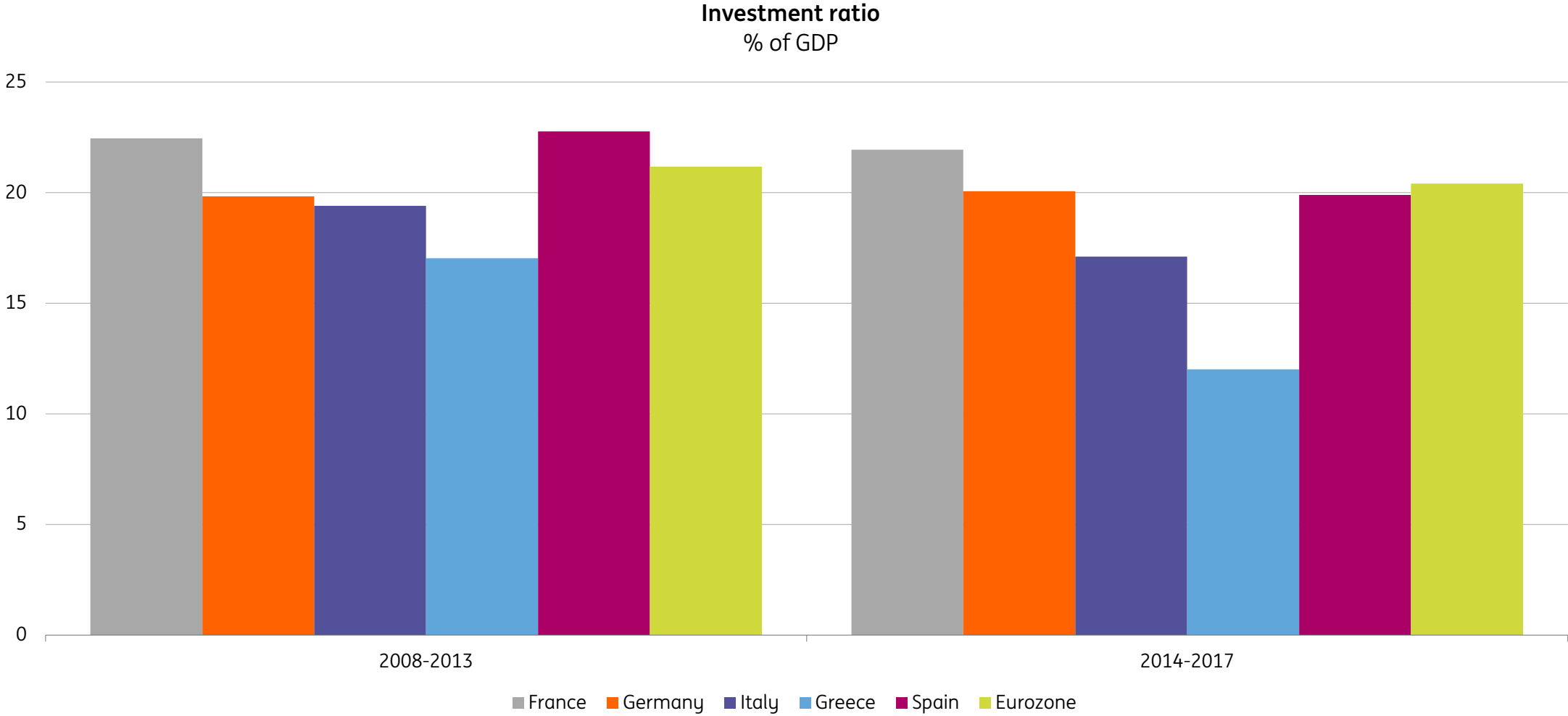
Germany's weak spots

Investment has remained low...



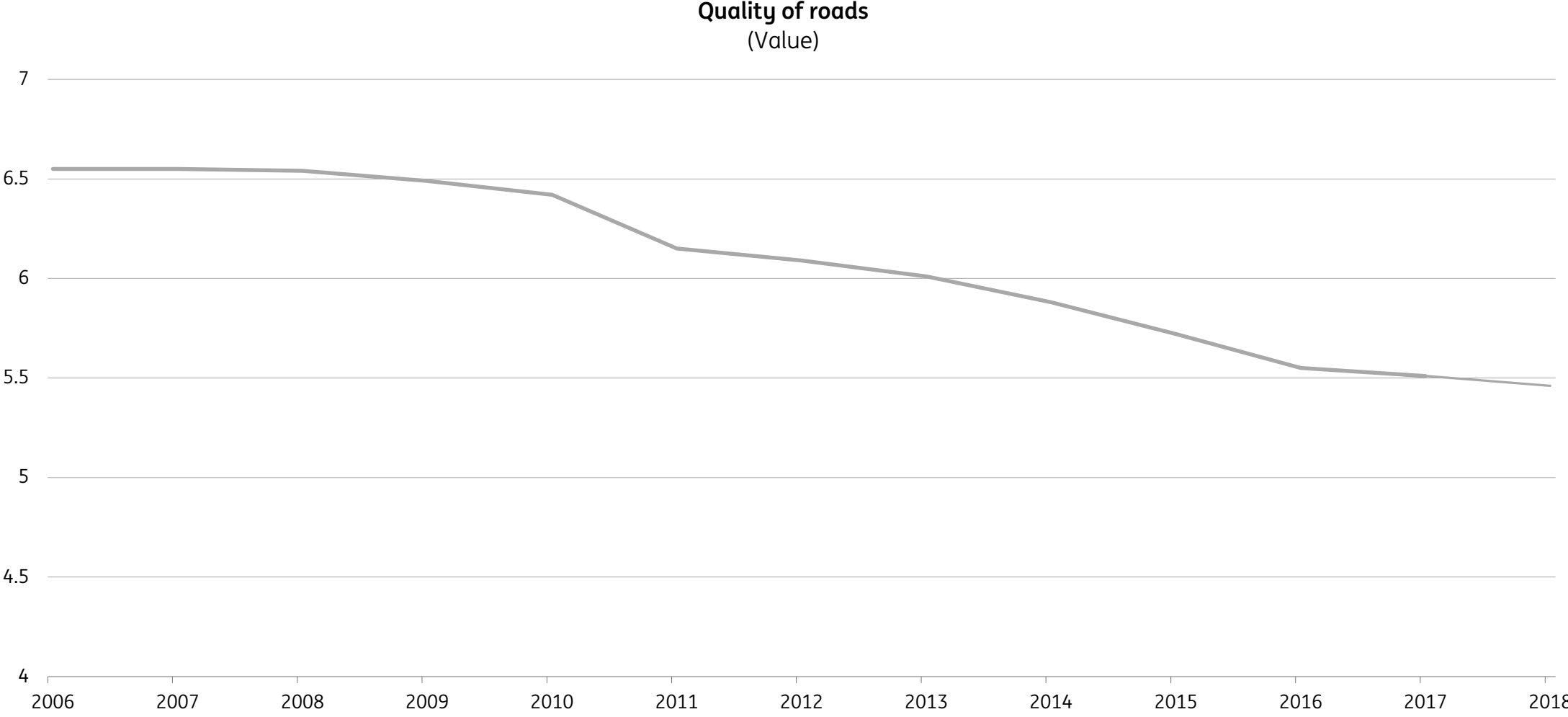
Source: Refinitiv Datastream, ING Economic & Financial Analysis

...widening the gap with other eurozone countries...



Source: Eurostat, ING Economic & Financial Analysis

The infrastructure is crumbling,...

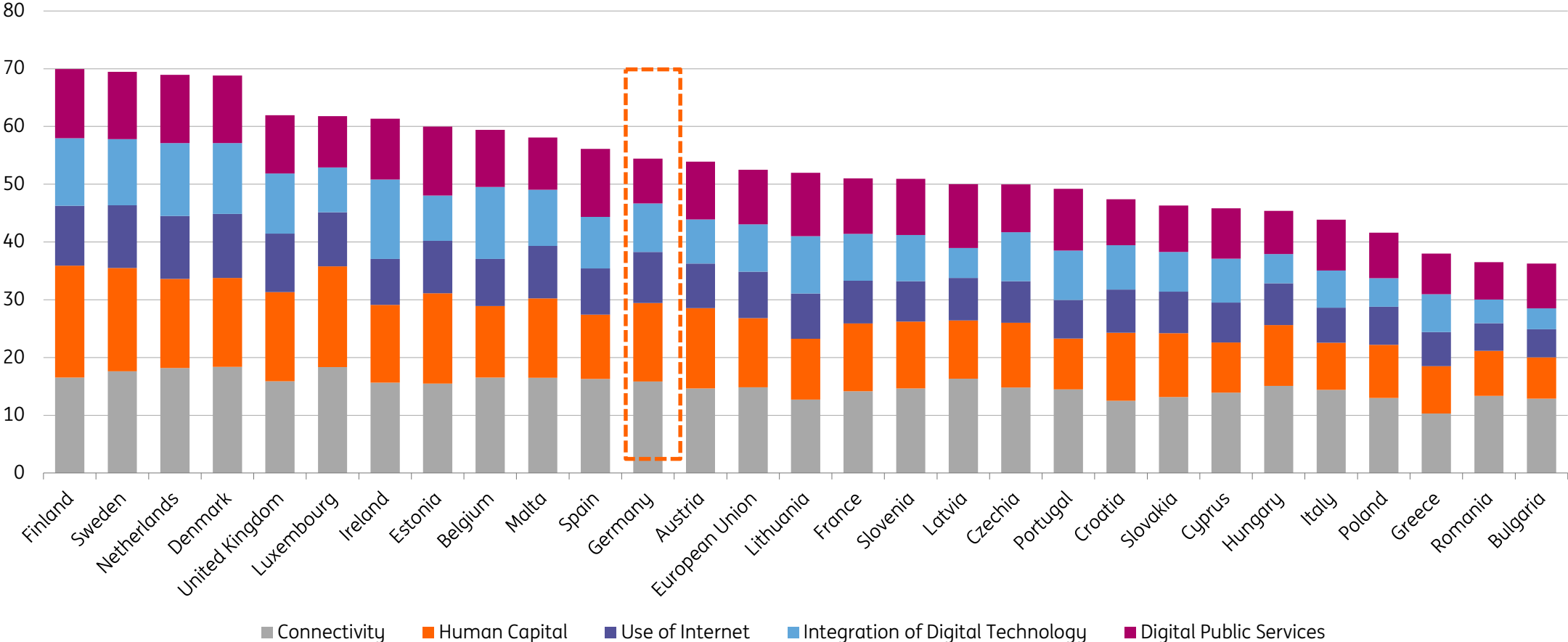


Source: World Economic Forum Global Competitiveness Report, ING Economic & Financial Analysis



...digitisation could be expanded...

The Digital Economy and Society Index
2019 ranking

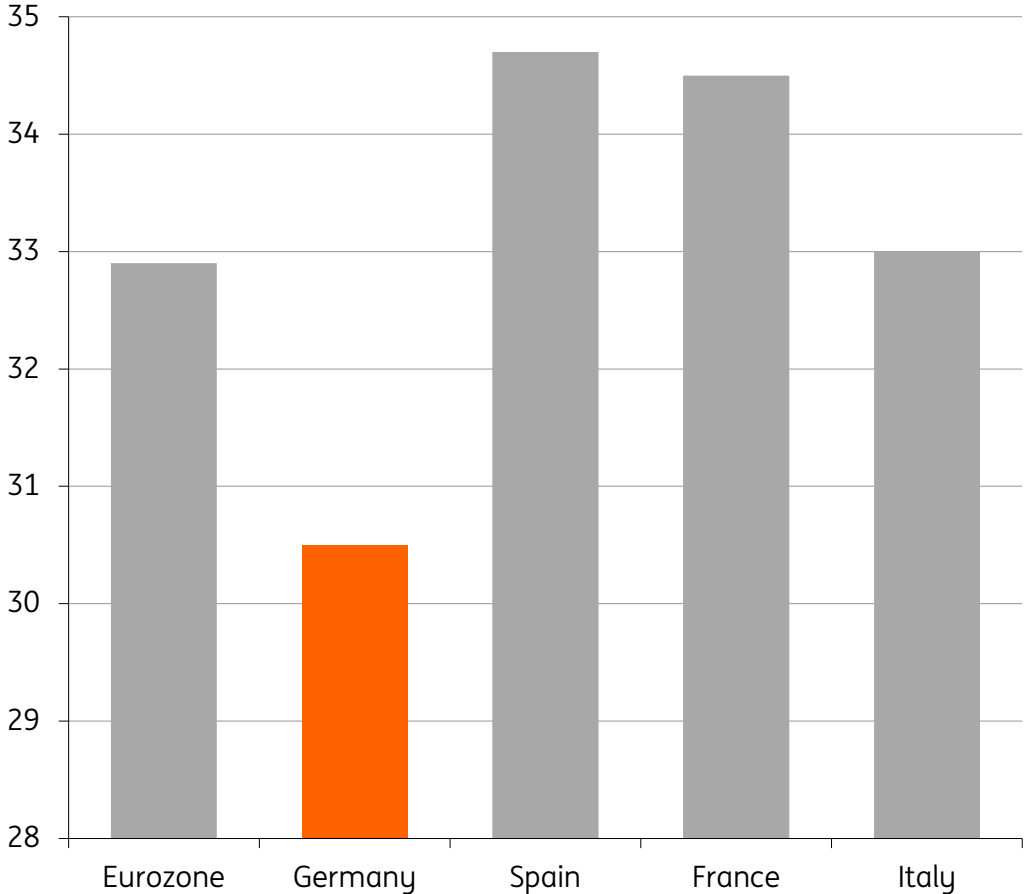


Source: European Commission

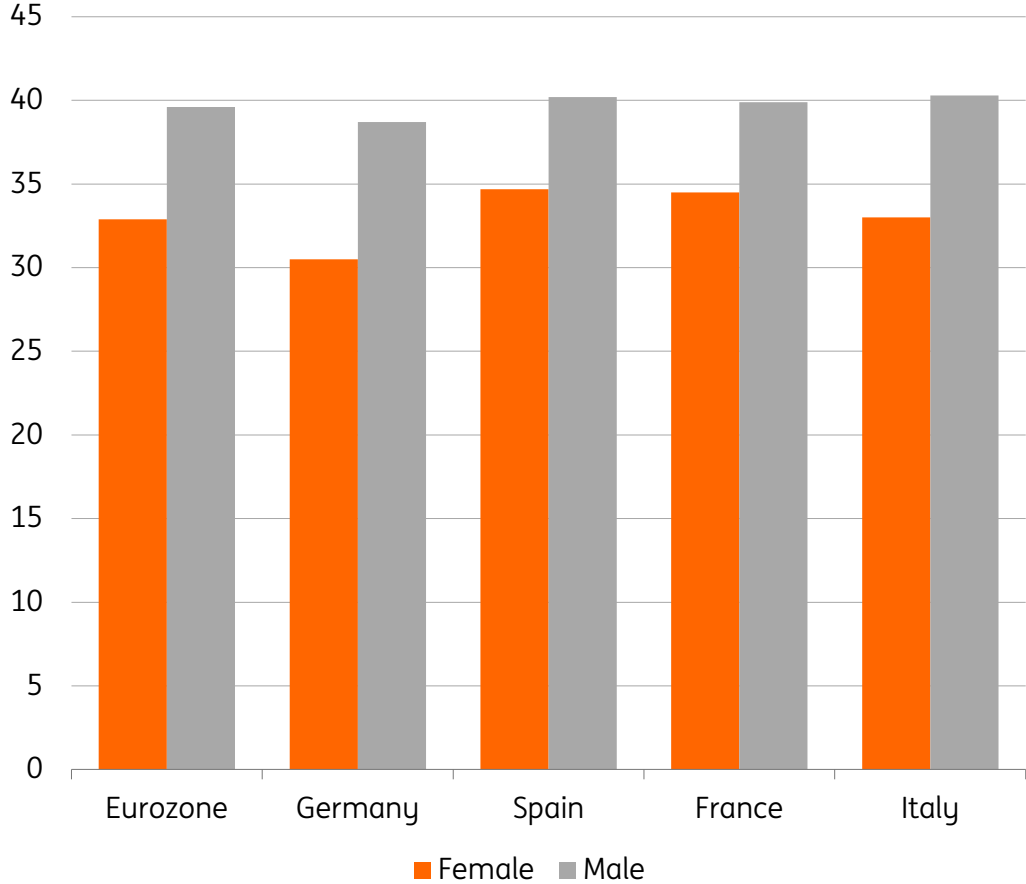


...and female labour market participation remains low

Avg. number of usual weekly hours of work, female
2018



Avg. number of usual weekly hours of work
2018



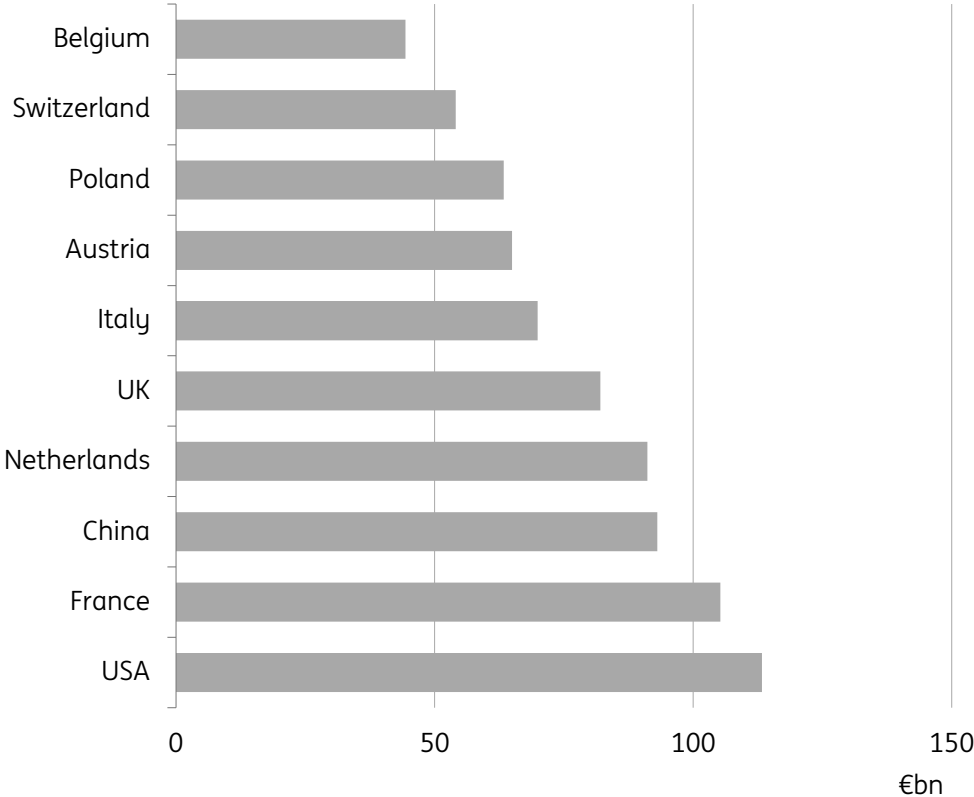
Source: Eurostat

External trade and the trade war

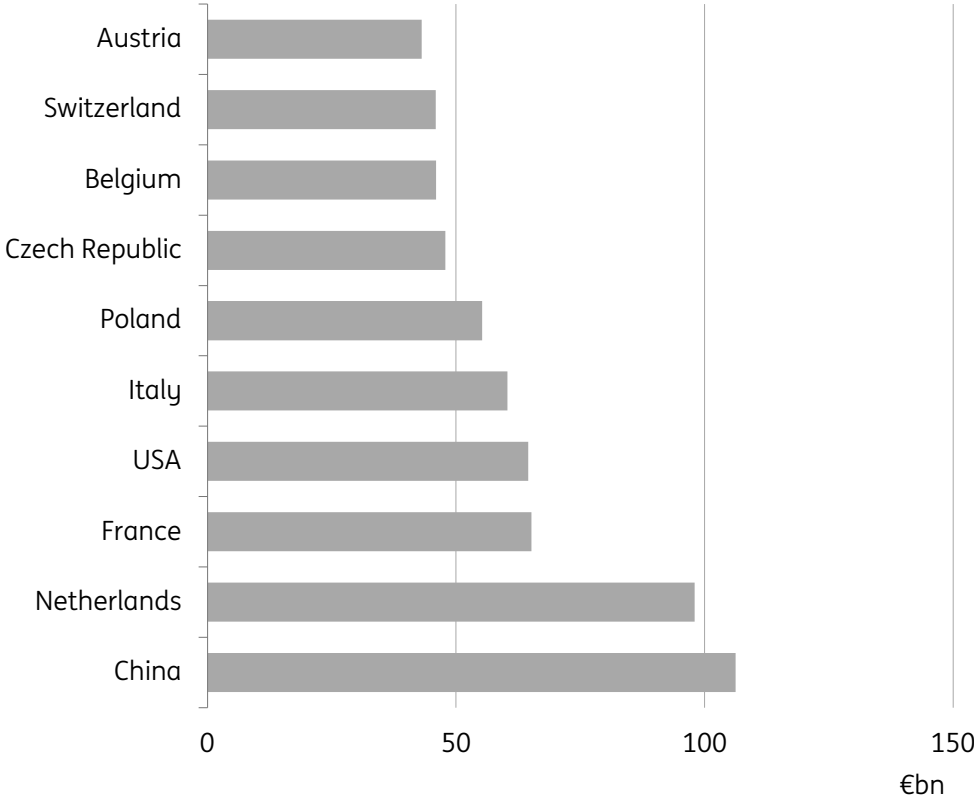
Germany's main trading partners

China and the US are among Germany's main trading partners, with China being the most important one (exports + imports)

Top 10 export countries



Top 10 import countries

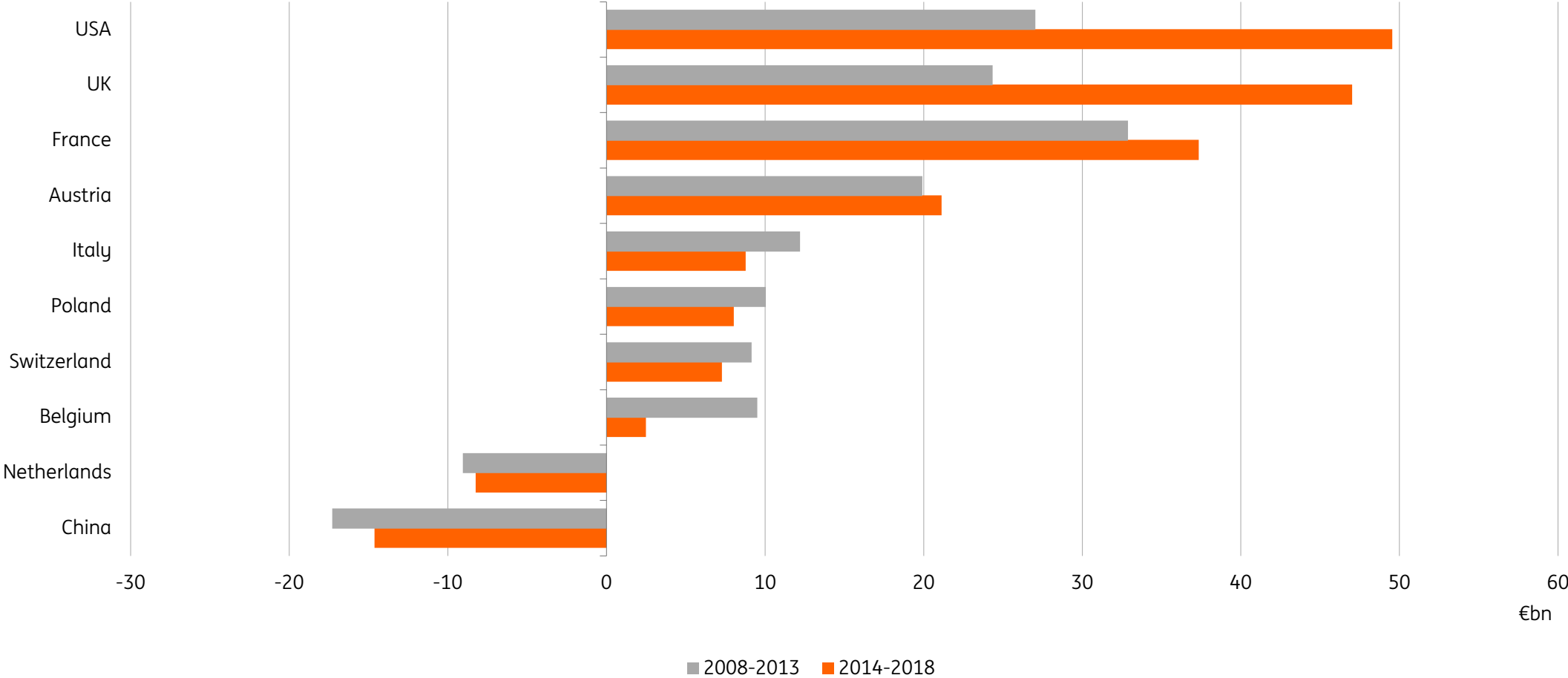


Source: Refinitiv Datastream, ING Economic & Financial Analysis



Germany's trade balance is high

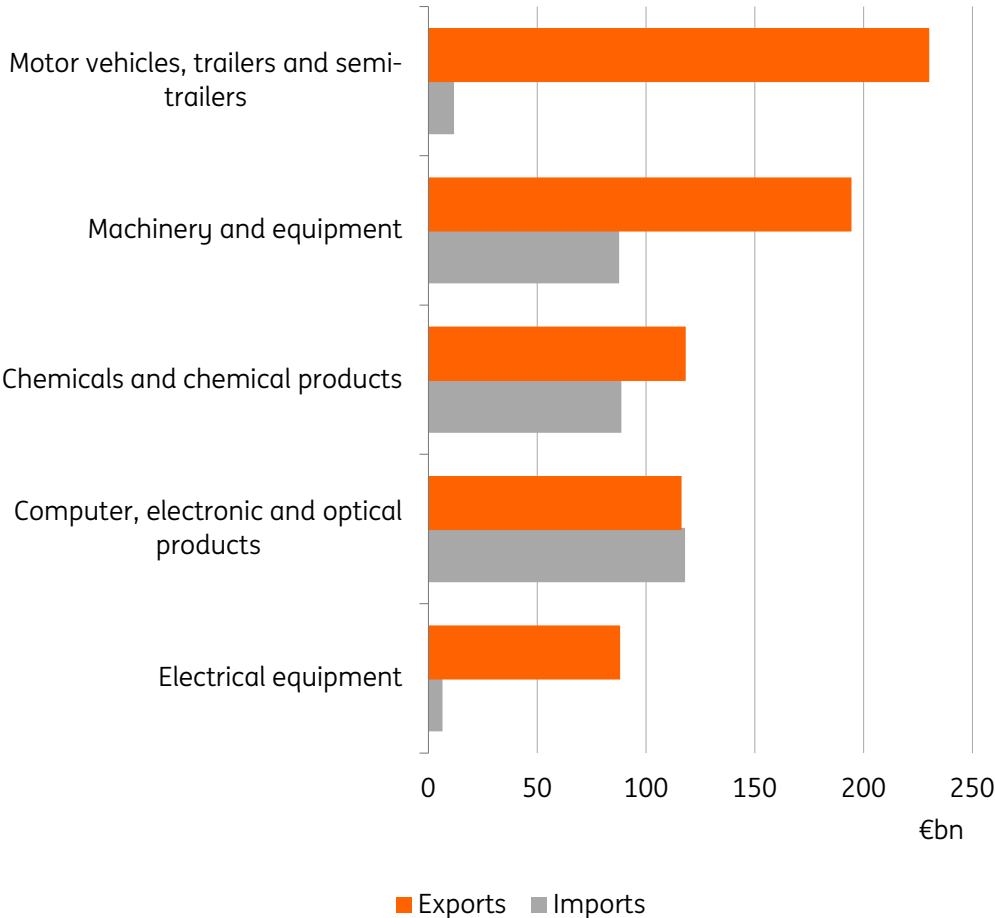
Foreign trade balance with Top 10 export countries



