

Economic conditions in Germany

Macroeconomic situation

Economy in 2013 Q3 remains on growth path

The German economy is on a sound growth path. According to the flash estimate of the Federal Statistical Office, real gross domestic product (GDP) in the third quarter of 2013 was 0.3% up on the previous three-month period after seasonal and calendar adjustment. This matches the average quarterly growth rate in the first half of the year, although growth in the first two quarters was marked by major fluctuations owing to the weather. Thus, in terms of the underlying cyclical trend, the German economy has been expanding at about its potential growth rate since overcoming the temporary phase of weakness three quarters of a year ago. The balanced nature of the overall economic situation is also revealed by the fact that production is in line with normal utilisation of aggregate capacity.

Expansionary domestic activity, external setting neutral

Economic growth is being sustained by a broadly based upward movement in domestic economic activity, and is now also free of external disturbances again. Nevertheless, the external setting is still not generating any significant stimuli. This has had a dampening impact on corporate investment. By contrast, housing construction generated powerful stimuli again in the summer months and the upturn in private consumption continued in a setting marked by the favourable situation on the labour market and notable growth in earnings.

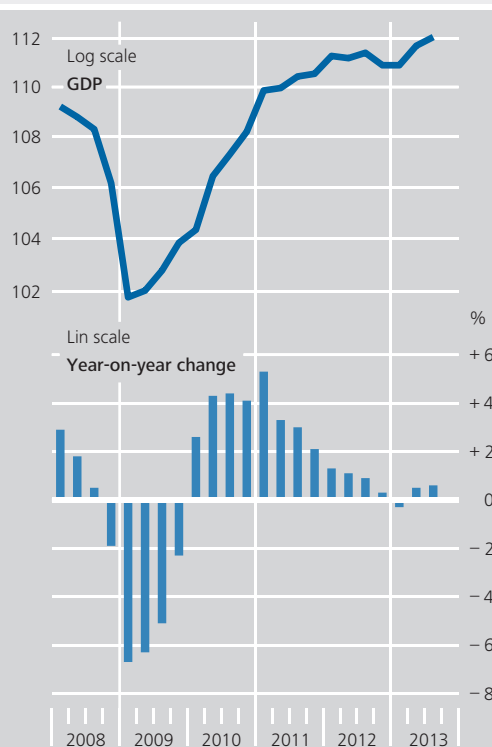
Exports generating no stimuli on the whole

Given the cautious economic recovery in the euro area, still moderate growth in other major industrial countries and the continuing subdued expansion in the emerging market economies, German export business still lacked momentum in the third quarter. Exports of goods were up ½% overall on the quarter in price and seasonally adjusted terms. Exports to other countries in the euro area showed a slight increase in the period under review. By contrast, demand from countries outside the euro area

in the summer months was down overall on the preceding quarter. This was due mainly to a clear decline in exports to the new industrial countries in Asia, south and east Asian emerging markets (excluding China) as well as to the countries which are heavily dependent on exports of oil and gas. There was also a decline in US business following an increase in the second quarter. On the other hand, there was a steep expansion in exports to China again after a decline in the previous quarter, and the central and east European EU countries also showed an increase following a one-year lull. (Details of the latest developments in German exports of goods to China may be found on pages 47 to 49.) Moreover, the pull of demand from Japan strengthened again distinctly compared with the second quarter.

Overall output

2005 = 100, price and seasonally adjusted



Source of unadjusted figures: Federal Statistical Office.
 Deutsche Bundesbank

Underlying trends in foreign trade

Seasonally adjusted, quarterly



Source of unadjusted figures: Federal Statistical Office. 1 Adjusted for the price indices for foreign trade.
 Deutsche Bundesbank

Motor vehicle exports still on the up

In the period under review, exports held up at the same level as in the previous quarter after seasonal adjustment, solely because of a further substantial rise in motor vehicle exports. This almost entirely offset the decline suffered by German automotive manufacturers in the fourth quarter of 2012 and the first quarter of 2013. Otherwise, negative figures predominated in other major branches of export industry following increases in the second quarter. In the chemicals and pharmaceutical industry, exports have been stagnating for roughly one year.

Imports are unlikely to have expanded further in the summer in seasonally adjusted terms, following a marked increase in the second quarter. In real terms, seasonally adjusted exports of goods were, in fact, down by ¼% in the third quarter. This was due chiefly to fewer purchases in the other transport equipment sector, which often display sharp fluctuations. By contrast, German enterprises imported distinctly more motor vehicles as well as Information and Communications Technology (ICT) products and electrical equipment. Imports of machinery and intermediate goods showed only a slight rise, however. Demand for foreign consumer goods was just as strong as in the previous quarter. There was a major increase in energy imports. Somewhat more goods were imported from non-euro-area countries than in the second quarter, while imports from other euro-area countries fell slightly from an elevated level.

Imports of goods virtually unchanged

Industrial investment did not move to a clear path of recovery in the third quarter. Although the prospect of an improvement in business is becoming increasingly widespread in the corporate sector, firms have been rather cautious so far in using this as a reason for stepping up investment. After seasonal adjustment, the domestic sales of capital goods producers showed no more than a subdued rise in the third quarter, and only slightly more machinery and equipment was imported for production sites in Germany at the end of the period under review. Measured by the number of new registrations, enterprises' fleets of vehicles likewise showed hardly any growth. On the other hand, it is an encouraging sign that Ifo surveys show industrial capacity utilisation almost matching its longer-term average again. This means that enterprises can be expected to increase their capital investment again if the upward tendency in demand continues to strengthen. Furthermore, conditions for borrowing are still very favourable, and many procurement items can also be financed from self-generated resources.

