

Economic conditions in Germany

Macroeconomic situation

The German economy continued its cyclical recovery in the fourth quarter of 2010. According to the flash estimate released by the Federal Statistical Office, seasonally and calendar-adjusted real gross domestic product (GDP) rose by 0.4% quarter on quarter in the final three months of 2010, thus displaying somewhat weaker growth than in the summer. However, this result probably understates the underlying economic momentum, as the extremely cold and snowy winter weather caused severe disruptions in the construction and transport sectors in December. The rapid upward movement of the past 18 months has put the German economy on course for normal capacity utilisation, and production capacity in some sections of the economy has already exceeded average utilisation. Overall output at the end of 2010 was 4.0% up on the year in calendar-adjusted terms. This was no more than 1.4% below the level of output during the most recent cyclical peak in the first quarter of 2008.

Continuing recovery of the German economy in 2010 Q4

One reason for the favourable overall economic situation in Germany is the distinctly optimistic sentiment among businesses and consumers, which has strengthened the domestic forces of growth. Firms are investing in new plant and equipment, increasing working hours and recruiting additional staff. As a result, employees' income is rising and pressure on the labour market is being eased, which is boosting households' propensity to purchase, thereby providing noticeable impetus to consumption as well as housing

Supported by external and domestic factors



construction. This strong and broadly based cyclical expansion of the German economy is also having a knock-on effect on its trading partners – especially in the European Union – in the form of higher spending on imports. However, the upturn continues to be sustained by buoyant demand for German industrial products, particularly from non-euro-area countries – as is to be expected given the openness of the German economy. The large measure of confidence in the German economy is derived to a major extent from the expectation that this trend will continue.

Smaller increase in exports than before due to sluggish demand from Europe

In this situation, the fact that export growth was probably not as strong in the fourth quarter of 2010 as before did not lead to a significant slowdown in the pace of economic activity. According to the foreign trade statis-

tics, real exports of goods during the reporting period were only ¼% up on the volume of the preceding quarter in seasonally adjusted terms. This followed an average increase of 4¼% in the first three quarters of 2010. This slower pace was due, above all, to sluggish sales to euro-area partner countries. By contrast, exports to non-euro-area countries continued to expand. Exports to China and the United States are likely to have increased markedly in the reporting period following the hiatus in growth in the third quarter. There was also growth in sales to central and east European countries. By contrast, the volume of exports to Japan and the OPEC countries failed to match the high level of the preceding quarter. This slowdown in export growth affected producers of intermediate and capital goods. In fact, it is likely that fewer consumer goods were exported in the final three months of the year in seasonally adjusted terms than in the third quarter.

Strong growth in investment in machinery and equipment again helped to offset the mixed quarterly figures for foreign demand in the reporting quarter. The available indicators suggest that one area in which enterprises are investing is the vehicle fleet. New machinery was also procured in large quantities. In view of the fact that many firms have reached or, in some cases, even exceeded their plants' normal capacity utilisation, favourable sales forecasts are increasingly raising the issue of capacity extensions. The scope for internal financing created by the excellent profitability situation and, not least, the discontinuation of declining-balance depreciation rates for movable fixed assets were sufficient reasons

Investment in machinery and equipment still expansionary

for stepping up fixed asset formation towards the end of the year. The fact that large-volume capital goods grew more strongly than IT and electrical equipment points to tax-motivated anticipatory effects having a marked influence.

Construction sector affected by early onset of winter

Construction investment would probably also have supported growth in the fourth quarter of 2010 if the early onset of winter had not considerably curtailed construction output in December. Measured as an average for Germany as whole, there were 17 ice days¹ in December – a number not even remotely matched in any December during the past 40 years and which corresponded to the extreme figure recorded in January of last year. Nevertheless, it should be taken into account that the winter break in outside construction work usually begins as early as mid-December. While, in public construction, there is a noticeable gradual decline from the heightened level of output due to the economic stimulus packages, there has been a steady rise in commercial orders. Added to this is a perceptible recovery in private housing construction. At all events, the last time the number of new construction permits for apartments was as high as in the second half of 2010 was in mid-2006 – in other words, prior to the considerable increase in the standard rate of VAT.

Upward trend in private consumption continues

Private consumption has emerged as another factor stimulating domestic demand. The moderate increase in the fourth quarter of 2010 is consistent with a slow but steady recovery in consumption. In the reporting period, retailers benefited, in particular, from



households' eagerness to spend in Christmas trade. This is indicated by the fact that retailers, according to the Ifo business survey, were rating their business situation as de-

¹ An "ice day" is defined as a day on which the highest temperature does not go above freezing point. The indicator used here weights the results of various monitoring stations in accordance with the regional employment structure in the construction sector.

cidedly positive in December.² Furthermore, there was a seasonally adjusted increase in sales of new passenger cars in the fourth quarter. As a result of the cold winter weather and heavy snowfalls at the end of the year, there was, on the one hand, an increase in purchases of heating oil. On the other hand, the associated restrictions on mobility led to a reduced consumption of fuel. Households' scope for expenditure has increased perceptibly on the year owing to the recovery in actual earnings and the increase in employment. A heightened propensity to consume is indicated by a perceptible decline in the seasonally adjusted household saving ratio in the second half of 2010 compared with the first half of the year and by the fact that it was probably only slightly higher than in 2009. This is likely to be influenced by very optimistic income prospects, reflecting the expectation of more favourable wage developments.