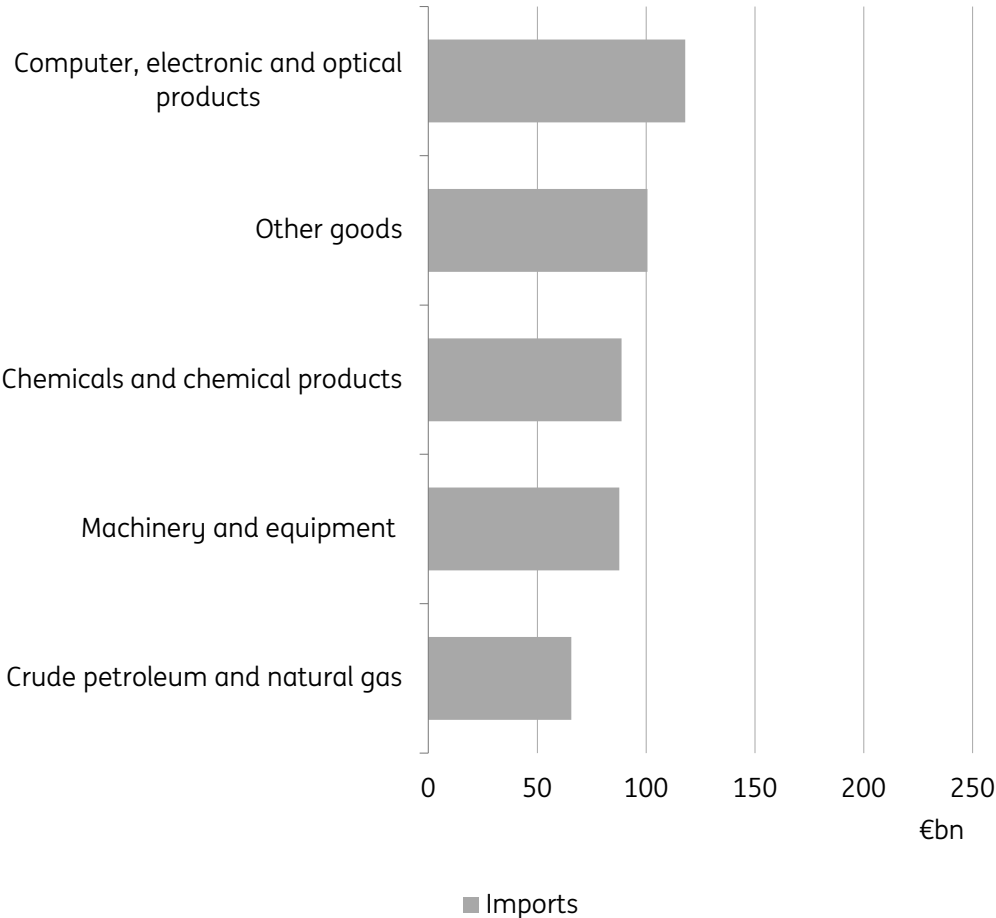
Source: Refinitiv Datastream, ING Economic & Financial Analysis

Cars and car parts remain Germany's most important export good

Top 5 export goods

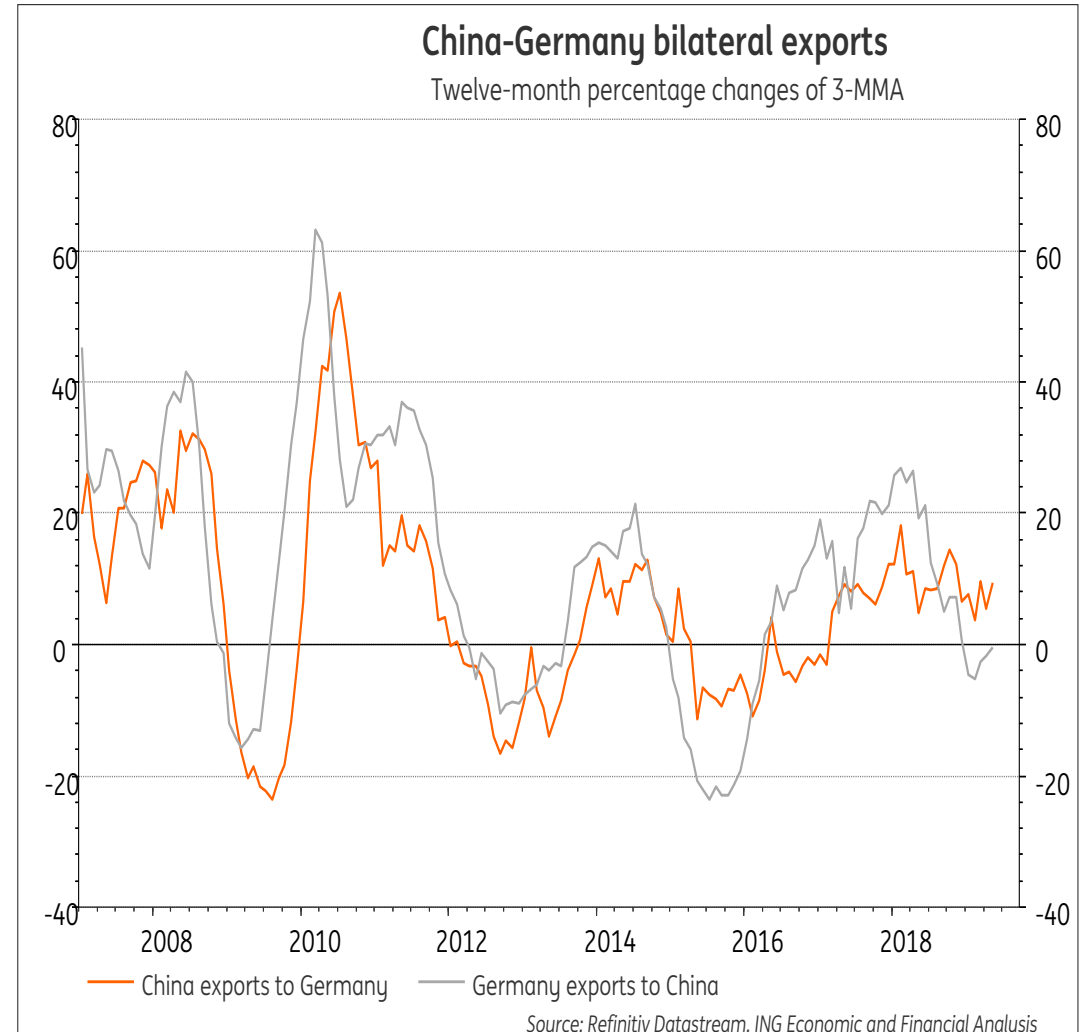
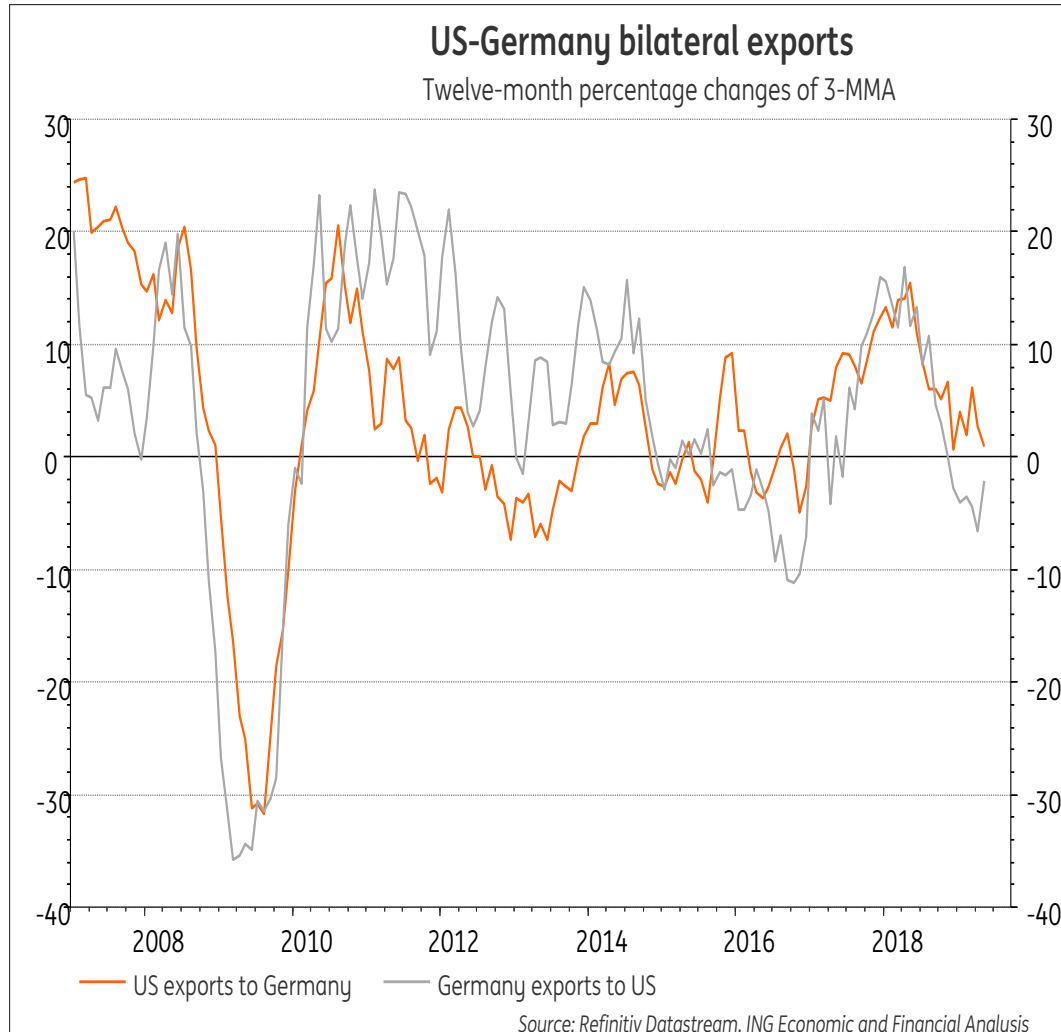


Top 5 import goods



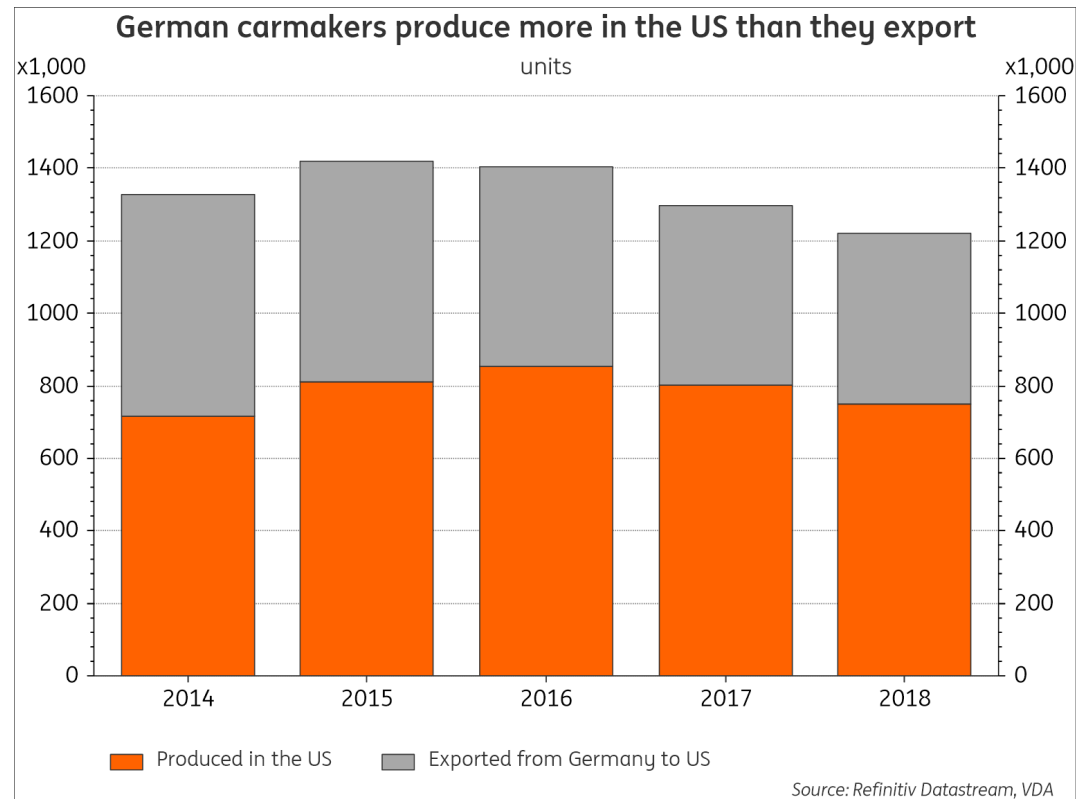
Source: Destatis, exports and imports (special trade) by division of the national Product Classification for Production Statistics 2018, preliminary results

How has the trade dispute impacted German exports?

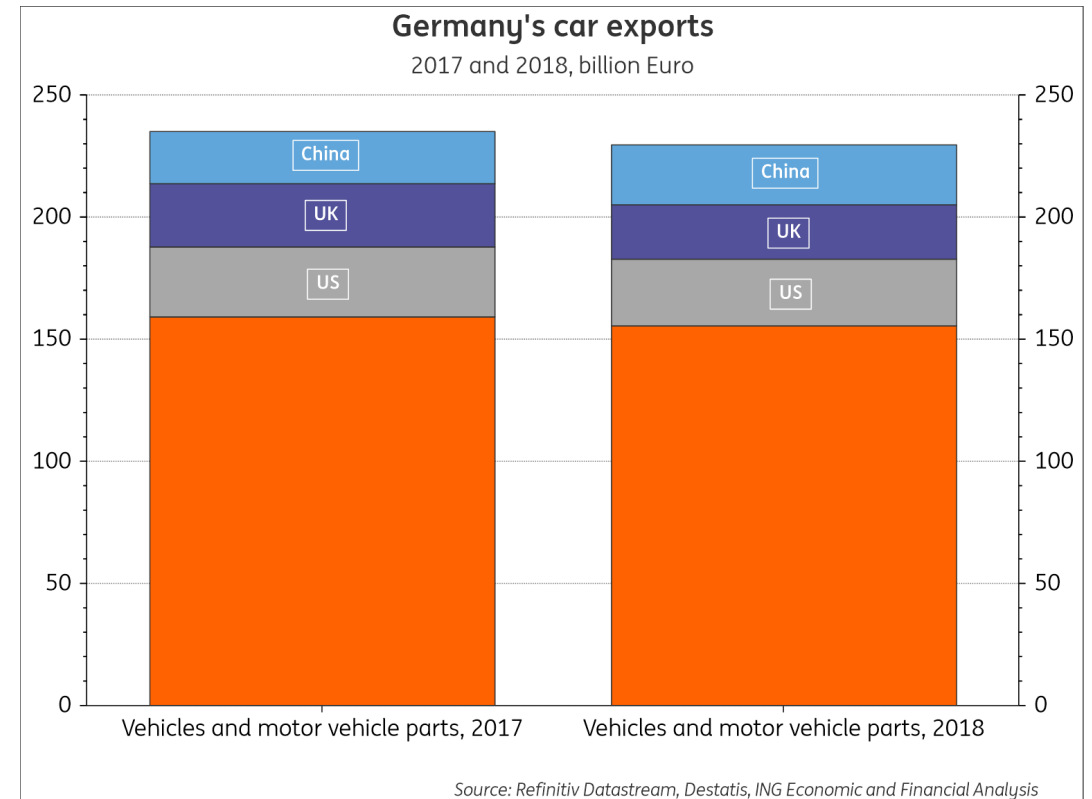


Many German cars are born in the USA

German carmakers produce more vehicles in the US than they export there

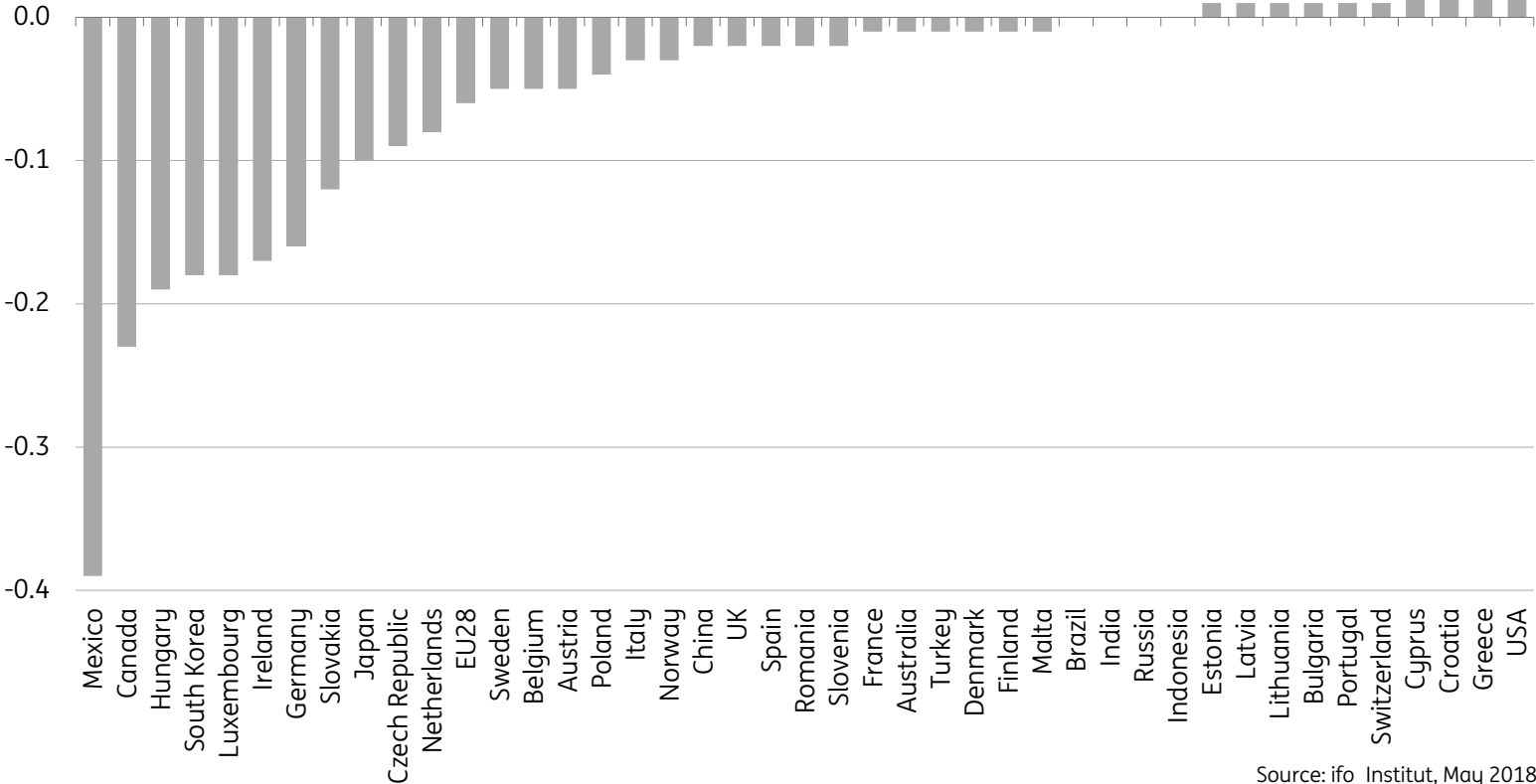


Yet, the US are the main buyers for German vehicles and motor vehicle parts



On a macro-level, no major impact on the EU economies is expected

Effect of US unilateral auto import tariffs on GDP
(import tariffs of 25% on cars, % of price-adjusted GDP)



Source: ifo Institut, May 2018

How much of a cost increase do exporters pass onto their customers?



EU exporters pass on a lower % of increased costs to their customers than Americans do.

What happens to demand for foreign products when prices rise by 1%?



Demand in the US falls sharper when prices for foreign goods are increased than in the EU.

What % of GDP represents the value added of exports to the other country?



Trade to the US is a larger part of GDP in the EU and 16.3% of total exports. In the US the share of exports to EU is 22%

Source: ING Group Research

➔ When looking at the macro picture, the impact of car tariffs on individual economies seems to be small.

