

## Economic conditions in Germany

### Macroeconomic situation

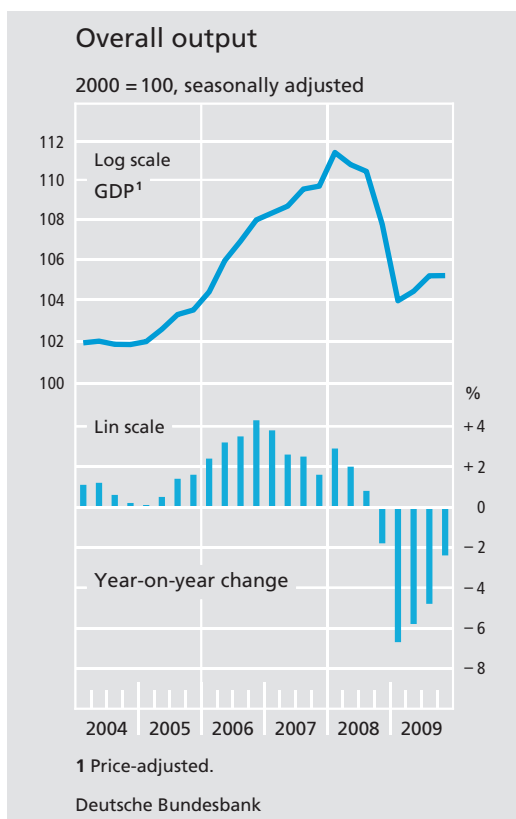
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The cyclical upturn faltered in the fourth quarter of 2009, partly because of temporary factors. Above all, the fact that the environmental premium had been discontinued had a significant impact on developments in the economy as a whole. Added to this were inclement weather conditions towards the end of the year as well as extended plant shut-downs in parts of industry. Domestic activity had a dampening effect, whereas exports showed buoyant growth again. According to the flash estimate by the Federal Statistical Office, quarter-on-quarter real gross domestic product (GDP) in the reporting period stagnated in seasonally and calendar-adjusted terms; the comparable figure for the third quarter was +0.7%. Overall capacity utilisation was still at a low level, and economic output in the final quarter of 2009, at 5.6% after seasonal and calendar adjustment, was quite clearly down on its cyclical peak in the first quarter of 2008. The fact that export activity, which is a mainstay of the German economy, continues to expand at a rapid pace suggests that the trend recovery is still intact.

*Temporary standstill in the economic recovery process*

As was the case in the third quarter, overall output in the reporting period was given a strong boost by export demand for German products. Nominal exports of goods rose by a seasonally adjusted 5.1% compared with the third quarter, which had already recorded growth of 5.4%. Having picked up impressively between May and September, exports to other countries of the European Union slowed towards the end of the period under

*Strong boost from export demand*



review. On an average of October and November – more recent data broken down by region are unavailable at present – the value of goods exported to other EU countries was more than 3% down on the quarter; compared with the cyclical low in the second quarter of 2009, there was still an increase of 4¼%, however.

What is striking is that this erratic growth pattern not only affected exports to euro-area partner countries but was also noticeable in the case of exports to EU member states that are not members of the euro area. The strongly expansionary effects of the inventory cycle along with the effects of the fiscal stabilisation measures in a number of countries appear to have provided a strong economic stimulus in the third quarter. Owing to the

fact that production is closely integrated, this had an effect on the European Union as a whole, thus giving a temporary major boost to German exports to this region. By comparison, exports to China and Japan were still on the up towards the end of the year, although they were not as buoyant as before. Positive aspects, in particular, were flourishing business with South-East Asian emerging economies and a marked turnaround in external trade with the United States and the OPEC countries towards the end of the period under review.

Seasonally adjusted imports of goods and services fell significantly in the reporting period, after having outpaced exports in the third quarter of 2009. In comparison with the third quarter, when enterprises imported raw materials and intermediate goods on a large scale, this represented a return to a more or less normal level. Furthermore, large quantities of energy were exported to Germany in the third quarter of 2009. Since very little heating oil was bought by households, however, there was a significantly lower import demand in the reporting period. Added to this was the fact that imports of capital and consumer goods fell perceptibly owing to weaker domestic demand. The car scrappage scheme, in particular, was now having a dampening impact when viewed over the four quarters of the year. Given the continuing pick-up in exports and slower import activity at the end of the period under review, external trade made a considerable positive contribution to overall economic growth on balance in the fourth quarter of 2009.

*Marked reduction in imports*

*Little change  
in corporate  
investment*

Enterprises' willingness to invest in machinery and equipment and in industrial and commercial property is likely to have remained muted at the end of the year. According to the available indicators, the volume of investment did not match its third-quarter level. In view of the continuing considerable under-utilisation of production capacity, it is, however, striking from a cyclical perspective that the fall-off in investment following the marked correction at the beginning of 2009 has remained within narrow bounds. This applies, in particular, to investment in new machinery and equipment and may also be taken as an indication that the internal funds available to enterprises have so far been sufficient to conduct planned real investment.

*Declining public  
construction,  
but housing  
construction  
still pointing  
upwards*

In the period under review, less public construction work may have been performed in seasonally adjusted terms than in the third quarter. This is suggested by the fact that the placing of new orders for public infrastructure had been faltering since mid-2009 despite the additional resources made available in the Federal government's fiscal stimulus packages. Such inactivity chiefly affected road construction. It is likely that public non-residential building construction was tending to increase in the second half of 2009. Private housing construction also showed a further slight rise in the fourth quarter of 2009. This is consistent with the fact that there was a marked increase in the volume of new officially approved construction projects compared with the low in the first quarter of 2009.