Subdued imports

Imports in the fourth quarter of 2010 failed to keep step entirely with overall demand. Seasonally adjusted real imports of goods were an estimated 1½% down on the third quarter. Given the sharp rise in cost prices, less energy may have been procured for commercial purposes at the end of the year. There was also an absence of additional inventory cycle impulses. The underlying trend in the procurement of imported intermediate goods is now probably being determined by current production. While there was little change in the volume of imported consumer goods compared with the third quarter in seasonally adjusted terms, there was an identifiable increase in imports of capital goods.

Given enterprises' heightened demand for motor vehicles and machinery, it is not surprising that these categories of goods were at the forefront of growth in imports.

Sectoral trends

Industrial output in the final three months of 2010 was 2½% up on the quarter in seasonally adjusted terms. In contrast to the first year of the cyclical upturn, when output of intermediate goods showed the largest growth, capital goods have now taken the lead. In the reporting quarter, this growth lead was especially marked due to the considerable expansion in the production of motor vehicles and machinery. Seasonally adjusted output of capital goods showed a 6% increase overall, while production of intermediate goods was no higher than in the previous quarter. Consumer goods output was ½% down in the final quarter.

Industrial activity still buoyant

According to the Ifo surveys, average manufacturing capacity utilisation in January 2011, at more than 84% of normal full capacity, matched its longer-term average.³ A sharp increase in output over the past months has led to capital goods now having reached this benchmark, too, whereas capacity utilisation by intermediate and consumer goods producers essentially remained unchanged. A combined overview of the cyclical utilisation

All major industrial sectors now in the corridor of normal utilisation

² Owing to shortcomings in statistical collection, the retail sales figures published by the Federal Statistical Office do not, at present, appear to be a robust indicator of consumption.

³ It should nevertheless be borne in mind that industrial capacity itself has probably not yet regained its pre-crisis level.

indicator and the order-capacity index in the production-demand scheme suggests that industrial activity has now largely overcome the deep trough of the extremely severe recession.

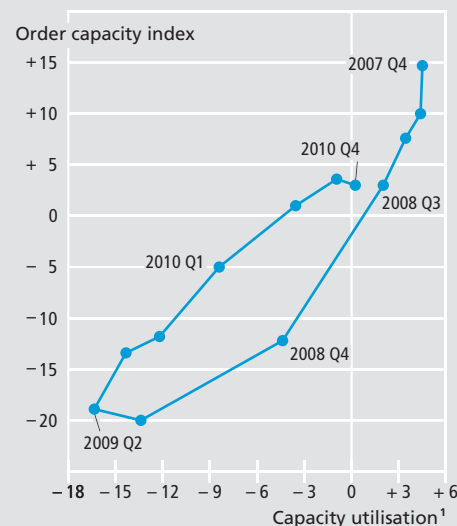
Construction output affected by adverse weather conditions

In seasonally adjusted terms, construction output in October and November 2010 was well up on the quite high figure for the second and third quarters. The building industry and civil engineering had an equal part in this increase. This was followed in December by a weather-related slump. Naturally enough, this affected civil engineering (-28¼% down on November) more than the building industry (-21½%). On a quarterly average, the construction sector recorded a 6¼% decline in output compared with the third quarter.

Cyclical integration effects much less strong in the trade sector than among business-related service providers

In the past months, trade has no longer been benefiting across all subsectors from the cyclical improvement. In seasonally adjusted terms, there has been an underlying trend of stagnation in real wholesale sales, particularly since the middle of 2010. There is likely to have been a fall in turnover for the hotel and restaurant sector and, in view of the adverse weather conditions at the end of the year, for the transport sector, too. At all events, in December 2010 the mileage of domestic carriers' toll-liable vehicles was a seasonally adjusted 5¾% down on the month. By contrast, business-related services continued to pick up discernibly at the end of the year. An improvement in assessments of the situation is shown for the fourth quarter by the relevant Ifo surveys as well as the ZEW survey on the ICT-intensive services sector.