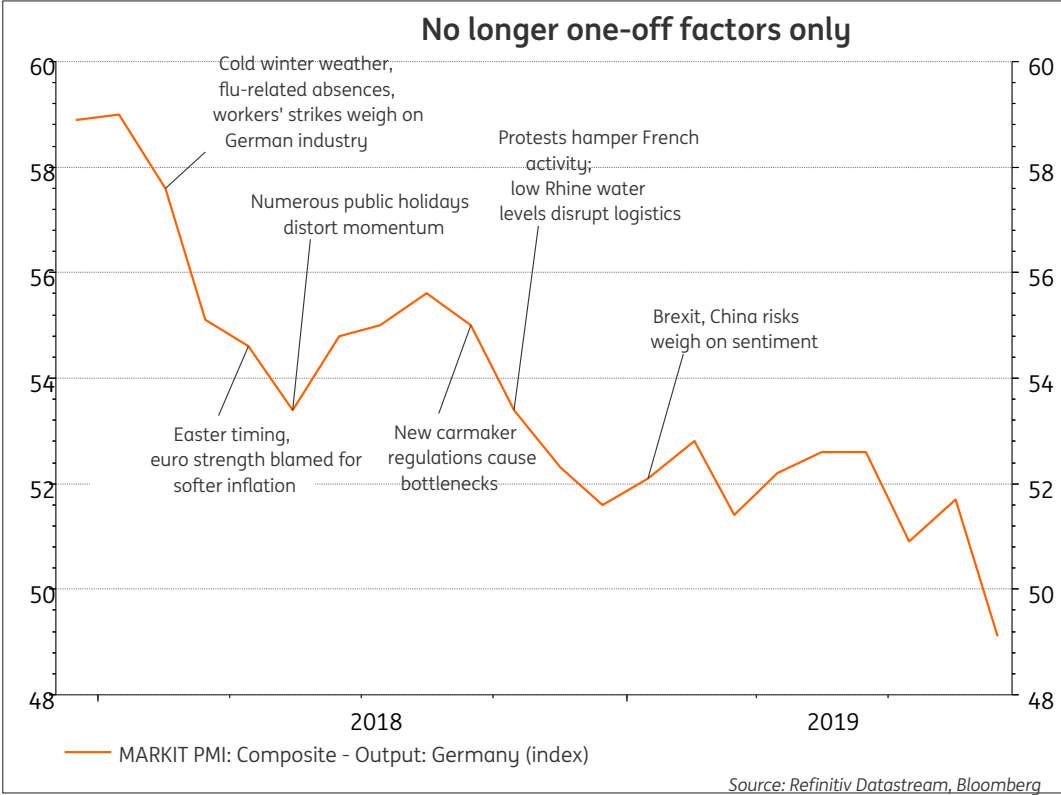
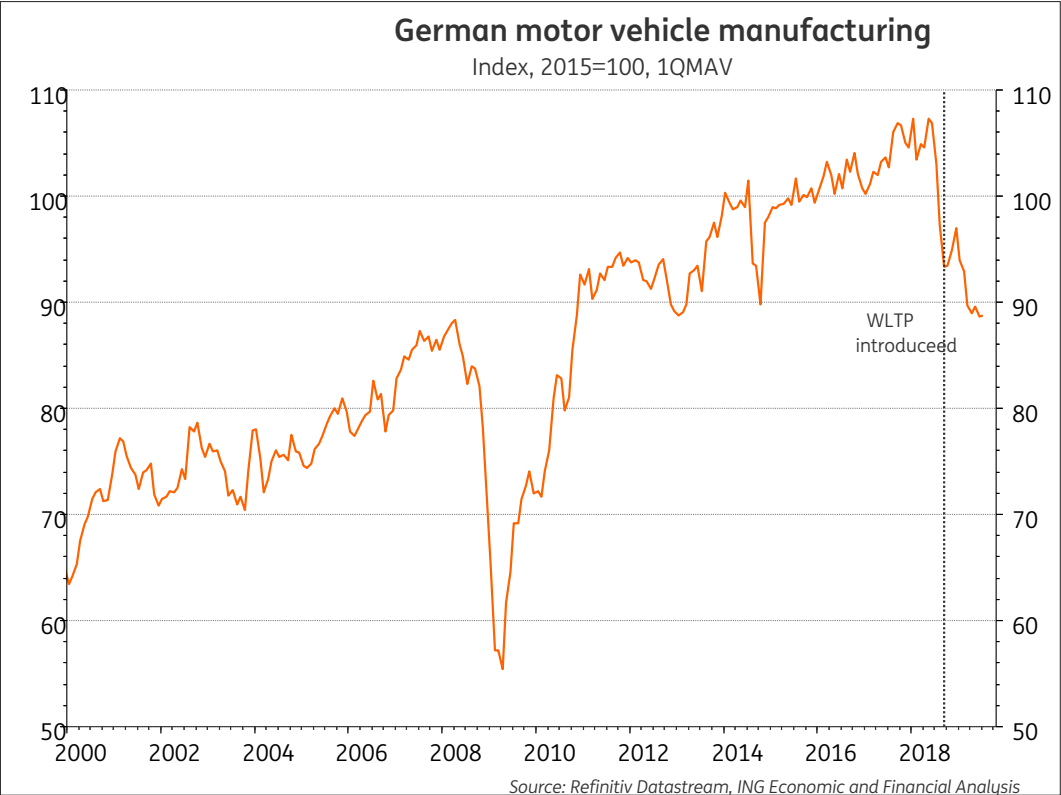


What's happening in
the automotive
sector?

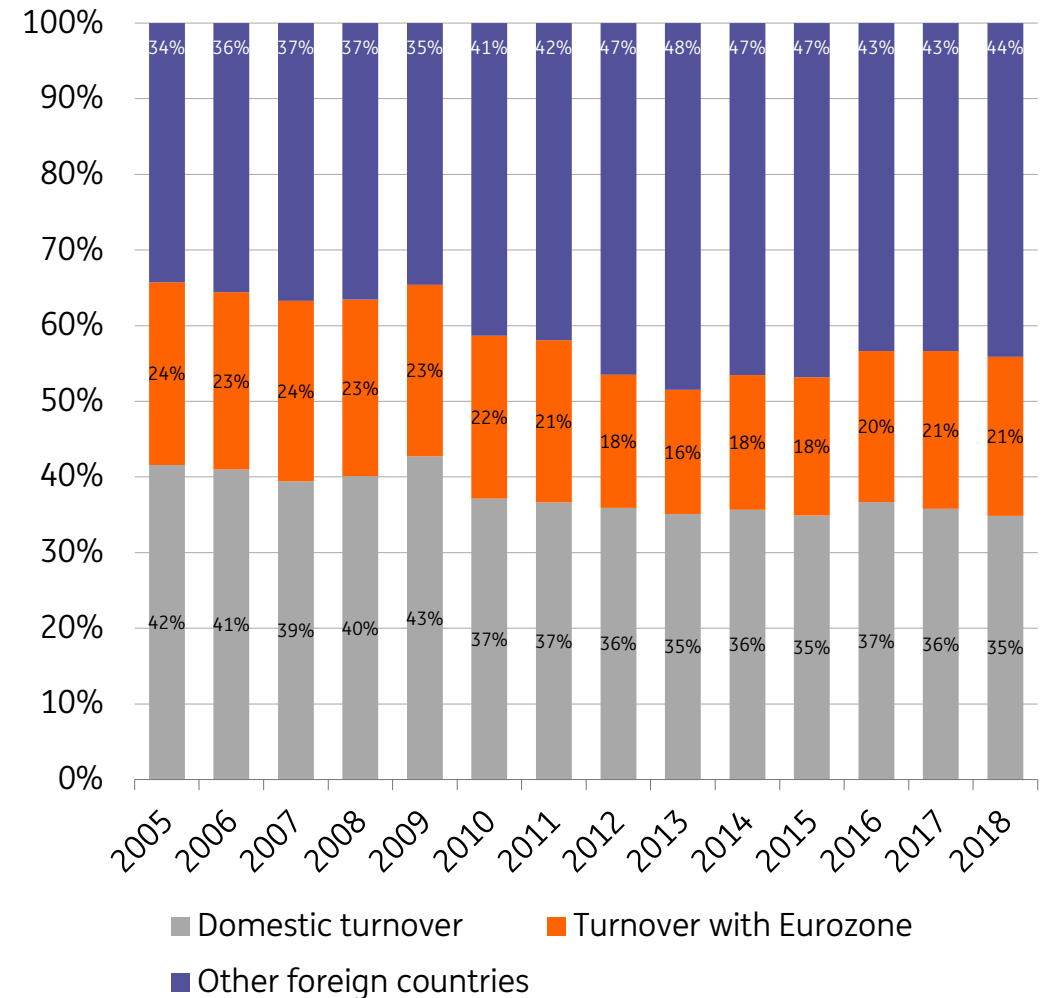
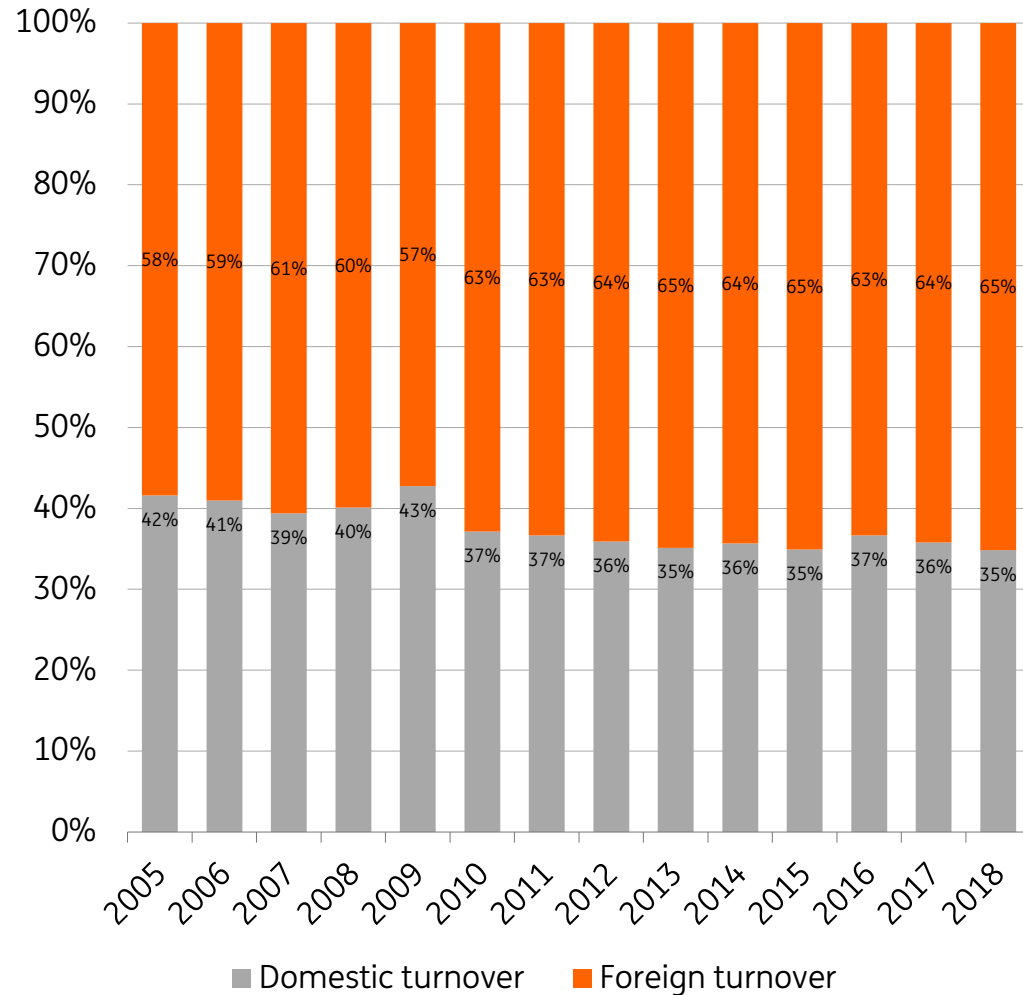
Benchmarking importance of cars to economy

- Around 2% of total employment is in the automotive industry
- Between 70% and 80% of automotives produced in Germany is exported
- Between 7% and 8% of the German economy is directly and indirectly linked to the automotive industry
- Roughly one third of all investments into R&D stems from the automotive industry

Sharp drop in vehicle manufacturing, no longer due to one-off factors only



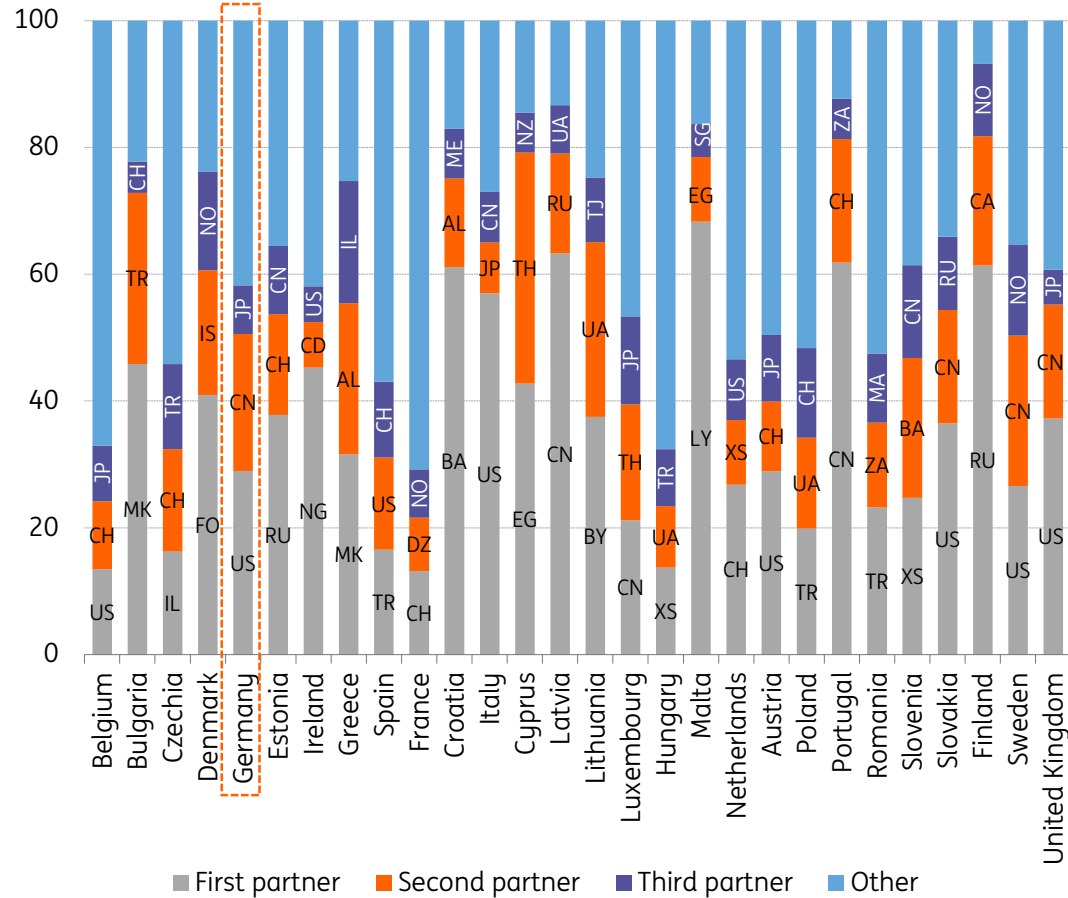
Export engine – the money is earned abroad



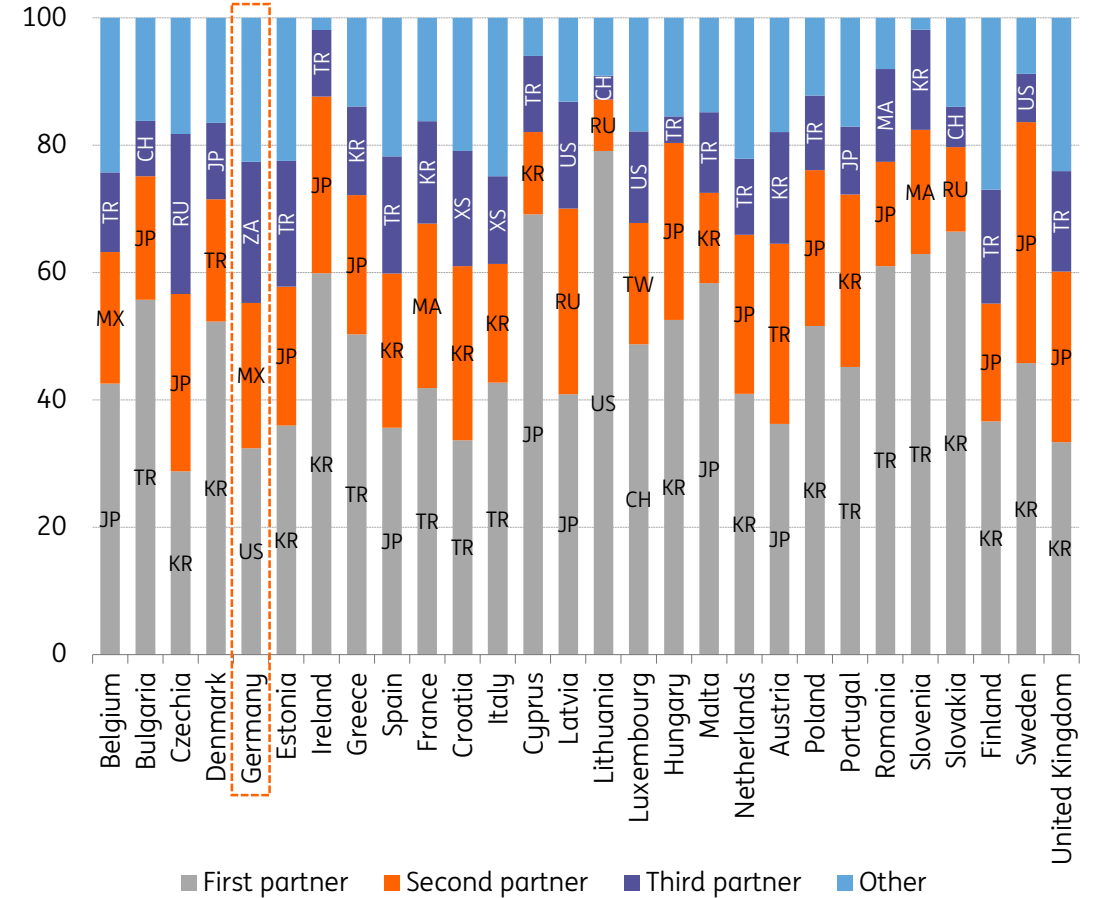
Source: Destatis

Germany's top 3 partners for exports and imports of motor cars

Top 3 partners for extra EU-28 exports of motor cars by member state, 2018 (%)

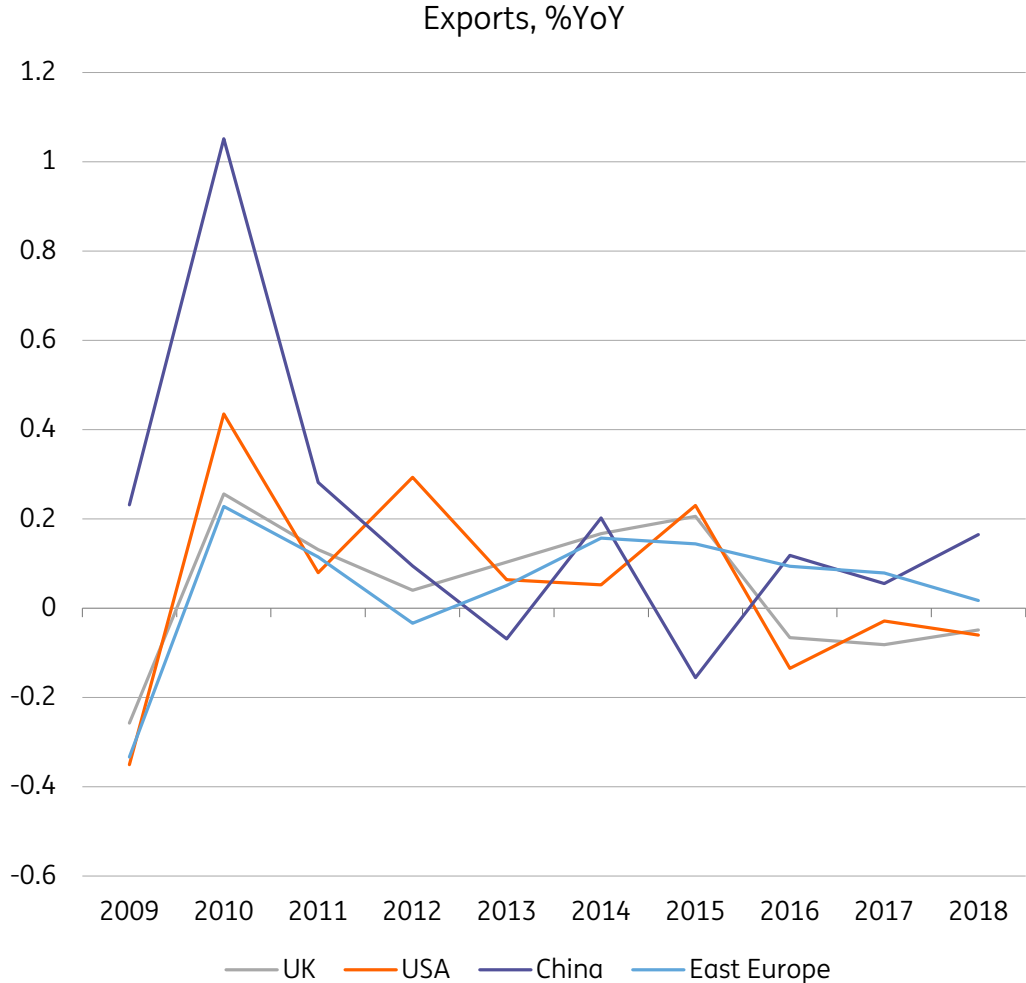
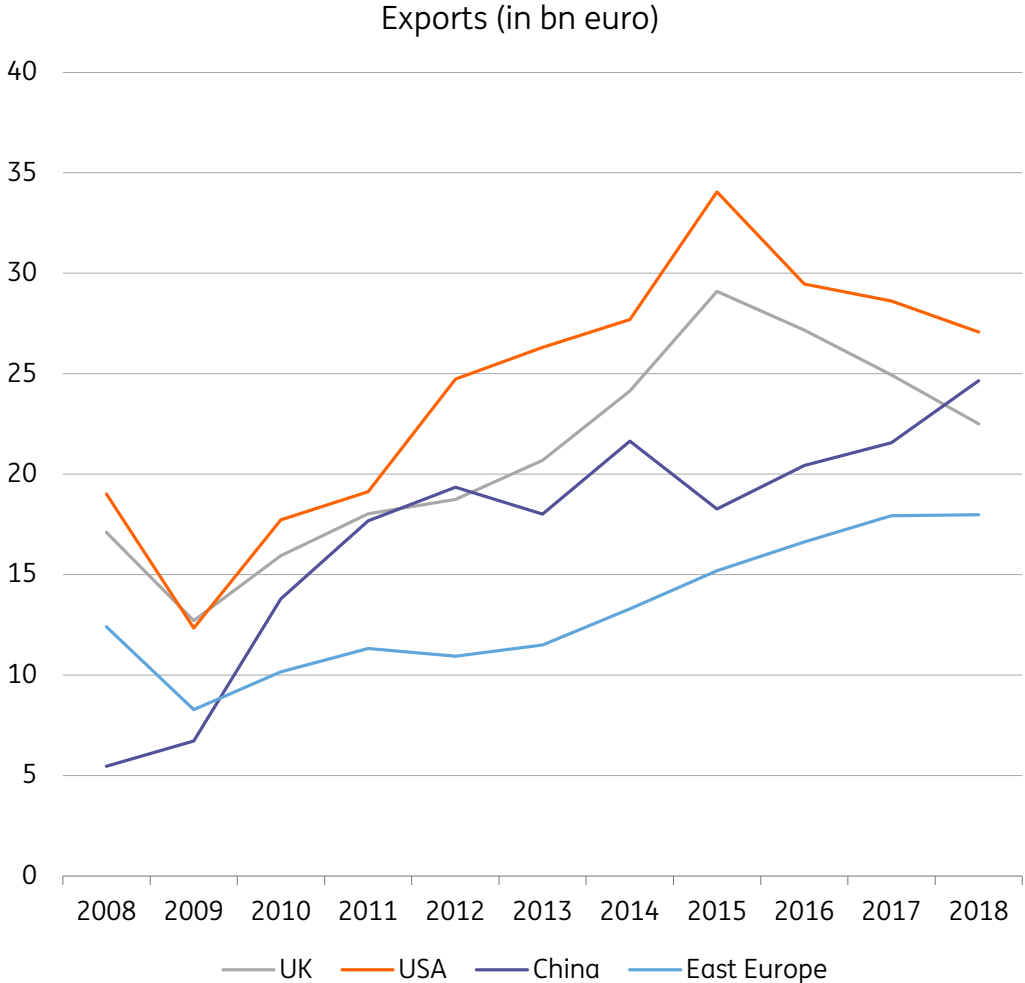


Top 3 partners for extra EU-28 imports of motor cars by member state, 2018 (%)



