



Economic Update Germany

6 May 2013

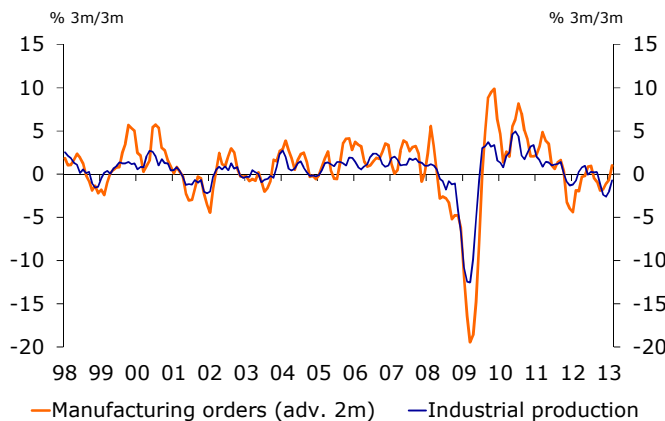
The European locomotive is losing steam

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 1/2	1 3/4
Unemployment (%)	6.8	7	7
Government balance (% GDP)	0.1	0	1/4
Government debt (% GDP)	81.7	79 3/4	78

- While sentiment indicators pointed towards solid growth in 13Q1, the hard data during the first two months were less convincing.
- The major producer confidence indicators declined in April, which point to a growth slowdown in the second quarter.
- Falling producer sentiment is probably due to weaker external demand. The good news is that stronger domestic demand should support the recovery going forward.
- Despite a softening labour market, consumer confidence remains high. The combination of low unemployment rate and falling inflation is boosting household's real income growth and this bodes well for consumer spending.

Source: Reuters EcoWin, Rabobank

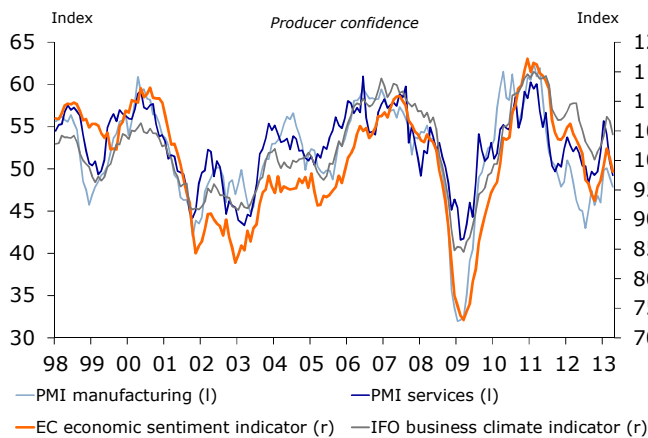
A recession is not expected...



Economic growth has probably returned in 13Q1 – after the 0.6% q-o-q GDP contraction in 12Q4 – amid improving sentiment. Therefore, Germany will probably not enter a technical recession (two or more quarters of negative growth). The hard data in the first two months of the year do not point to a significant pick up in activity, however. Industrial production (IP) increased by 0.5% m-o-m in February, but this was after a decline in January (-0.6%). Manufacturing orders improved by 2.3% m-o-m in February, which could signal a recovery of IP in the coming months. But given the volatility of the orders data, caution should be taken when interpreting it.

Source: Reuters EcoWin

...but the outlook is less rosy going forward



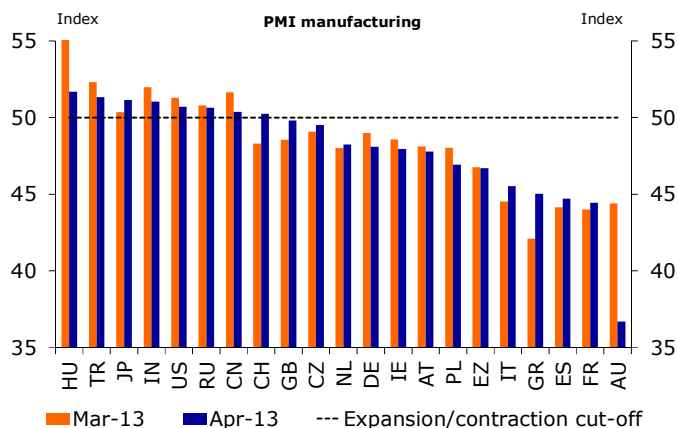
The outlook for the second quarter is less positive. The major producer confidence indicators decreased significantly in April, following a small decline in March. The composite PMI dropped to 48.8 (from 50.6 in the previous month) and has reached the lowest point in the last 6 months. Also the EC Economic Sentiment Indicator decreased for a second month in a row to 98.1 in April (from 100.4 in March). The IFO business climate indicator was down to 104.4, which still points to positive growth, but is a deterioration compared to the previous figure (106.7). As such, the German economy also seems to be affected by the recent weakness in global demand.

