

**Hamburg
Commercial
Bank**

Taking the pulse of the German economy

The coronavirus seems to have been brought under control in Germany. This is the most important prerequisite for a recovery. The big unknown is the speed of the recovery: speedy or stringy?

Economics, May 2020

Executive summary

- In terms of economic policy, Germany faces the greatest **challenge of** the post-war period. Economic output is expected to **shrink** by **7.2 %** this year. If a **second wave of infections** can be avoided, a recovery of +6.1% is possible for next year. Another important factor is how the external environment develops. The **global economy is** expected to shrink by 3.1% in 2020, but will **recover strongly** in the coming years, if - and here, too, an "if" must be mentioned - infection rates in the major **emerging markets** such as India, Brazil and Mexico are soon brought under control.
- The corona crisis has affected **every sector** in Germany. Particularly affected are **services**, which to a large extent directly felt and still feel the effects of the shutdown. But also the **manufacturing industry** is greatly affected, and all sectors are almost without exception in recession. One example is the automotive sector, which is suffering from the double **corona load of** a bottomless pit of **demand** and the interruption of international **value chains**. However, this also applies to sectors such as the **electrical** and **mechanical engineering industries**. The **construction sector** has had to limit its activity only relatively slightly. This sector was not affected by direct shutdown measures and is less dependent on international value chains. While civil engineering could benefit from government **infrastructure programmes**, the **deep recession is** likely to leave its mark on commercial construction (cancellation of investments) and residential construction (higher unemployment).
- The **macro environment is** characterized by a sharp increase in **short-time work** to over 10 million people, or 22% of the working population. The **unemployment rate** will follow after a so far only moderate increase to 5.8%, as the number of insolvencies will increase. However, **generous state aid in** the form of subsidies for small businesses and **KfW loans** for larger firms will cushion the shock somewhat. In view of the under-utilisation of economic capacities and the massive drop in the price of oil, **inflation** will fall over the next 12 months. Yields on **German government bonds** will remain in negative territory for the time being, which means that the interest burden for the government will not rise for the time being despite the higher level of debt. In this environment, the **European Central Bank** will tend to relax monetary policy further by making **long-term tenders** even more attractive and expanding the PEPP purchasing program if necessary.

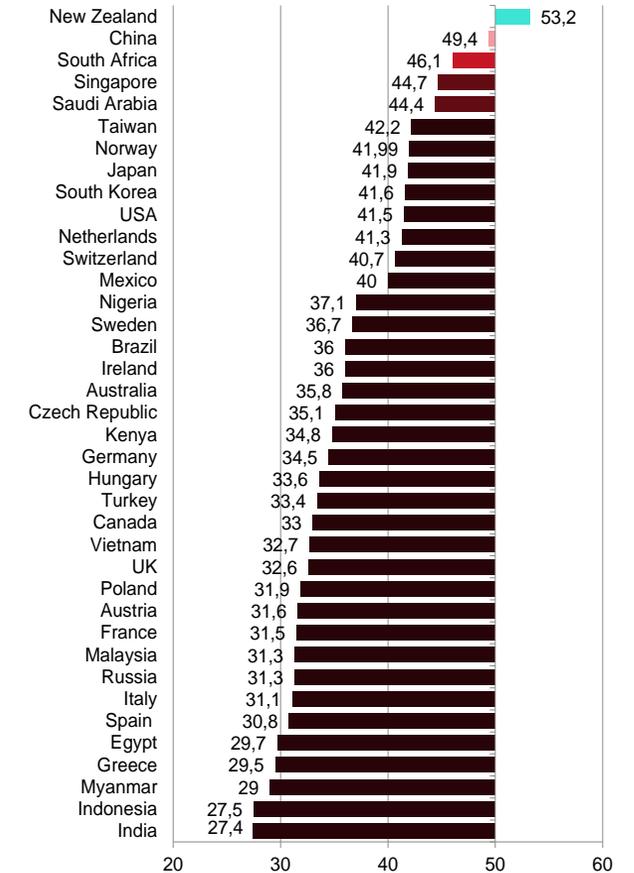
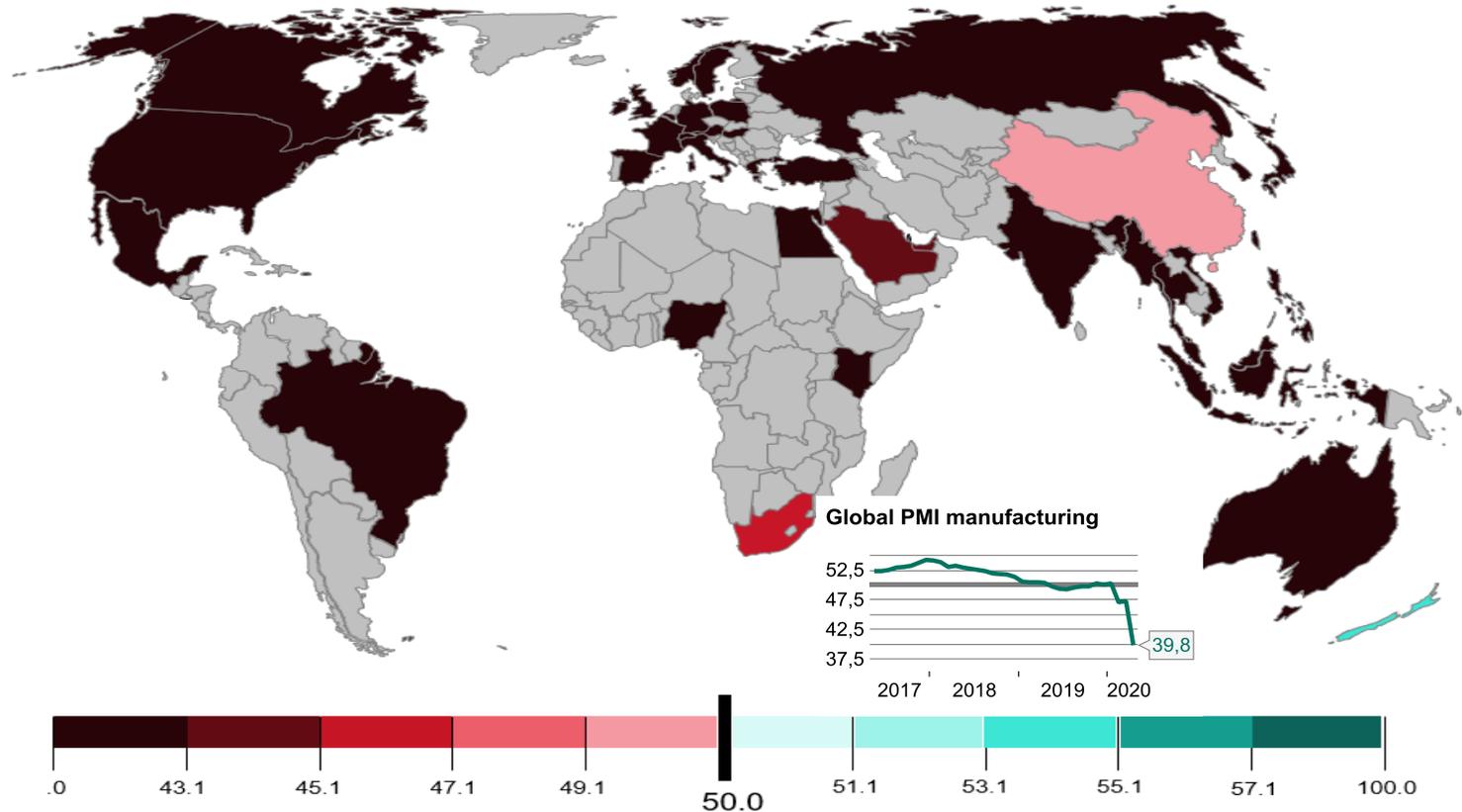
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Global environment: dark and cloudy

Unprecedented recession in the manufacturing sector.