Scarcely any revival in corporate investment

Reasons for the recent slump in German goods exports to China

Foreign trade with China has become considerably more important for the German economy over the past few years. In terms of value, China accounted for 6% of Germany's total goods exports in 2012; this figure was even as high as 10¼% for motor vehicles and 8¾% for capital goods (excluding motor vehicles). After a period of rapid growth between 2009 and 2011, in which the value of German goods exports to China rose from €37¼ billion to €64¾ billion, growth almost came to a halt in 2012. The available data are even showing signs of a slight decline for the current year. Growth between January and August was down 3¾% on the year, even though the general tendency has been pointing upwards again somewhat in the last few months. Breaking down exports by category of goods shows that the recent slump in German exports to China was due primarily to developments in the categories of goods "motor vehicles" and "other capital goods". The demand determinants of these two categories will be analysed in greater detail below.

Motor vehicle exports to China grew extremely strongly between 2009 and 2011. In terms of value, they went up from €6¾ billion to €17¾ billion and thus made up around two-fifths of the growth in total exports to China. This was due chiefly to substantial growth in passenger car exports, which increased from 123,000 units in 2009 to 309,000 in 2011. A number of factors were behind this steep rise. First, this period saw a sharp expansion in the market for new cars in China, and German automotive groups were largely able to boost their share of the Chinese market. A further significant factor was that German manufacturers did not expand their local production in China on the scale needed to meet the rapid growth in demand, which meant that a larger percentage of their sales had to be covered through imports.

Since the second quarter of 2012, however, German motor vehicle exports have been

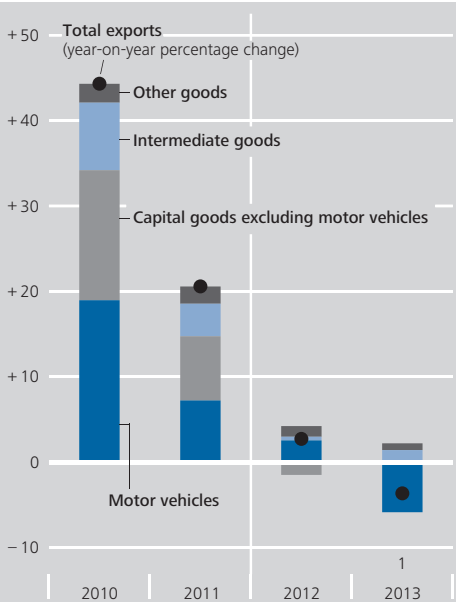
showing a clear downward trend on a monthly basis, despite the fact that the Chinese passenger car market has continued to grow – albeit at a less dynamic pace than before – and German manufacturers have gained additional shares of the market. The slump in German motor vehicle exports was due solely to a decline in exports of motor vehicles and motor vehicle engines, whereas exports of motor vehicle parts and accessories continued to grow at a steady pace. One of the main reasons for this is likely to have been that, owing to capacity extensions, German manufacturers stepped up their output of passenger cars in China to a disproportionately large extent in relation to demand (by around 20% in 2012 to 2.9 million units).¹ This trend seems to have continued in the current year.

There are many different motives behind the increased build-up of production sites in China of late. These include, for one thing, cheaper staffing costs at the new sites. An even more important factor would seem to be the advantage of being able to serve the market directly. In particular, close customer proximity brings down transport and logistics costs. High customs duties and non-tariff trade barriers, such as local content requirements, may also have been a motivation for German enterprises to generate at least a part of value added in China, while so far tending to leave value-added stages needing highly qualified professional skills, such as research and development, in Germany. Even though the relocation of passenger car production sites has had a dampening impact on German exports, it should not be forgotten that German enterprises are increasingly benefiting from their

¹ According to the raw data of the VDA, passenger car output of German manufacturers in China rose by as much as 36% in 2012. It should be borne in mind, however, that some models were still being classified as "Made in Germany" up to 2011 and were thus included in the VDA export statistics; the share of local value added generated in China has increased, which means that they are now classified as overseas production for statistical purposes.

Germany's nominal goods exports to China

Contribution to growth in percentage points



Source: Bundesbank calculations based on data from the Federal Statistical Office. ¹ Rates of change and growth contributions for 2013 based on the sum of exports for January to August 2013 compared with January to August 2012. Deutsche Bundesbank

German car manufacturers' output in China and Germany's car exports to China

In thousands



Sources: Federal Statistical Office, German Association of the Automotive Industry (VDA) and Bundesbank calculations. ¹ Since 2012, a number of car models have been classified for statistical purposes as overseas production owing to the growing share of value added generated in China. The figures for the years 2009 to 2011 have therefore been adjusted accordingly by the VDA in order to improve comparability. ² Extrapolated on the basis of the data for the months from January to August. Deutsche Bundesbank

direct investment in China and that this is being reflected in rising earnings from direct investment – in the form of dividends and reinvested profits – in their investment income. In 2012, this item accounted for €5 billion of Germany's current account with China, compared with €1¼ billion in 2008.