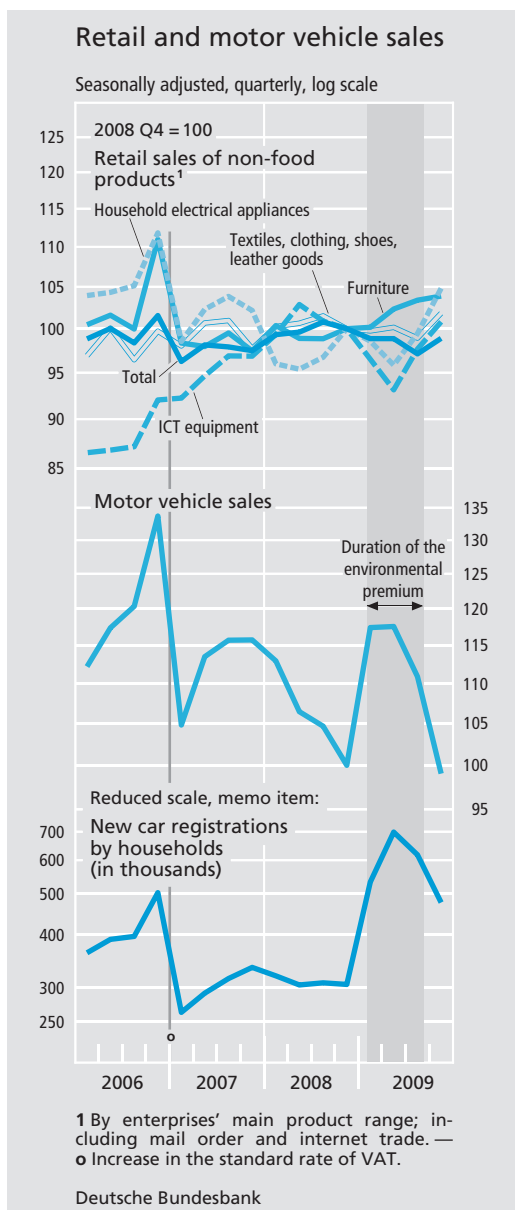
### Foreign trade by region and category of goods

#### Percentage change

Item	2009 Q3		Average of Oct-Nov 2009	
	compared with			
	2009 Q2		2009 Q3	
	seasonally adjusted			
	Ex-ports	Im-ports	Ex-ports	Im-ports
Total	5.4	5.4	3.9	- 2.2
Countries or group of countries				
Euro-area countries	6.6	2.0	- 2.5	- 3.6
Other EU-countries of which	9.6	4.8	- 4.4	- 2.2
New member states 1	6.9	2.5	- 2.2	- 0.3
United States of America	- 13.4	- 4.0	19.5	5.3
Russian Federation	2.6	21.3	9.2	9.2
Japan	5.0	6.4	1.6	1.8
South-East Asian countries 2	9.7	16.1	10.3	- 11.8
China	7.6	7.7	5.4	- 4.2
OPEC countries	- 13.1	6.8	9.9	- 7.6
Categories of goods				
Main categories				
Intermediate goods	7.4	8.0	2.9	5.0
Capital goods	3.5	0.8	5.0	- 3.6
Consumer goods	2.6	4.5	- 0.4	- 6.0
Energy	8.7	11.3	0.0	- 6.3
Selected categories				
Pharmaceutical and chemical products	3.3	6.7	2.2	0.6
Machinery and equipment	0.0	2.1	2.8	- 0.9
Motor vehicles, trailers and semi-trailers	10.9	0.6	14.7	- 2.9
Computer, electronic and optical products as well as electrical equipment	7.4	5.8	3.7	5.4
Basic metals and fabricated metal products	6.5	7.4	4.3	4.5

1 Excluding Cyprus, Malta, Slovakia and Slovenia, which now belong to the euro area. — 2 Brunei Darussalam, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand.

Deutsche Bundesbank



Consumption activity now affected negatively by car scrappage scheme

There was a perceptible slowdown in private consumption in the fourth quarter of 2009 after it had already fallen by a seasonally and calendar-adjusted 0.9% in the third quarter. As in the previous quarter, this was due mainly to passenger car sales; owing to the waning impact of the environmental premium, deliveries were still at a high level but well down on the exceptionally high level at the beginning of the third quarter. By contrast,

retail sales matched their prior-quarter level after seasonal adjustment. Consumption is thus proving to be quite robust still in terms of its underlying trend, even though the upturn in the first half of 2009 was chiefly the result of the selective incentive to buy provided by the granting of the government environmental premium and, therefore, only of brief duration. The situation was helped by the fact that households reduced their saving for a while and cut back their spending on other consumer goods only to a limited extent. Measured in terms of non-food retail sales, expenditure on household electrical appliances as well as on information and communication technology (ICT) equipment was reduced substantially following the introduction of the car scrappage scheme before it picked up again in the second half of the year. However, sales of furniture, just like retail business in textiles, clothing and shoes, were not visibly impaired by crowding out effects.

### Sectoral trends

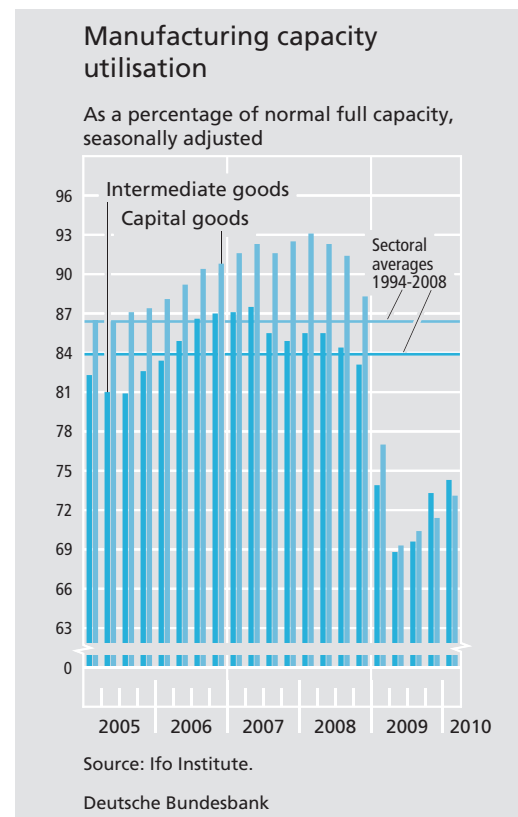
Industry is continuing to work its way out of the slump into which it fell as a result of the severe recession in the fourth quarter of 2008 and the first quarter of 2009. At a seasonally adjusted 1.0%, growth in output in the final quarter of 2009 was, however, clearly weaker than in the preceding three-month period (+3.6%). The slowdown affected both cyclically sensitive main industrial groupings. While production of intermediate goods was still obviously expanding between October and December 2009 (+2.0%), output of capital

*Slowdown in industrial recovery*

goods was stagnating. In contrast to electrical engineering, the recovery process in the mechanical engineering sector had failed to make any headway even by the end of the year. Here, as in the automotive sector, the extended plant shutdowns over the Christmas holiday period are likely to have affected output. There was a seasonally adjusted 1.3% increase in consumer goods output in the fourth quarter of 2009 following a no more than minor rise in the previous three-month period. In the period under review, industrial output – after adjustment for calendar variations – was more than one-tenth down on its already depressed prior-year level and almost one-fifth below its most recent cyclical peak in the first quarter of 2008.