Source: Eurostat

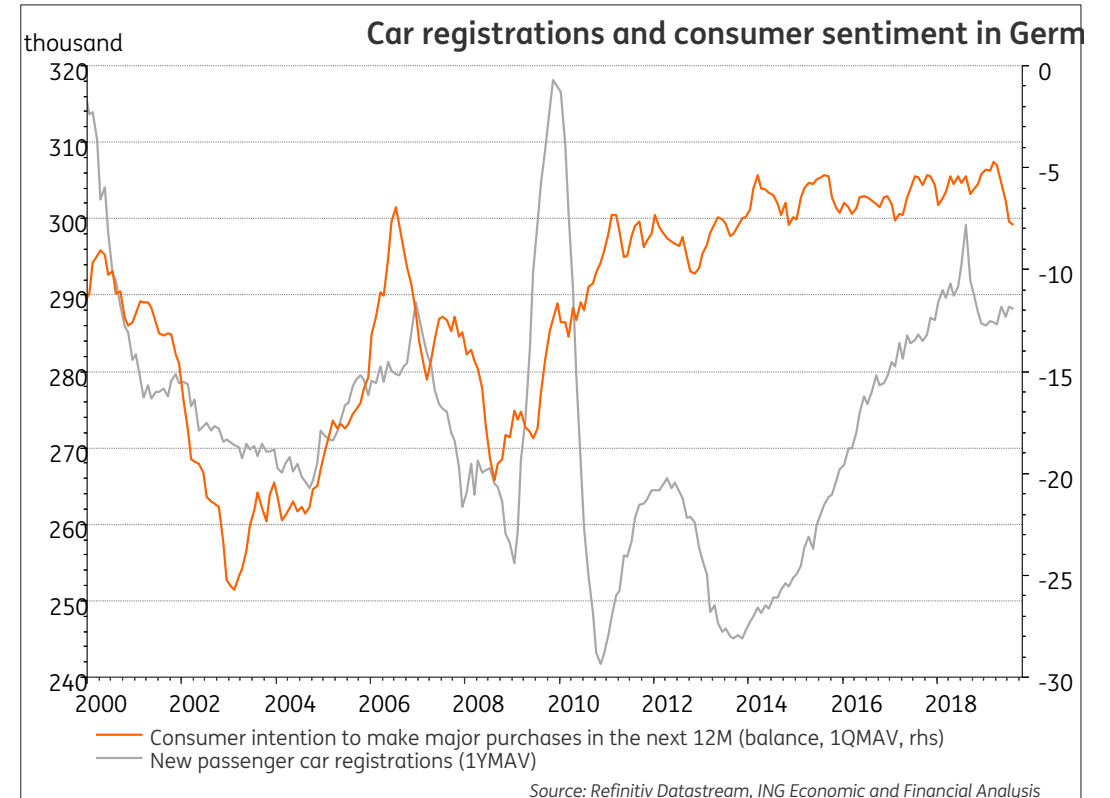
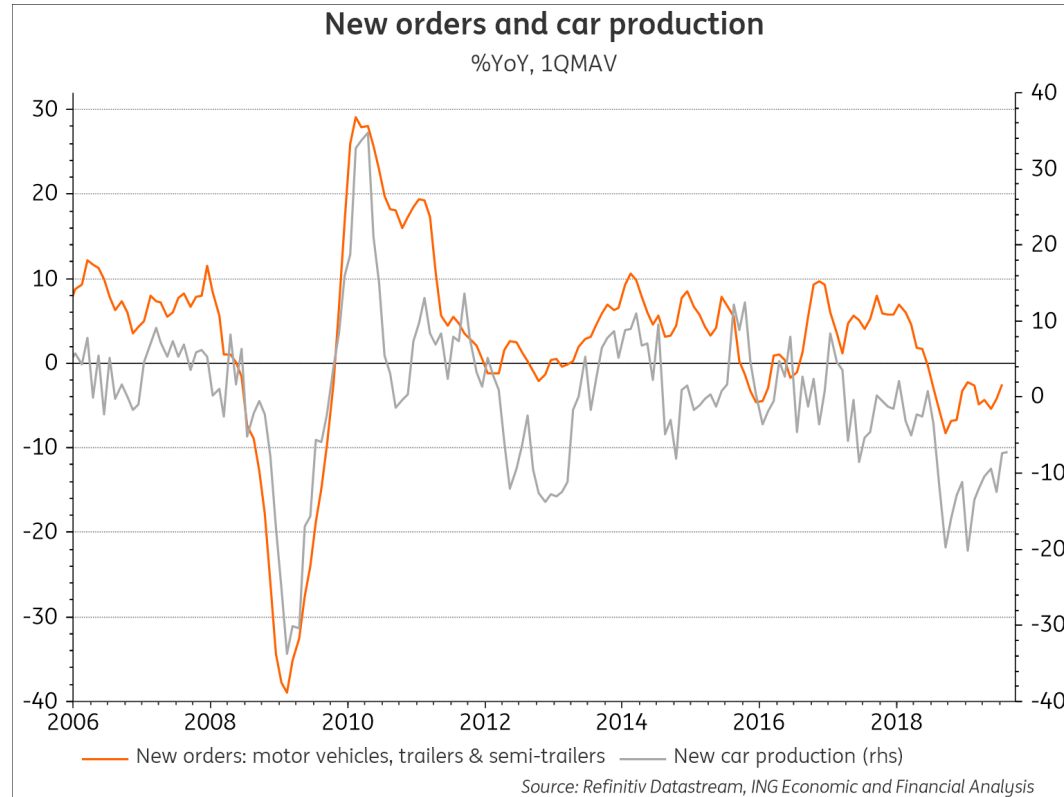
There still are growth islands for German carmakers



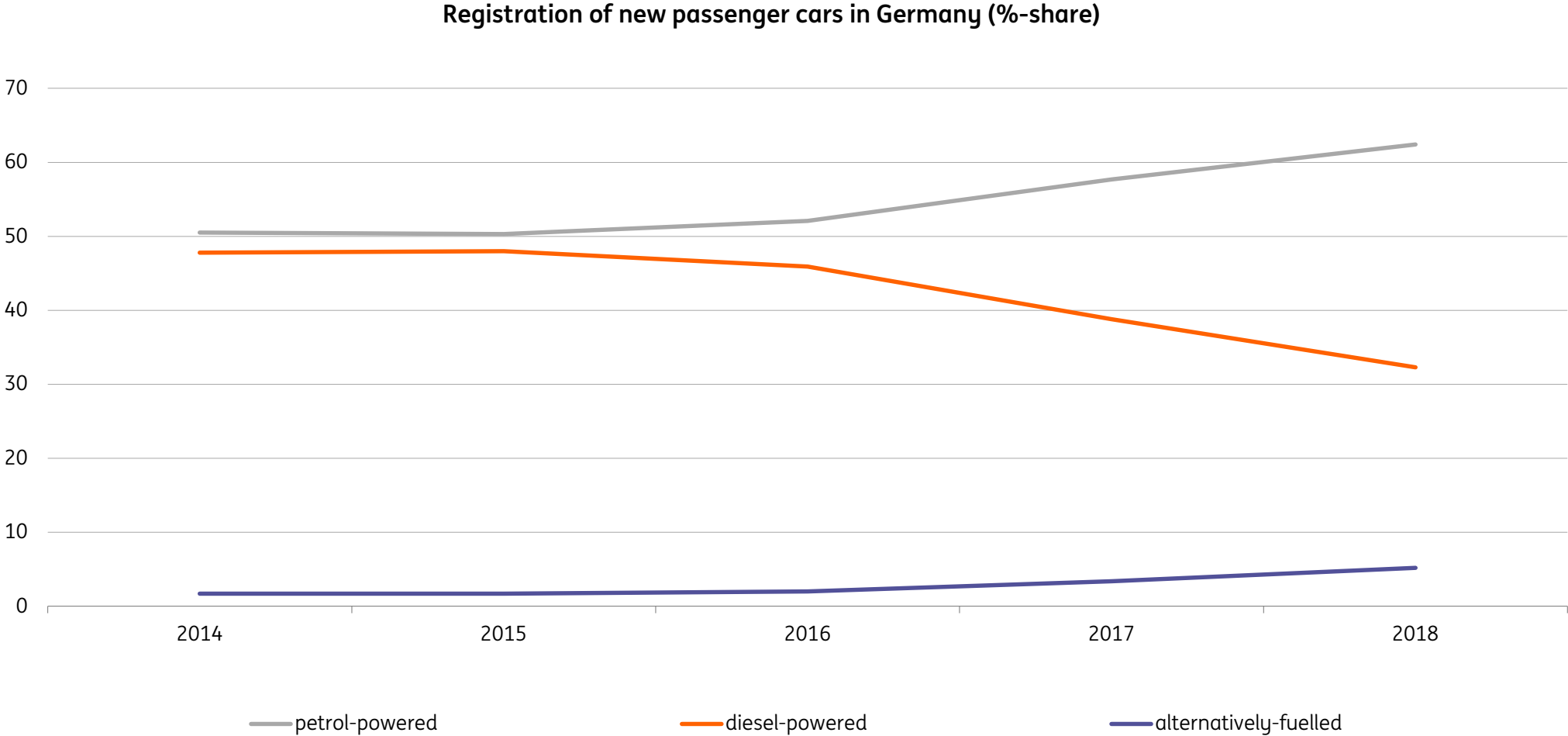
Source: Destatis. East Europe = Poland, Czech Republic, Hungary. Motor vehicles, engines, bodywork, electronic equipment, other parts and accessories for motor vehicles



Domestic demand remains solid...



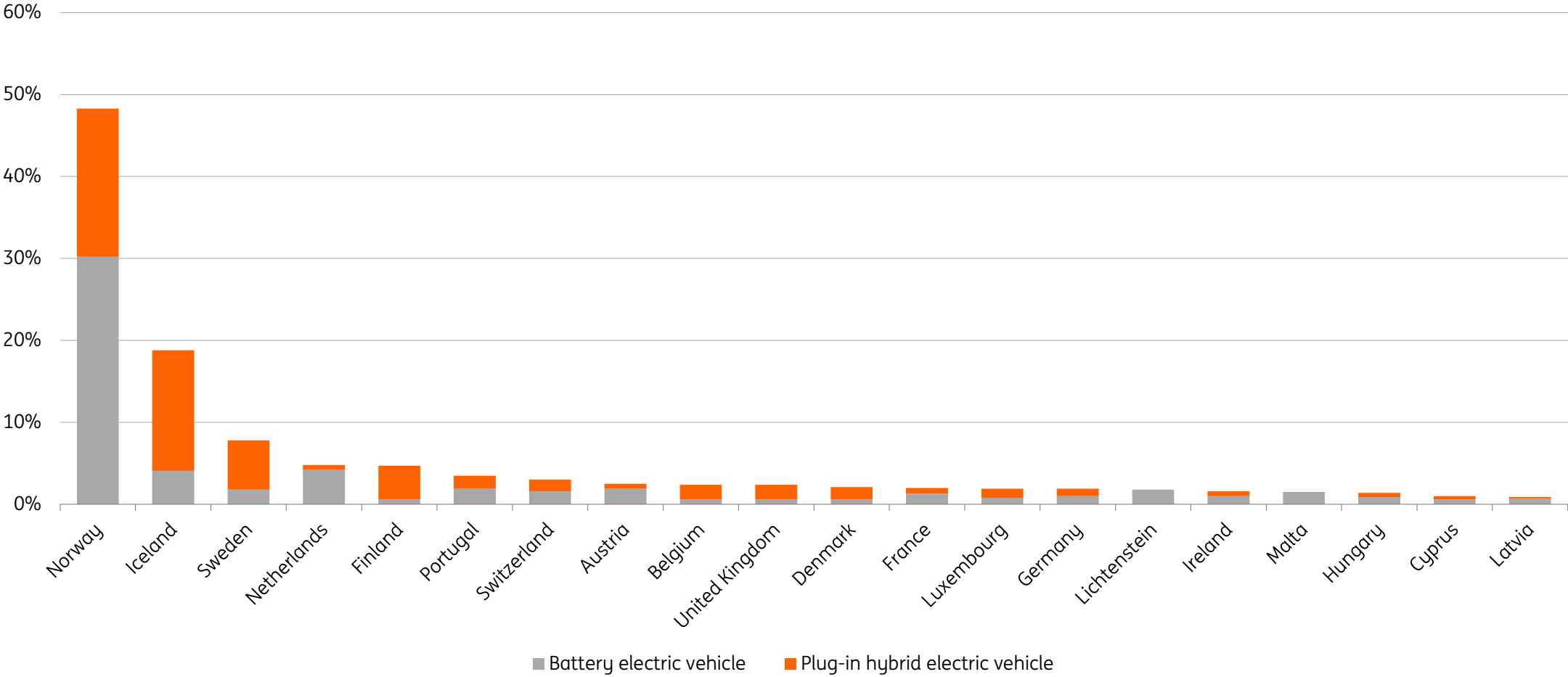
...but structural change is already happening...



Source: KBA

...even if the road ahead is long

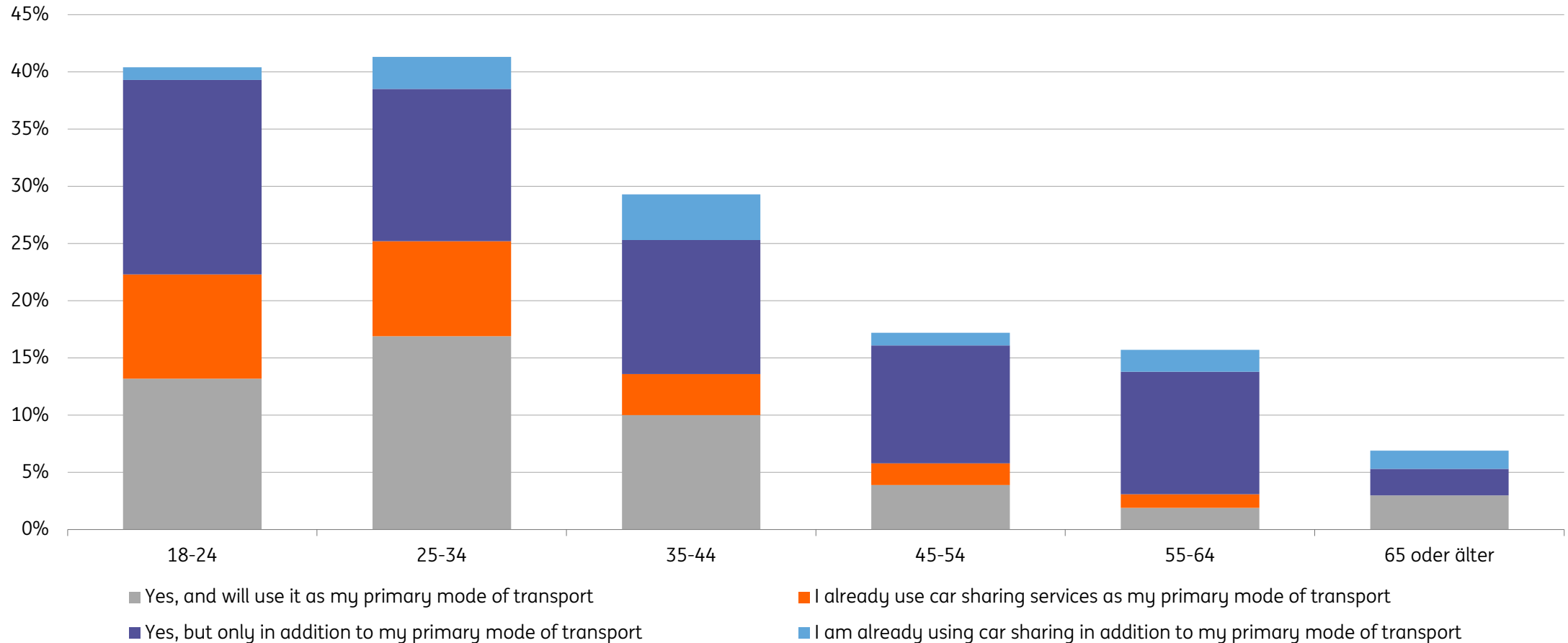
Market share of newly registered passenger electric vehicles in selected European countries in 2018



Source: EAFO

Who wants to use car sharing?

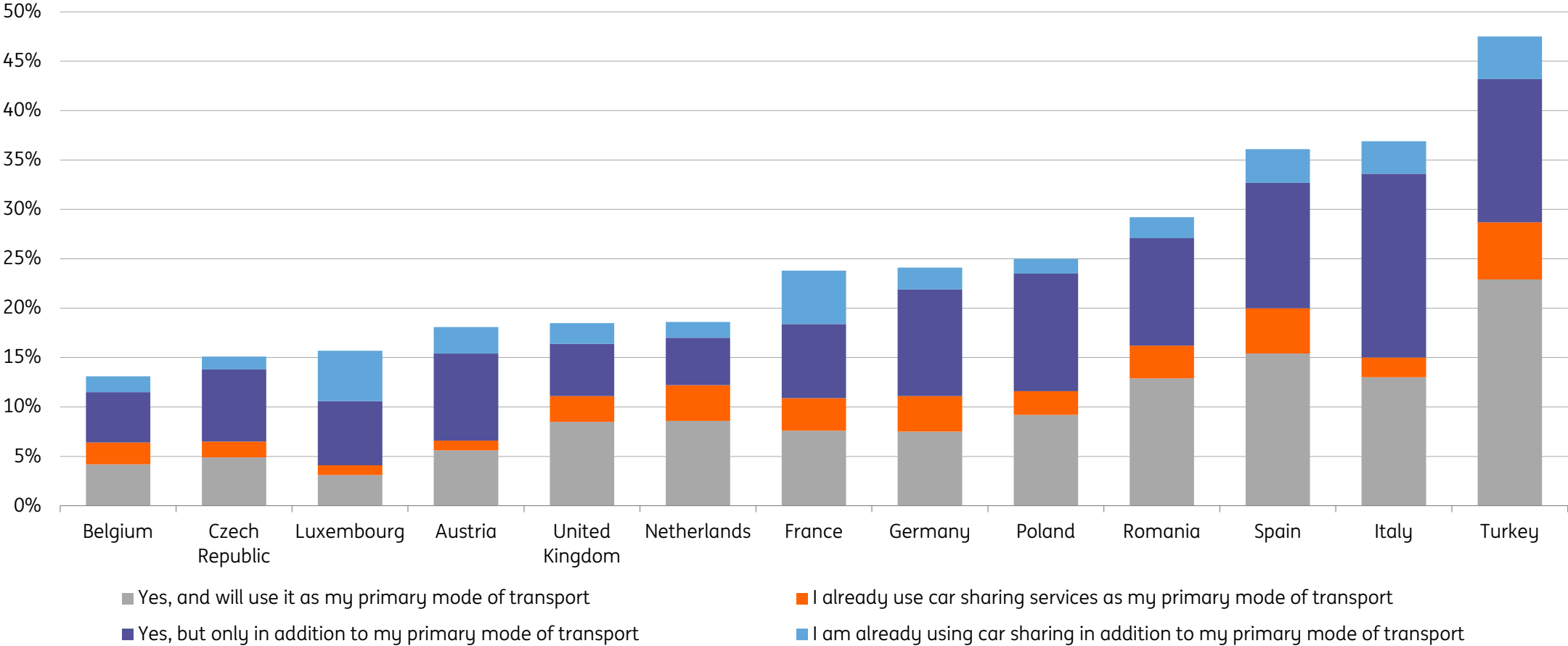
Are you considering using car sharing within the next year?



Source: ING International Survey, 2018

How about car sharing in Europe?

Are you considering using car sharing within the next year?



Source: ING International Survey, 2018

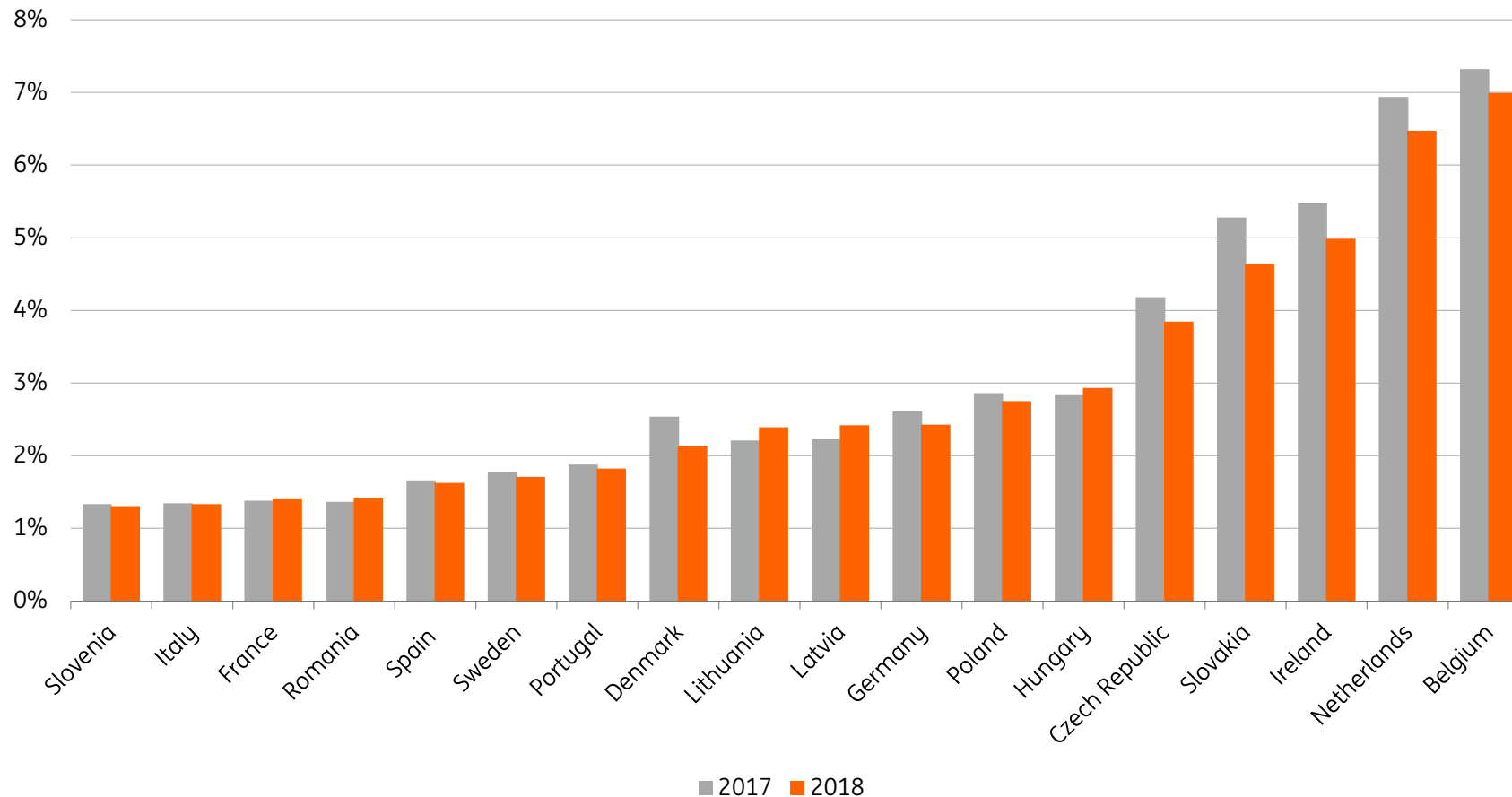


What about Brexit?



No deal – Impact on Europe and Germany

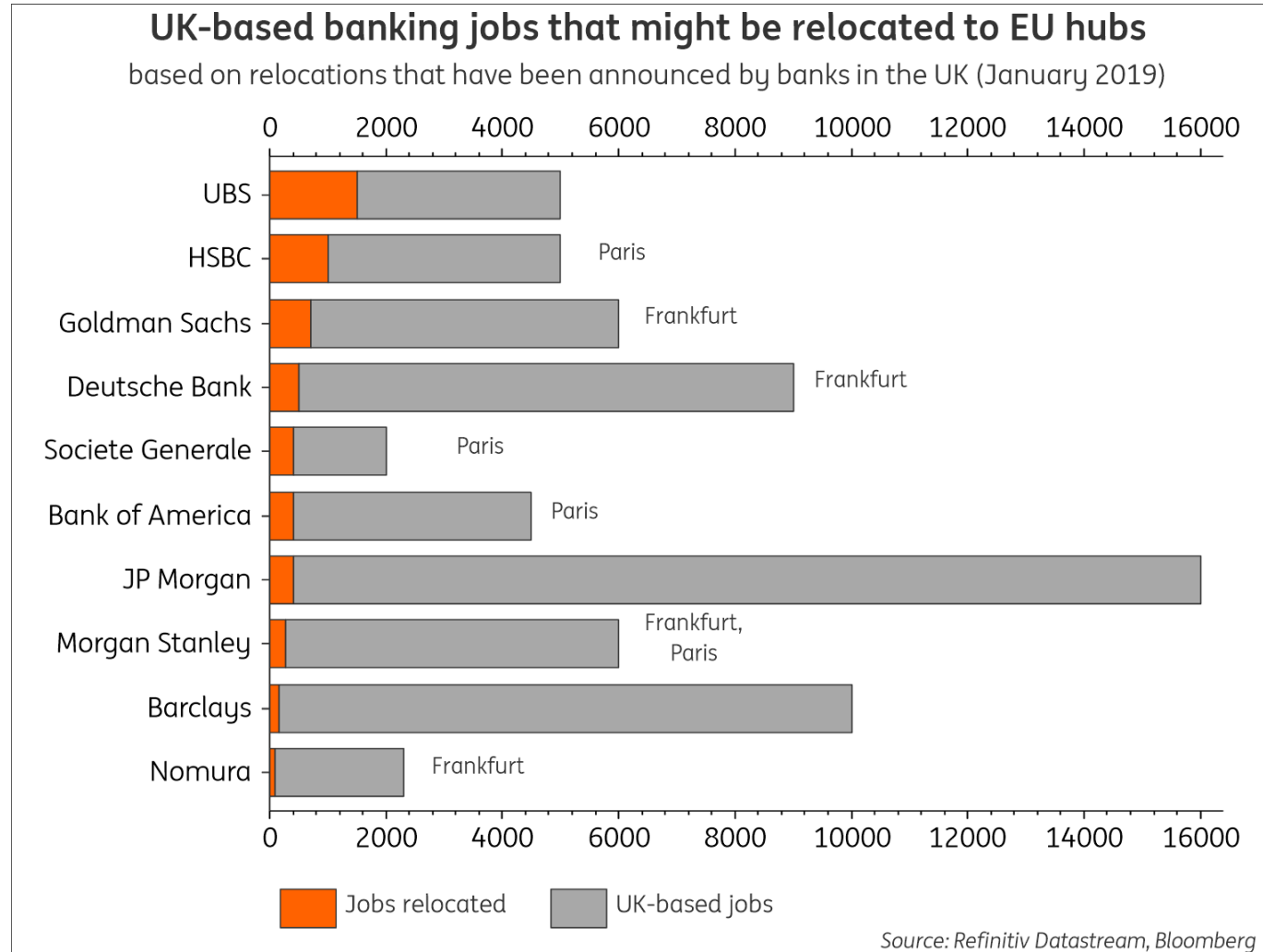
Goods exports to UK
(as % of country's GDP)



- **Belgium, the Netherlands and Ireland** are particularly exposed to a 'no deal' Brexit given their importance in British supply chains.
- Around 60% of the UK's marine trade with Europe* goes to either Netherlands, Belgium or France.
- While major European ports are reportedly fairly advanced in their preparations, fewer plans appear to have been made at UK terminals.
- The Netherlands is also the UK's no. 1 source of Foreign Direct Investment from the EU, followed by Luxembourg and Germany.