The recent similarly sluggish growth in other German capital goods exports to China has another set of reasons, however. These exports recorded exceptionally strong growth in 2010 and 2011; 2012 saw a slight decline, however. This weaker growth primarily affected exports of machinery, which account for most of German capital goods exports (excluding motor vehicles) to China.² The dynamics of German capital goods exports to China is determined mainly by the pace of investment activity in that country. In the first few years after the global financial and economic crisis, production capacities in Chinese industry underwent a sharp expansion, which benefited German exporters of capital goods in particular. Subsequently, however, growth in business investment in China appears to have weakened considerably as a result of the prevailing cyclical factors.³ Against this backdrop, total Chinese imports of capital goods recorded only relatively weak growth overall in 2012.⁴ Given that the corresponding Chinese imports from Germany have actually declined, the German market share of all Chinese capital goods imports, which had risen to 7¼% by 2011, fell again distinctly in 2012 to 6½%. Project range and competition effects may have a negative impact in this context.

Over the next few years, German goods exports to China are likely to pick up again on

² By contrast, positive contributions to growth were generated by the manufacture of aircraft and spacecraft as well as information and communications technology (ICT) products.

³ The Chinese statistics authority does not publish any comparable national accounts data. This assessment is therefore based on all the indicators that are currently available.

⁴ Based on the Chinese import statistics, China's total capital goods imports (as defined in the Broad Economics Categories) grew by 2¾% in 2012 on a US dollar basis.

the whole. It does, however, seem unlikely that they will be able to match the rapid pace of growth in the past. One important factor in this context is the fact that the pace of growth of German capital goods exports is likely to be much weaker in future owing to the structural limitations of the current, decidedly investment-driven Chinese growth model.⁵ If the Chinese government succeeds in restructuring the growth model as it intends, Chinese import demand is likely to shift more strongly towards consumer goods. Given that these products have, to date, accounted for only a small percentage of German exports to China, the contributions to growth generated as a result are unlikely to be enough to offset the slower growth in capital goods exports, however. The underlying trend in the growth of German motor vehicle exports to China is also likely to be more moderate in future than was the case prior to the recent consolidation. Given its persistent low degree of market saturation and in view of its expected more strongly consumer-driven

growth profile, the Chinese passenger car market still has a lot of upward potential. Nevertheless, the extensive plans of German automotive manufacturers to expand their capacities in China indicate that the anticipated rise in demand in the Chinese passenger car market is to be serviced primarily by increased local production. A number of German car models, including those in the luxury segment, as well as certain car parts and accessories are likely to continue to be manufactured in Germany and thus benefit from the general growth of the market in China.

⁵ Furthermore, exports could also suffer if German manufacturers of machinery were to shift more of their production to China. It is, however, unlikely that this will occur on a scale similar to that of passenger cars. The fact that the German mechanical engineering sector largely consists of medium-sized enterprises is also a factor in this context.

Strong expansion in construction investment

There was a further substantial expansion in housing construction in the period under review. The orders situation improved further in the first half of 2013 and, given the high level of capacity utilisation in the second quarter, it was not possible to catch up on all the production backlog that had built up during the long winter. Such effects may have also been a factor in public sector construction after the surge in orders at the beginning of the year, especially as public infrastructure construction projects extend over longer periods anyway.

Continuing upward trend in private consumption

Against a backdrop of optimistic income expectations and households' high propensity to purchase, the upward trend in private consumption continued in the third quarter of 2013, albeit with less momentum than in the preceding three months. This is indicated by retail sales, which, in the summer, did not quite match their second-quarter level in seasonally adjusted terms. Furthermore, new private passenger car registrations were slightly down

from their strongly heightened level in the preceding quarter.

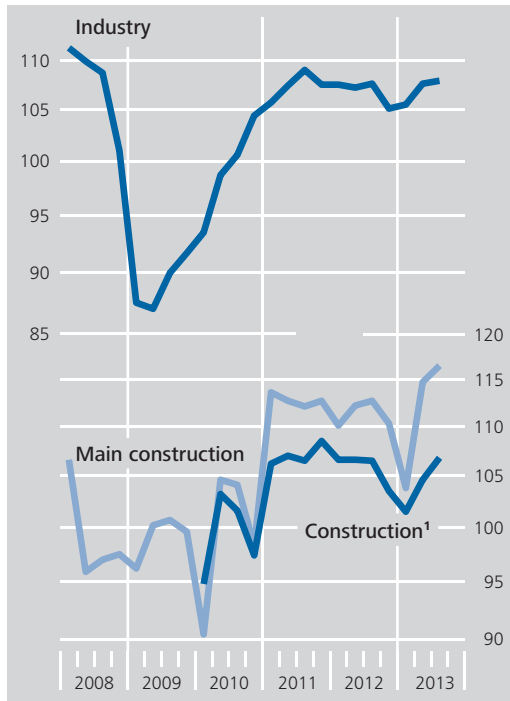
■ Sectoral trends

Seasonally adjusted industrial output expanded only moderately by ¼% in the third quarter of 2013 compared with the spring. Manufacturers of capital goods increased their output by 1%. This was due chiefly to the automotive sector: despite the holiday period, buoyant demand led to a steep (4%) expansion in its output in the third quarter. Excluding the automotive industry, capital goods production did not quite match the previous quarter's figure. There was a marked cutback in the manufacture of machinery as well as of computers, electronic and optical products and electrical equipment. Seasonally adjusted output of intermediate and consumer goods remained virtually unchanged in quarter-on-quarter terms.