*Further increase  
in industrial  
capacity  
utilisation*

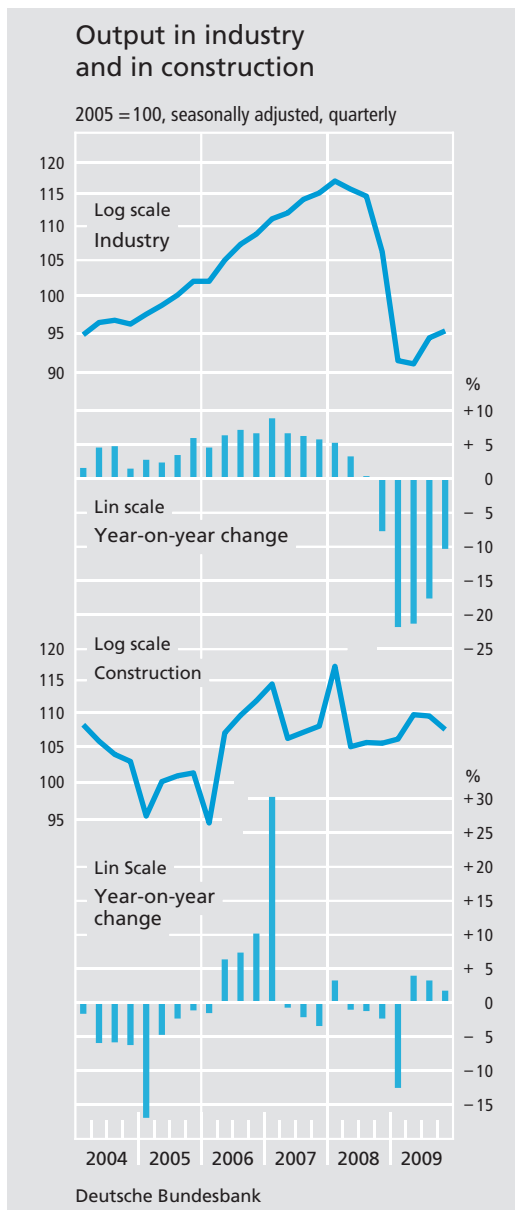
The cyclical upturn is reflected in rising capacity utilisation in manufacturing. According to the Ifo Institute survey, at 75¼% of normal full capacity in January 2010, utilisation was already more than 4 percentage points higher than its all-time low in April of last year. This offset only one-third of the shortfall with regard to normal capacity utilisation, however. At the beginning of the year, manufacturers of intermediate goods reported only a marginally higher seasonally adjusted level of capacity utilisation than producers of capital goods. Since production capacity in intermediate goods is better utilised on a longer-term average than in the basic materials industry, however, it can justifiably be concluded that the recovery process is already more advanced in the intermediate goods sector.



Construction output fell by a seasonally adjusted 1.8% in the final quarter of 2009, following a slight quarter-on-quarter decline in the period from July to September. The poor overall result in the period under review was due in part to the fact that weather-related losses of construction output occurred as early as December, with dampening effects stemming mostly from civil engineering. This was probably connected to the fact that public sector orders had dried up following the buoyant start to last year. Roughly two-thirds of the strong growth in the energy sector in the third quarter had been lost by the end of the year.

*Construction  
output and  
energy  
production  
clearly weaker*

The diverging trends that were already apparent in the business activity of the individual trade sectors in the third quarter continued to



*Trends continuing to diverge in trade, but largely positive in the rest of the services sector*

shape developments up to the end of 2009. In real terms, the wholesale sector recorded a further seasonally adjusted growth in sales, for example, even though it was smaller than in the previous quarter. Retail sales were tending to be somewhat better, but sales of motor vehicles fell off at an accelerated pace. Following an improvement in the second and third quarters, the performance of hotels and restaurants is likely to have been markedly

poorer in the last three months of 2009. According to the statistics on motorway tolls, the domestic activity of transport and logistics enterprises was perceptibly less favourable towards the end of last year following the upturn in the period from April to September. Given flatter growth in cross-border transactions in goods recently, this is unlikely to have been offset entirely by their foreign business. According to the available indicators, activity in the rest of the business-related services sector is likely to have picked up somewhat further.

### Employment and unemployment

By and large, the final three months of 2009 saw a continuation of the underlying trends already apparent in the labour market in the preceding quarters. Despite the persistent major underutilisation of overall production capacity, for example, there was no more than a slight quarter-on-quarter decline in the number of persons in work in Germany in seasonally adjusted terms. Manufacturing employment subject to social security contributions did show a further fall but staffing levels were increased again noticeably in the health and social work as well as education sectors. In addition, there was a further increase in the number of persons in low-paid employment as a main or secondary occupation.

In line with the development in employment, the rise in unemployment was very limited in the fourth quarter. The official unemployment figure showed a slight quarter-on-

*Only moderate decline in employment again at the end of 2009*

*... and only a slight rise in unemployment*

quarter decline in seasonally adjusted terms, in fact. It was only unemployment in the broader sense – which includes, for example, persons on the books of private employment agencies – that showed a slight increase. Official unemployment showed an increase of 211,000 on the year to a seasonally adjusted 3.42 million. In the broader definition, there was an increase of 437,000. After seasonal adjustment, there was a year-on-year rise in the official unemployment rate from 7.6% to 8.1%. In January 2010, unemployment rose by 6,000 on the month to 3.43 million. The unemployment rate went up to 8.2%.

*Special characteristics of the labour market in the current cycle with regard to employment, ...*

The response of the labour market to the slump in output during the two quarters around the turn of 2008-09 differs in three key aspects from earlier economic downturns. First, employment in manufacturing, which tends to be severely affected by cyclical fluctuations, was cut back far less than might have been expected from the loss of output. Based on the headcount in the first quarter of 2008, only 239,000 jobs had been lost in manufacturing in seasonally adjusted terms by the third quarter of 2009 (more recent consistent national accounts data are unavailable at present). This corresponds to a decline of 3.1%, while the fall in industrial output over the same period was roughly one-fifth after seasonal and calendar adjustment.<sup>1</sup> The employment effects are to be seen as extremely subdued even including the job losses of roughly 160,000 in the case of temporary employment agencies and assuming that temporary work (assigned to the services sector for statistical purposes) was used primarily by industry in the past upswing. With regard

to the economy as a whole, the employment level was, in fact, maintained despite the sharp drop in real GDP in the reference period since many new jobs were created, above all, in wholly or partly publicly financed services.