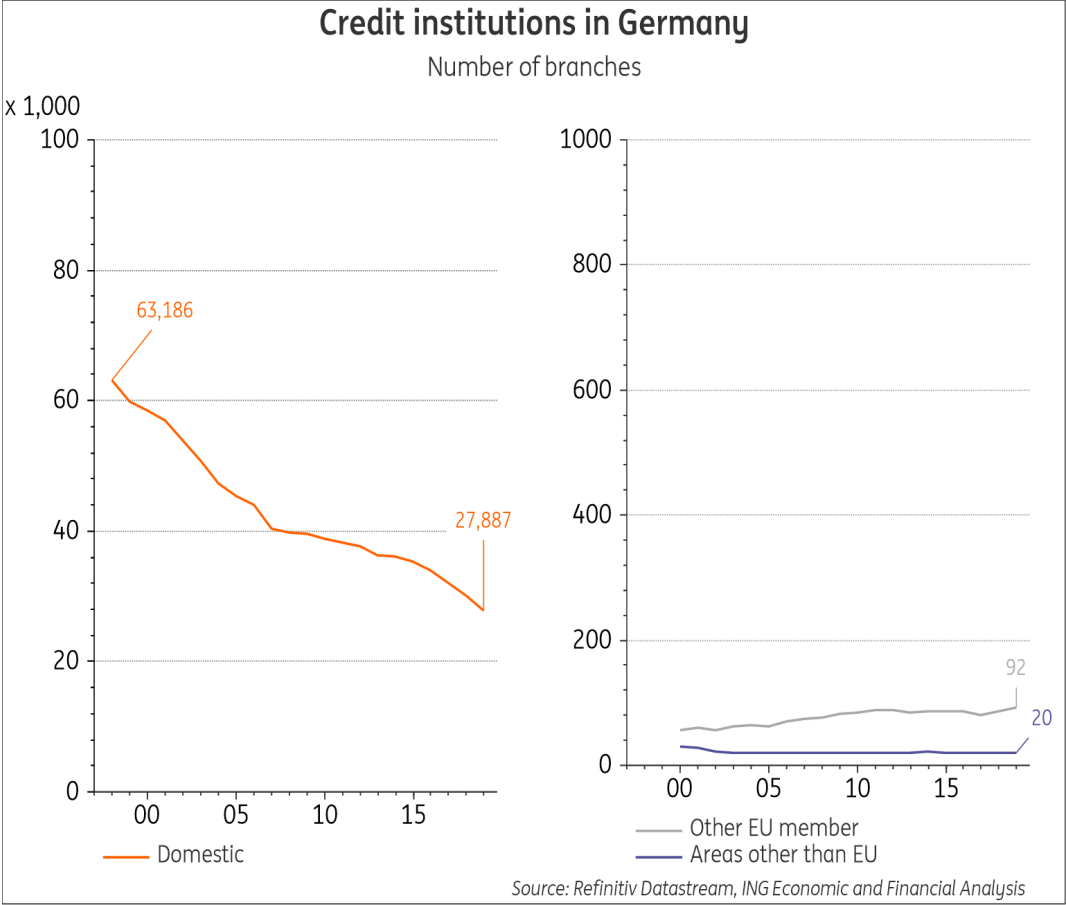
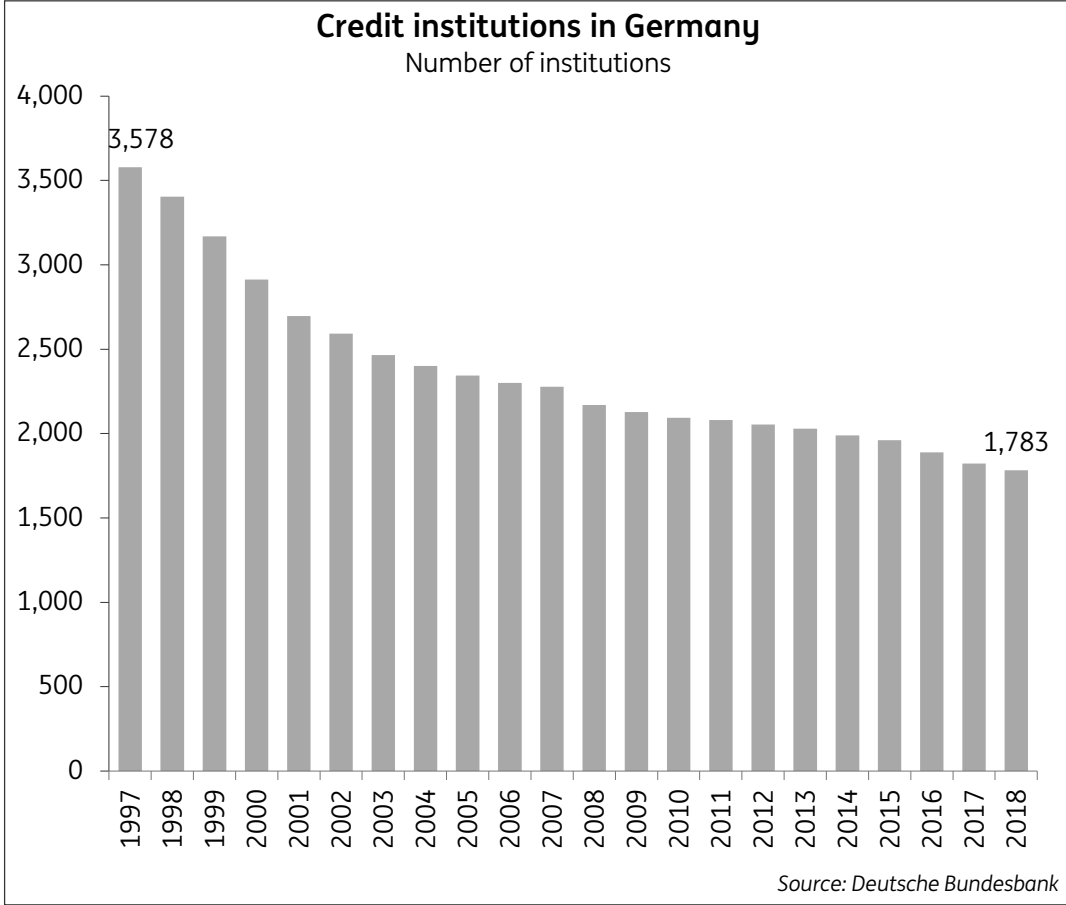
Source: Refinitiv Datastream, ING Economic & Financial Analysis. *Gross tonnage

Is Frankfurt winning the battle for London's bankers?

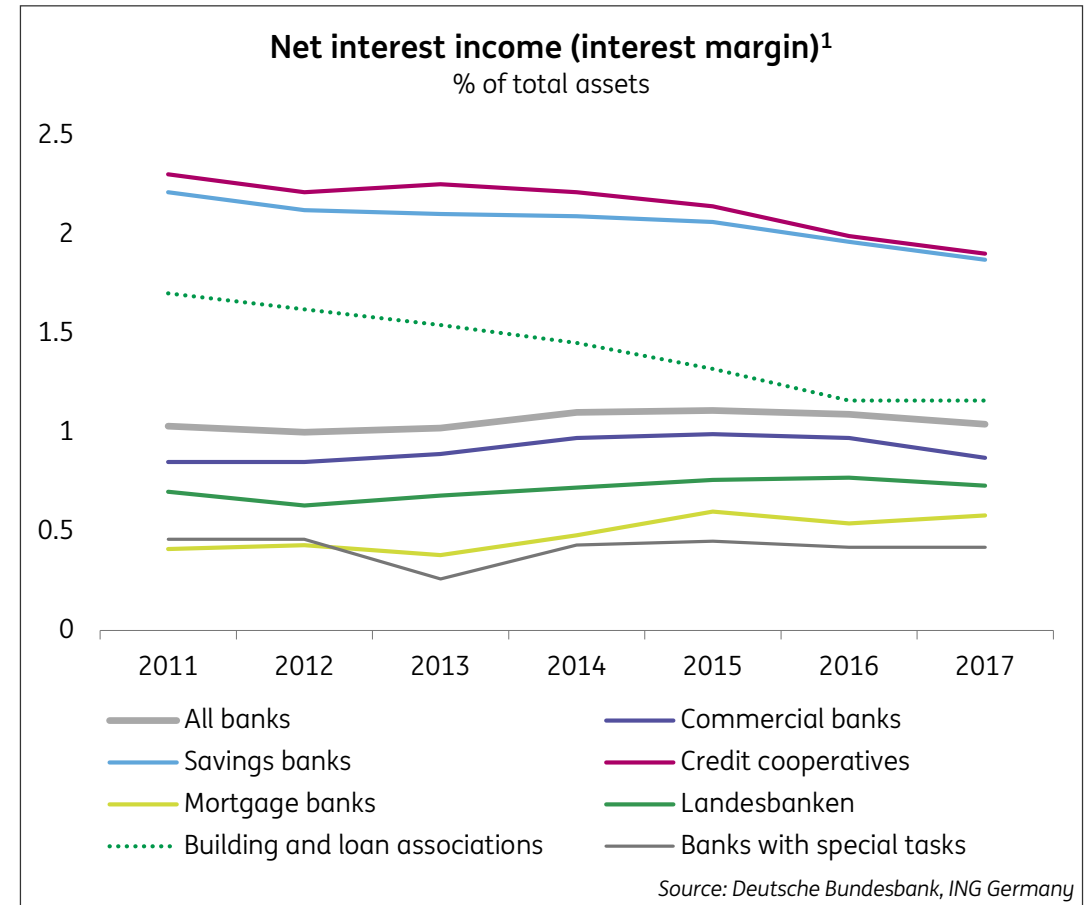
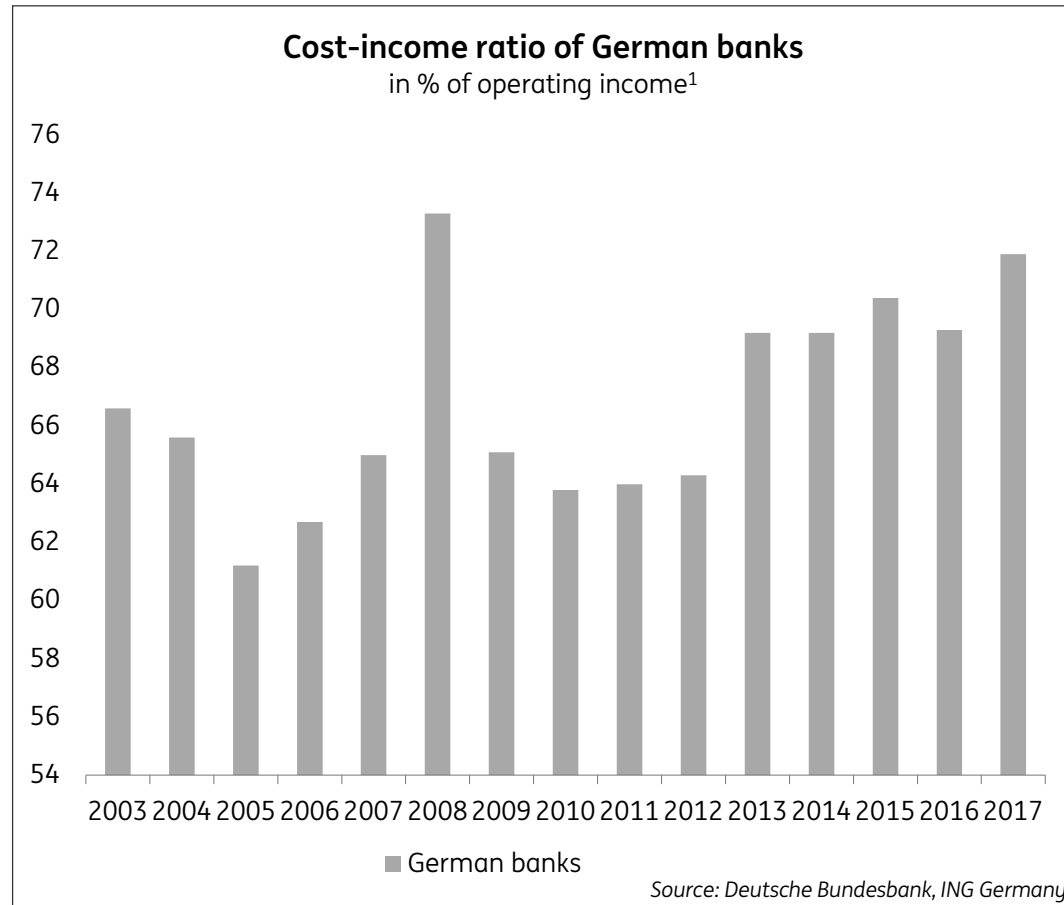


The German banking sector and its profitability

The number of credit institutions in Germany continues to fall...

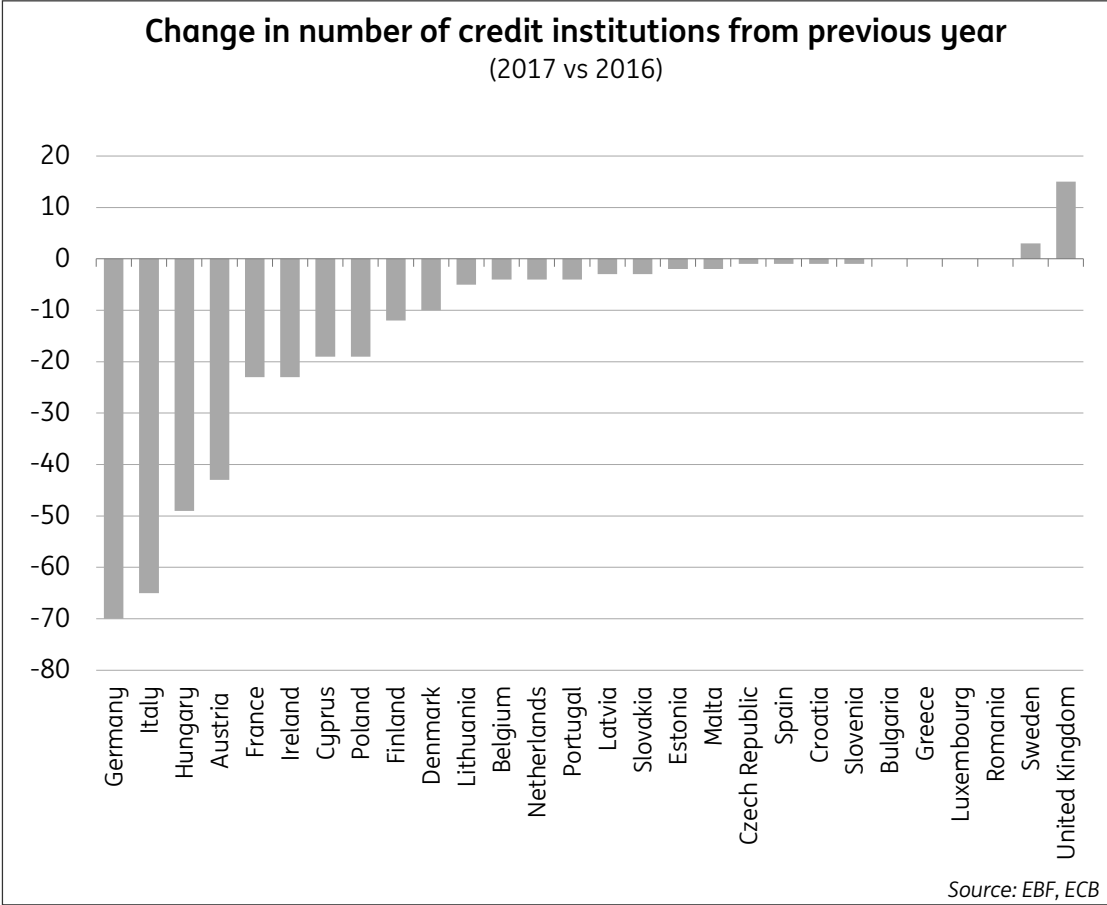
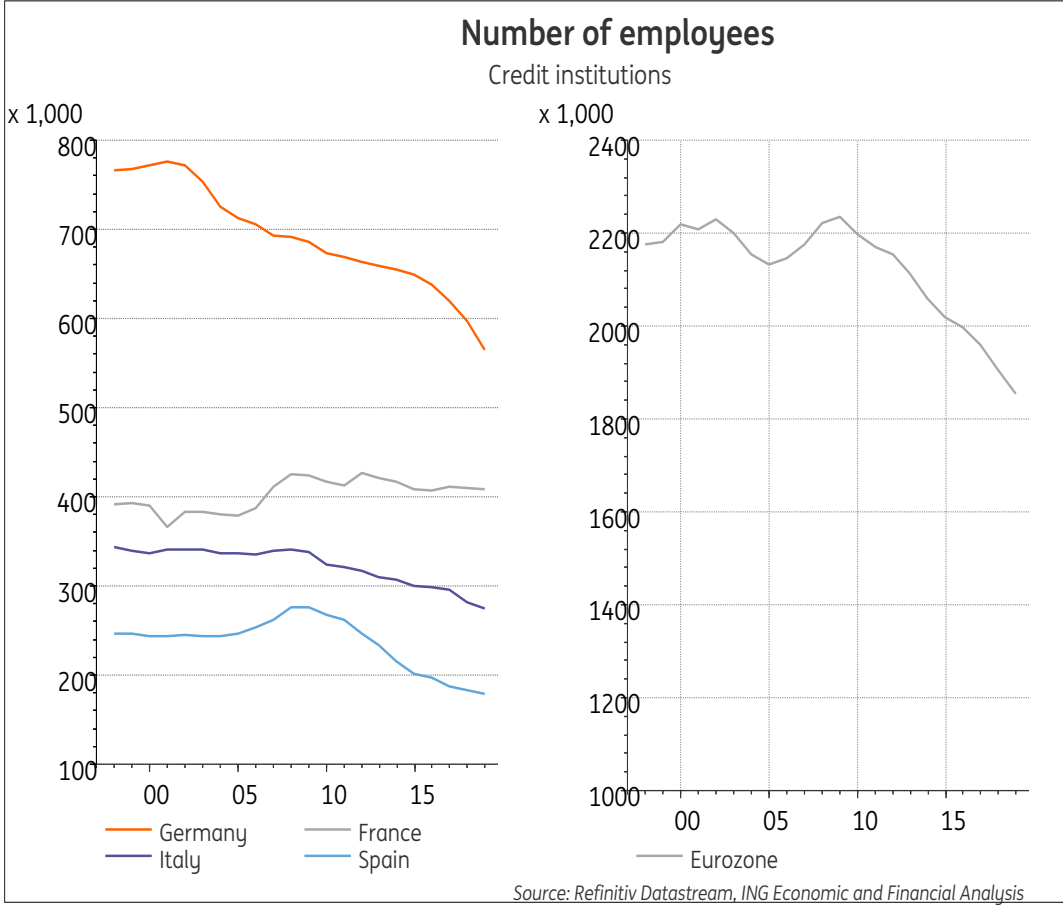


...and banks have seen better days regarding profitability



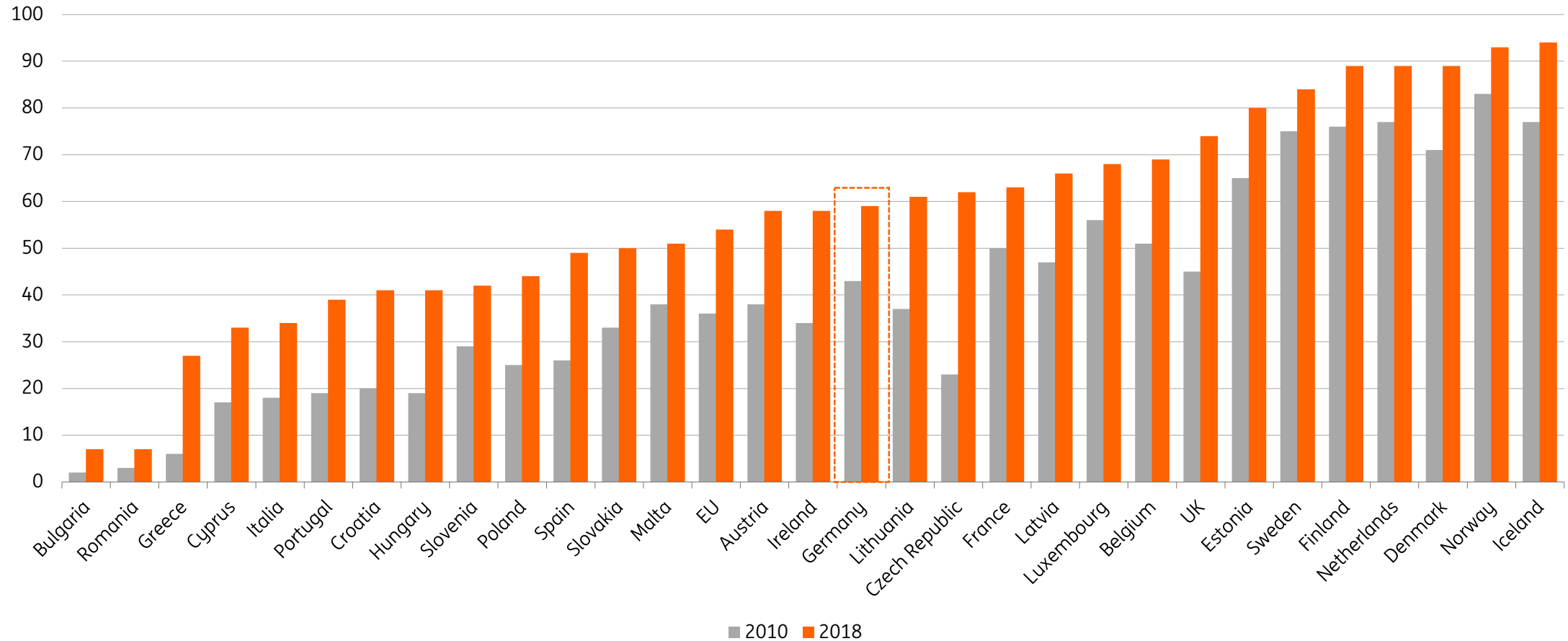
¹Excluding the total assets of the foreign branches of savings banks, excluding the total assets of the foreign branches of regional institutions of credit cooperatives until 2015 and, from 2016, excluding the total assets of the foreign branches of mortgage banks.