Source: Reuters EcoWin

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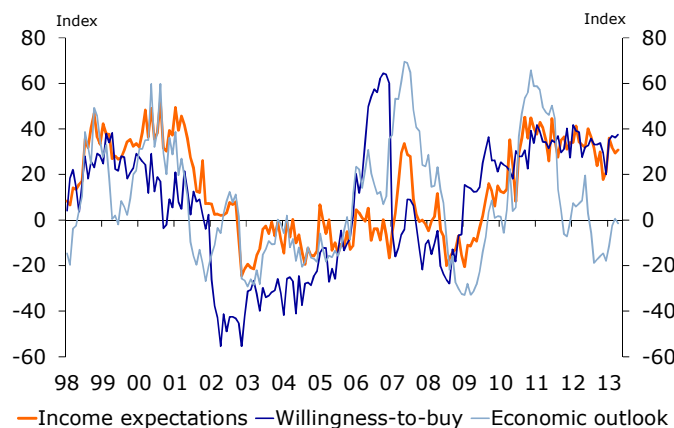
Germany is not immune to global growth slowdown



Source: Reuters EcoWin

The weakness of external demand is evident if one were to look at the latest PMI figures of the major advanced and emerging countries. Around half of the countries in our sample (see figure) have witnessed a drop in their PMIs between March and April. And only seven countries are now above the expansion/contraction cut-off point (50). Most importantly, the pace of economic activity in China and the US, which are very important trading partners of Germany, have been disappointing recently. These external headwinds may partly explain why German producers are not highly confident about the economic outlook. The good news is that stronger domestic demand will act as a cushion in the meantime.

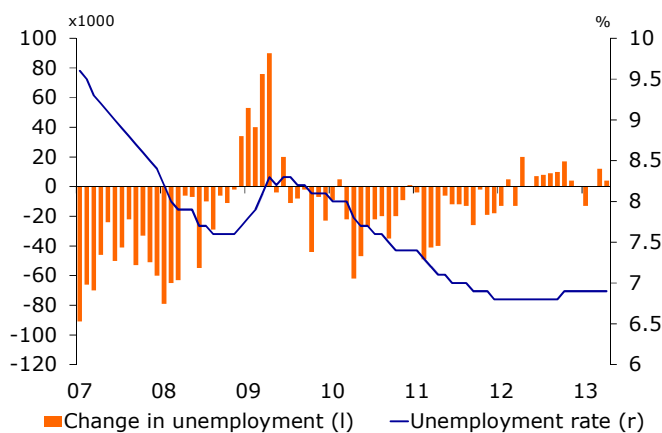
Consumers remain confident...



Source: Reuters EcoWin

Despite the weakening producer confidence, the German consumer confidence rose slightly in April (from 5.9 to 6.0) and May (to 6.2). When looking at the breakdown, we see that the economic outlook subindex returned into negative territory (-1.5), although the level is still higher than during 12H2. The other two sub components remained positive, however, and both increased by 1.4 points to 30.8 (income expectations) and 37.6 (willingness-to-buy). This can be attributed to a rise in households' purchasing power. The rise in nominal wage growth combined with the recent low inflation rate (1.2% y-o-y in April) is boosting consumers' real incomes. This bodes well for private consumption growth in 2013.

...despite softening labour market dynamics



Source: Reuters EcoWin

Unemployment increased by 4,000 in April. The jobless rate has remained constant at 6,9% for the seventh month in a row. Employment is still growing at a constant rate of about 0.1% m-o-m seasonal adjusted (+28,000 persons employed in March). However, Germany's labour market dynamics are softening. The fourth quarter of 2012 was the first time that the total amount of hours worked declined (-0.43%); it almost returned to the level seen in 11Q3. The amount of vacancies in April decreased with 58,000 compared to last year. Also the amount of unemployed people rose slightly during 2012. In sum, the labour market is still robust, but is somewhat weakening due to the deteriorating economic environment.

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