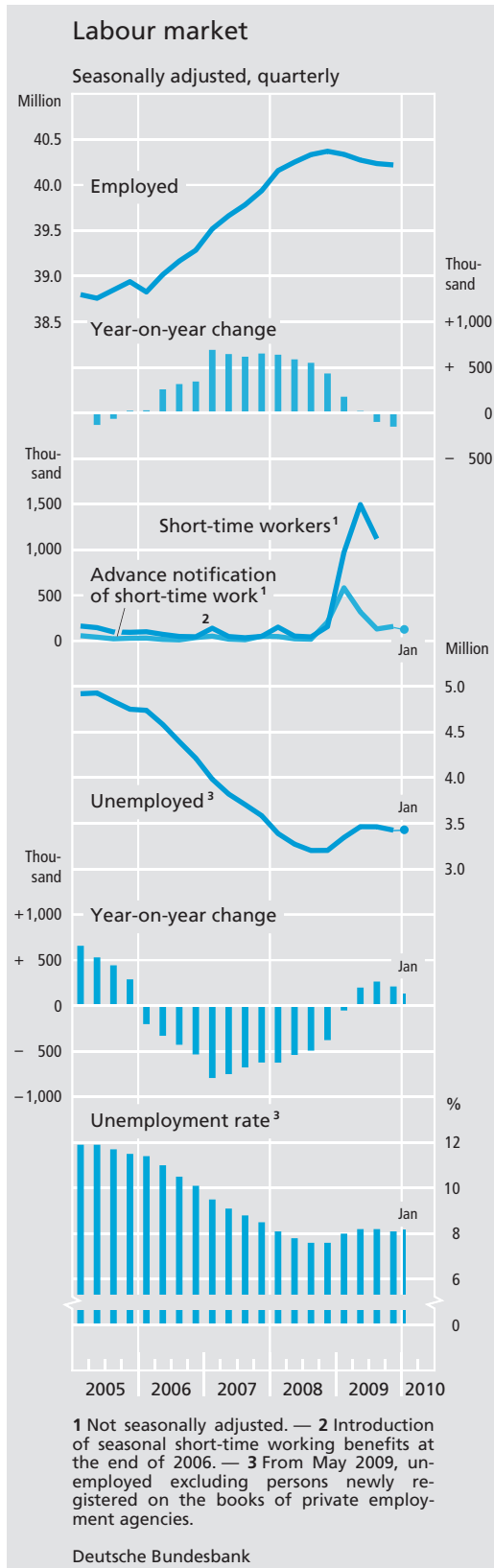
A second thing that is striking about the labour market's response to the current slowdown is that working hours – principally in manufacturing – have been cut back considerably more sharply than in earlier cycles. According to the figures as of November 2009, average working hours in the economy as a whole were reduced by a seasonally and calendar-adjusted 4.4% between early 2008 and the third quarter of 2009. Claims to short-time working benefits and reductions in regular working hours each account for roughly one-quarter of this figure, with one-fifth being explained by forgoing overtime, around 15% by the use of working time accounts, and more than 15% by an increase in part-time work.<sup>2</sup> Not least given experience of the medium-term impact of recession-induced redundancies in earlier economic slowdowns, there is currently a noticeable interest on the part of enterprises and employees to maintain jobs that are profitable under normal cyclical conditions and to safeguard firm-specific human capital linked to the employees. The conditions necessary for this have been created over the past few years by pay agreements which grant considerable flexibility at company level in terms of

*... working hours ...*

<sup>1</sup> Compared with the cyclical peak in employment, the decline amounted to 270,000 or 3.5%.

<sup>2</sup> The initial provisional IAB annual figures on the total number of hours worked for 2009 appear to imply another weighting of the individual components. Although this modifies the overall picture somewhat, it does not fundamentally call it into question.





working hours and remuneration. Surveys by the Institute for Employment Research (IAB) and the Institute of Economic and Social Research (WSI) show that much use has been made of the scope this provides. Government-subsidised short-time working has helped to counter the sharp cyclical decline in the amount of work so far, largely by means of a reduction in the number of hours worked, although it has been only one of several factors.

A third point is that an increase in the labour market participation rate – disregarding positive trend factors – is rather untypical of economic slowdowns. The number of persons active in the labour market as a percentage of the working-age population showed a comparatively sharp increase, especially in the first half of 2009. The newly created employment opportunities in publicly financed services are mostly part-time jobs. A considerable number of these are likely to have been taken up by women who were previously neither unemployed nor in employment. By contrast, job losses in industry and in temporary work frequently resulted in unemployment.

*... and labour market participation*

Although jobs will probably continue to be cut in manufacturing in the near future, there are no identifiable signs of increased pressure in terms of lay-offs. In fact, leading indicators for the labour market are pointing upwards and are, in some cases, even approaching neutral territory. The Ifo employment barometer for trade and industry has shown a further improvement, and has now clearly gone up from the low reached in the second quar-

*Labour market outlook*



ter of 2009. At the Federal Employment Agency, there continues to be an increase in both the level and number of new vacancies for non-government-assisted jobs, albeit starting from a depressed level and at no more than a subdued pace. This trend is also revealed by the quarterly IAB Job Vacancy Survey for the final quarter of 2009. Furthermore, greater use is being made of temporary employment in industry again and this sector even recorded a slight seasonally adjusted rise in the number of employees subject to social security contributions during the second half of 2009. Although January 2010 saw some increase again in the influx of jobseekers who were not (yet) unemployed, it was still clearly smaller than at the turn of 2008-09.