Contraction in the banking sector is not just a German issue



Internet banking is slowly on the rise in Germany

Internet use for internet banking
% of individuals aged 16 to 74

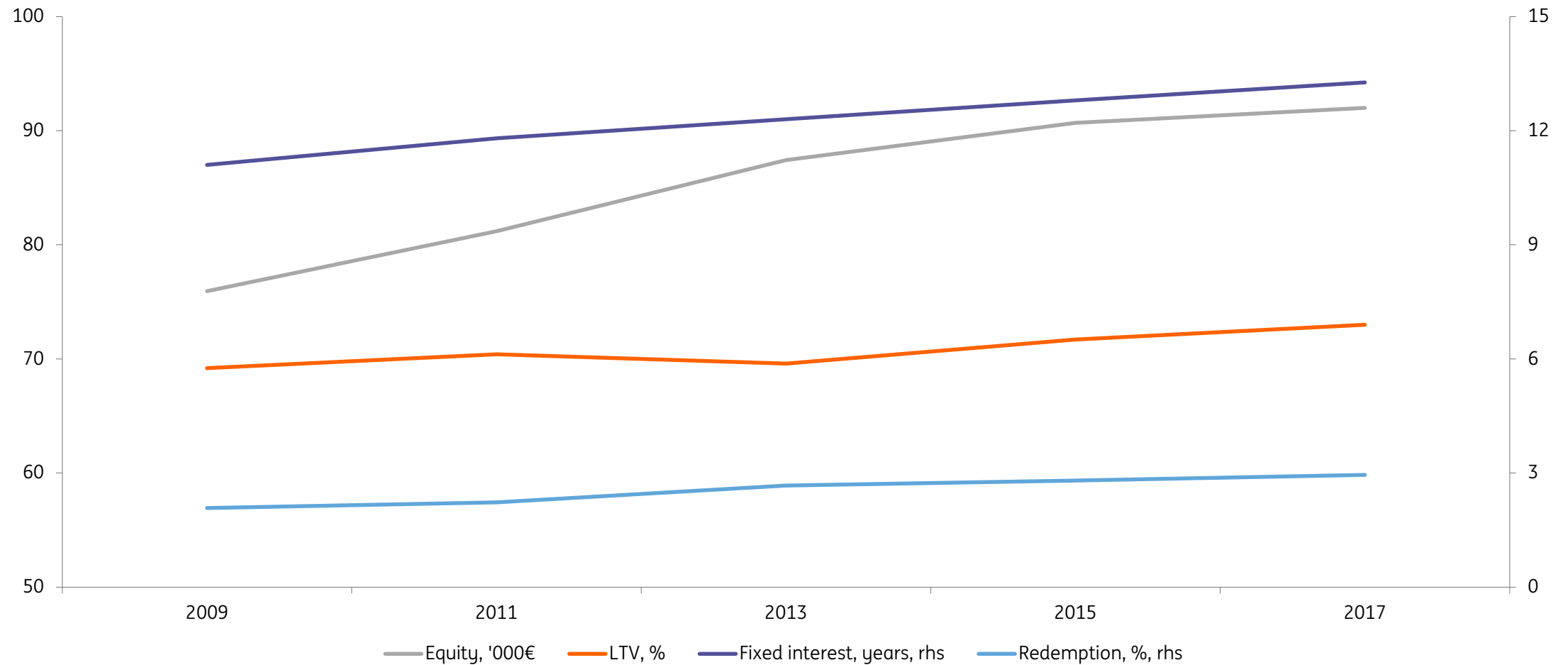


Source: Eurostat

Housing market

Housing bubble or not?

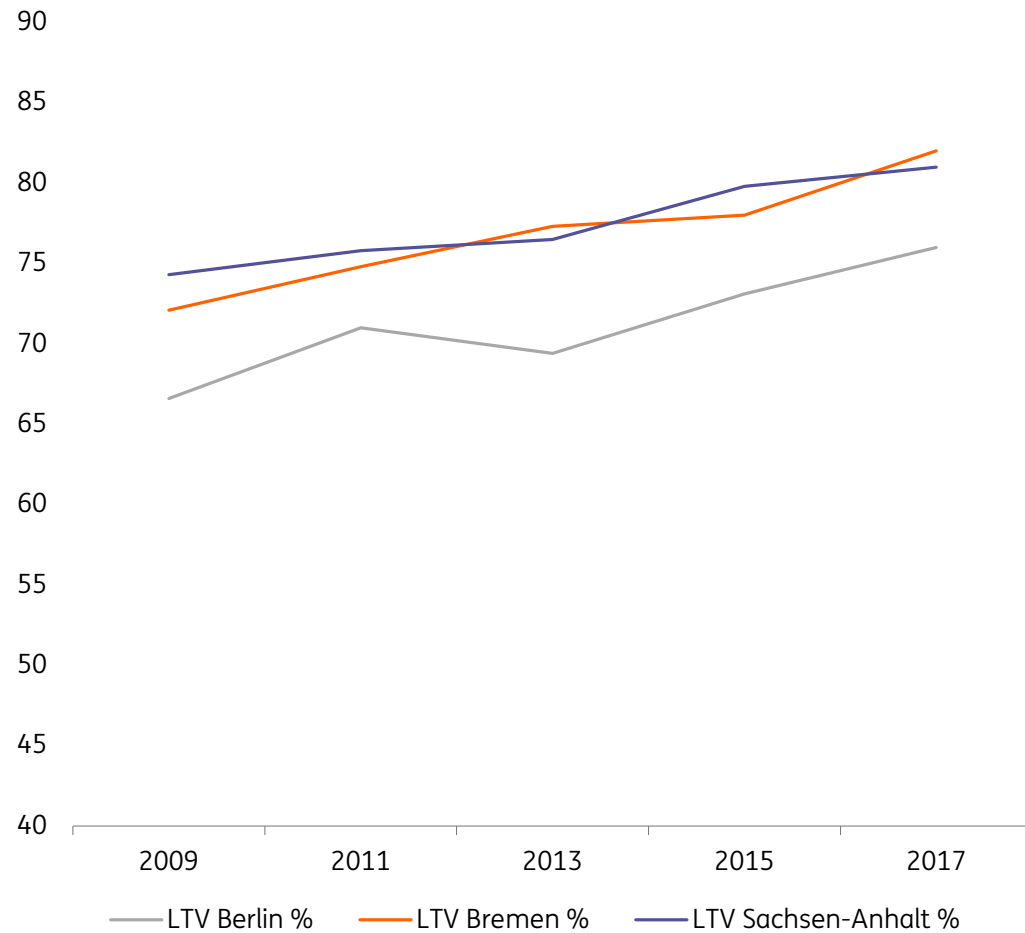
The trend seems to be clear...



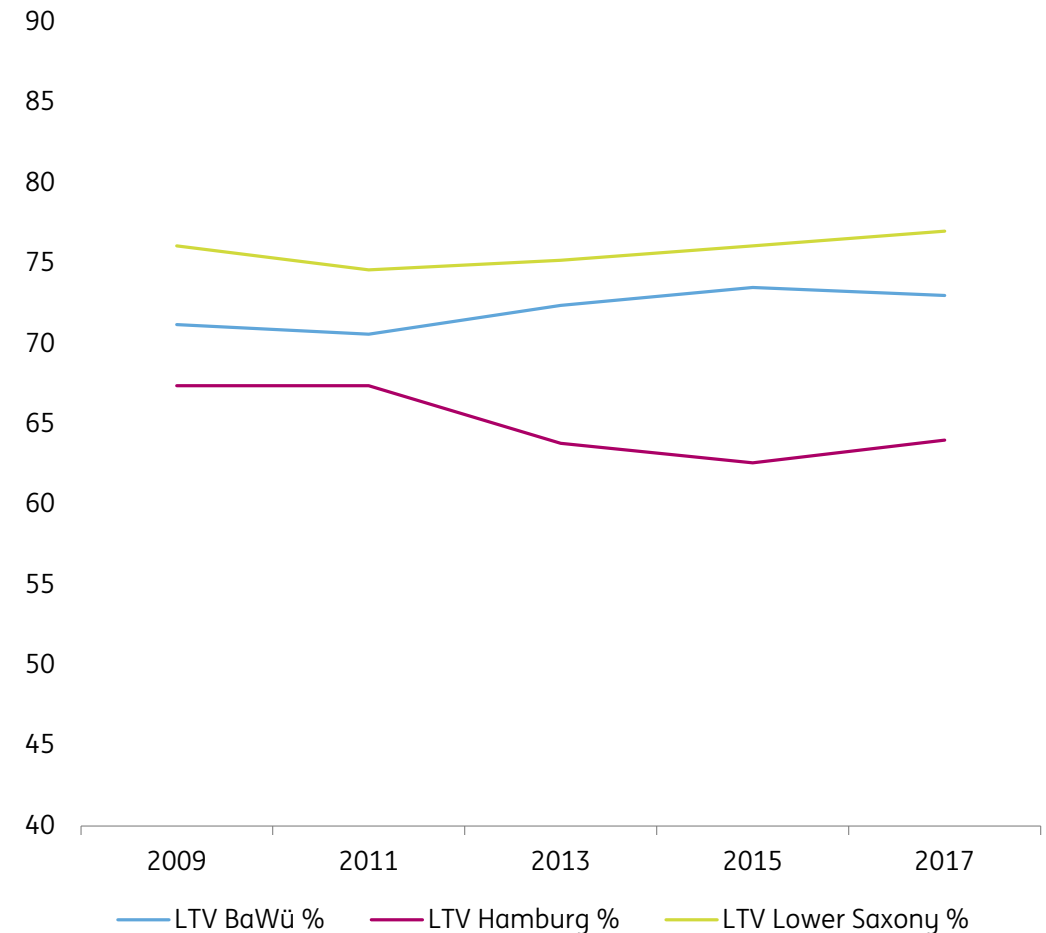
Source: Interhyp

Huge differences across country

Bubble...



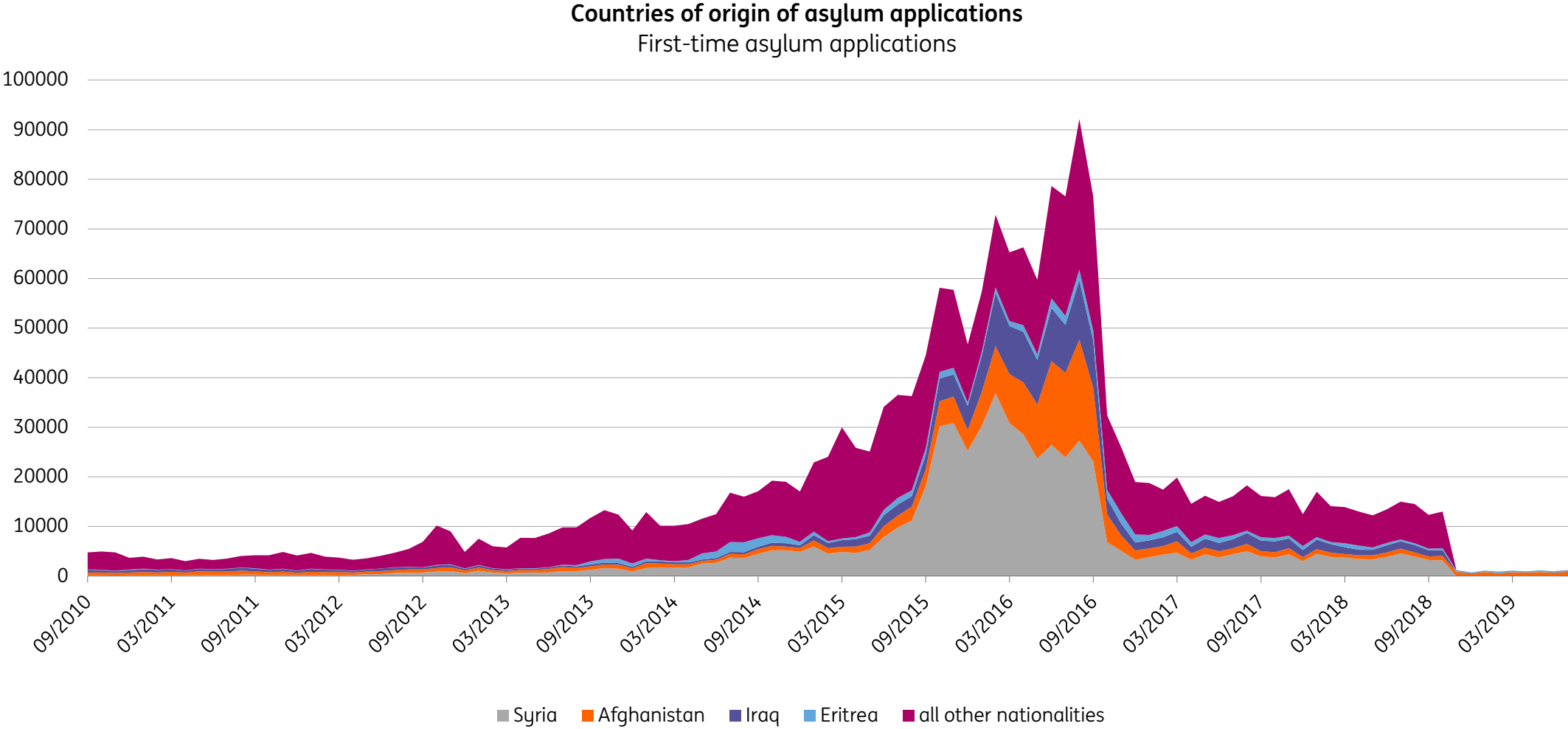
...or no bubble?



Source: Interhyp

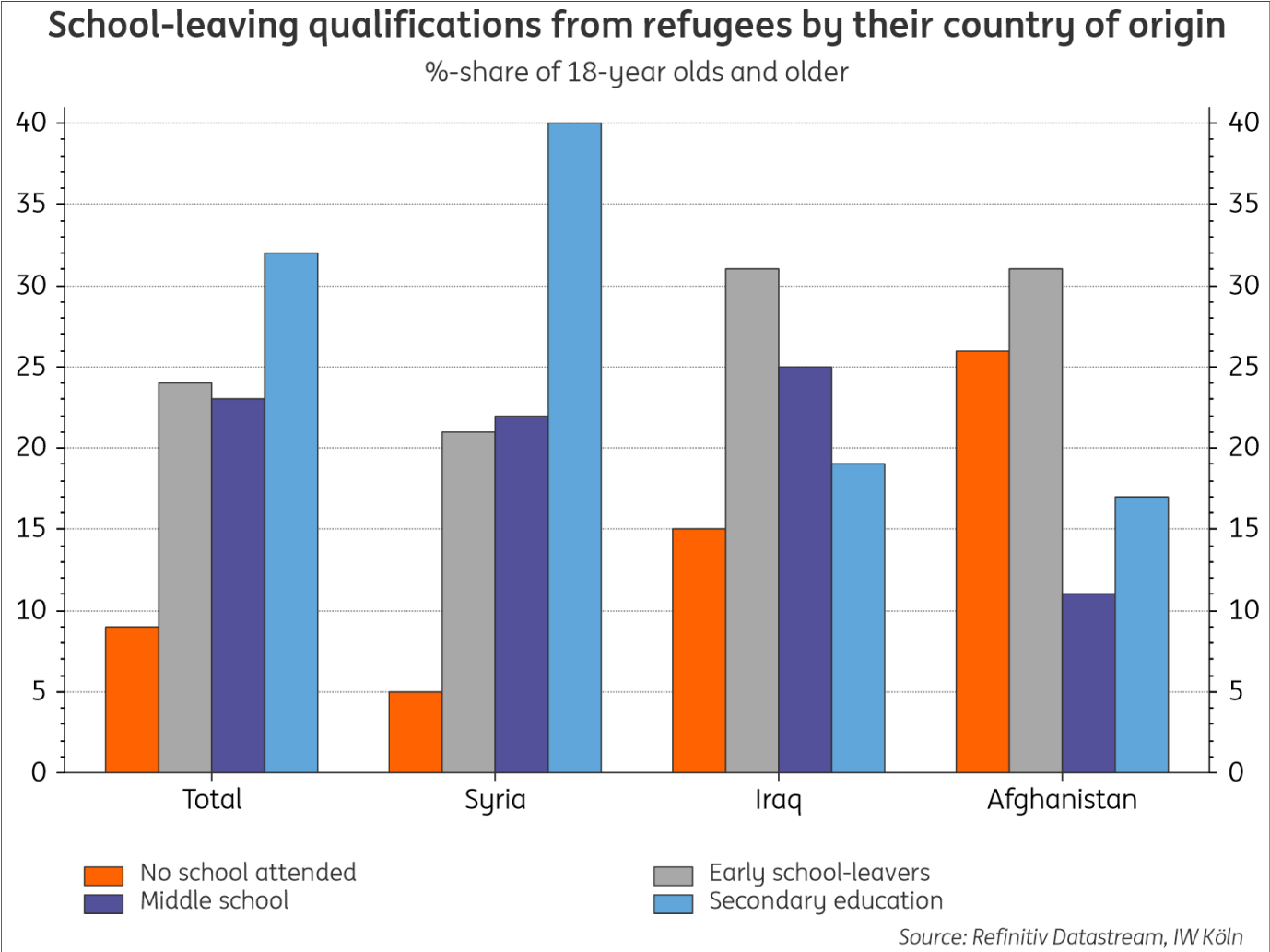
Migration and population

Although the number of asylum applications has declined...



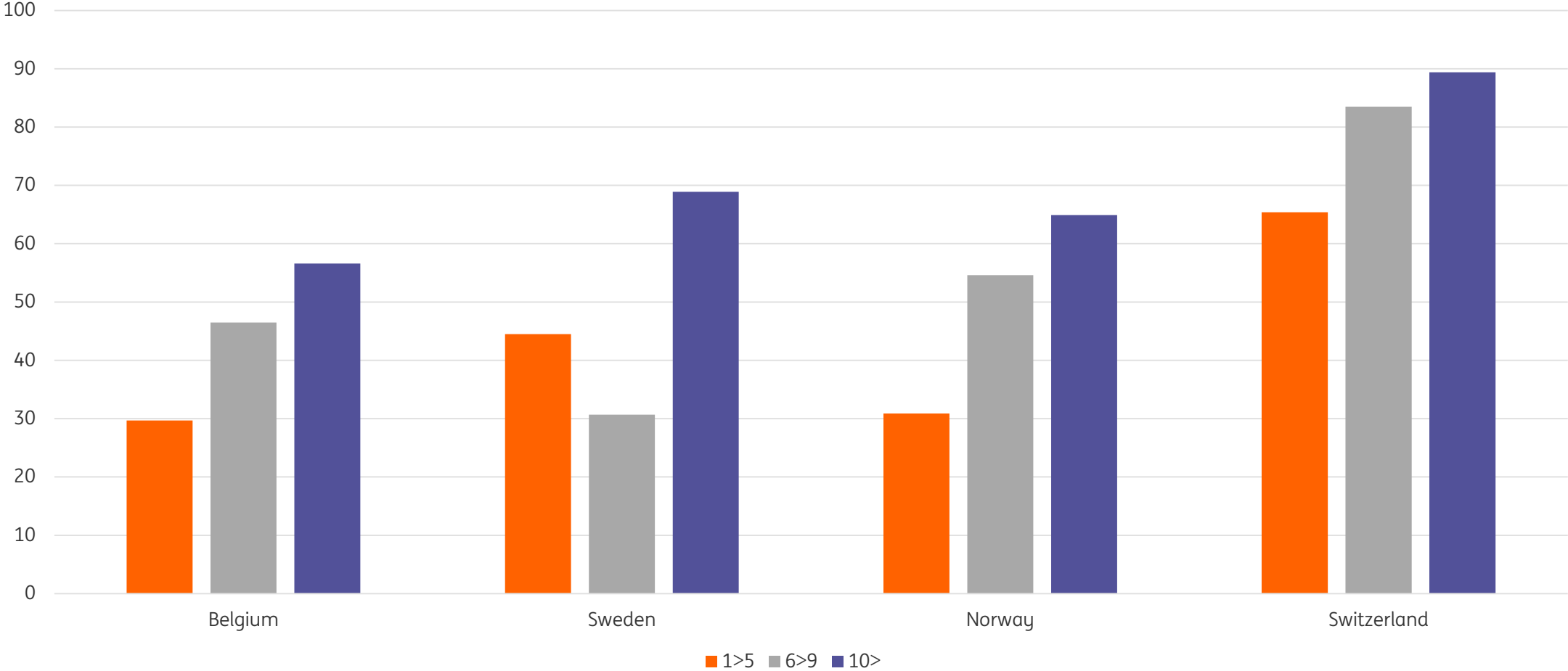
Source: Refinitiv Datastream, ING Economic & Financial Analysis. Unreported data from October 2018 onwards for all but Afghanistan and Eritrea.

...integration could be cumbersome...



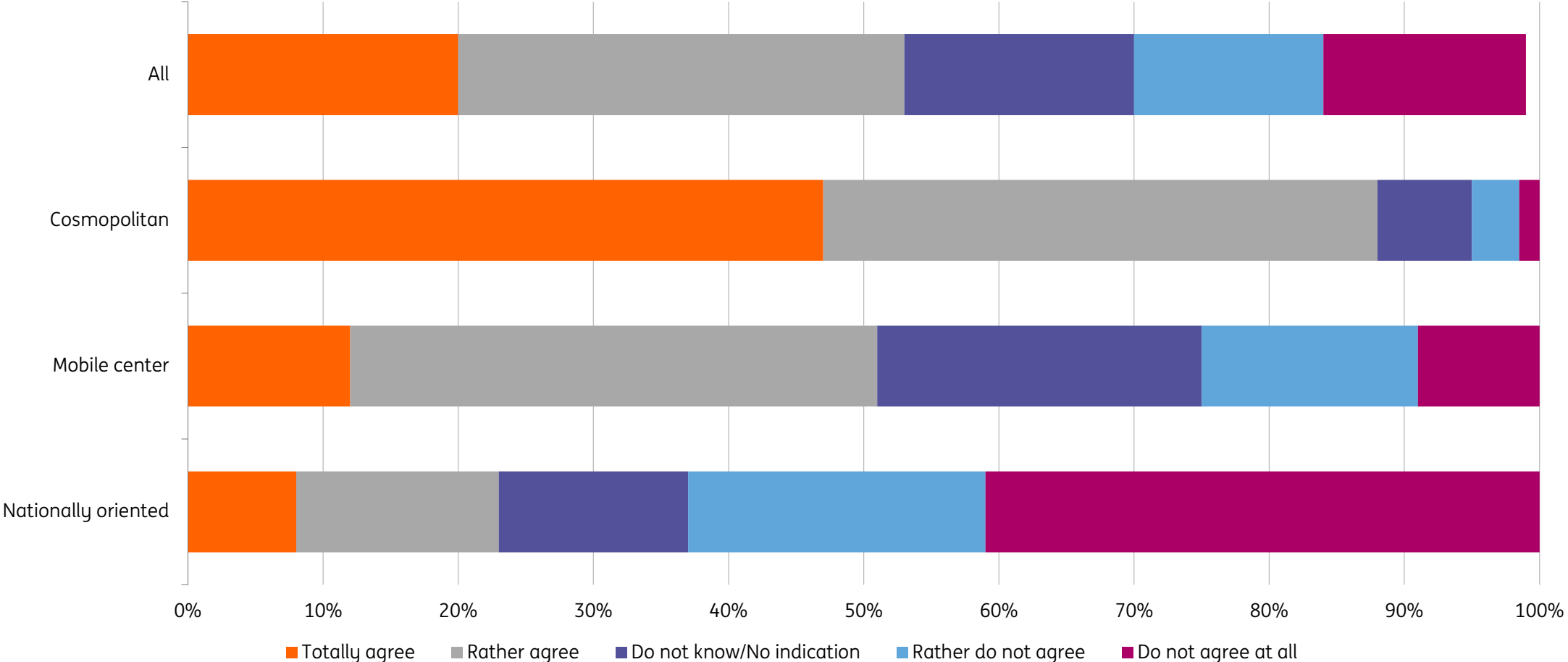
...at least judging from other experiences

Employment rate of asylum seekers by duration of stay in country in years



A majority sees immigration as an opportunity

"Germany should understand immigration as an opportunity"