Subdued expansion in industrial output

Output in industry and in construction

2010 = 100, seasonally adjusted, quarterly, log scale



Source of unadjusted figures: Federal Statistical Office. ¹ Main construction and finishing trades.
 Deutsche Bundesbank

Overall increase in capacity utilisation

Ifo surveys show that, in the wake of expanding production, the degree of utilisation in industry increased in seasonally adjusted terms to 83½% of full operational capacity in October compared with its July level. This means that, in the period under review, industrial capacity utilisation nearly matched its long-term average, which can be interpreted as a normal degree of utilisation. The individual sectors display marked differences. In the intermediate goods sector, there was a considerable increase in the utilisation of tangible fixed assets, which meant that it was 1 percentage point above its multi-year sectoral average. This contrasted with a fall in capacity utilisation in the case of capital goods producers, which resulted in a slight increase in the shortfall vis-à-vis the sectoral average. The temporary major expansion in output in the automotive industry during the third quarter may have played a part in this.

Seasonally adjusted output in the main construction sector expanded again in the third

quarter (+1½%) starting from a level in the preceding quarter that was considerably heightened due to weather-related catch-up effects. The increase in activity in civil engineering (+2¼%) was greater than that in building construction (+1¼%). There was a somewhat larger increase in output in the finishing trades (+2¾%). This was probably due to the strong upturn in the main construction sector in the spring months. Nevertheless, the figures for the finishing trades are still provisional owing to the fact that the data are liable to revision. There was a seasonally adjusted 1½% increase in energy production in the summer.

Construction activity and energy production significantly higher

The upward movement in the services sector is likely to have continued in the reporting period. One indication of this is that Ifo surveys show a clear improvement in the business situation in the most important sectors. Industry-related services benefited from the expansion in construction and parts of industry. The slight increase in the mileage of domestic heavy goods vehicles subject to tolls on motorways suggests that this is also likely to include the transport sector. Furthermore, there was a marked increase in wholesale turnover after an extended lull. The motor vehicle trade suffered a slight fall overall, but this was due to declining sales to households after a heightened level in the preceding quarter. This contrasted with an expansion in sales to business customers. In line with the positive consumer climate, consumption-related services also performed well. Retail sales were only marginally down from their high level in the previous quarter. Hotels and restaurants recorded a marked rise in turnover.

Continued upward trend in services sector activity

Employment and labour market

The situation on the labour market continues to be characterised by a moderate increase in both employment and unemployment. This untypical parallel development can chiefly be explained by strong labour-market-oriented immigration. However, a part is also played by the

Calm labour market development

fact that labour force participation is tending to increase. On an average of the summer months, the seasonally adjusted employment figure in Germany was 70,000 higher than in the second quarter. This corresponds to an increase of 0.2%. Most of this growth was in employment subject to social security contributions, while self-employment was stagnating and fewer persons were taking part in labour market policy measures, especially in terms of (re)integration into the job market, training and work opportunities. The number of persons solely in forms of marginal employment has not been following any clear trend for some time.

Jobs subject to social security contributions growing mainly in services sector

After seasonal adjustment, roughly 72,000 additional jobs subject to social security contributions were filled in July and August together; this corresponds to an increase of ¼% compared with the second quarter. There was essentially a continuation of the sectoral trends of the spring months. The main increases in employment were in the business-related services (excluding temporary agency employment: +¾%), health and education (+½%), and the logistics sector (+½%). The construction sector was displaying a slight upward tendency again. In manufacturing, the level of employment remained unchanged. In temporary agency employment, which underwent a considerable downward adjustment over the past few quarters and whose labour is often deployed in industry, there was a stabilisation.

Continuing high level of labour-market-oriented immigration ...

There continues to be a high level of labour force immigration to Germany. In the first five months of the current year, around 158,000 persons, on balance, moved to Germany. That is 14,000 more than in the same period of last year. Immigration has been increasing steeply for about three years now with roughly 75% originating from within the EU. The main countries of origin are, first, the 2004 central and east European EU8 accession countries as well as the south-east European countries Romania and Bulgaria which joined the EU in 2007 (EU2) and, second, the four south European peripheral countries.¹

Immigration from the EU8 countries appears to have peaked. So far this year, there have been fewer immigrants from this region than in 2012, with their share falling to 30%. On balance, there were also slightly fewer immigrants to Germany than one year ago from Romania and Bulgaria, which account for one-fifth of net immigration. They are currently still subject to restrictions of the freedom of movement for workers in Germany. The new members of the labour force who have immigrated from central and south-east European countries are most often employed in agriculture, hotels and restaurants, in construction and in other business-related services (including temporary agency employment). Immigration from the countries of southern Europe has increased rapidly in connection with the difficult economic situation and has now reached a share of one-fifth. Even so, the increase has slowed down of late. The current immigration is chiefly a compensatory reaction to varying income and employment opportunities within the EU. The Federal Employment Agency data show that, in parallel with immigration, there has been a very substantial rise in the number of wage and salary earners among persons from the countries of the EU, while unemployment and drawing of social transfers has shown only a marginal to moderate increase.² One new development is the higher level of immigration from Russia. This is also likely to be largely motivated by the aim of taking up work in Germany.