## Wages and prices

*Noticeably smaller rise in negotiated pay rates in 2009 Q4*

The Deutsche Bundesbank's pay rate statistics show that the year-on-year increase in negotiated rates of pay in the fourth quarter of 2009, at 1.5% on average, was significantly lower than in the third quarter (2.1%). This was due, for one thing, to diminishing rises in negotiated rates of pay. For another, a part was played by special factors in the public sector (such as spreading the special payment in the case of Federal civil servants over a period of several months and the discontinuation of the performance bonus in the Federal states) as well as by a base effect in the metal-working and electrical engineering industries owing to earlier lump-sum payments. Excluding collectively agreed one-off and special payments, earnings were 2.2% up on the year in the fourth quarter of 2009,

compared with +2.6% in the preceding three-month period.

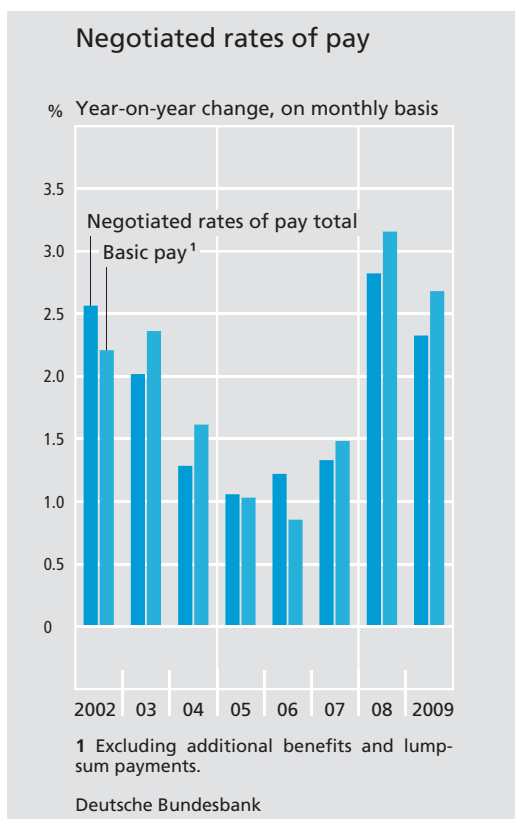
For 2009, this gives an average increase in negotiated rates of pay of 2.3%, compared with 2.8% in 2008.<sup>3</sup> According to initial calculations by the Federal Statistical Office, actual earnings were down 0.4% on the year in 2009. On a monthly basis, the wage drift was thus clearly negative at -2.7 percentage points. This was due chiefly to the considerable discrepancy between hours actually worked and negotiated working hours. By contrast, the cutting of non-core components and the deferment of collectively agreed payments have been of comparatively little significance so far. The wage drift, calculated on an hourly basis, was in positive territory, however, at 0.6 percentage point.

*Annual result for 2009*

The beginning of the year saw the introduction of a new generally binding minimum wage for the waste disposal sector including street cleaning and winter road maintenance. This means that there are, at present, minimum wages in 11 sectors, six of which have the status of a sector-specific minimum wage level. This takes account of the fact that the Federal Administrative Court (*Bundesverwaltungsgericht*) has ruled it unlawful to declare as generally binding the minimum wage for letter carriers, procedural errors being de-

*Sector-specific minimum wages*

<sup>3</sup> The growth rate for basic pay including lump-sum and one-off payments amounts to 2.4%, while the negotiated pay index of the WSI, which excludes civil servants, shows a marginally higher annual increase of 2.6%. If only basic rates of pay are considered, Bundesbank calculations produce an increase of 2.7%. The Federal Statistical Office, which also excludes civil servants from its figures, reports a similarly high increase of 2.8% in collectively agreed basic rates of pay.



cisive in the repeal. In addition, the generally binding minimum wage levels for the roofing and industrial cleaning trades, which have run out, will be renewed in the near future.

*Price climate remains favourable*

With the world economy picking up, the fourth quarter of 2009 saw at least a temporary standstill in the negative price trend at the upstream stages of the production chain that, one year earlier, had first affected commodities and intermediate goods and later spread to finished products. Import and export prices were 1.8% and 0.6% up on the quarter respectively in seasonally adjusted terms. Domestic industrial producer prices rose by 0.2%. Prices were therefore still well below the peaks recorded in the third quarter of 2008, which is quite consistent with the continuing global output gap. The terms of trade

deteriorated for the first time since the third quarter of 2008 owing to the disproportionate increase in import prices in the wake of higher oil prices. For consumers, the marked increase in energy prices more than offset the easing of price pressure in the case of other goods and services. Overall, consumer prices rose by a seasonally adjusted 0.3% on the quarter, which was a somewhat sharper increase than in the preceding quarters but still quite moderate. The year-on-year figure for the national consumer price index (CPI) turned positive again at +0.4% after having been -0.3% in the third quarter (HICP: +0.4%, subsequent to -0.5%). Base effects played a considerable part in this, mainly on account of movements in crude oil prices in the second half of 2008. The generally favourable price climate is likely to persist in the next few months.

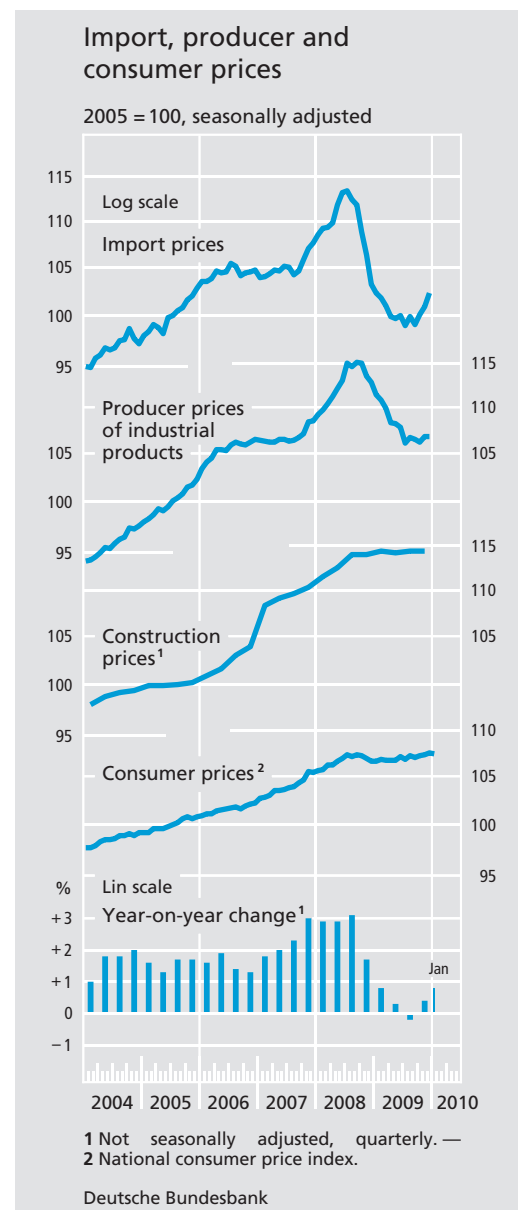
The disinflationary process in final goods running successively through the various stages of the production chain since mid-2008 continued initially in the fourth quarter. Nevertheless, in the case of imports a reversal of trend was becoming apparent at the current end. This is also likely to have a lagged impact on domestic producer and consumer prices. At the upstream stages of the supply chain, there was a continuation of the increase in the cost of energy and intermediate goods that had begun in the previous quarter in the wake of the recovery in the world economy. The increase in the price of imports – where price movements generally have a greater amplitude – was much more pronounced than in the domestic prices of German industrial products, however. Domestic construc-