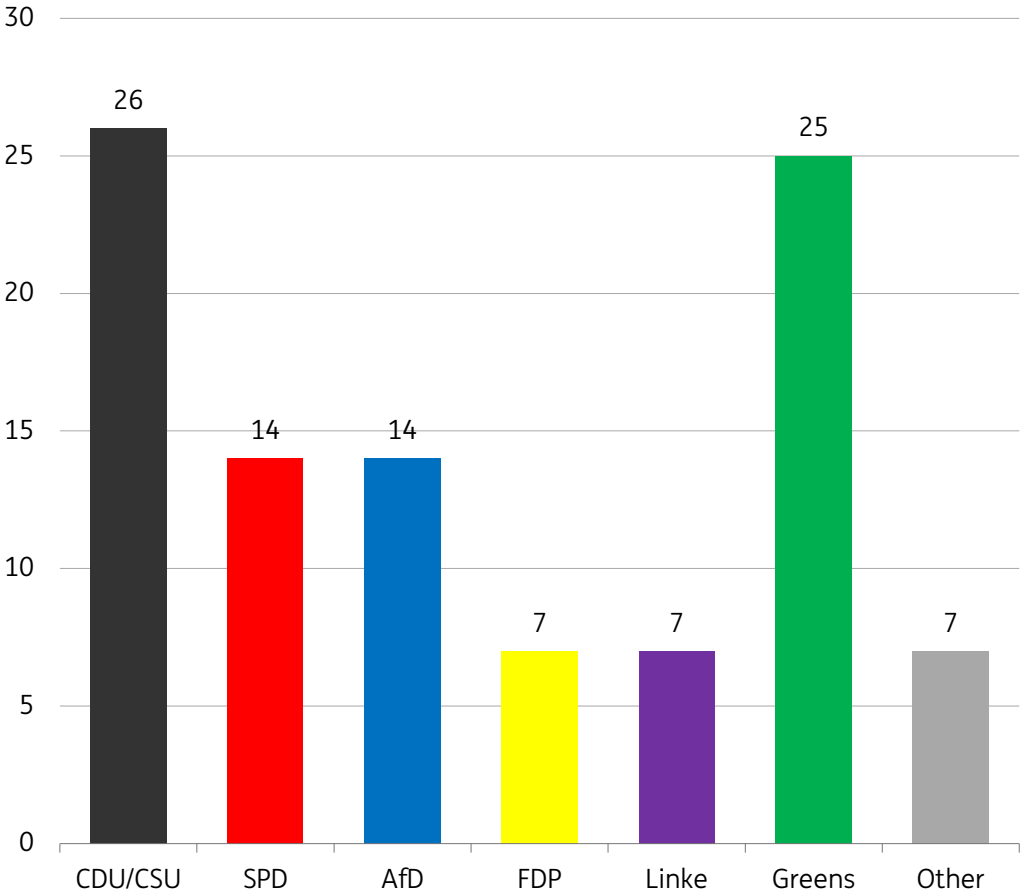
Source: Friedrich-Ebert Stiftung. Deviation of 100% due to rounding. Survey from March 2019, n=3000, eligible population of Germany



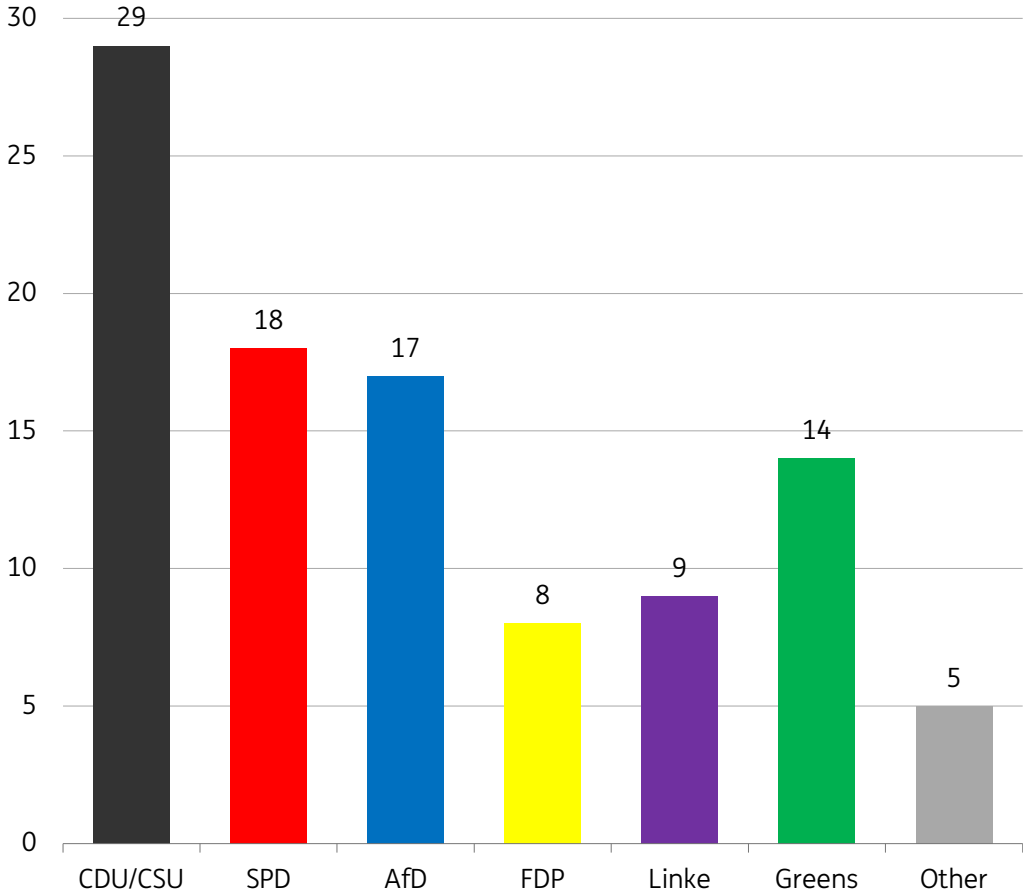
Germany's current political landscape

Sonntagsfrage: If there were federal elections next Sunday...

August 2019, %



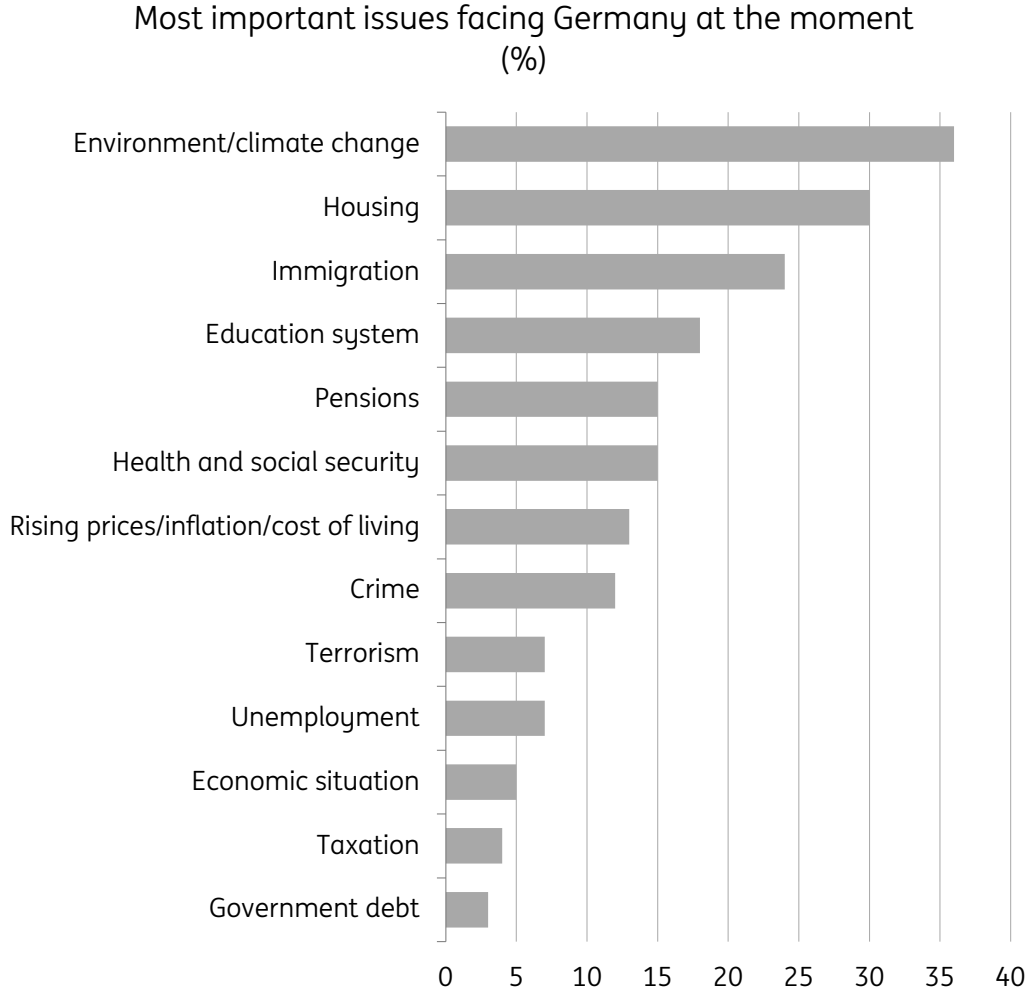
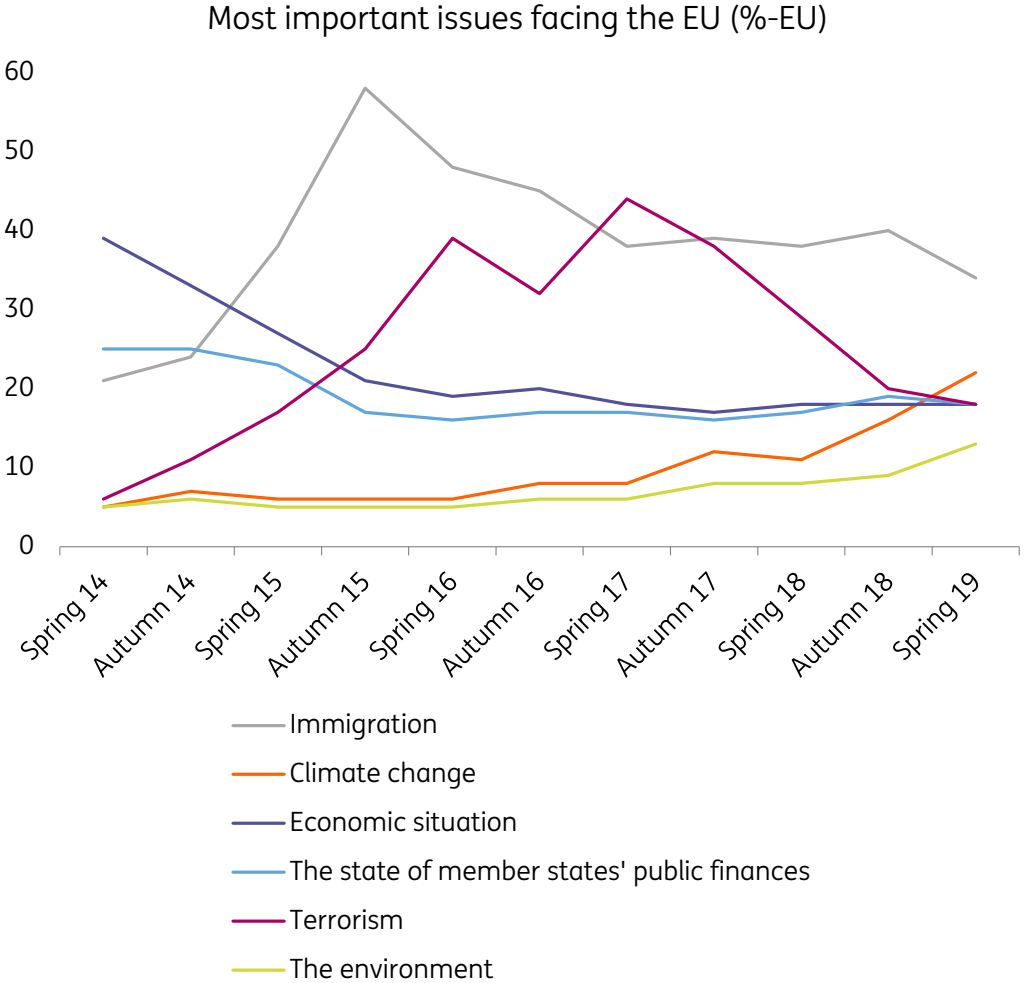
August 2018, %



Source: Infratest dimap für ARD-Morgenmagazin



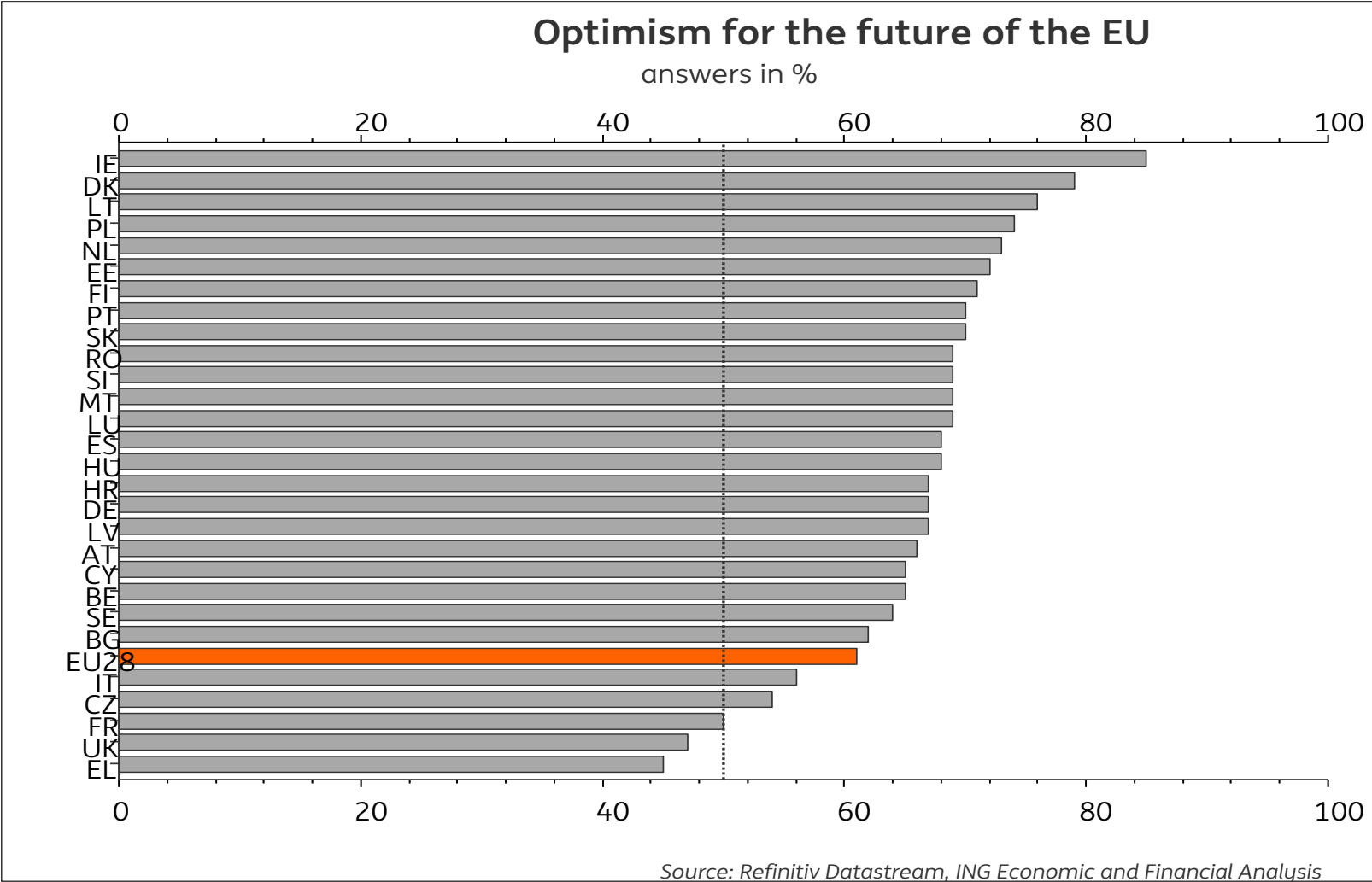
Climate change is becoming more important, not only in the EU



Source: Eurobarometer Spring 2019



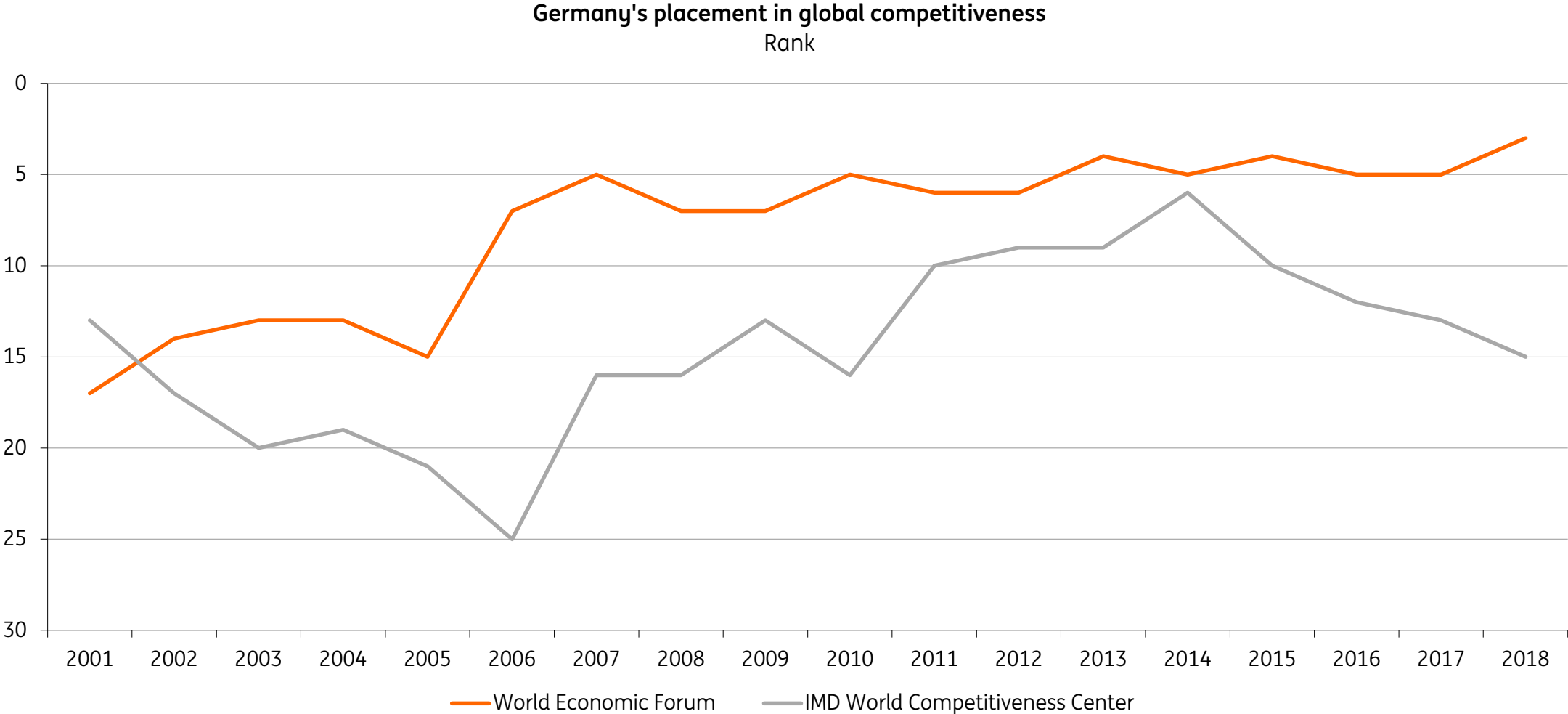
And Germans continue to be optimistic for the future of the EU



A low-angle, upward-looking photograph of a vibrant carousel. The central hub is a large, ornate wooden structure with intricate carvings and colorful panels. Numerous colorful, multi-segmented arms radiate from the center, each supporting a passenger car. The cars are suspended by thin cables and are in various positions, some high and some low, creating a sense of motion. The sky is a clear, bright blue. The overall scene is festive and lively.

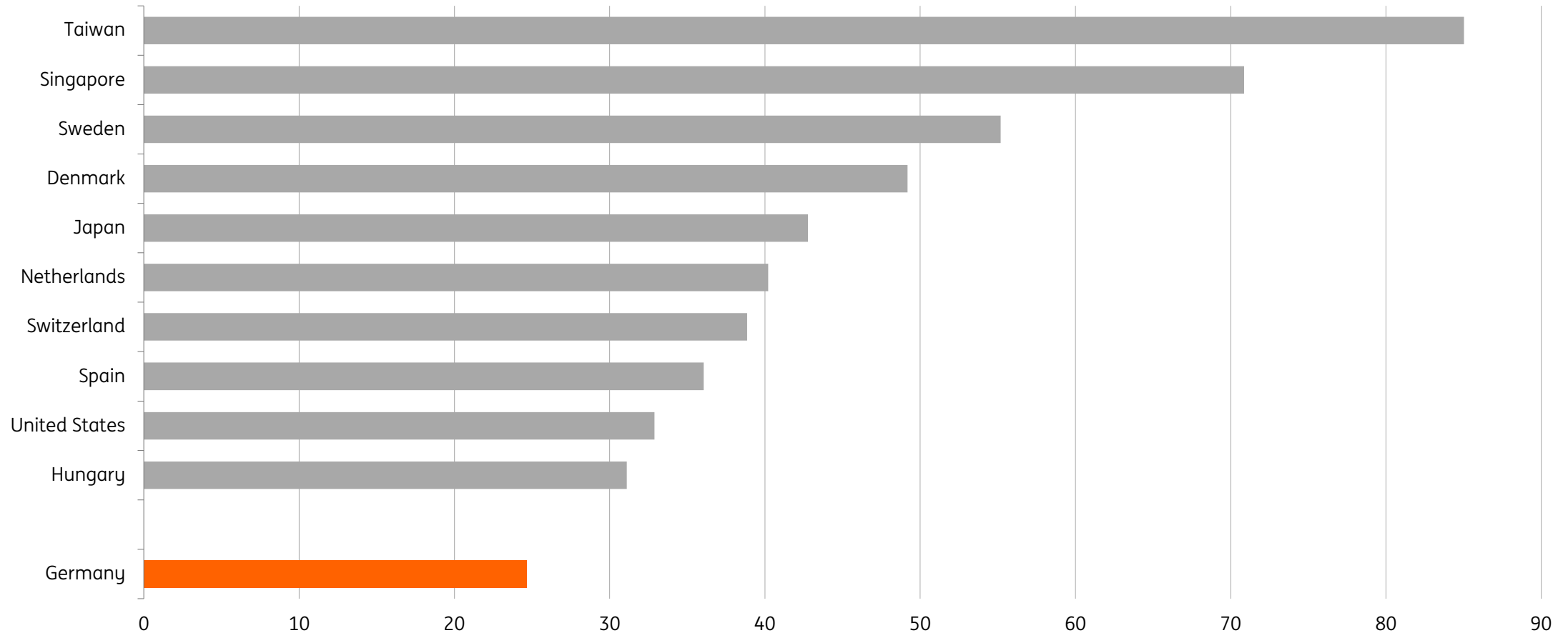
Digitisation: Still in “Neuland”?

Opinions on Germany's competitiveness differ, but...



...internet speed is too slow...