... principally from central and eastern Europe as well as the southern periphery of the euro area

Over the summer months, the number of persons registered as unemployed was, on average, only marginally up on its level in the second quarter. However, there was a relatively significant rise in seasonally adjusted official unemployment to 2.97 million in September after a comparatively positive development

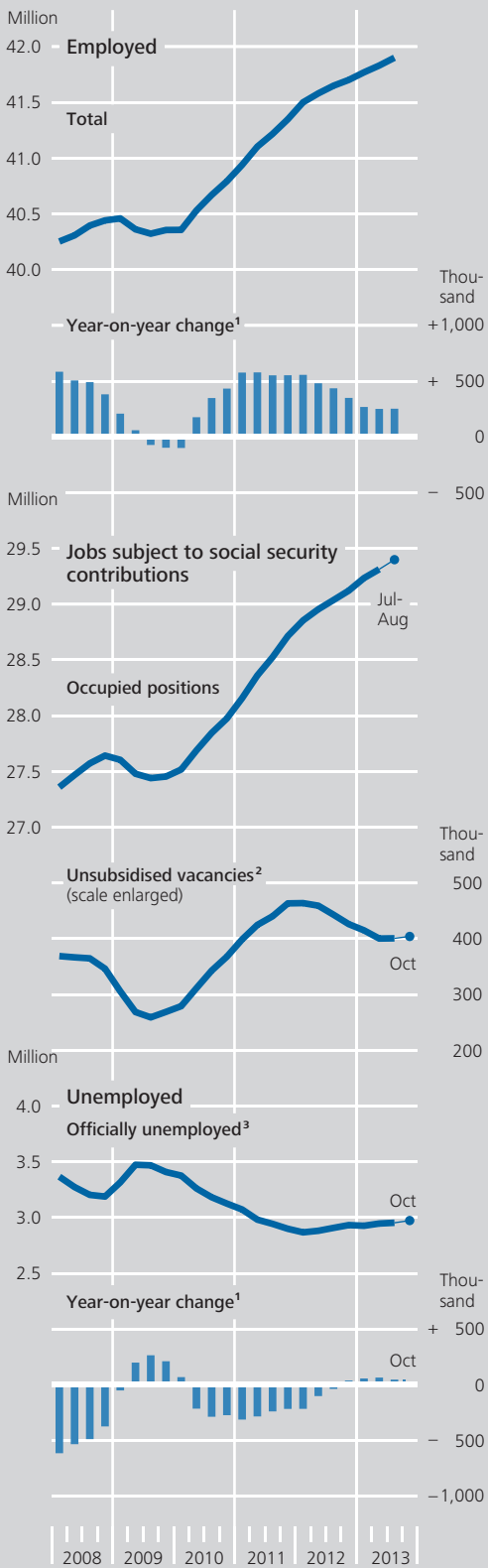
Slight rise in registered unemployment

¹ The EU8 countries are Poland, Czech Republic, Slovakia, Hungary, Slovenia, Lithuania, Latvia and Estonia. The four south European countries with sizeable migration movements to Germany are Italy, Spain, Portugal and Greece.

² See Bundesagentur für Arbeit (2013), Auswirkungen der Arbeitnehmerfreizügigkeit und der EU-Schuldenkrise auf den deutschen Arbeitsmarkt, Berichtsmonat Februar 2013, Hintergrundinformationen, Nuremberg, April 2013.

Labour market

Seasonally adjusted, quarterly



Source of unadjusted figures: Federal Statistical Office and Federal Employment Agency. **1** Not seasonally adjusted. **2** Excluding seasonal jobs and jobs located abroad. **3** From May 2009, unemployed excluding persons newly registered on the books of private employment agencies.

Deutsche Bundesbank

during the holiday months; the unemployment rate stood at 6.9%. Unemployment remained at this heightened level in October. In contrast to the preceding quarters, the increase in the third quarter no longer came from unemployed persons claiming insurance benefits. With demand expected to pick up, recruitment could have been stepped up from among the ranks of the short-term unemployed. Instead, for the past six months, the number of unemployed persons receiving the basic welfare allowance has been on the rise again. This is probably due to a higher number of persons moving out of the unemployment insurance system who became unemployed one year ago in the wake of the economic slowdown.

Under the given conditions, there is unlikely to be very much change in the overall positive situation on the labour market in the next few months. The Ifo employment barometer, which provides information on the employment plans of trade and industry and business-related services over the coming three months, points to a continued subdued increase in employment. The Federal Employment Agency's BA-X job index likewise stabilised in the third quarter, mainly because of an improvement again in the intake of vacancies. A continuing high number of vacancies is revealed by the Job Vacancy Survey of the Institute for Employment Research (IAB).