*Prices of final goods still falling, prices of intermediate goods beginning to rise again*

tion prices were unchanged on the quarter and were still 0.4% up on the year.

*Consumer prices affected by higher cost of oil*

The somewhat faster, but still moderate pace of consumer price inflation resulted largely from higher energy prices. Prices in all other product categories went up only slightly in seasonally adjusted terms or not at all. The increased cost of energy was due chiefly to higher international crude oil prices, which were tracked by the prices of heating oil and fuel. Gas, which usually reacts with a time lag, became cheaper again as a delayed consequence of falling crude oil prices in 2008. Food prices ended their downward trend begun in the final quarter of 2008. Although there was a marked fall in the prices of meat and vegetables, consumers had to pay more again for dairy products for the first time since the second quarter of 2008. Overall, there was a slight rise in the cost of other durable and non-durable goods, with relatively unfavourable price developments in the case of semi-durable goods contrasting with price reductions for durables. In the case of clothing and shoes, there was a marked decline in the index in November owing to a clearance sale by one mail-order company. In contrast to earlier years, however, prices were only marginally lower in December than they had been in October. Prices of services and housing rents continued their moderate upward trend and were no more than roughly 1% higher than in the same period of 2008. According to various indicators, house prices in Germany last year showed only a subdued rise, too (for details, see the box on pages 58-59).



Despite higher energy prices, the cost of living fell in January by a seasonally adjusted 0.1%. The annual rate of change in the national consumer price index fell from 0.9% in December to 0.8% (HICP unchanged at 0.8%). This was due mainly to stronger effects of sales, partly because some prices were reduced later rather than in December. Improved statistical recording of goods showing pronounced seasonal price movements

*Inflation rate stabilised in January at a low level*

## House prices in 2009 in Germany

In keeping with the current macroeconomic environment and the medium-term outlook, the steady moderate upward trend in house prices continued in Germany in 2009. According to the indices for residential property prices calculated by the Bundesbank based on BulwienGesa AG data,<sup>1</sup> the prices of newly constructed semi-detached houses and owner-occupied apartments rose somewhat in Germany in 2009, whilst prices for existing properties eased slightly. The prices of new owner-occupied apartments rose somewhat more strongly than those of new semi-detached houses, while the fall in prices for existing properties of both types was virtually identical. In western Germany prices of existing properties remained essentially stable, while in eastern Germany they fell markedly, especially for semi-detached houses. In both regions, the prices of new owner-occupied apartments rose somewhat more sharply than those of newly constructed semi-detached houses.

A very similar picture is revealed by the hedonic house price indices which have been published regularly by Hypoport AG since autumn 2008. According to these indices, the prices of newly constructed properties rose slightly on an annual average for 2009, whilst prices for existing houses fell quite sharply.

The price indices for owner-occupied housing produced by the Association of German Pfandbrief Banks (*Verband deutscher Pfandbriefbanken*, vdp) changed only slightly in 2009 following a small increase in 2008. Owner-occupied apartments became noticeably more expensive, whilst the prices of one-family and two-family houses fell.

According to all the indicators, the reporting period corresponds to the picture of a steady price development in the German housing market that has prevailed for several years now. Pronounced and quite persistent fluctuations, which have been observed in the USA and in some European countries over the past years, have not

occurred in Germany. Based on the fact that there have been no major tensions in the German housing markets, the flat price trend is consistent with the development of major fundamentals. Demographic developments, for example, are tending to exert dampening effects, and increases in real income are also assessed to be limited over the long term. In addition, the real economic repercussions of the economic crisis are unlikely to have strongly impaired the demand for residential property, as its impact on the labour market has been moderate so far. Finally, it can be assumed that the low interest rate level, combined with hardly any tightening of credit standards for mortgage loans has been a positive influence in itself. In the case of newly constructed housing, sharply increased construction costs over the past years could also have had an impact on prices.

In Germany, the past few years have seen a marked increase in the available range of price indices for residential property that meet specific minimum requirements. Private sector providers predominate in this context, while the official statistics have not yet progressed beyond provisional figures as part of an EU pilot project.<sup>2</sup> The available index series show quite different trends in some cases, however. This may well be due to the fact that none of the indices so far fulfil the criterion of being completely representative. The deviations are possibly also due to differences in the methodology used for collecting data, and the weighting. Furthermore, the procedures used to make the micro data comparable differ from each other.

BulwienGesa AG data are largely based on expert assessments, which are surveyed for the purpose of determining the value of typical properties in the categories of new and existing owner-occupied apartments and semi-detached houses.<sup>3</sup> Using data collected for 100 west German cities and 25 east German cities, an index series is calculated for each type of property with the number of inhabitants in 2005 acting as weighting factors. The

house in a medium to good location with around 70m<sup>2</sup> or around 100 m<sup>2</sup> of living space respectively. — <sup>4</sup> According to Hypoport AG figures, the platform processes an average of almost 8,000 mortgage loan agreements per month. Apart from the fact that this figure probably also includes mortgage refinancing, this corresponds to one-tenth of all real estate transactions in Germany. — <sup>5</sup> Newly constructed housing: HPX-hedonic-newhome; resale housing: HPX-hedonic-existinghome; owner-occupied apartments: HPX-hedonic-apartment. See H-J Dübel and S Iden, *Hedonischer Immobilienpreisindex für Deutschland*, Isolie-