Cyclical position of industry in the output-demand scheme*



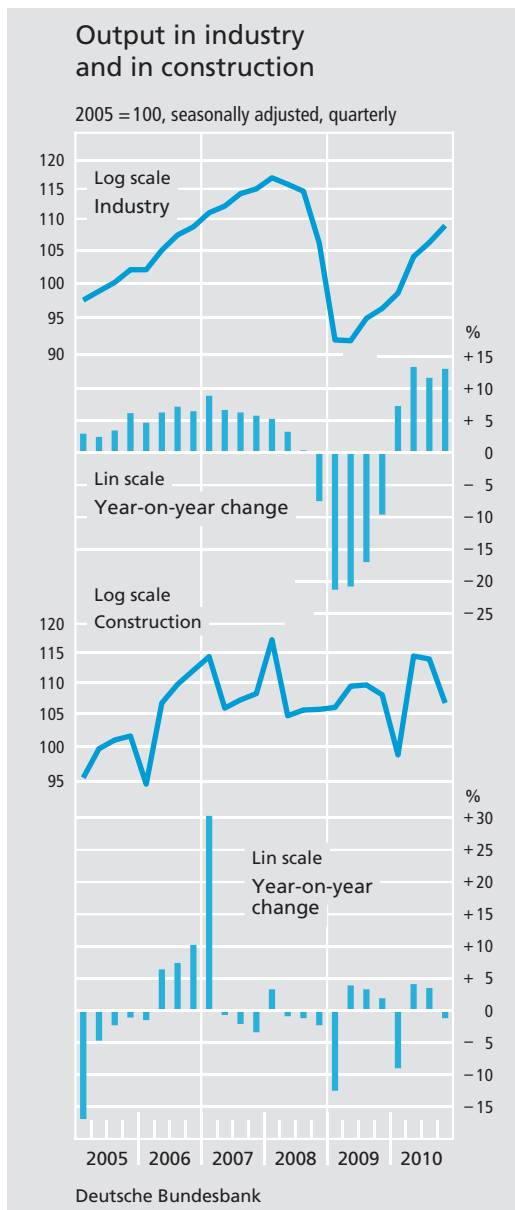
* Order-based industry. Bundesbank calculations based on Federal Statistical Office and Ifo Institute data — 1 Percentage deviation from normal capacity utilisation.

Deutsche Bundesbank

Employment and labour market

The labour market recovery continued in the fourth quarter of 2010. According to the figures of the Federal Statistical Office, the seasonally adjusted number of persons in work in Germany went up by 98,000, or 0.2%, compared with the average of the third quarter. The vast majority of these were probably persons in employment subject to social security contributions. The Federal Employment Agency estimates that the seasonally adjusted number of persons in employment subject to social security contributions was 102,000, or 0.4%, higher in October and November than on an average of the third quarter. According to initial estimates, there was a slight increase in the number of self-employed persons and persons

Pick-up in the labour market sustained by employment subject to social security contributions



working exclusively in low-paid part-time jobs. "One-euro jobs" have been reduced considerably over the past few months, however. The debate on the potential "crowding-out" effects of such jobs may have played a part in this.

Broadly based employment growth across sectors

Almost all sectors of the economy are now experiencing growth in employment. Like in the third quarter, only just over one-quarter

of the increase in employment subject to social security contributions was due to temporary employment, while the figure for the first quarter of 2010 had been as high as one-half. Manufacturing firms increasingly expanded their core workforces. Given the positive outlook for the economy, this strategy appears appropriate. Moreover, actual working hours in large parts of industry are now at a normal level or higher. In manufacturing, the average number of hours worked per employee in the fourth quarter of 2010 was no longer significantly lower than during the most recent cyclical peak in the first quarter of 2008. There was also an increase in jobs in the business-related services sector. Among public and private services, there was a sharp increase in jobs in the healthcare and education sectors.

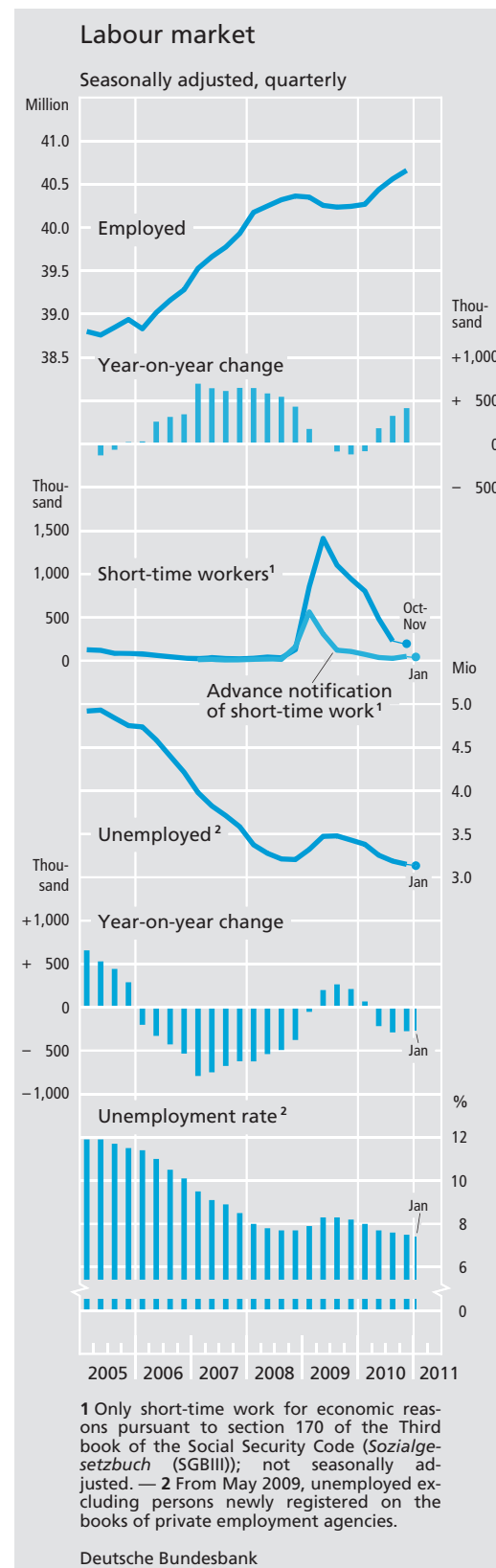
The use of short-time working arrangements for economic reasons showed no more than a slight decline in October and November. The Federal Employment Agency estimates that 185,000 persons were still affected in November 2010, which is roughly one-eighth of the peak figure during the crisis. There was a noticeable increase in the number of newly registered short-time workers during the reporting period, however. As the cyclical recovery is now well advanced across the industrial sector, this may be an indication that those enterprises which fell behind under the changed market conditions following the crisis are taking up the extended options for use that are still in place. This is also suggested by the fact that the number of short-time workers is several times higher