Labour market situation still favourable under the given conditions

To supplement the existing leading labour market indicators, which are geared mainly to employment trends, at the end of October the IAB published for the first time an indicator designed to provide information on labour market developments in Germany over the coming three months. The IAB labour market barometer analyses monthly surveys of the managers of all the regional employment agencies. The qualitative results are condensed into an index value that can fluctuate on a scale between 90 and 110, with a value of 100 indicating a neutral development and higher values announcing a decline in unemployment. The current figure of 99.6 therefore signals a largely un-

IAB labour market barometer published for the first time

changed level of unemployment for the rest of the year.

■ Wages and prices

Negotiated rates of pay rising more strongly again

Growth in negotiated rates of pay accelerated again in the third quarter of 2013, after slowing temporarily in the second quarter, not least owing to agreements on staggered pay increases in major industries governed by collective wage agreements. In the period under review, basic negotiated rates of pay went up by 2.4% on the year, compared with an increase of 2.1% in the second quarter. Also including all one-off payments and ancillary agreements, the increase of 2.3% in negotiated pay was higher than that in the preceding quarter (+2.1%). During the reporting period, actual earnings may have risen at the same pace as negotiated rates of pay.

Recent pay settlements with marked increase in minimum wages

In September, the social partners concluded a new pay agreement in temporary agency employment. This provides for annual pay increases averaging 3½% in western Germany and just under 4½% in eastern Germany running for a total period of three years; these rates of increase are distinctly higher than those agreed recently in the other sectors. Along with the provisions on granting sectoral wage add-ons, this agreement is an additional factor making the use of temporary employment significantly more expensive. Moreover, for agencies the risks associated with the hiring of temporary labour are increasing. For a sector that is especially susceptible to cyclical fluctuations, agreeing a binding timetable for wage increases up to the end of 2016 means a considerable restriction of flexibility. In the lowest wage category, temporary employees earning in line with the west German pay scale will receive hourly remuneration of €8.50 from the start of next year. In eastern Germany, this rate will be reached in June 2016.

The introduction of a general statutory minimum wage is under consideration in the nego-

tiations on forming a new federal government in Germany. A key argument of its advocates is that the pay of employees currently working predominantly in areas not covered by collective pay agreements for low wages should be raised to a level at which there is no need to draw supplementary social benefits. This line of reasoning introduces socio-political objectives into pay negotiations, which have hitherto been determined by the social partners primarily on the basis of skills and industry-specific considerations. Setting a statutory minimum wage would represent a significant encroachment on longstanding pay negotiation structures, which may harbour considerable employment risks.

One sixth of employees currently receive an hourly wage of less than €8.50.³ A general increase of such low wages would give rise to considerable wage cost pressure, some of which would be reflected in higher consumer prices. Jobs would be directly affected if firms were unable to pass on or absorb the additional strain. Employment prospects would also be reduced by a fall in demand resulting from any price increases. Furthermore, wages set at a high level at the lower end of the pay scale would make (re)integration into the labour market more difficult precisely for low-skilled members of the workforce, who represent the problem group in the labour market. It should also be noted that a general minimum wage set at a fairly high level would probably have implications for the entire negotiated pay structure and may trigger further pay rises.

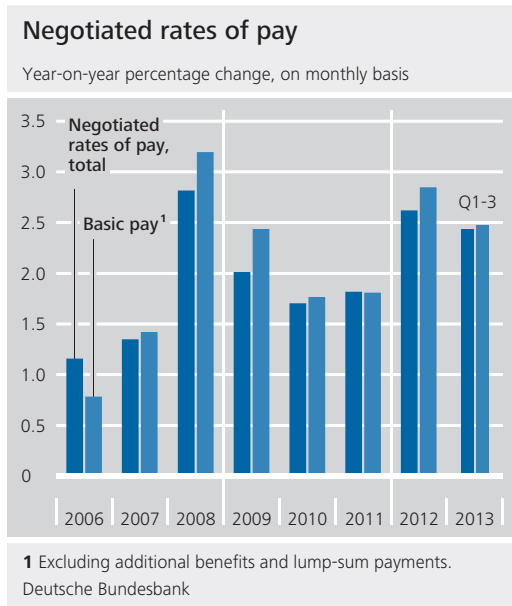
At the upstream stages of the economy, the third quarter saw a continuation of the underlying downward trend in prices due to the euro's appreciation and still subdued global industrial activity. This was obscured, however, by rising crude oil prices, which meant that import prices remained unchanged overall in sea-

General statutory minimum wage an extraneous element in pay negotiations ...

... and, at €8.50, too high

Underlying trend of prices continuing to fall at the upstream stages of the economy

³ See K Brenke and K-U Müller, Gesetzlicher Mindestlohn – Kein verteilungspolitisches Allheilmittel, DIW-Wochenbericht 39/2013, pp 3-17.



sonally adjusted terms in the third quarter after a marked decline in the second quarter. By contrast, domestic producer prices and export prices, which are affected only to a small degree by crude oil prices, both showed a seasonally adjusted 0.2% fall on the quarter. Prices of intermediate goods fell very sharply, while declining or stagnating prices for imported capital and consumer goods contrasted with price rises at the domestic producer level. This applies in particular to the prices for food, beverages and tobacco. In year-on-year terms, there was a sharp fall of 2.9% in import prices, while domestic producer prices went down by no more than 0.4% and export prices declined by 0.9%. In line with this, there was a perceptible improvement in the terms of trade, although they were still below their medium-term average.

