

5 March 2013

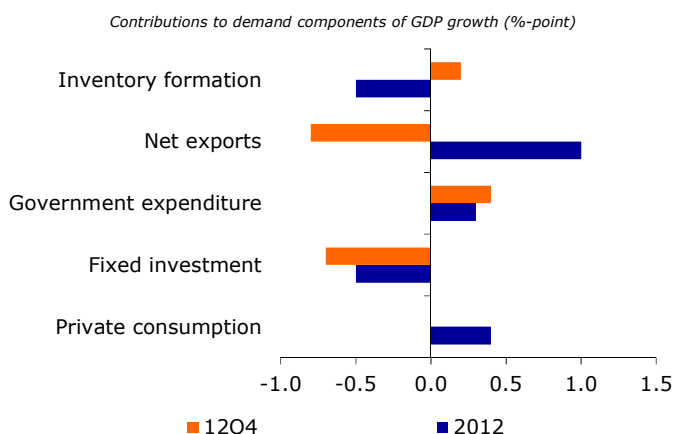
Source of optimism for Europe

year-on-year change (%)	'12	'13	'14
Gross Domestic Product	0.9	1/2	1 1/2
Private consumption	0.6	3/4	1 1/4
Government consumption	1.4	1 1/2	1
Investment	-1.9	-1/2	3
Exports	4.3	2 1/2	4 3/4
Imports	2.2	2 3/4	5
Inflation	2.1	1 3/4	1 1/2
Unemployment (%)	6.8	7 1/4	7
Government balance (% GDP)	0.1	-1/4	-1/4
Government debt (% GDP)	81.7	79 3/4	78

- GDP contracted in the fourth quarter by 0.6% q-o-q amid a downturn in foreign demand.
- We expect domestic demand to turn to a major growth driver in 2013.
- This expectation is supported by the recent increase in producer confidence. Moreover, the labour market remains robust, which leads to improved consumer sentiment and more consumer spending. The strong rise in retail sales confirms this reading.
- The German government booked a budget surplus in 2012. Differences between the individual states remain large, however, which is reflected in the amounts that are redistributed among the regions.

Source: Reuters EcoWin, Rabobank

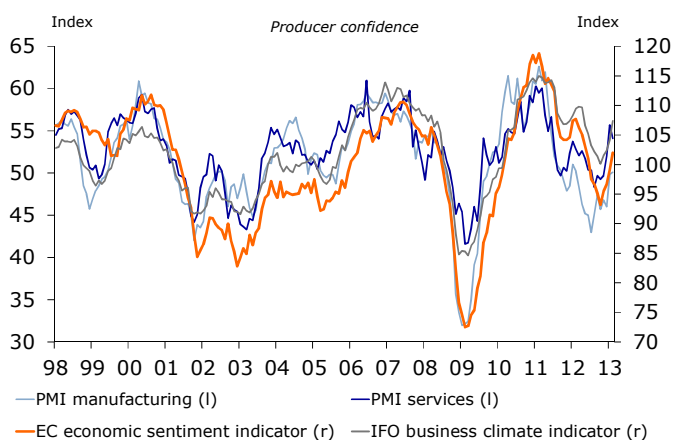
A bad end to the year 2012...



Source: Destatis

German GDP decreased by 0.6% q-o-q in the last quarter of 2012. For the year as a whole, the economy expanded by 0.9%. Remarkably, the net exports contributed negatively in 12Q4, although its overall contribution was positive throughout the year. Germany seems to also feel the consequences of the European debt crisis. The negative contribution of fixed investment was in line with the figure of the full year. Only government spending and inventory formation had a positive effect on the headline figure. For the current quarter we expect a return of economic growth. The domestic components of GDP will probably become more important growth drivers compared to the previous years.

... but a good start in the new year ...



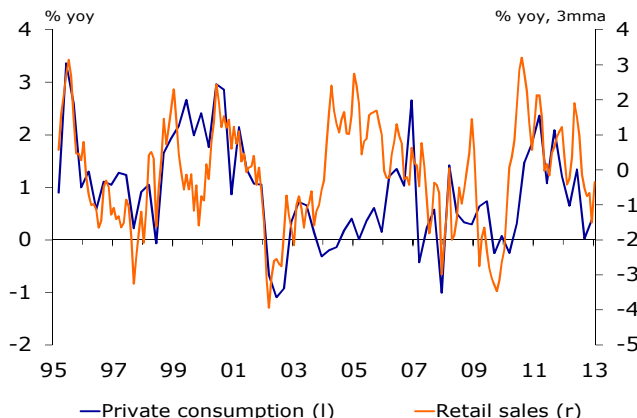
Source: Reuters EcoWin

Hard data like industrial production and the amount of orders received in the manufacturing sector point towards a return of economic growth in 13Q1. What's more, the outlook is positive given the rise in producer sentiment. The recent increase in the IFO-index from 104.3 to 107.4 left the index at almost its highest level in a year time. In the past, the index was a good indicator for economic growth. The PMI of the manufacturing industry rose finally above the cut-off point (50.1), mainly driven by a growth in order expectations. Anecdotal evidence suggests that this order growth expectation is driven by demand from abroad, which lead us to conclude that the export seems to recover from its dip in the last quarter.