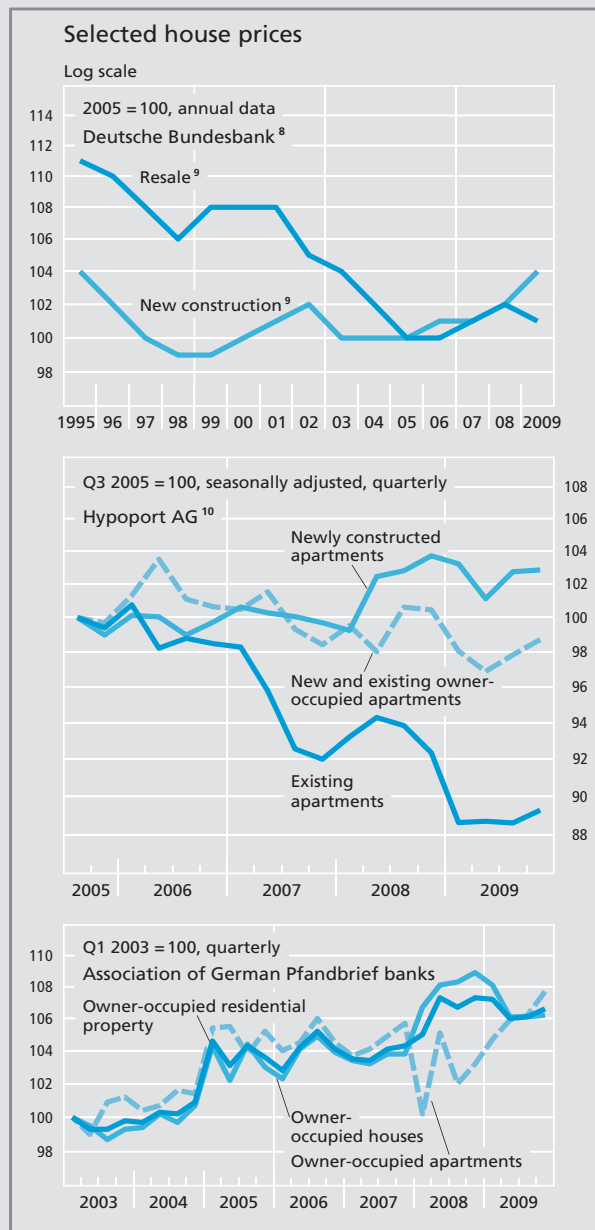
<sup>1</sup> See Deutsche Bundesbank, Price indicators for the housing market, Monthly Report, September 2003, pp 45-58. — <sup>2</sup> See J Dechent, *Häuserpreise – Ergebnisse für 2007 und erste Resultate für Transferkosten*, *Wirtschaft und Statistik* 10/2008 (available in German only). — <sup>3</sup> The price information comprises data collated from estate agents, surveyor committees, and building and loan associations, offer prices in sales advertisements in printed and online media, test purchases and surveys conducted by BulwienGesa AG themselves. According to BulwienGesa AG, a typical property is an owner-owned apartment/semi-detached

overall price index for newly constructed housing is determined using the individual indicators for owner-owned apartments and semi-detached houses based on the relationship between the estimated cost of the completed building per property type (in accordance with the construction statistics). The weighting scheme used for resale data is the percentage share of each type of property in living space in the overall property portfolio. The index levels for the reporting year are available in January of the following year. For new properties, the time series of historical calculation results go back to 1975 for western Germany; the indicator series go back to 1995 for Germany as a whole.

Hypoport AG primarily uses data on mortgage loan brokering via an internet platform.<sup>4</sup> Using hedonic regressions, quality-adjusted indices are calculated from these data for new and existing one and two-family houses, as well as for owner-occupied apartments.<sup>5</sup> The index series are generally published monthly in the form of three-month averages, and cover the period since August 2005.

vdp publishes quarterly house price indices for one and two-family houses and owner-occupied apartments. There is no breakdown for new and existing properties, and results go back to 2003. The underlying micro data stem from a vdp database, in which new mortgage lending is captured from the business sector of currently 17 participating vdp member institutions. This database is likely to model the regional distribution of property purchases in Germany quite well.<sup>6</sup> Using hedonic methods for quality adjustment, regional and national indicators for owner-occupied houses and apartments are calculated, which are then collated in an overall index for owner-occupied housing. The weighting is based on the relative frequency of owner-occupied houses/apartments in private ownership in 2003.<sup>7</sup>

zung qualitativer Hauspreismkmale durch hedonische Regressionsanalyse aus Daten der Europace-Plattform (Hypoport AG) und Machbarkeit eines hedonischen Hauspreisindexes für Deutschland (available in German only), Berlin 2008. The owner-occupied apartment category may contain both new and existing properties. — 6 According to vdp, 17 financial institutions provide data records totalling some 500,000 units with an annual number of roughly 30,000 cases. These also include estimated market values, however. — 7 F Eilers und T Hofer, Die statistische Erfassung der Immobilienpreisentwicklung in Deutschland,



Professionelles Immobilien-Banking, Fakten und Daten 2007/2008, Berlin 2007 (available in German only) and T Hofer, vdp-Transaktionsdatenbank und -Immobilienpreisindex: Stand, Ergebnisse und Perspektiven, Professionelles Immobilien-Banking, Fakten und Daten 2008/2009, Berlin 2008 (available in German only). — 8 Bundesbank calculations based on data provided by BulwienGesa AG. — 9 Semi-detached houses and owner-occupied apartments. — 10 Recalculated from the original base: August 2005 = 100.

was also a contributory factor, however. The lowering of the rate of value added tax for overnight accommodation had no marked effect on consumer prices. There was a clear rise in the prices of seasonal food owing to the exceptional weather conditions.

### Orders received and outlook

*Recovery under increased pressure in the short term*

The German economy is on a path of recovery. According to the available indicators, its underlying momentum does not appear to be at risk, although it is still subject to negative influences at the beginning of 2010. In the short term, the fact that it has been colder and that there has been more snow than usual this winter has, in particular, considerably dampened construction activity since the turn of the year and is also likely to have adversely affected the transport sector and other outdoor industries. Furthermore, the stimuli generated by fiscal policy measures introduced in Germany and elsewhere in response to the crisis are now waning, while the endogenous forces of growth still lack the strength and breadth to compensate for them in terms of overall demand at present. German enterprises' business with the Asian emerging economies is still expanding strongly and activity in other major export markets, such as central and eastern Europe, the USA and the OPEC countries, has picked up noticeably of late. Nevertheless, a broad-based export-led recovery also requires more dynamic growth in trade with euro-area partner countries in the future.