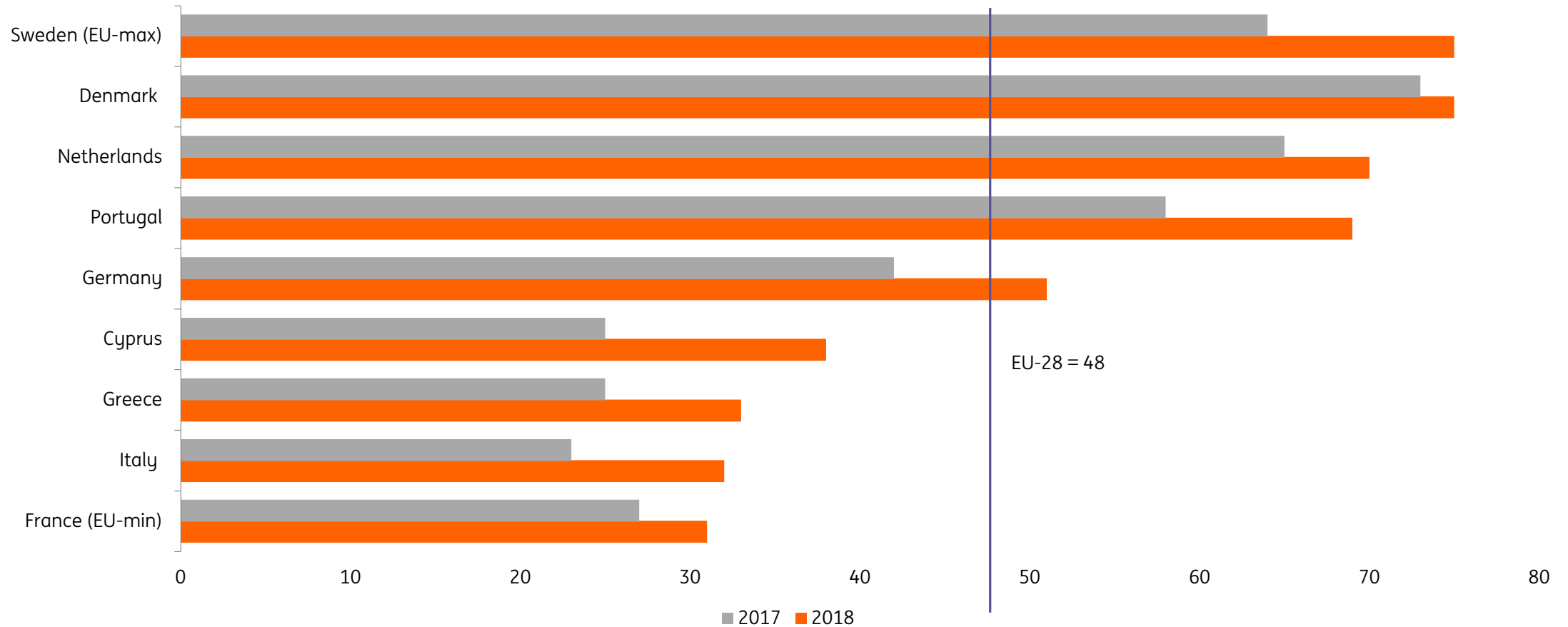
Average internet connection speed
Selected countries, Mbps, 2019



Source: Cable/<https://www.cable.co.uk/broadband/speed/worldwide-speed-league/>

...also in companies

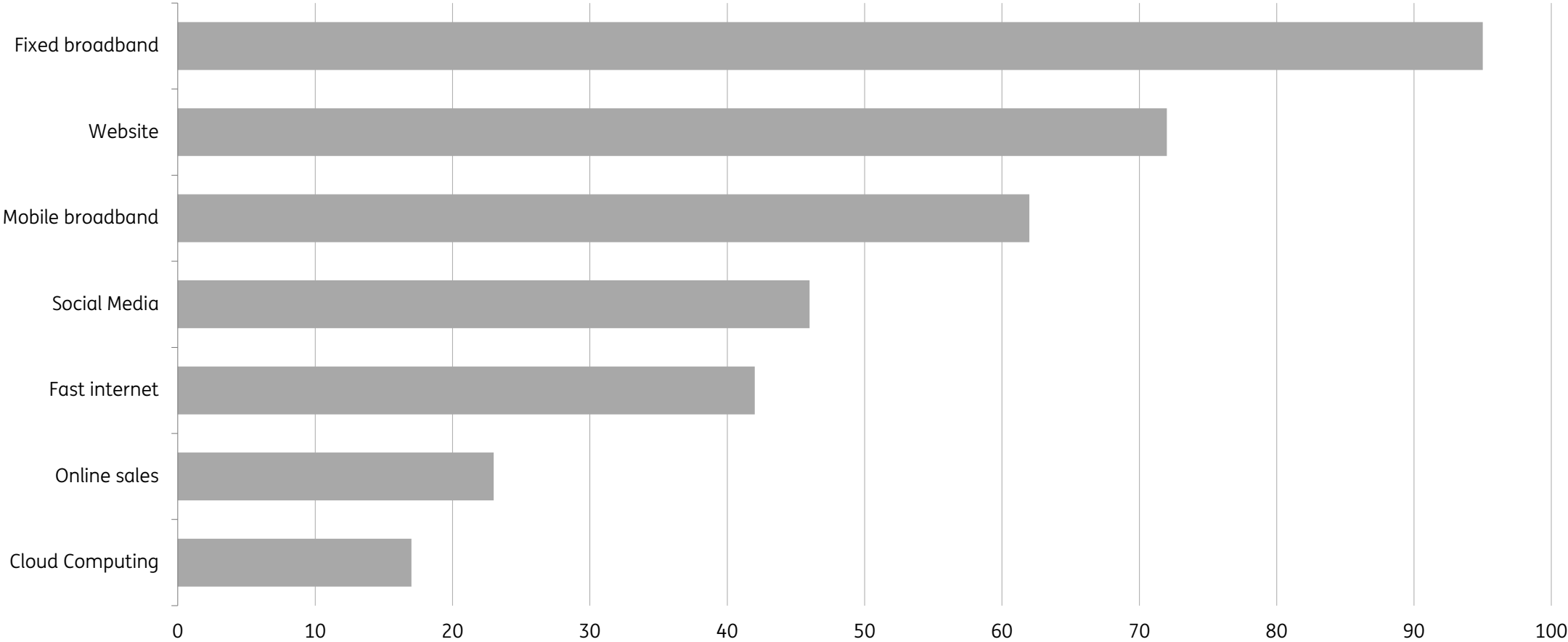
Enterprises with fast internet access
all enterprises with 10 or more persons employed (%)



Source: Destatis, Eurostat. Fast internet refers to fixed broadband connections with a contractually agreed data transfer speed of at least 30 megabits per second (Mbps).

Online sales and cloud computing are not widespread

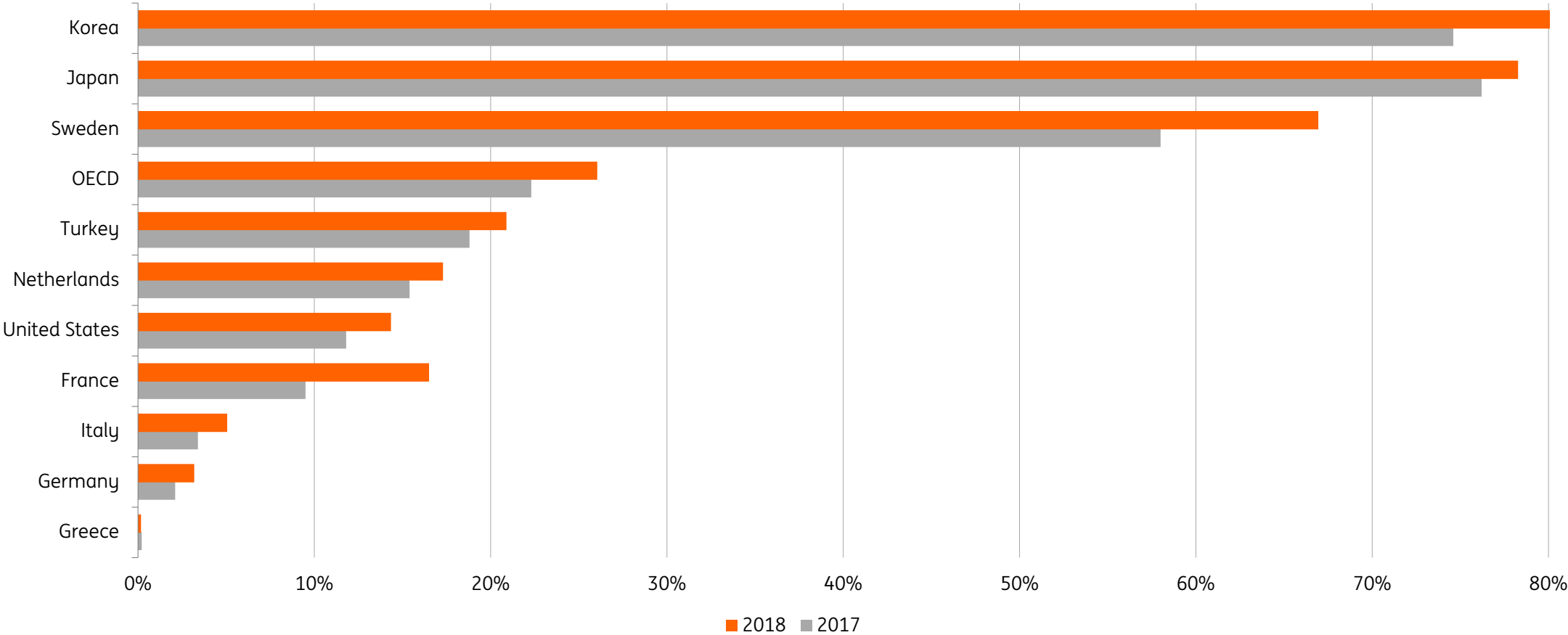
Companies in Germany who have...
%, 2017



Source: Destatis

Share of glass fibre remains low...

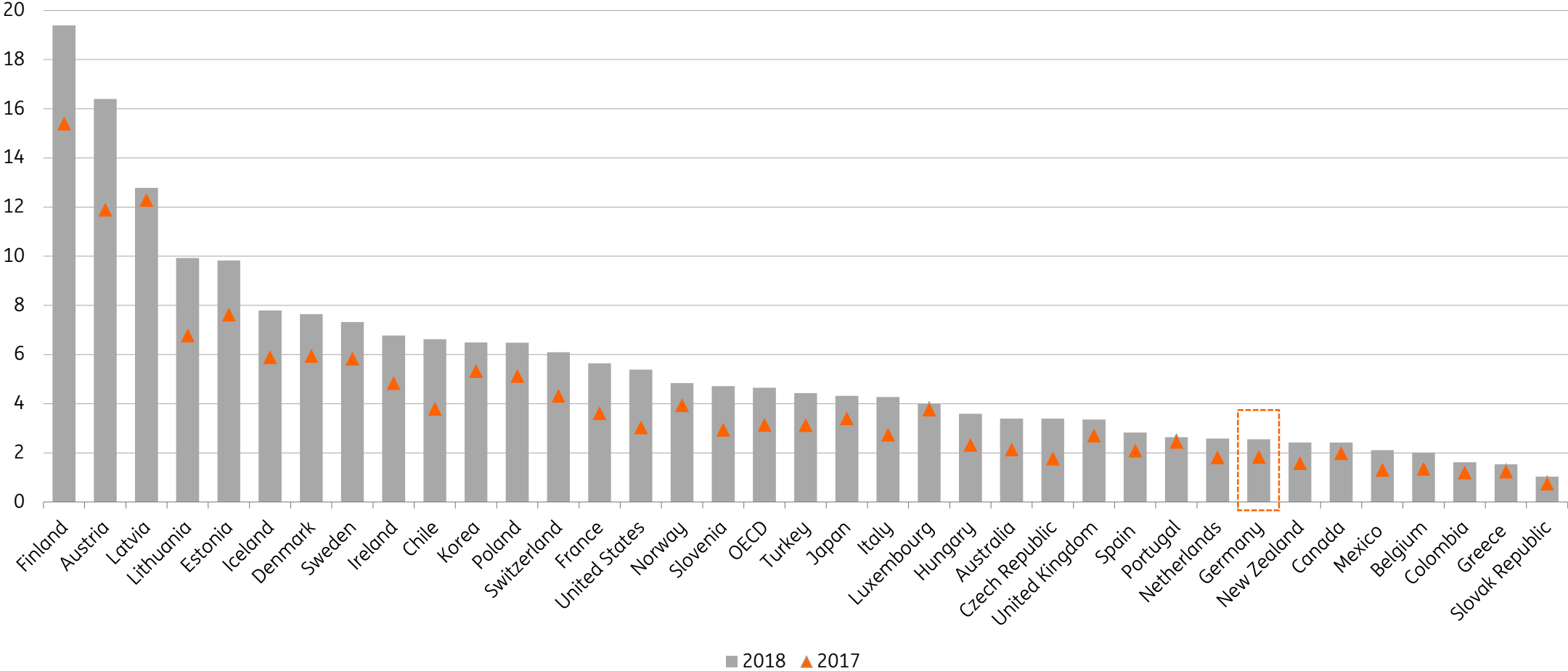
Ready for Industry 4.0?
Share of fibre connections in total broadband subscriptions (%)



Source: OECD Broadband Portal

...while costs remain high for what you get...

GB per month, per mobile broadband subscription

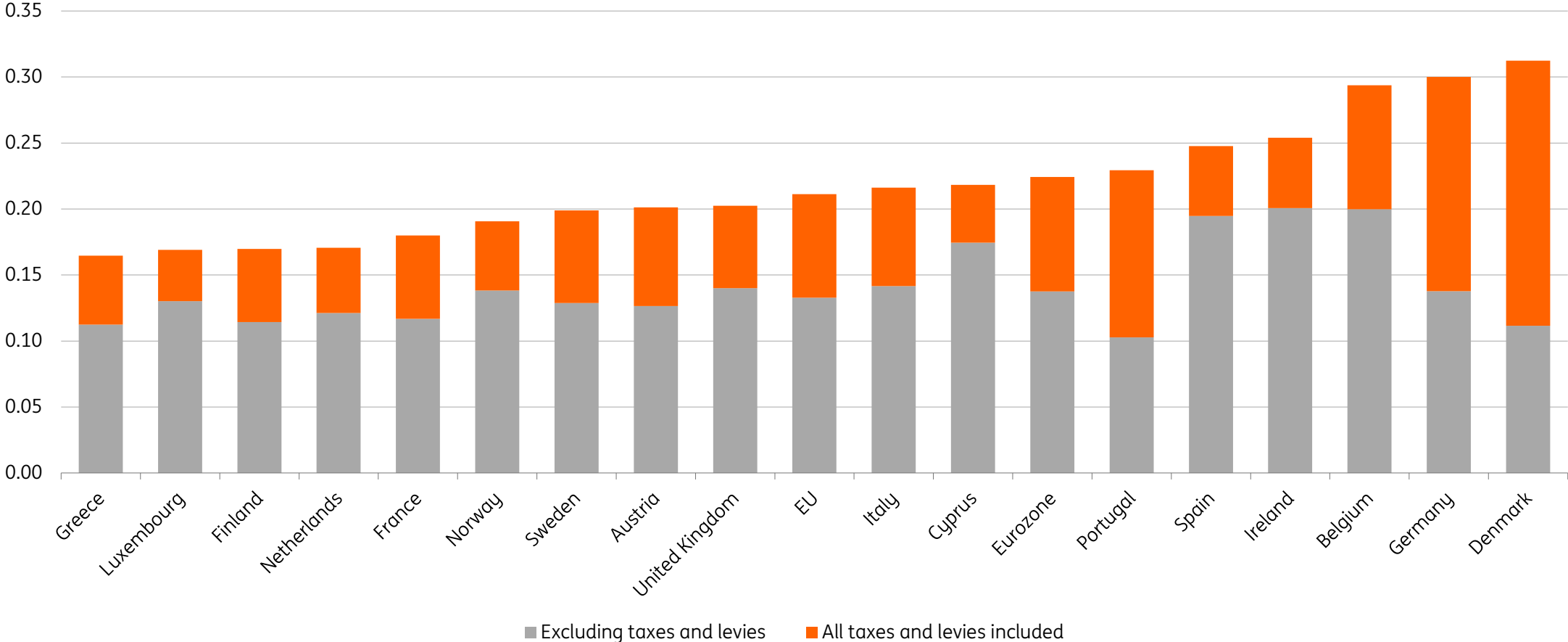


Source: OECD



...and not only for internet rates

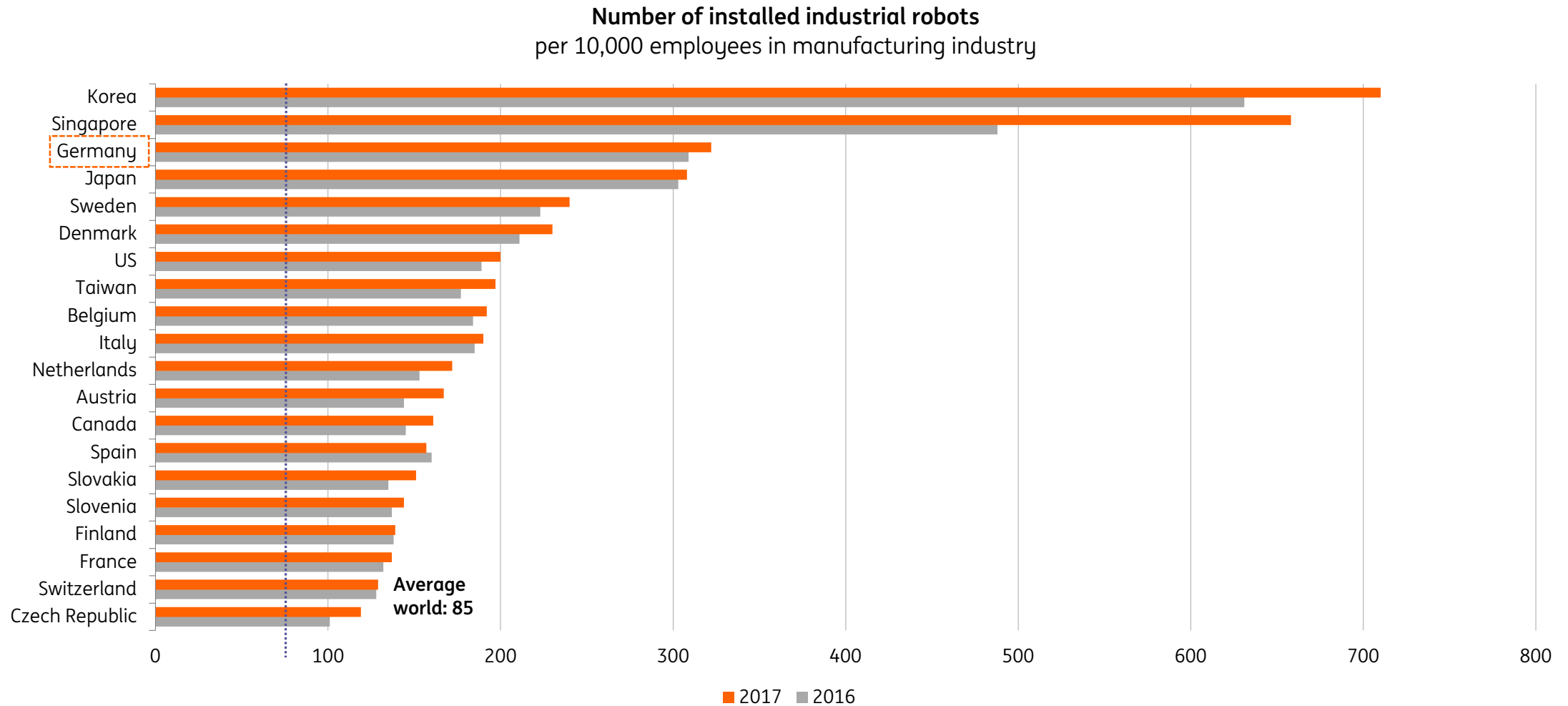
Electricity price for households per 1 kWh in H2 2018
in Euro



Source: Eurostat, 2 500 kWh < Consumption < 5 000 kWh

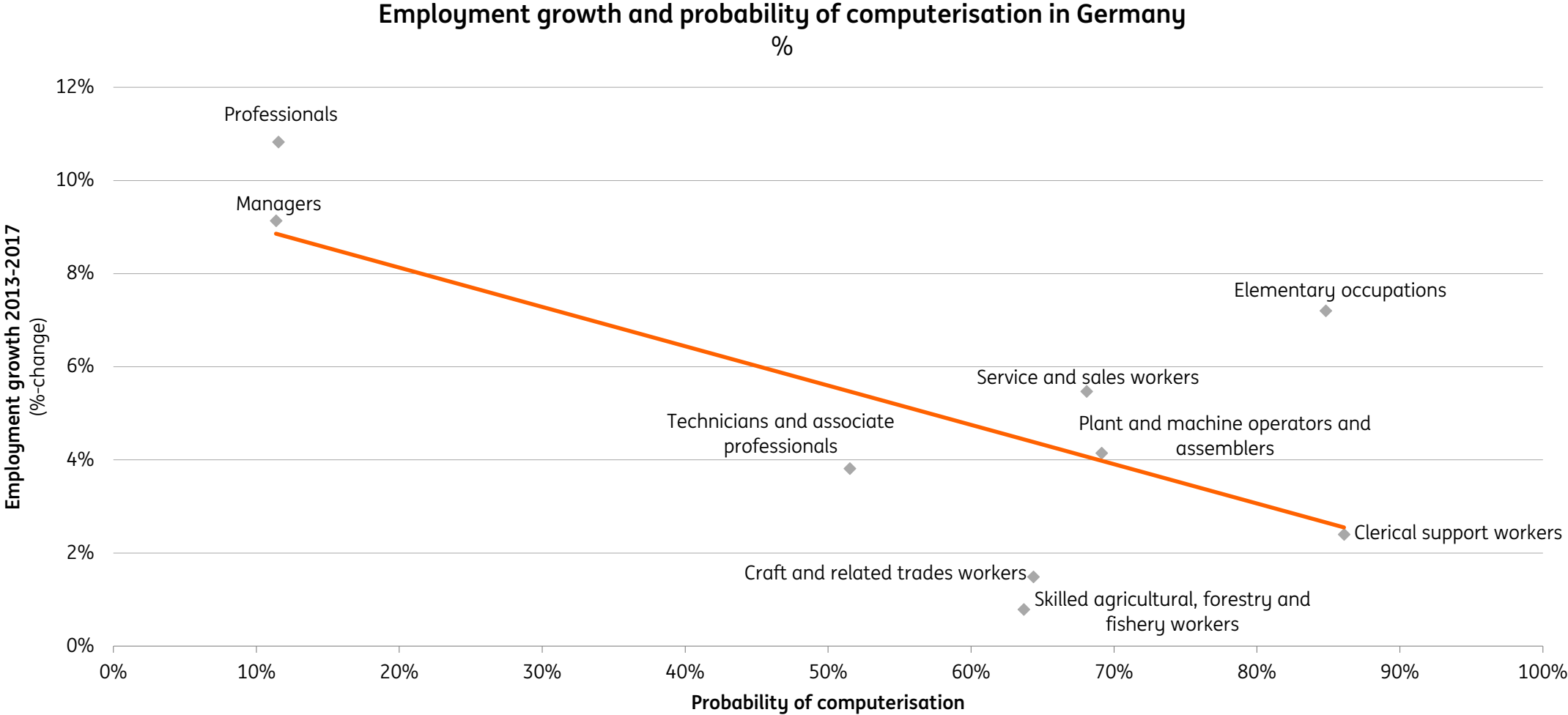


But Germany ranks highly for robotisation...



Source: IFR

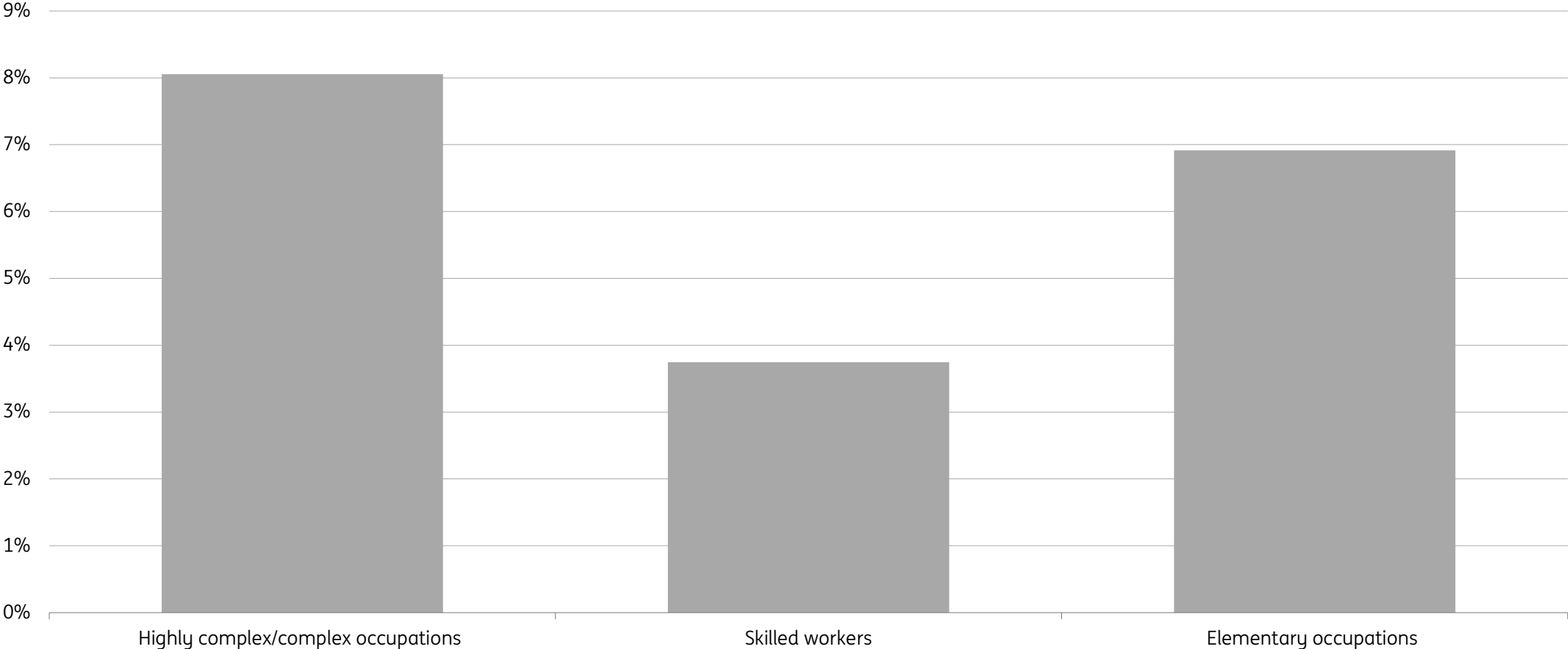
...which eventually could change labour markets...



Source: ING Economic & Financial Analysis, Die Roboter kommen (doch nicht?), June 2018

...possibly having an impact on middle-class jobs

Employment growth in Germany
%-change, 2013-2017



Source: ING-DiBa Economic & Financial Analysis, Die Roboter kommen (doch nicht?), June 2018

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