Economic Update Germany

5 March 2013

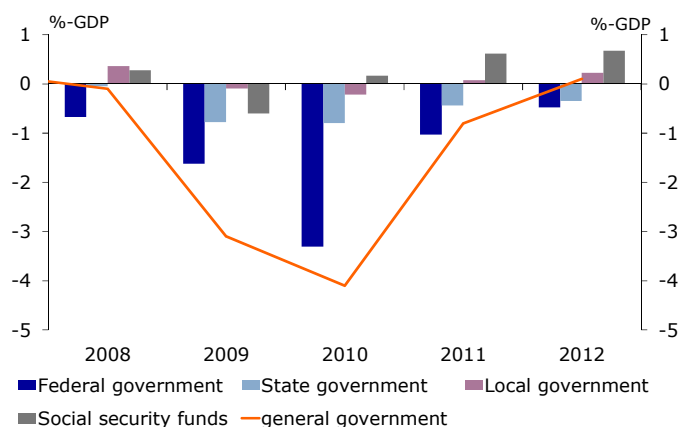
... whereby even consumption is improving



Source: Reuters EcoWin

The unemployment rate remained constant for the fifth month in a row in February (6.9%). From a historical perspective, the labour market remains robust, as unemployment has never been below 6.8% since the German reunification. Due to the tightness of the labour market, wages have increased by 2.6% in nominal terms in 2012. Also consumer confidence remains strong. In the last couple of months, the confidence in the economic outlook improved markedly. Moreover, after a disappointing 3.7% y-o-y contraction in December, retail sales increased by 2.4% in January. This is another reason for our optimism regarding private consumption going forward.

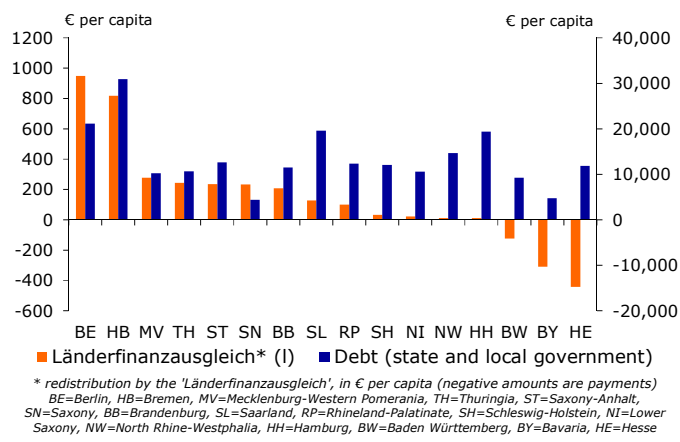
German government regains control of its finances...



Source: Bundesbank

In 2012, the German government realised a budget surplus of 0.2% of GDP. This was the first surplus in five years and only the third one since reunification. The improvement in public finances was mainly due to higher tax revenues. The federal government and the state governments recorded a small deficit, and this was compensated by the local governments and the social security funds. In 2012, the federal government's structural deficit was 0.32%, which is within the boundaries of the upcoming debt brake rule (0.35% structural deficit) that will take effect from 2016 onwards. In the budget of 2013, a structural deficit of 0.34% of GDP is expected for the federal government.

...although differences between the states remain vast



Source: Bundesfinanzministerium, Destatis

Regional differences within Germany are shown by the 'Länderfinanzausgleich'-system, in which the richest federal states have to pay a contribution to regions which have a higher financing need (calculated as amount of inhabitants times a constant) than that they receive in tax revenues. In 2012, the total size of transfer amounted to almost EUR 8bn, of which Berlin receives a bit more than 40% of it. The contributors were the rich Southern states, of which Hesse paid the most (440 Euro per capita). In addition, a solidarity surcharge from the federal budget redistributes even more cash towards the eastern states. In spite of these two systems, the debt positions of the states vary heavily.

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Marcel Weernink
Tel. +31 (0)30 – 2160973
M.Weernink@rn.rabobank.nl