The pick-up in demand for industrial products perceptibly lost momentum at the end of 2009. In the final three months of last year, the seasonally adjusted intake of industrial orders rose by no more than 0.7% on the quarter, compared with a sharp rise in the second and third quarters following a sharp downturn. The loss of momentum is due to the lack of new impulses domestically and from the rest of the euro area, whereas the flow of orders from non-euro-area countries continued to increase sharply at 5.1%. Neither intermediate goods nor the capital goods segment were able to maintain the sharp expansion of orders seen in the third quarter, which was probably also due in part to the ending of the boom in the automotive industry and its supplier subsectors. Even so, the underlying trend in both intermediate and capital goods remained positive; the moderate decline in orders of capital goods shown in the figures was chiefly due to the fact that orders in manufacturing of other transport equipment had now returned to normal following the exceptionally large order placed in July. There was a marked increase in orders of consumer goods. In calendar-adjusted terms, the overall volume of industrial orders in the fourth quarter of 2009 was only slightly below its prior-year level, which had itself been heavily affected by the crisis.

*Industrial orders lacking momentum of late*

According to the Ifo Institute, there was a further improvement in the business climate in manufacturing at the turn of 2009-10, although this referred only to the component which reflects the current business situation, while business expectations for the next six

*Further improvement in manufacturing sentiment*

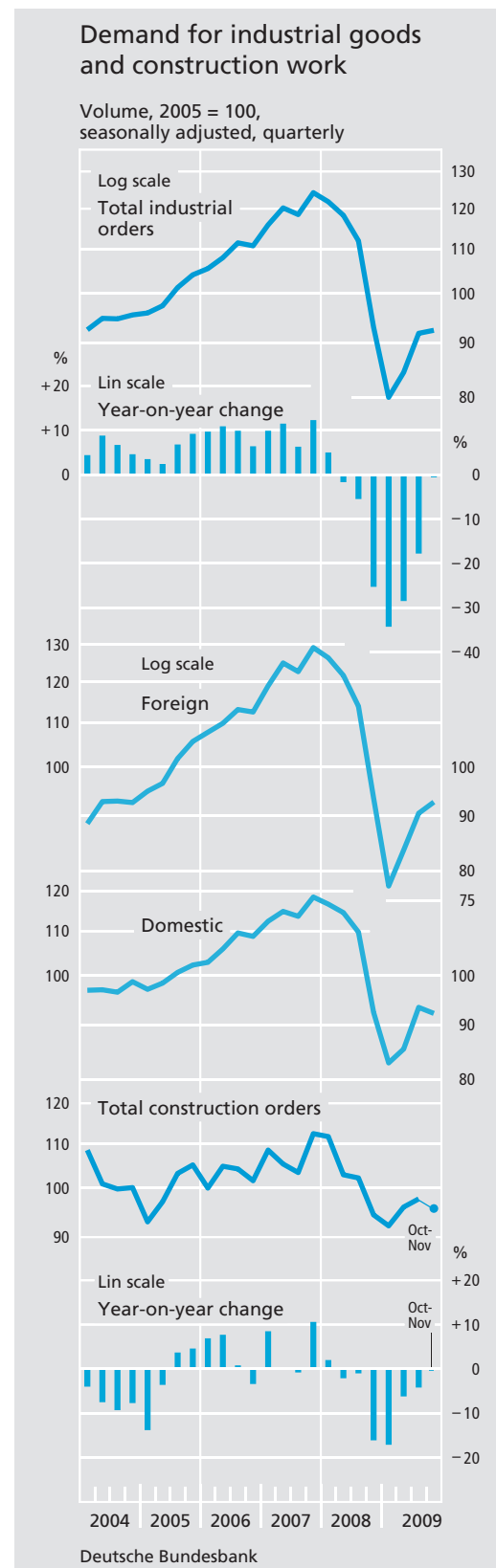
months were stagnating, albeit at a high level. The outlook for exports continued to be rated very optimistically. In January 2010, the matching Ifo indicator recorded a figure last achieved in the first quarter of 2008 before the start of the slowdown in industrial activity.

*Construction investment severely affected by weather at start of the year*

Construction investment has been very weak in the winter quarter so far owing to large-scale disruptions to production caused by extremely low temperatures and heavy snowfalls. Capacity utilisation in the construction sector in January, at a seasonally adjusted 63%, was around 4½ percentage points lower than in December 2009. The weather-related losses could be made up again from the second quarter onwards, however.

*Private consumption supported by further fiscal relief*

A number of fiscal policy measures will have a positive impact on households' disposable income in 2010. Together with the measures to afford relief contained in the fiscal stimulus packages at the turn of 2008-09, which come into effect only this year, the scope for expenditure will be expanded by roughly €20 billion compared with last year as a result of the extended tax deductibility of contributions to the health and long-term care insurance schemes, which entered into force on 1 January 2010, as well as the increase in child benefit and the higher basic income tax allowance. On the other hand, some statutory health insurance institutions have announced they will charge their members additional contributions. This effect is likely to be comparatively limited in the current year, however. According to the surveys of the consumer research institution, *Gesellschaft*





für Konsumforschung (GfK), consumer sentiment is still intact despite losses in the past few months. This is true especially with regard to the persistently favourable assessments of income expectations and of the general propensity to purchase, although individual willingness to realise consumption plans suffered a setback at the end of the period under review.

*Corporate investment, and private consumption, too, quite robust*

Although the underlying trends in industrial investment and private consumption are flat, they are currently supporting the export-led recovery process owing to their cyclical resilience – leaving aside the dampening effects on private consumption owing to the discon-

tinuation of the car scrappage scheme. This may be due to there still being a prevailing expectation among enterprises and households that the global economic recovery, will, with a time lag, also help the German economy to gain greater intrinsic momentum. With this in mind, enterprises are maintaining their existing production capacities despite major underutilisation and, as far as possible, avoiding staffing adjustments. The sharp cutback in production is thus having a very subdued impact on the labour market. Consequently, knock-on effects on consumption in the form of greater job insecurity have largely failed to materialise so far.