Hardly any decline in short-time work

than the level reached during the preceding upswing.

Slight fall in official unemployment, overall underemployment still declining rapidly

Unemployment declined only slightly during the fourth quarter. The official unemployment figure for the fourth quarter of 2010, at a seasonally adjusted 3.15 million, was only about 37,000 lower than in the third quarter. The unemployment rate fell by 0.1 percentage point to 7.5%. The decline took place predominantly among recipients of unemployment insurance benefits. During the economic recovery, recipients of unemployment benefit II have also increasingly found new employment, however. Since November, the number of persons receiving basic social benefits has nevertheless also been increasing again. The key factor behind this is likely to be the massive reduction in "one-euro" jobs. Even so, in comparison with official unemployment, underemployment as recorded by the Federal Labour Agency – which is based on supply in the primary labour market and therefore includes all persons involved in labour market policy measures – was falling without any loss of momentum up to the end of the period under review, which suggests a continuing perceptible cyclical effect. Official unemployment in the fourth quarter was 276,000 down on the year. Underemployment – excluding short-time work, for which quarterly data are not yet available – fell by as much as 389,000 compared with the same period of 2009. After the start of the year, the seasonally adjusted official unemployment rate showed a further fall, standing at 7.4% in January 2011.



Outlook remains positive for the labour market

According to leading indicators, the outlook for the labour market remains very positive. The seasonally adjusted number of vacancies had shown a further increase by January 2011 and was already higher than the average for the “boom year” of 2007. The growth rate in vacancies in the manufacturing, trade, and logistics sectors as well as in business-related services (which includes temporary employment) was especially high. The level of resident temporary workers might soon be dampened by temporary work agencies increasingly establishing branches in the new EU member states – especially in Poland – in preparation for the complete free movement of workers from the EU accession countries starting in May 2011. Staff may then be recruited in those countries for employment in Germany. The Ifo employment barometer, which provides information on personnel planning in trade and industry over the next three months, showed a further sharp rise from the peak reached in the final quarter of 2010.

Wages and prices

Higher wage demands in 2011 pay round

In the 2011 pay round, the trade unions are focusing on pushing through wage increases. The scale of the pay claims, ranging from 5% to 7% depending on sector, is considerable overall. Firms’ positive orders situation along with employers’ willingness to compensate their employees for losses of income during the crisis might result in comparatively high agreed rates of pay. This is reflected in the latest collective pay settlement for Volkswagen, which (including one-off payments)

provides for a large wage increase this year but, with an eye to the long-term cost burden, remains within reasonable bounds.

In the final quarter of last year, pay rate increases were nevertheless still being shaped for the most part by the pay agreements concluded during the crisis; at most, these provided for moderate rises in wages and salaries. The Bundesbank’s pay rate statistics show that the increases in negotiated rates of pay, at 1.5% on the year, were no longer quite as moderate as in the third quarter (+1.1%). For 2010, this gives an average increase in negotiated rates of pay of 1.6%, compared with 2.0% in 2009.⁴ Actual earnings in 2010 increased by an average of 2.2% year on year. The wage drift on a monthly basis turned positive and amounted to 0.6 percentage point, compared with -2.2 percentage points in the crisis year of 2009. The sharp decline in short-time work and extended working hours are the key reasons for this reversal of the situation. Against this backdrop, the wage drift on an hourly basis changed sign and, at -1.8 percentage points, was in negative territory last year.

Still moderate rise in negotiated pay rates in 2010 Q4

At the beginning of 2011, the generally binding minimum wages for the waste disposal sector,⁵ electricians, office cleaners and the roofing industry were raised by an average of roughly 2%. Negotiations are currently tak-

Possible expansion of sector-specific minimum wages from spring 2011

⁴ The growth rate for basic pay including lump-sum and one-off payments amounts to 1.7%, which comes quite close to the comparable negotiated pay index of the WSI (1.8%), which, however, excludes civil servants. The Federal Statistical Office, whose index likewise excludes civil servants, reports an increase of 1.6% for the basic negotiated rates of pay.

⁵ Including street cleaning and winter road maintenance.