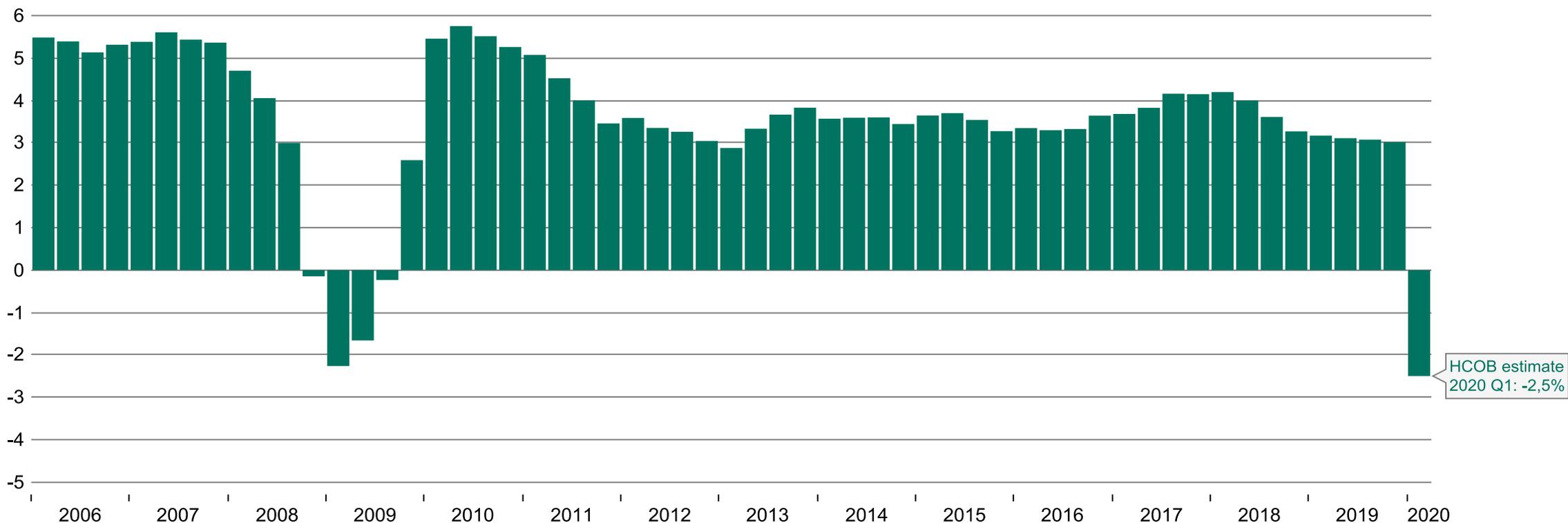
ISM/PMI manufacturing indices in April (index > 50 = improvement in economic situation compared to previous month, index < 50 = deterioration)



The coronavirus sends global growth into free fall. All major economies of the world are affected.

Negative growth rates for the first time since the financial crisis in 2008, with the low point likely to be reached in the second quarter of 2020.

GDP YoY, estimate based on national GDP data of 28 countries + EU



Source: Macrobond, Hamburg Commercial Bank Economics, IMF, national sources

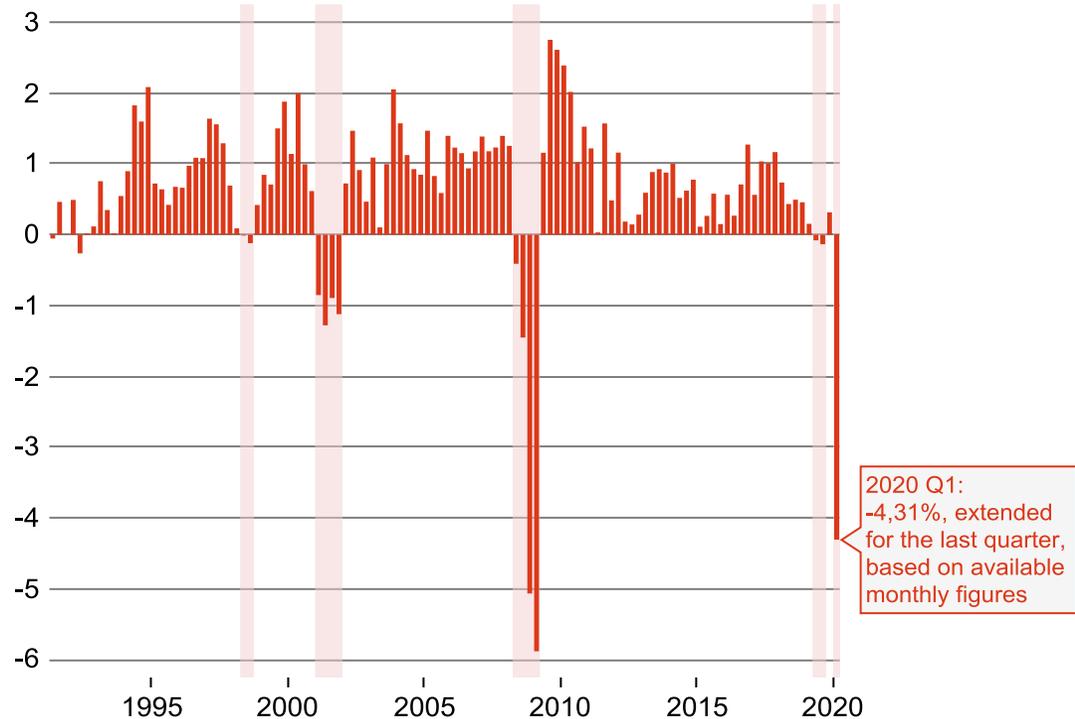
Note: The 28 countries + EU cover almost 90% of the world GDP. They therefore show quite accurately the growth dynamics of the world economy. However, when these figures are used to derive the annual growth rates, there are some discrepancies with the figures published by the IMF.

The industrial sector faces a significant decline.

The decline in the first quarter is a little preview of the second quarter, which is expected to reflect the global corona-related restrictions even more strongly.

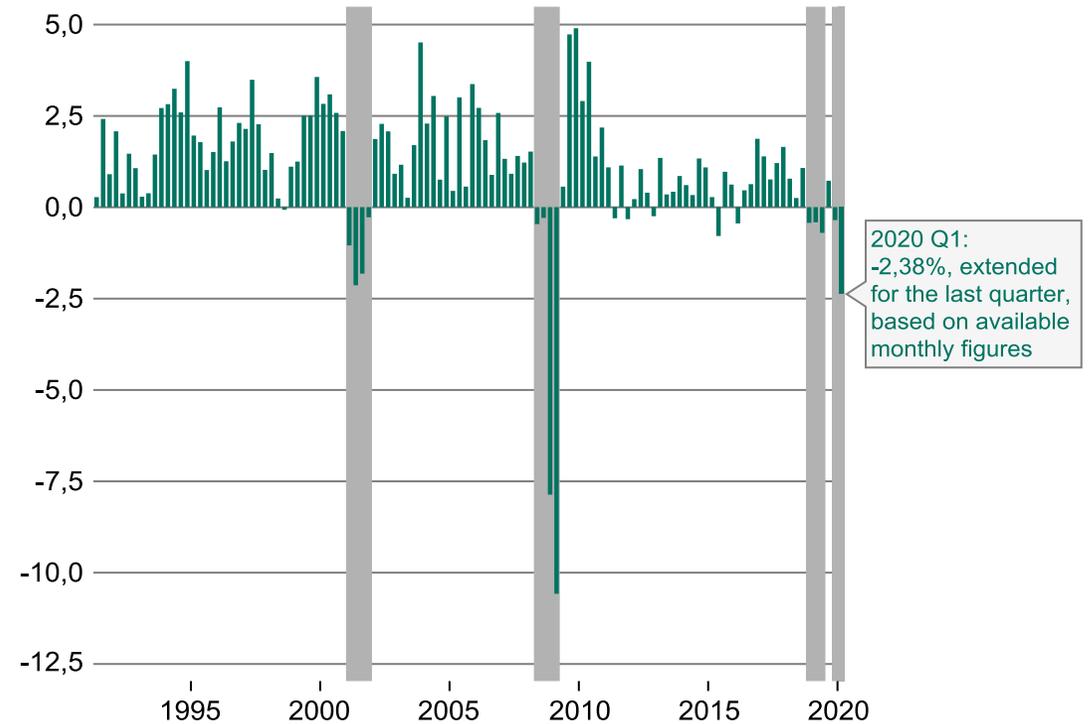
World, Industrial Production, QoQ.

Pink shaded: recession of the industrial sector



Source: Macrobond, Hamburg Commercial Bank Economics, Netherlands Bureau for Economic Pol

World trade measured by CPB (total international trade), QoQ. Grey shaded: recession of trade volume