Further price rises in the housing market

Housing construction prices showed a moderate rise again in the third quarter. Structural work was only 1.5% more expensive year on year, while there was a somewhat sharper rise of 2.3% in the finishing trades. There was a further sharp increase in sales prices for owner-occupied housing. According to data of the Association of German Pfandbrief Banks (Verband deutscher Pfandbriefbanken, vdp), the annual rate accelerated to 3.8%, with the rate of price increase slowing to 4.8% for freehold

apartments and accelerating to 3.4% for single-family houses.

Consumer price inflation in Germany accelerated somewhat in the third quarter. The seasonally adjusted quarterly rate went up from 0.4% to 0.5% at the end of the period under review. In euro terms, oil prices were a little higher than in the previous quarter. This led to a further rise in energy prices, especially for refined petroleum products, which was thus the main reason for the acceleration in consumer price inflation in the third quarter. Food prices also showed a further marked increase. It was only as the quarter progressed that the prices of fruit and vegetables eased after a steep rise due to the weather. The prices of other goods continued to go up moderately, with the rise being due almost exclusively to the lagged impact of the increase in tobacco tax at the beginning of the year. The prices of services continued their subdued upward trend. The rise in rents accelerated slightly. The annual rate of increase in the national consumer price index (CPI) was 1.6%. The corresponding figure for the Harmonised Index of Consumer Prices (HICP) was +1.7%.

Moderate rise in consumer prices

In October, seasonally adjusted consumer prices went down by 0.1% owing, in particular, to energy prices easing again. The subindex for services also showed a decline due, not least, to the abolition of student tuition fees in Bavaria. Annual CPI and HICP inflation fell to 1.2%.

Orders received and outlook

There is a good chance that the economic upturn in Germany will strengthen further over the coming months. First, there are no indications whatsoever that the main pillars of domestic demand might become less stable. Second, more tailwind for industry may be expected again from the external sector. In this setting, there is likely to be a growing expectation that demand will again obviously outstrip normal capacity utilisation, which would give

Good prospects of a further strengthening of economic activity

the necessary boost to corporate investment. However, an investment-friendly climate also depends crucially on the new German federal government having a forward-looking economic policy agenda.

Further marked rise in new orders

In the third quarter of 2013, seasonally adjusted industrial orders were 1½% up on the previous three-month period, which had already shown a similar increase. The upturn in industrial orders began slowly more than one year earlier and has thus gradually strengthened. Measured by the order capacity index, demand was matching the production capacity of order-based industry for the first time since the turn of 2011-12. In the period under review, the strongest growth was in orders of capital goods (+2¾%), with a particularly large increase in the case of machinery and equipment. Orders of intermediate goods showed only moderate growth (+¾%), and consumer goods failed to match their heightened level in the summer (-1½%).

Mainly more domestic orders

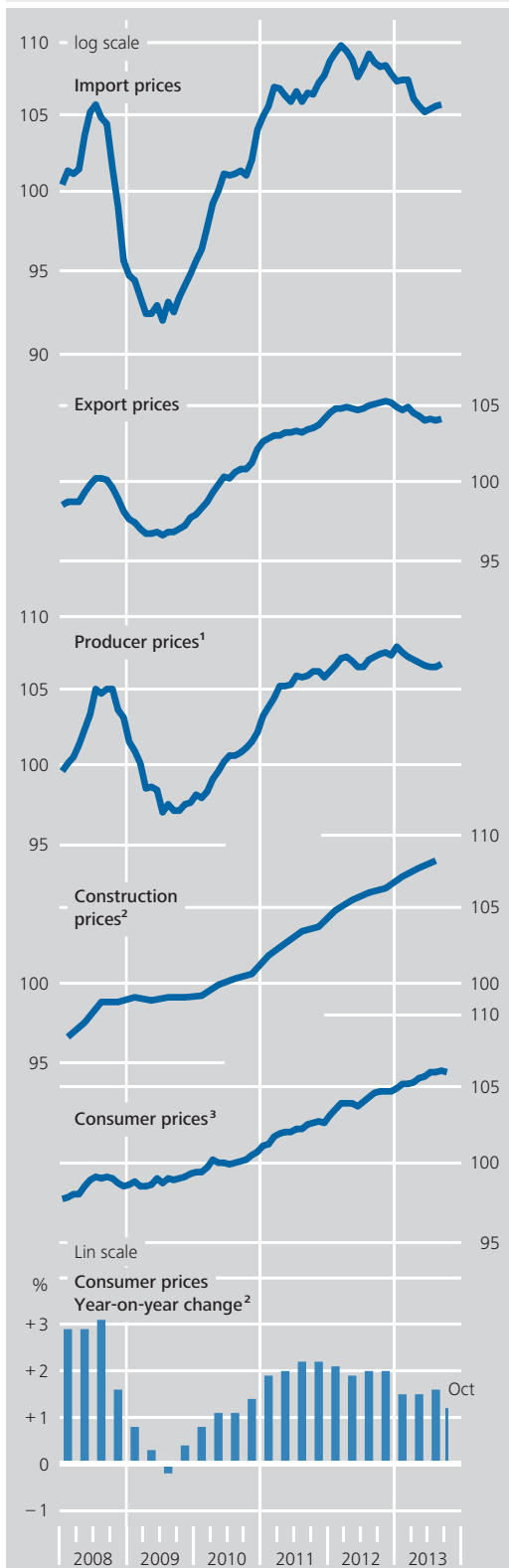
The largest contribution to the growth in orders came this time from domestic orders, which showed a seasonally adjusted increase of 2½% on the quarter, with a very sharp rise in domestic demand for motor vehicles and motor vehicle parts, as well as for new machinery. In the intermediate goods sector, the expansion was chiefly in the demand for chemical products. Above and beyond that, there was an increase again in orders for industrial goods from non-euro-area countries (1½%), while the level of orders from the euro area was no higher than in the preceding quarter. In this connection, it is nevertheless gratifying that euro-area customers ordered significantly more items of machinery again, as they did in the second quarter. Furthermore, there was also an increase in motor vehicle orders from this group of countries.