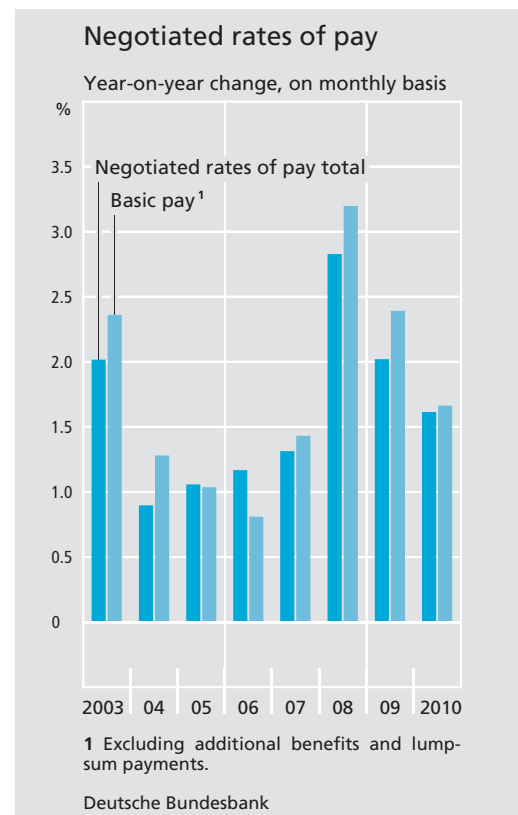
ing place in the political sphere concerning the introduction of a minimum wage in the temporary labour sector. This is due to fears that complete freedom of movement for workers within the EU from May 2011 (with the exception of Bulgaria and Romania) might lead to competitive wage undercutting by central and east European personnel recruitment agencies.

Increased price rises at all stages of the economy

The price climate in Germany deteriorated noticeably in the fourth quarter of 2010. This was due essentially to a sharp acceleration in the prices of energy, industrial commodities and food on the world markets in the wake of the global upturn, which were reflected mainly in higher inflation rates at the upstream stages of sales and production. Imports were 2.7% more expensive in seasonally adjusted terms compared with the previous quarter. There were particularly marked increases in the case of energy (11.5%) and intermediate goods (2.3%). Although the price increase for consumer goods was comparatively moderate at 0.6%, the rise was nevertheless noticeably sharper than its longer-term trend. It was only the prices of capital goods that eased again somewhat for the first time in a long while. By and large, this pattern is also apparent in German industry's domestic and export sales prices, albeit with smaller amplitudes in most cases. This led to a marked deterioration in the terms of trade.

Import prices at pre-crisis level, export prices higher, producer prices still lower

This accelerated increase in prices is, to a considerable extent, the result of prices returning to their pre-crisis levels. As with the recovery of the real economy, this is being accompanied temporarily by higher rates of price



increase. Import prices in the final quarter of 2010 were back at their pre-crisis level. If energy is excluded, import prices were already well above their level before the crisis. Much the same applies to export prices. The depreciation of the euro against the currencies of major trading partners is likely to have played a part in this. Despite sharp rates of increase, domestic sales prices of industrial products were, on the whole, still below their level prior to the crisis; if energy is excluded, they were higher than before the crisis.

Despite the pick-up in construction activity, the rise in construction prices was moderate. They were 0.3% up on the quarter and 1.5% on the year. According to the figures of the Association of German Pfandbrief Banks (*Verband deutscher Pfandbriefbanken, vdp*), the

Rising construction and real estate prices

House prices in 2010 in Germany

For the first time in years, house prices in Germany rose noticeably again in 2010. According to Bundesbank calculations based on BulwienGesa AG data, there was a 2½% increase on the year in the prices of new and existing semi-detached houses as well as of owner-occupied apartments during the reporting period. The prices of new properties rose more sharply than those of existing properties. There was a comparatively marked increase in the prices of new owner-occupied apartments, in particular, whilst the prices of new semi-detached houses and existing owner-occupied apartments went up moderately and existing semi-detached houses cost only marginally more. There was a very sharp rise in the price of owner-occupied apartments in urban areas (5%).¹

Other indicators confirm the basic conclusion of an upward trend in prices, although differences in the scale of the increase are to be seen in the context of statistical measuring uncertainties. According to the annual results of the Association of German Pfandbrief Banks (*Verband deutscher Pfandbriefbanken*, vdp), the prices of owner-occupied housing went up by 0.6% in 2010. The prices of residential housing increased somewhat more sharply (+0.7%) than those of owner-occupied apartments (+0.2%). However, the upward pressure on prices accelerated significantly over the year, especially in the case owner-occupied apartments. According to the hedonic house price indices published by Hypoport AG, new residential buildings recorded the sharpest rise in prices (3¼%), whereas the prices of existing owner-occupied apartments and semi-detached houses went up less sharply at +2½% and +2% respectively.²

The recent increase in residential property prices is likely to have been the result of a pick-up in demand in the housing market owing to the current exceptionally

favourable financing conditions. The overall optimistic sentiment and the significant improvement in the labour market outlook are also likely to have played a part in this. By contrast, the resident population had a more dampening effect. Given that new construction activity has been subdued for a number of years, the supply side has now adjusted to structural demand to such an extent that even moderate demand impulses can trigger conspicuous price reactions.³

Households were receiving mortgage loans at historically low interest rates in 2010. Last October and November, banks were granting real estate financing loans with maturities of between five and ten years at an average rate of 3.6%, thus undershooting the low of the last interest rate cycle in August 2005 by ½ percentage point. It is likely that many households that, sooner or later, would have considered acquiring equity in housing took advantage of the current exceptionally favourable financing conditions to buy property. Interest rate conditions are no longer quite so advantageous, however.