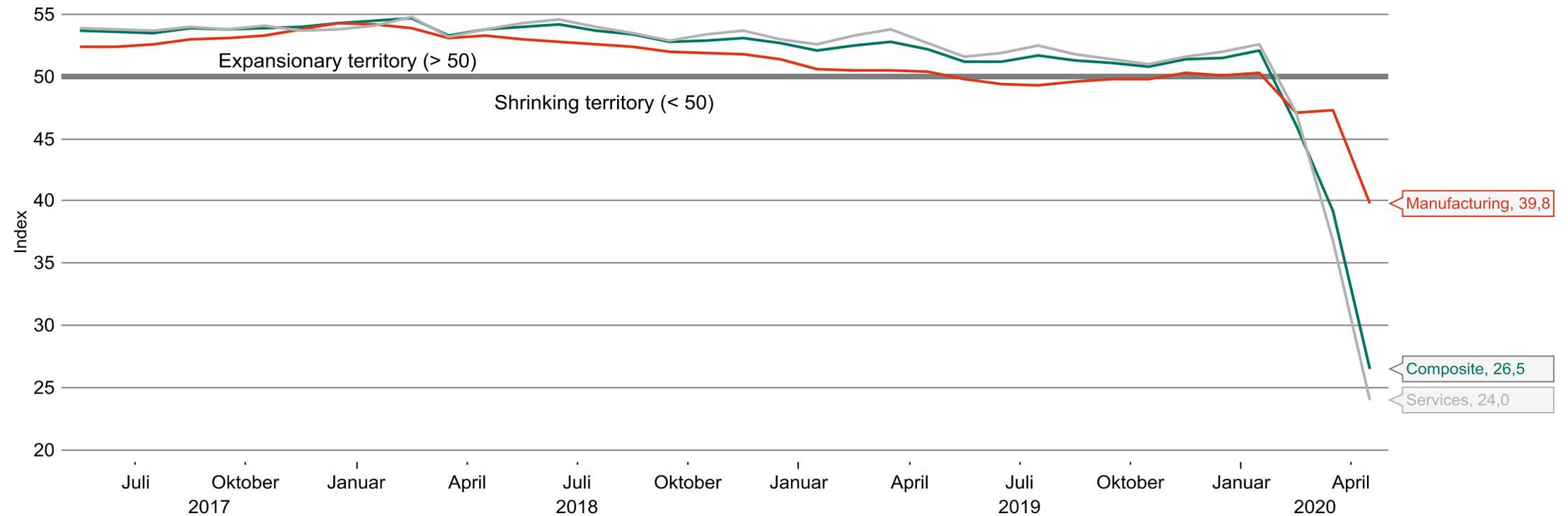


Source: Macrobond, Hamburg Commercial Bank Economics, CPB

As a leading indicator, the global PMI illustrates the severity of the distortions in the economy due to Covid-19.

Unlike during past recessions, the service sector is worse affected than the manufacturing industry.

Global PMI, manufacturing, services, composite

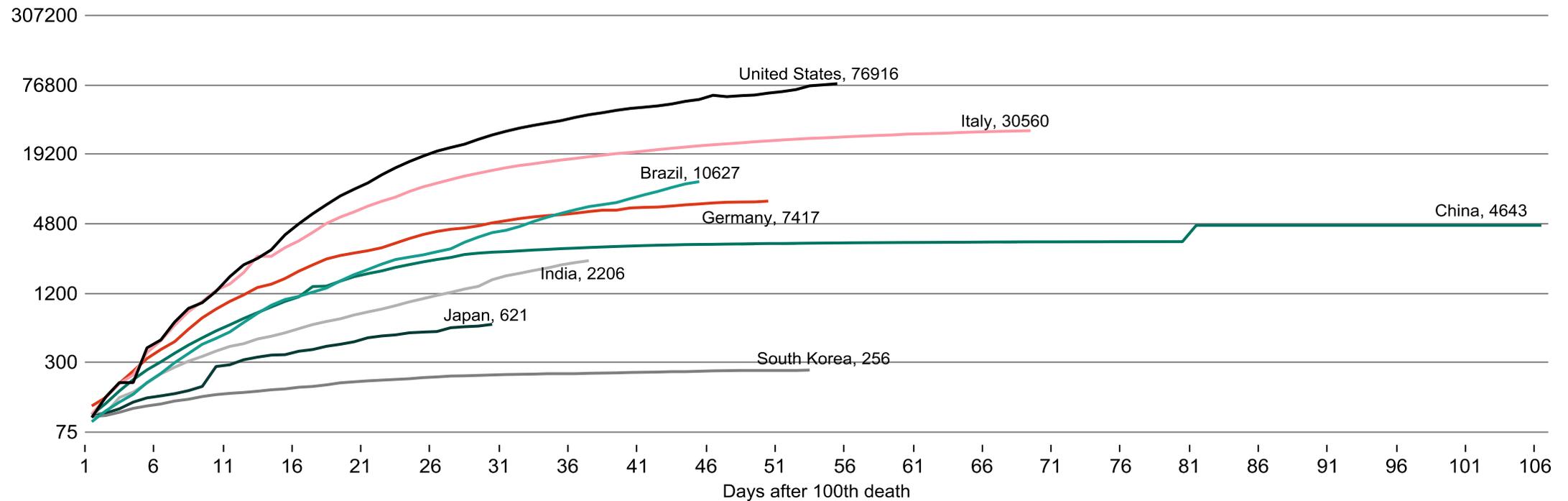


Source: Macrobond, Hamburg Commercial Bank Economics, IHS Markit

The progress made in controlling the spread of the coronavirus is the most important indicator for assessing the economic outlook.

Many countries have now succeeded in flattening the infection and death curves. In some emerging markets, however, the situation remains critical.

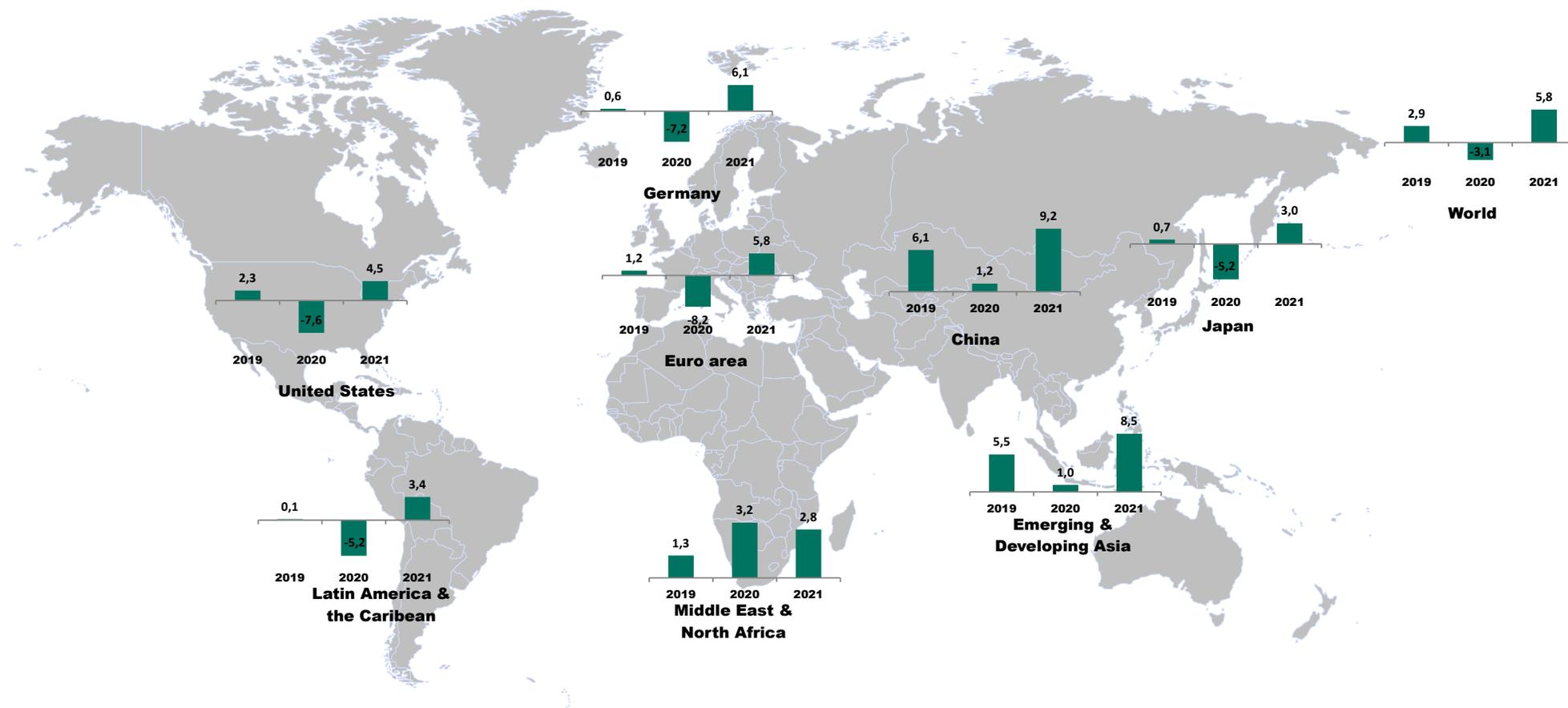
Coronavirus Disease (COVID-19) Pandemic, Total Deaths, Aggregate. Starting point: 100 death cases (as of 05/11/2020)



Source: Macrobond, Hamburg Commercial Bank Economics, WHO

All major economic areas in deep recession in 2020.