Broad-based improvement in business expectations

In large swathes of industry, the business outlook showed a further improvement in the third quarter. In manufacturing, this was linked to significantly better expectations for exports.

Import, export, producer, construction and consumer prices

2010 = 100, seasonally adjusted, monthly

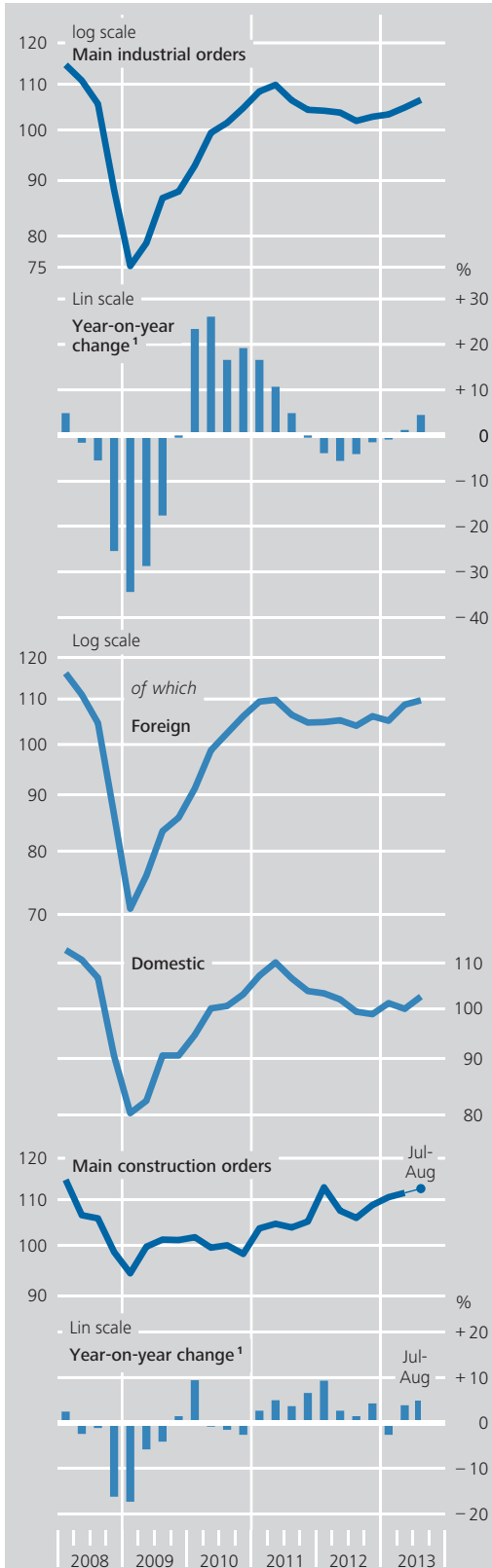


Source of unadjusted figures: Federal Statistical Office. **1** Producer price index for industrial products in domestic sales. **2** Not seasonally adjusted, quarterly. **3** National consumer price index.

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Demand for industrial goods and construction work

Volume, 2010 = 100, seasonally adjusted, quarterly



Source of unadjusted figures: Federal Statistical Office. ¹ Only calendar-adjusted.
 Deutsche Bundesbank

According to the current DIHK survey, this optimism has also led to somewhat more enterprises pursuing expansionary investment plans and assuming increases in staffing levels. The close link between growing export demand and the need to increase production capacity can be clearly seen from the current indicators. Optimism has also increased in the wholesale and retail trade, as well as in the case of business-related service providers.

In the summer months, as was already the case in the preceding quarters, there was a sharp increase in the number of building permits for apartments in three-family and multiple-family houses. Added to this is the fact that more orders for single-family and two-family housing were also approved again following stagnation in the previous year. Furthermore, there was a sharp surge in orders from the public sector. In this context, major public civil engineering projects are likely to have played the key role. Firms' construction demand eased noticeably in August after three months in which a very large number of orders for commercial office buildings were placed.

New surge in construction demand

Private consumption will go on showing itself to be a factor stimulating domestic economic activity in the immediate future. According to the survey results of the consumer research institution, Gesellschaft für Konsumforschung (GfK), consumer sentiment is holding up at a high level. Since the late summer, households' expectations about the economy have also become much more optimistic. Even though the outlook for incomes has become a little gloomier of late, consumers still feel extremely positive about their scope for expenditure by historical standards.

Private consumption still on the up