The price reaction on the housing market was accompanied by quite a prompt volume effect. Since the early summer of 2010, the authorities have been granting recognisably more building permits for new residential construction. In October and November 2010, the average volume of new construction projects submitted for approval – measured in terms of the estimated costs – was up by more than one-tenth on the previous year's average. The initial provisional figures of the Federal Statistical Office indicate that real housing investment in 2010 rose by 4½% on the year. New building construction was clearly serving as a stimulating element again for the first time since 2006, whereas the focus in the three preceding years had been on renovation work (eg energy efficiency upgrades).

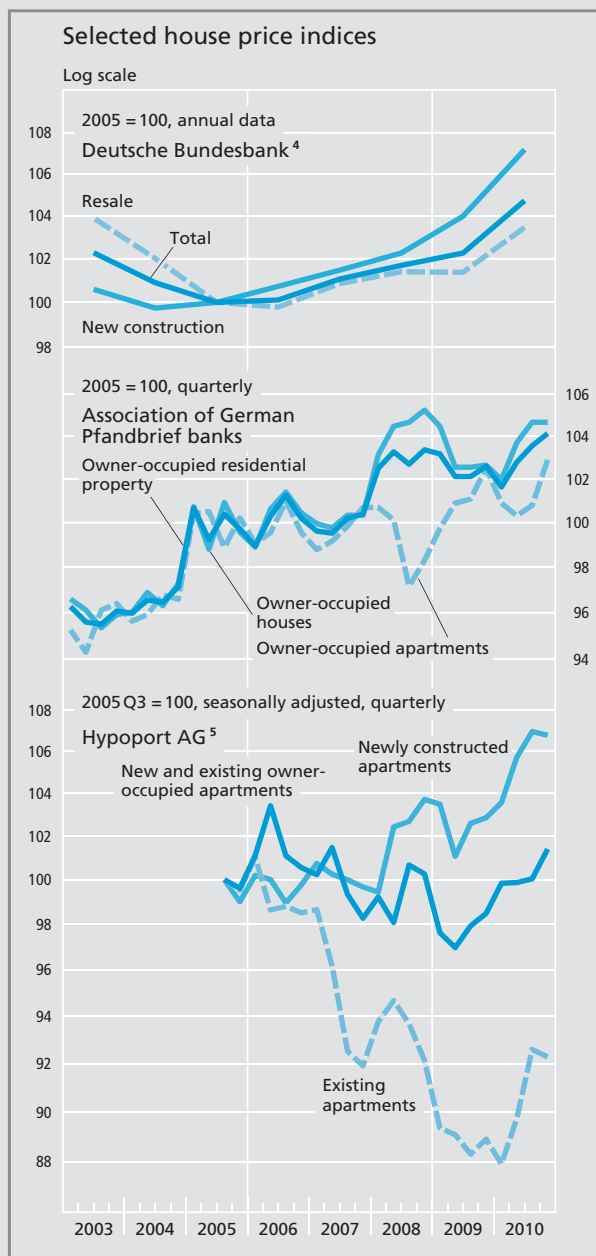
¹ Berlin, Cologne, Düsseldorf, Frankfurt am Main, Hamburg, Munich and Stuttgart. — ² For details of the differences in the data basis and the methodology of the various indicators, see the box texts on property price developments in the Bundesbank Monthly Report of February

2009 (pp 52–53) and February 2010 (pp 58–59). The Federal Statistical Office does not yet have any results of the residential property price index, which is being compiled as part of an EU pilot project. — ³ See Deutsche Bundesbank, Extended investment cycle with stable prices:

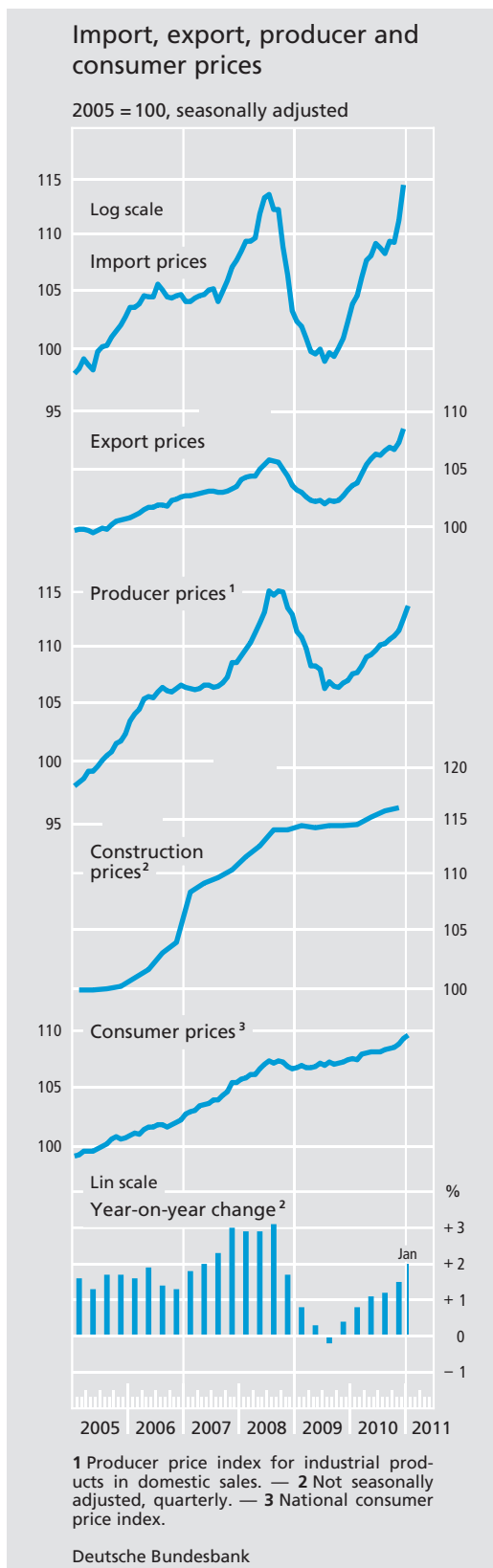
It is, above all, demand for apartments in multiple-family dwellings that is likely to have picked-up. Following a steady decline in the construction of apartment houses for over a decade and given that this type of building accounted for no more than one-quarter of the total volume of dwellings completed in 2009, there now generally appears to be no excess of supply over demand. In October and November 2010, the number of approved apartments in larger dwellings was up by almost one-quarter on the year. However, the current level of construction approvals is not nearly as high as it was in the early 1990s.

Demand impulses had varying effects from region to region. Despite a sharp rise in building permits for new apartments last year, prices in western Germany rose by an average of 3%. Excluding the relief provided by the expansion in new property, the rise in prices in eastern Germany, including Berlin, was, in fact, somewhat higher (6%). The rise in prices was most apparent in urban areas. These market segments may also have benefited from the fact that investors who attach particular importance to safeguarding the real value of their assets were increasingly turning their attention towards residential property in Germany again. Here, the focus is on those regions which have the potential to offer above-average economic prosperity and which consequently boast comparatively favourable population forecasts. The fact that rents for first occupancies went up by 2½% on an annual average between 2008 and 2010 following years of exceptionally modest growth had a positive impact on the return on newly constructed apartments. In the seven largest German cities, the corresponding growth rate was more than 1 percentage point higher. However, cost-side price pressure is within manageable limits at present as construction prices rose only moderately last year, too.

supply and demand in the German housing market from a longer-term perspective, Monthly Report, June 2010, pp 47 – 58. — 4 Bundesbank calculations for semi-detached houses and owner-occupied apartments



based on data provided by BulwienGesa AG. — 5 Recalculated from the original base: August 2005 = 100.



upward trend in prices of owner-occupied housing continued: following a 0.7% increase in the third quarter, they went up by 0.6% in the final three months of the year. There was a year-on-year increase of 1.5%. (For a review of 2010 as a whole, see the box on pages 54-55.)

Consumer price inflation accelerated significantly towards the end of 2010. Prices increased by a seasonally adjusted 0.6% compared with the third quarter. The unfavourable weather conditions played a part in this. Seasonal food products were a seasonally adjusted 3.3% more expensive than in the third quarter. The weather is also likely to have been a factor behind the sharp increase in the prices of heating oil and fuel, which averaged 7%. In the case of other goods and services, the increase remained within narrow bounds. Overall, consumer prices were 1.5% higher year on year.

Significantly higher rates of consumer price inflation

At the beginning of 2011, there was a further acceleration in the rate of inflation to 2.0% (according to the national CPI and the HICP). Given the higher prices in the international agricultural and energy markets and the pick-up in economic activity, it is unlikely that the rates of price increases will moderate significantly over the next few months.

Orders received and outlook

The German economy should be able to carry much of the cyclical momentum gained in the second half of 2010 into the current year. This will be ensured by the very buoyant in-