Historical GDP growth rates and forecasts



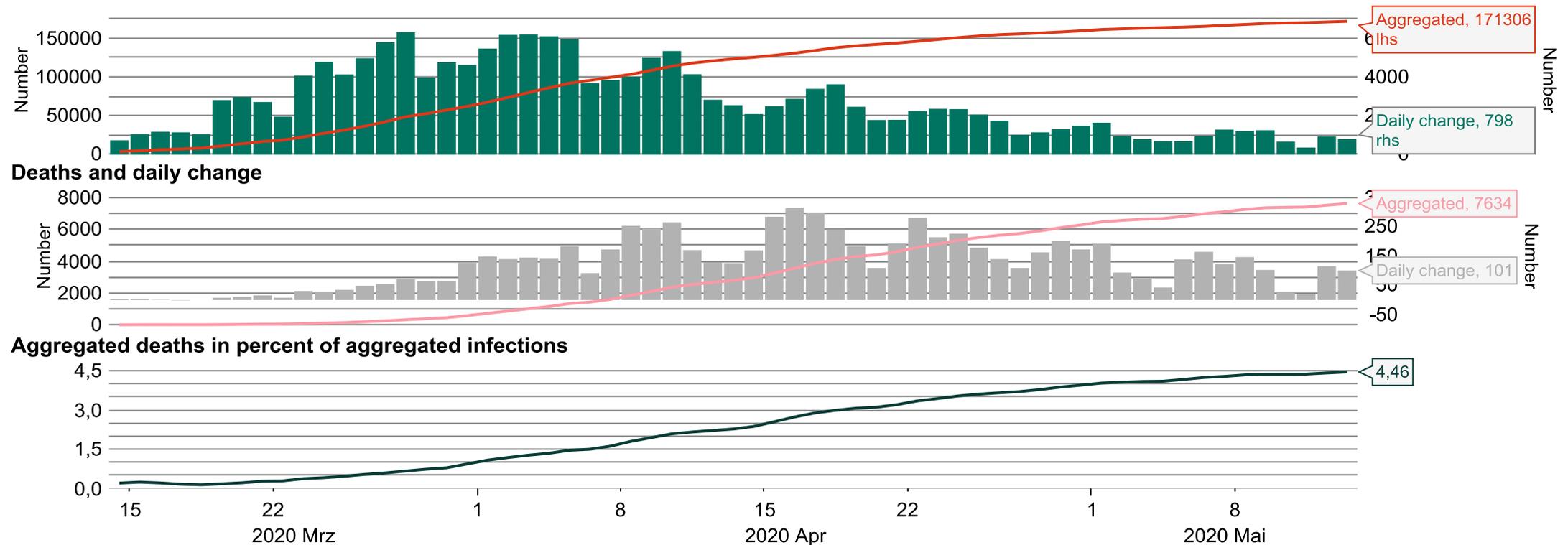
Source: HCOB Economics, IMF

Coronavirus in Germany: everything under control?

Coronavirus: so far, Germany seems to be able to contain the spread of the virus relatively successfully.

To ensure that the now decided relaxation of the shutdown does not lead to a second wave of infections, the hygiene and social distancing rules must continue to be met. The next few weeks will show whether this can be achieved.

Germany, Novel Coronavirus (COVID-19), aggregated confirmed cases and daily change

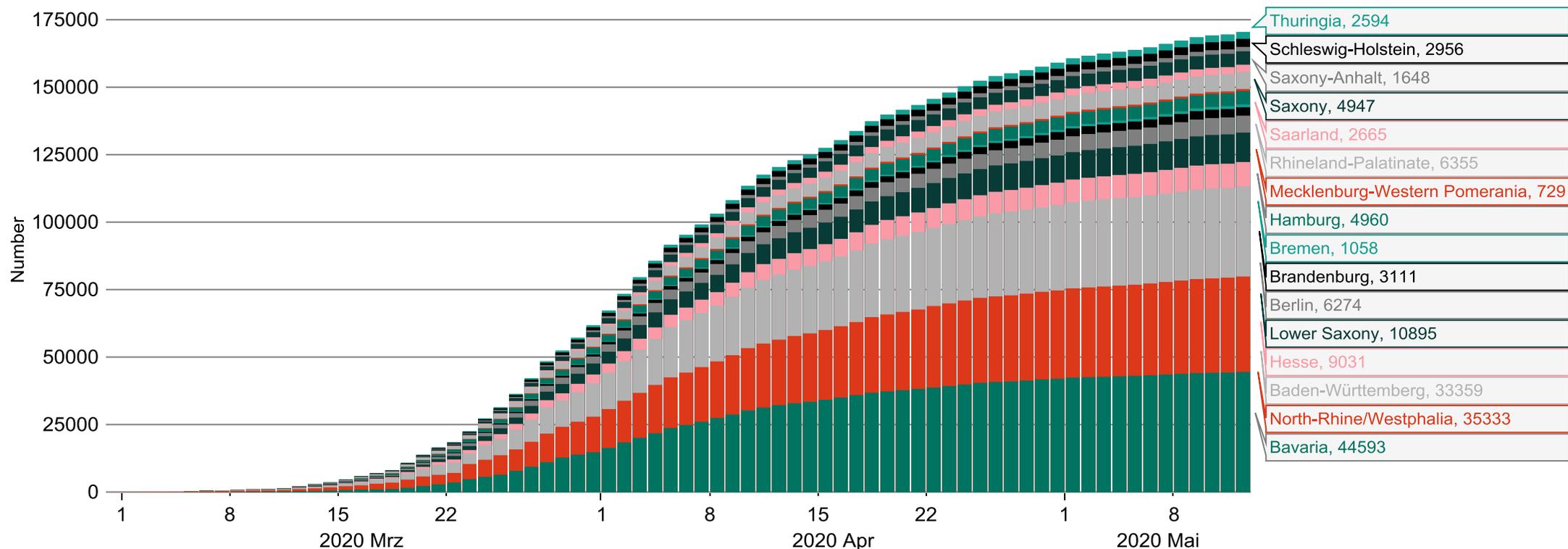


Source: Macrobond, HCOB, Robert Koch Institute

Bavaria, North Rhine-Westphalia and Baden-Wuerttemberg are the states with the most corona cases.

The spread has slowed down in all federal states.

Germany, Public Health, Diseases, Robert Koch Institute, Novel Coronavirus (COVID-19), Confirmed Cases



Source: Macrobond, HCOB, Robert Koch Institute

Corona relief packages: big bazooka

State aid: the measures in detail.

- **50 billion euros in emergency aid (1.5% of GDP):** Applicants receive a one-off payment of 9,000 euros (companies with up to 5 employees) or 15,000 euros (companies with up to 10 employees). In order to be able to submit the application, the companies must be able to prove that they are in economic difficulties (threat to their existence or liquidity shortage) as a result of the corona pandemic.
- **An additional 3 billion euros for basic provision:** Self-employed people have easier access to basic provision. This will enable them to secure their livelihood and accommodation during the crisis despite loss of earnings. In the coming months, applicants for basic income support will not have to disclose their financial circumstances or touch their assets.
- **3 billion euros for hospitals:** The German government is supporting hospitals, contracted physicians and nursing staff in order to be able to shoulder the effects of the corona epidemic. Hospitals are being supported in order to provide care capacities for a growing number of patients with a corona virus infection.
- **EUR 600 billion for an economic stabilisation fund (17,5 % of GDP):** The fund consists of a guarantee framework of EUR 400 billion to counteract liquidity bottlenecks of companies, a credit authorisations of EUR 100 billion for direct recapitalisation measures and a credit authorisation of EUR 100 billion to refinance the Kreditanstalt für Wiederaufbau (KfW)
- **Short-time allowance:** Only 10 percent of the employees in the company have to be affected by the loss of working hours (instead of one third as before) in order to be eligible for short-time work compensation. Employers are reimbursed in full (by the BA) for the social security contributions they have to pay for short-time work. Short-time work compensation is also available for temporary workers: Temporary employment agencies can already report a loss of working hours to the Federal Employment Agency. Also, the compensation for employees increases gradually after three month to up to 80% (87% with children) of the net salary difference.
- **Aid programmes at state level:** The states have adopted additional measures to support the economy.
- **Tax measures:** The sales tax on food is temporarily reduced to 7 percent. In addition, the retroactive tax periods have been extended for a limited period, and companies that will report a loss this year due to the consequences of the corona pandemic can offset foreseeable losses against profits from 2019.

KfW aid package: the measures in detail.

KfW Entrepreneur Loan (companies that have been on the market for at least 5 years)

- For large companies (more than 250 employees and more than € 50 million turnover or more than € 43 million balance sheet total) up to 80% risk assumption
- For small and medium-sized enterprises (up to 250 employees and up to € 50 million balance sheet total) up to 90% risk assumption
- Interest and term vary depending on the loan amount (interest rate from 1.00 to 2.12 % p.a. and up to 10 years term)

Groups of companies can apply for up to 1 billion euros. The maximum loan amount is limited to

- 25% of the annual turnover in 2019 or
- twice the wage costs of 2019, or
- the current financing needs for the next 18 months for small and medium-sized enterprises or 12 months for large enterprises, or
- 50% of your company's total debt for loans over 25 million euros

ERP start-up loan (companies that have been on the market for at least 3 years)

- Up to 80 % risk assumption for large companies
- Up to 90 % risk assumption for small and medium-sized enterprises

Groups of companies can apply for up to EUR 100 million. The same rules apply to the maximum loan amount as for the KfW Entrepreneur Loan.

KfW Quick Loan 2020

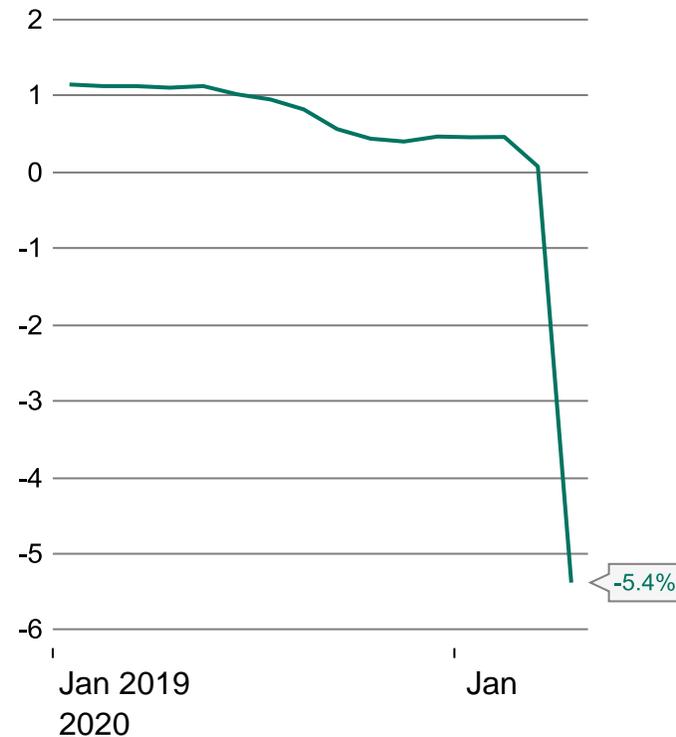
- Subsidised loan for purchases and running costs
- For companies with more than 10 employees, which have been on the market at least since January 2019
- 100 % risk assumption by KfW
- No risk assessment by your bank
- Max. Credit amount: up to 25 % of annual turnover in 2019 per group of companies
 - A maximum of 500,000 euros per group of companies with more than 10 employees up to and including 50 employees at the applicant company.
 - A maximum of 800,000 euros per group of companies with more than 50 employees at the applicant company
- Up to 10 years time for repayment, 2 years no repayment
- Condition: You have made a profit on average over the years 2017 to 2019 or in 2019 (or since you have been active on the market, if the period is shorter)

German economy: trough in the second quarter

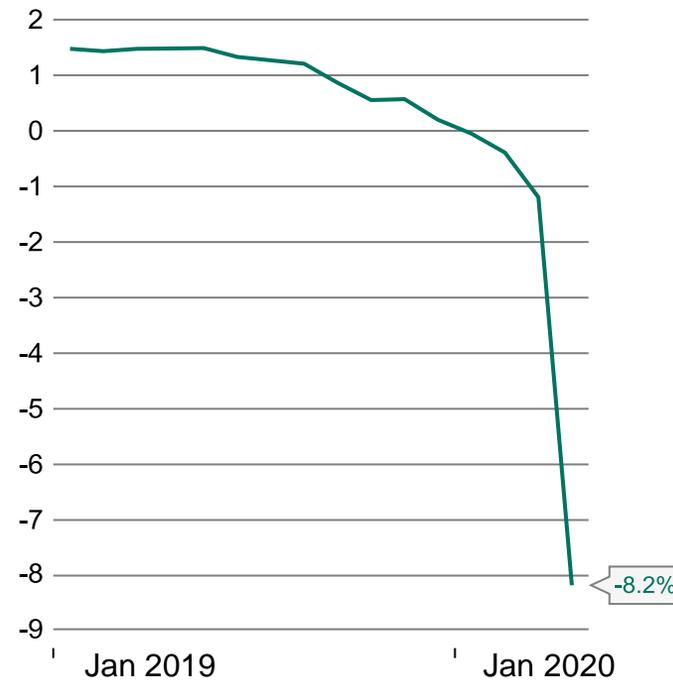
The forecasts from "Consensus Economics" show the massive economic slump.

All sectors are affected. Both companies and private households are cutting back on spending.

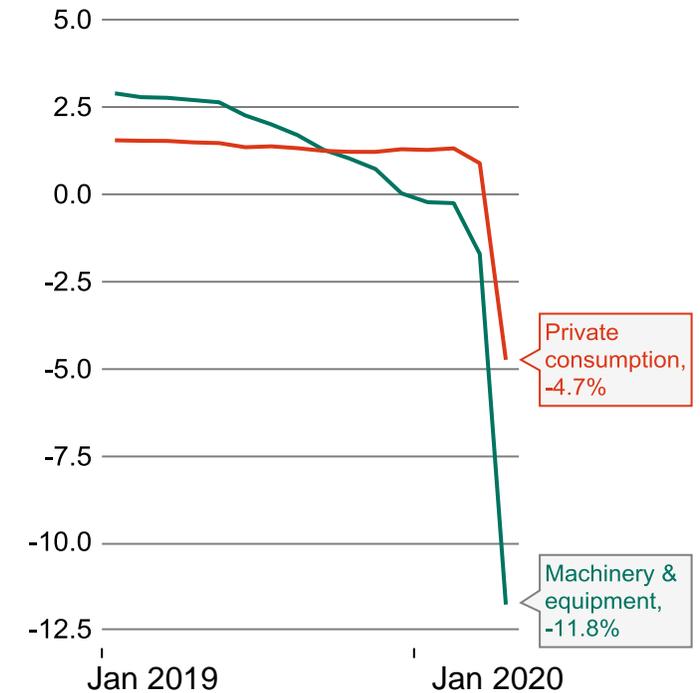
GDP consensus forecast 2020 (working day adjusted)



Industrial Production, Consensus forecast for 2020



Consumption / machinery & equipment, consensus for 2020

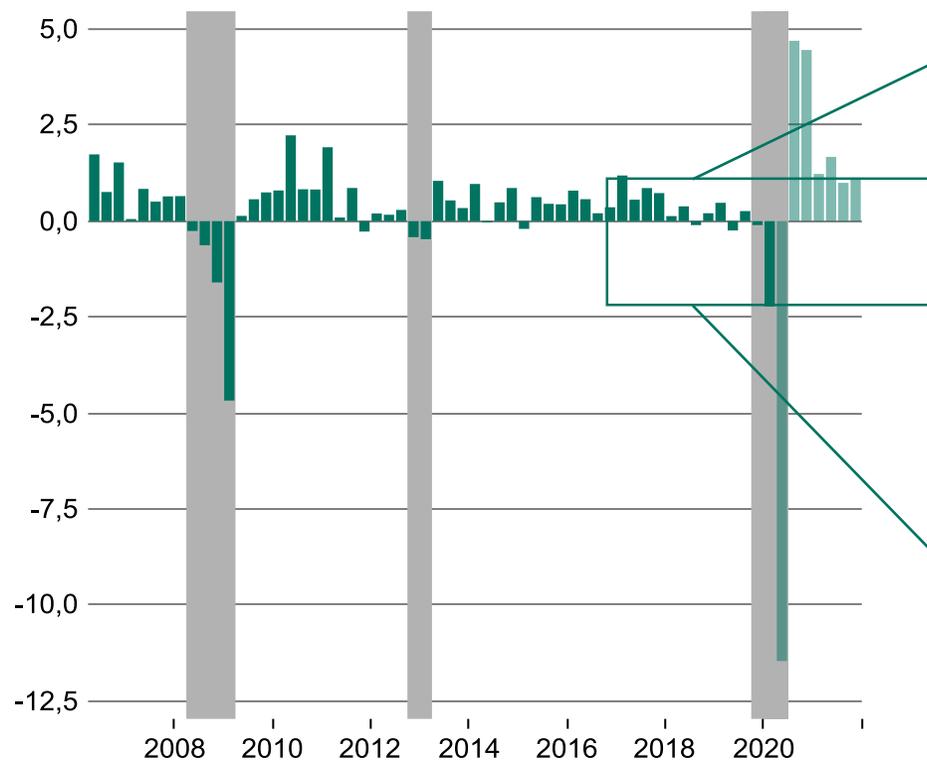


Source: HCOB Economics, Makrobond, Consensus Economics

The German economy is in its deepest recession since the end of the Second World War.