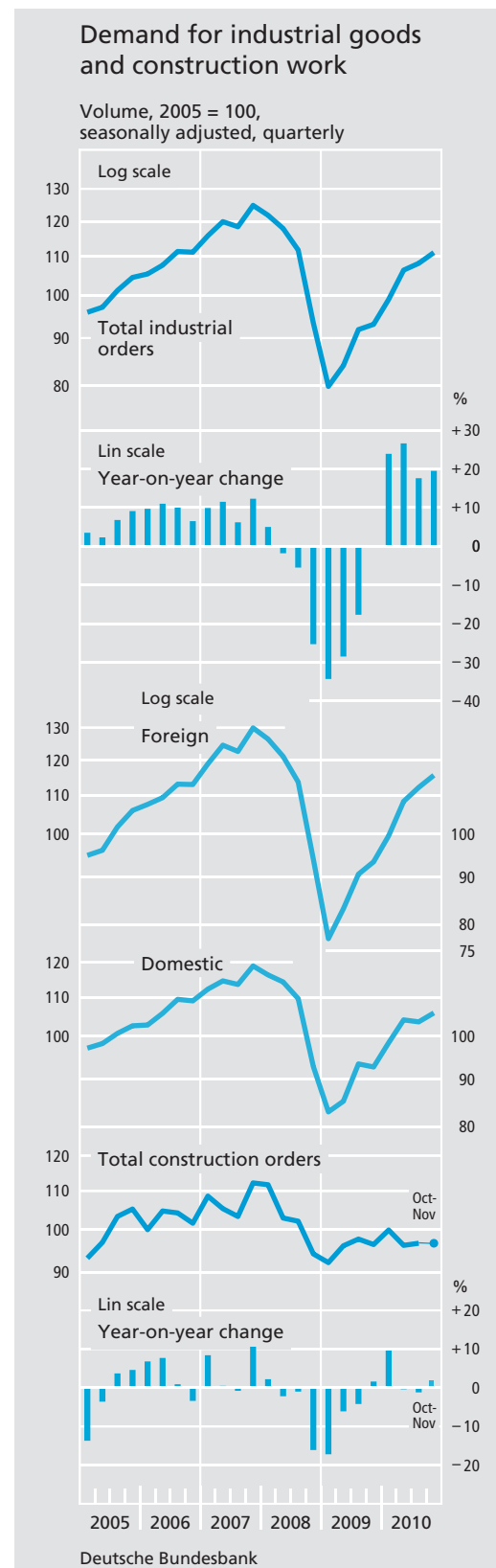
Economy gets off to a buoyant start in 2011

take of orders from third countries. Exporters are benefiting from their presence in strongly expanding markets outside Europe, particularly as the pace of economic recovery in the United States has picked up significantly of late. Impulses from the euro area are likely to remain fairly muted, however. As this sales market is of considerable importance for the German economy, a certain degree of slow-down in economic activity cannot be ruled out if orders from this region remain weak.

New stimuli for industry ...

Industrial new orders picked up again in the final three months of 2010 following a sideways movement – apart from a number of large orders – in the second and third quarters. On an average of the fourth quarter, the volume of orders was a seasonally adjusted 2¾% up on the preceding three-month period. From a regional perspective, export orders from countries outside the euro area provided the major stimulus. German industrial enterprises received 8¾% more orders from non-euro-area countries than in the third quarter, although this growth is influenced by one large shipbuilding order. The growth differential between Germany and the rest of the euro area is also revealed by the fact that domestic orders expanded by 2¼%, while the underlying trend in orders from euro-area partner countries (leaving aside the large order last August) were largely moving sideways.⁶ What is crucial in this context is that demand for capital goods in the rest of the euro area has not picked up as

⁶ Specifically, the volume of orders from the rest of the euro area in the fourth quarter of 2010 was a seasonally adjusted 5% down on the third-quarter level, which was influenced by one exceptionally large-scale major order.



far-reachingly as in third markets and in Germany itself. In the fourth quarter, producers of capital goods received fewer orders from the rest of the euro area, whereas domestic orders for machinery, vehicles and equipment showed a seasonally adjusted increase of 5¼%. The sharp increase in orders for these goods received from countries outside the euro area was, in fact, even more marked at somewhat more than +10% on the third quarter. Demand for intermediate goods rose only moderately in the reporting period (+¾%), with the slowdown affecting all the regions. By contrast, consumer goods were in somewhat greater demand in the fourth quarter (+¾%), compared with -1½% in the preceding three-month period.

... consistent with very positive business climate and prompting further investment

This regained dynamic in the flow of orders is consistent with the extremely optimistic sentiment in manufacturing. According to the Ifo surveys, the business climate showed a further marked improvement at the beginning of 2011. To a large extent, firms are basing their expectations on exports. Domestic factors appear to be playing a key role, too, however. According to the Ifo Investment Survey and the latest survey by the German Chamber of Industry and Commerce (DIHK), industrial enterprises, in particular, want to significantly step up their investment in new production facilities in the current year. This suggests that the increase in fixed capital formation is being accompanied by an ongoing rise in the need for labour. The increase in the number of reported vacancies

and the relevant current survey findings are likewise positive evidence of this. As a result of integration effects, the trade sector and transport as well as business-related services will probably benefit from the continuing upturn in industrial activity.

Enterprises' plans for expansion should give an additional boost to commercial construction. Orders from industry received by the construction sector in October and November 2010 were a seasonally adjusted 1¼% up on the average of the third quarter, in which there had been growth of ¾%. In October and November, the public sector maintained the volume of orders of the third quarter on average. Before this, far fewer infrastructure measures had been tackled owing to the waning lagged effects of the economic stimulus packages and the deterioration in local government revenues. In seasonally adjusted terms, housing construction was 2¾% down on the increased volume of orders in the third quarter.

Mixed trends in construction

Private consumption is likely to continue supporting economic activity over the next few months. This is indicated by consumers' high propensity to purchase, which is based, in particular, on very optimistic income expectations. Households are optimistic in view of the upturn on the labour market and the prospect of sizeable growth in earnings. Nevertheless, the marked deterioration in the price climate is emerging as a risk to consumption.

Deterioration in the price climate as a risk to the upward trend in private consumption