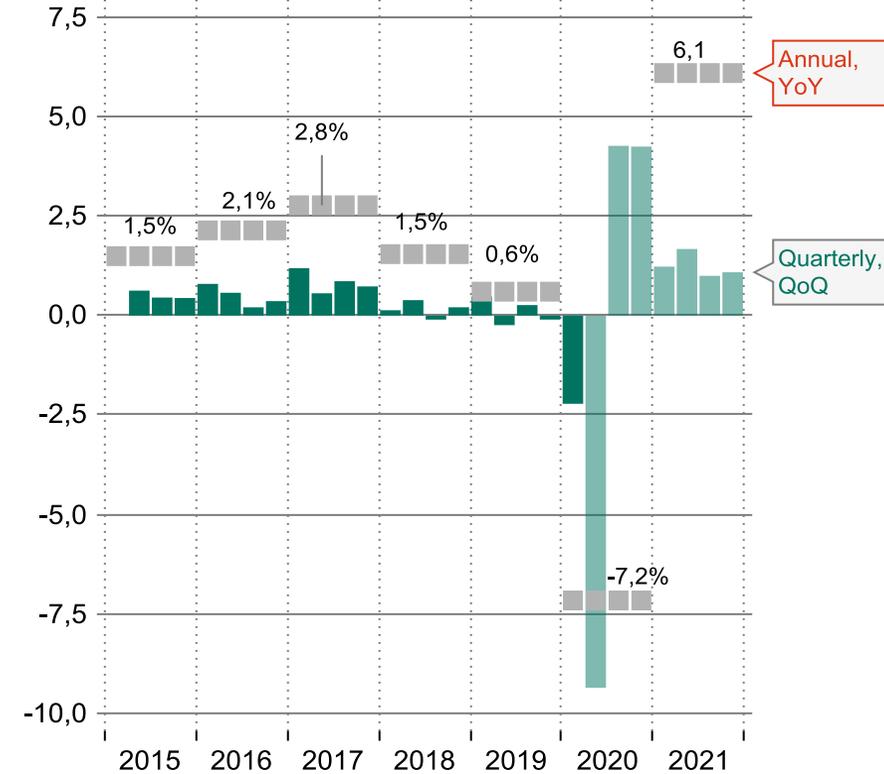
Current forecasts assume a rebound in the second half of 2020. GDP growth over the whole of 2020 is estimated to be around -7.2%. However, a second wave of infection would result into much stronger declines.

Germany GDP change, QoQ, SA & CA



Source: Macrobond, HCOB Economics, DESTATIS

Germany GDP change, QoQ, SA & CA / YoY CA

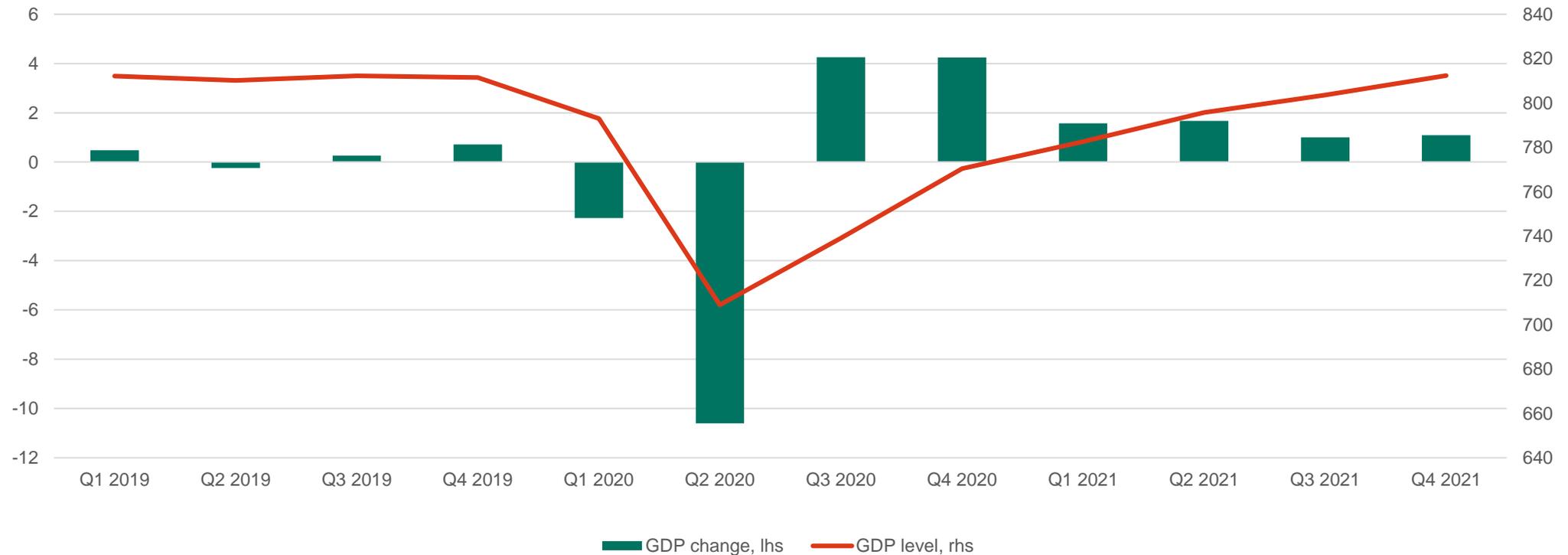


Source: Macrobond, Hamburg Commercial Bank Economics, DESTATIS

The recovery will take time. In view of the difficult circumstances, a long V would be a good result.

We expect GDP to decline by 7.2% in 2020 and grow by 6.1% in 2021.

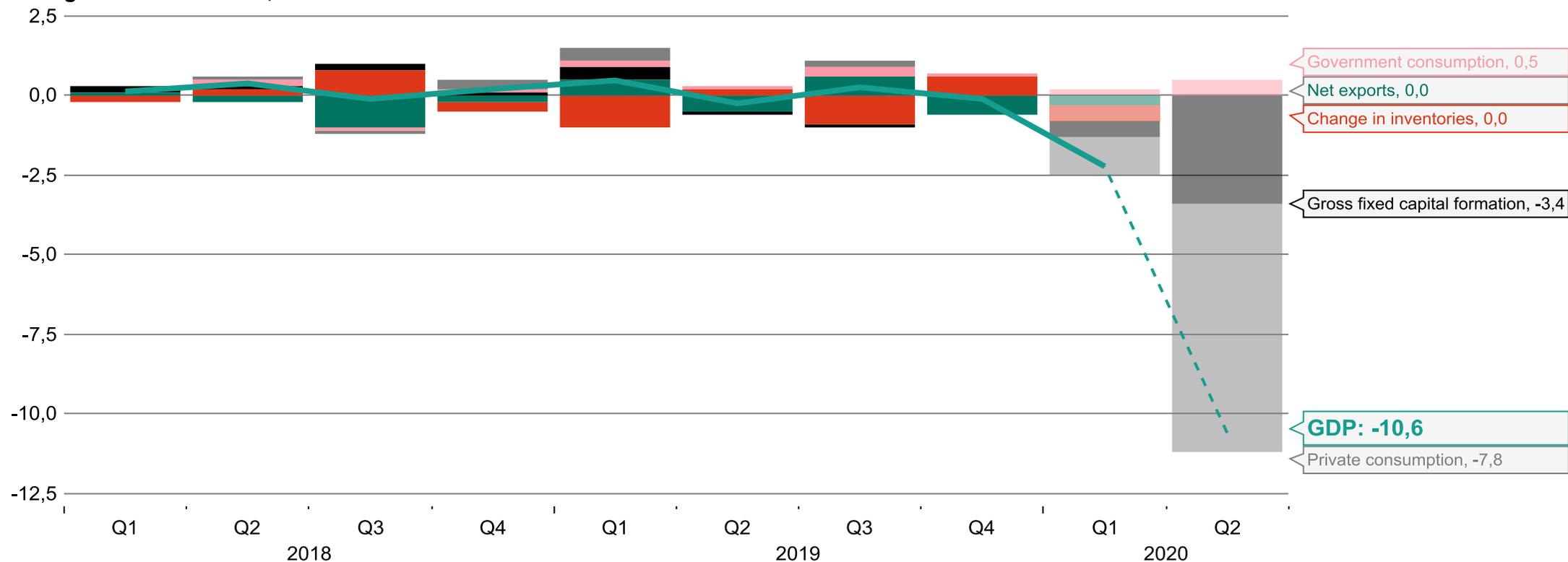
Germany: GDP level (billion Euro, chained) and GDP change (QoQ)



GDP and its components: stringy recovery

A sharp decline in private consumption, investments and exports will shape the picture in the first half of 2020.

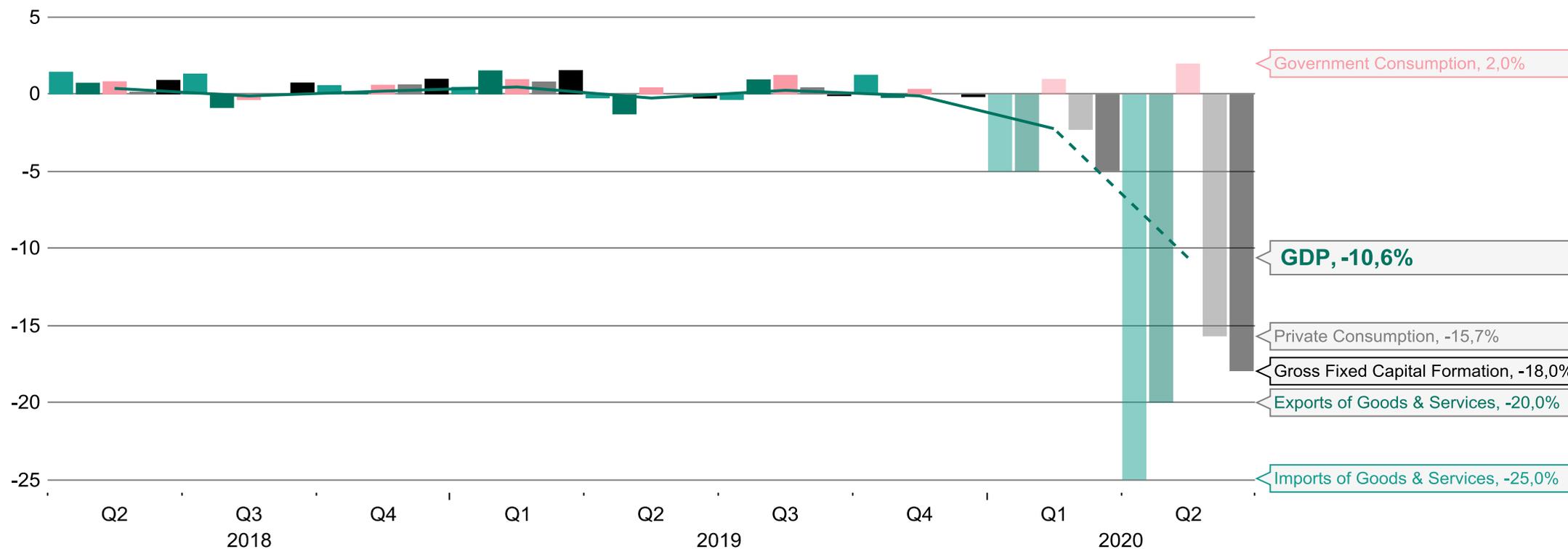
GDP growth contribution, QoQ



Source: Macrobond, Hamburg Commercial Bank Economics, BUBA

For Q2 we expect a decline of -15.7% in private consumption and -18% in investments.

GDP change QoQ, SA & CA

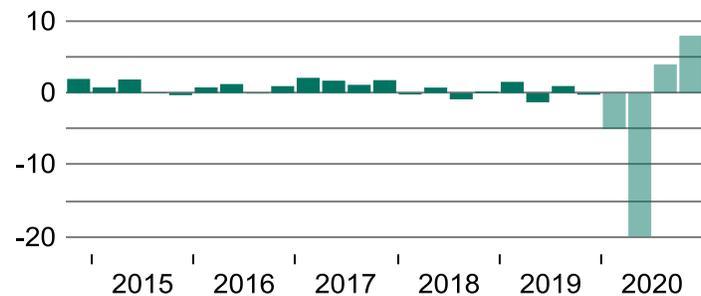


Source: Macrobond, Hamburg Commercial Bank Economics, BUBA

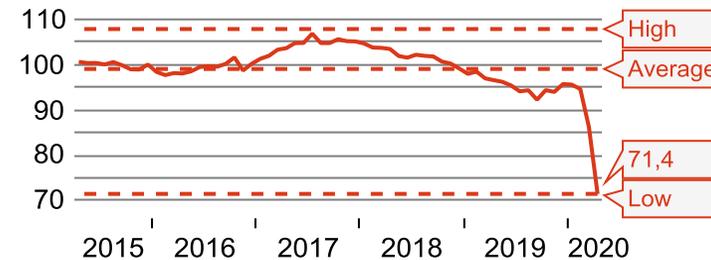
Exports: massive declines in sight.

The Ifo export expectations index and the slump in orders from abroad indicate that the major slump in exports is still to come. Since all major trading partners are affected by the coronavirus, there are no markets that could compensate for regional losses. Renewed trade policy tensions between China and the USA are causing additional uncertainty.

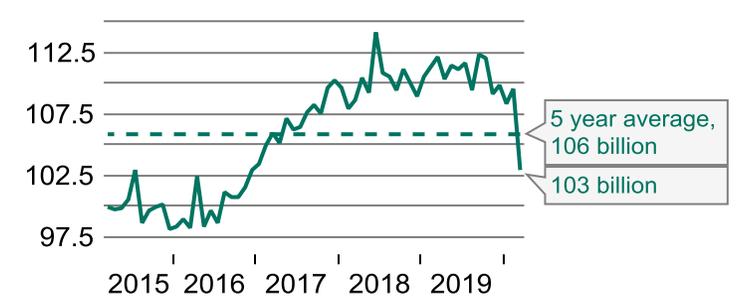
Exports, national accounts, QoQ (2020 Q4)



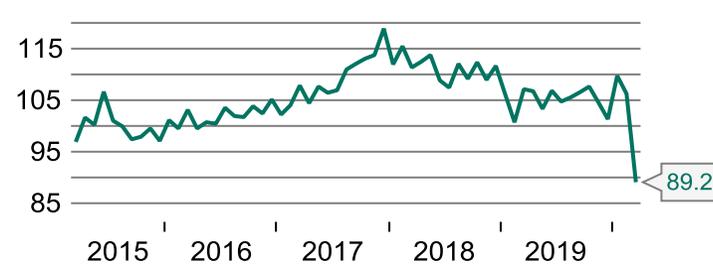
Ifo survey: export expectations for the next three months (April 2020)



Exports in Euro (March 2020)



New orders from abroad, manufacturing, calendar adjusted, SA (March 2020)



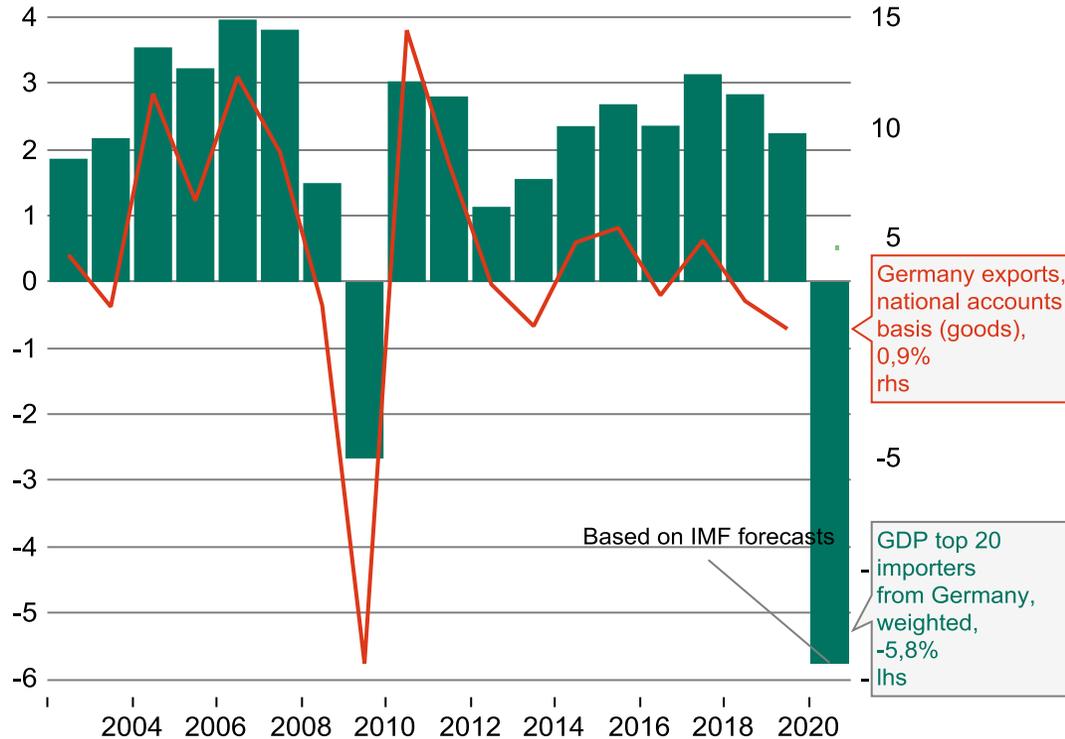
Export prices, YoY (March 2020)



Exports: all major partners are heavily affected.

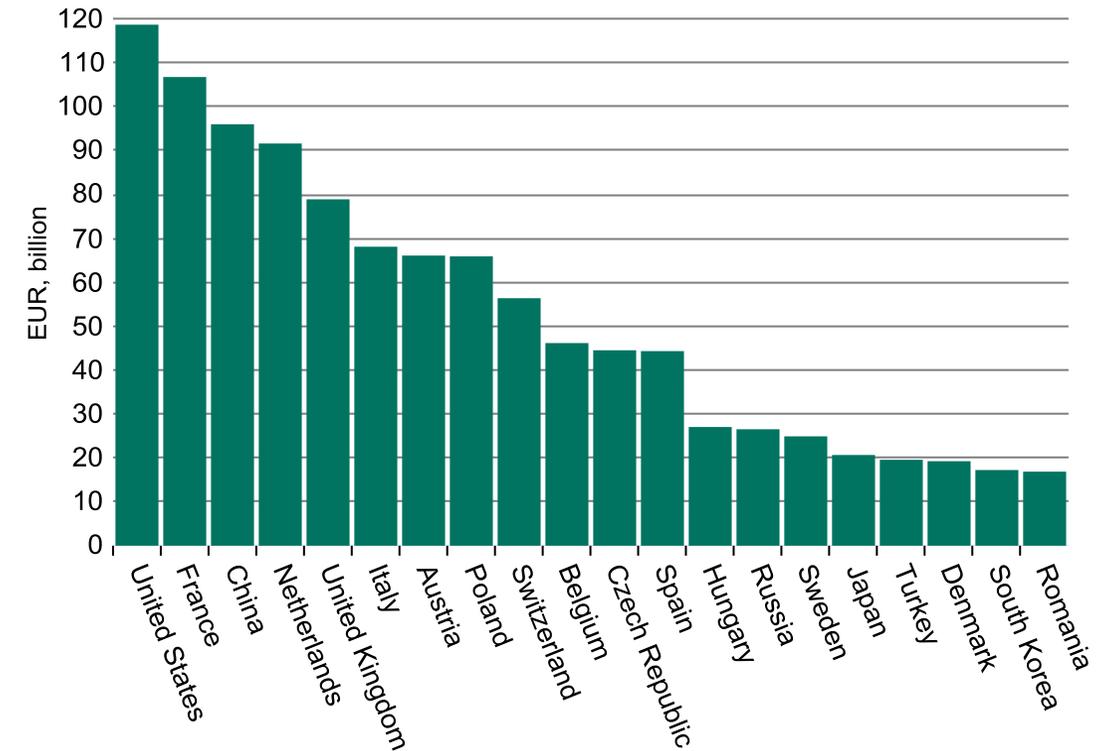
The IMF assumes that the GDP of Germany's most important trading partners will slump by around 6% in the current year. This will be reflected in a massive slump in German exports of probably 16 %.

Annual GDP change of top German export destinations, weighted with export share / Change of total annual exports



Source: Macrobond, Hamburg Commercial Bank Economics, DESTATIS

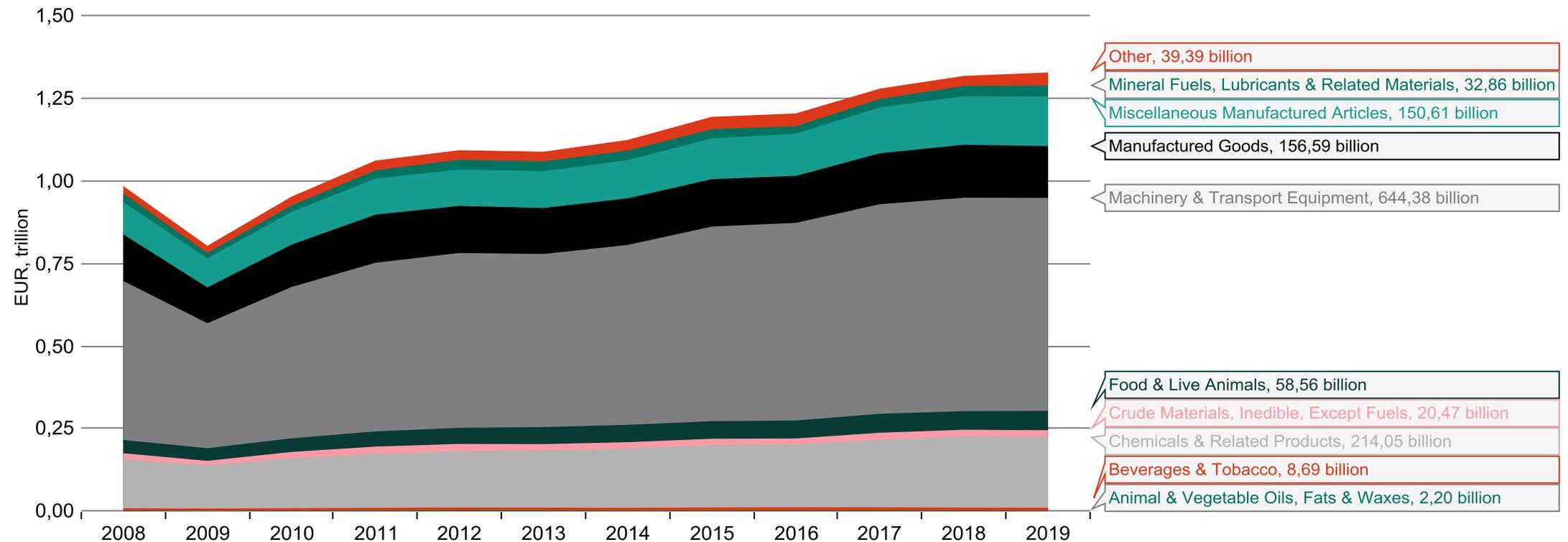
Top 20 export destinations of goods



Source: Macrobond, Hamburg Commercial Bank Economics, DESTATIS

Exports: mechanical engineering and vehicle construction are the sectors that are primarily suffering from a decline in exports.

Germany, Foreign Trade, Commodity, Export, Classification SITC Rev.3, EUR

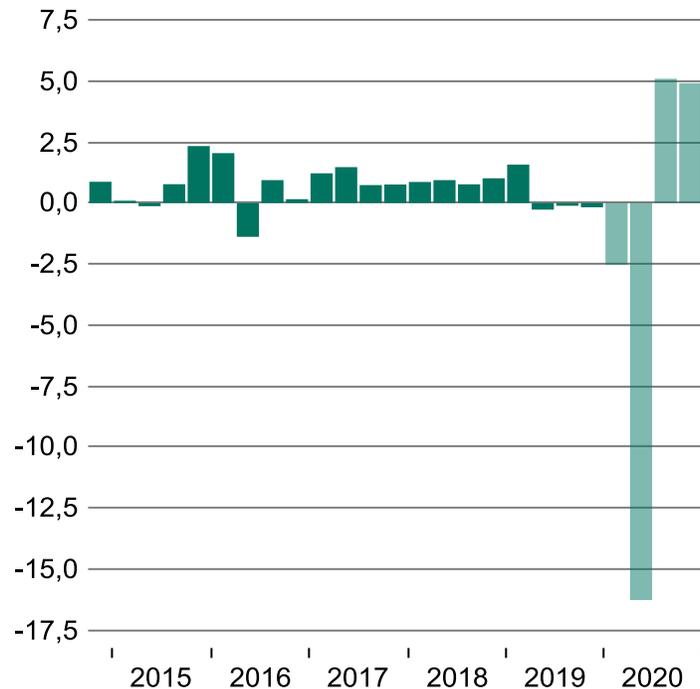


Source: Macrobond, HCOB Economics, DESTATIS

Capital expenditure is postponed or cancelled.

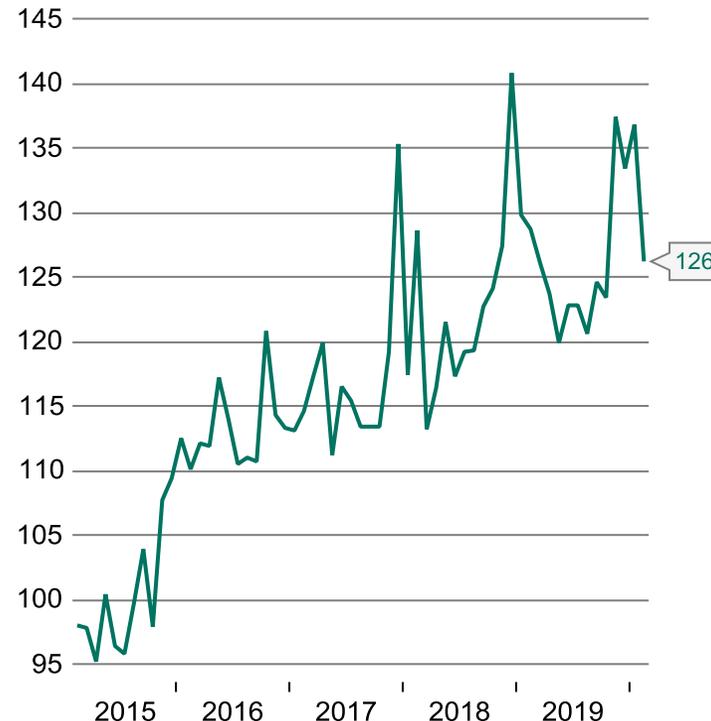
As a result of the massive drop in sales and the great uncertainty in many sectors, investments are being cancelled or postponed in order to protect the liquidity of companies. Capital goods are much more affected than construction projects. The latter were also only indirectly affected by the shutdown measures.

Gross fixed capital formation, national accounts, QoQ (2020 Q4)



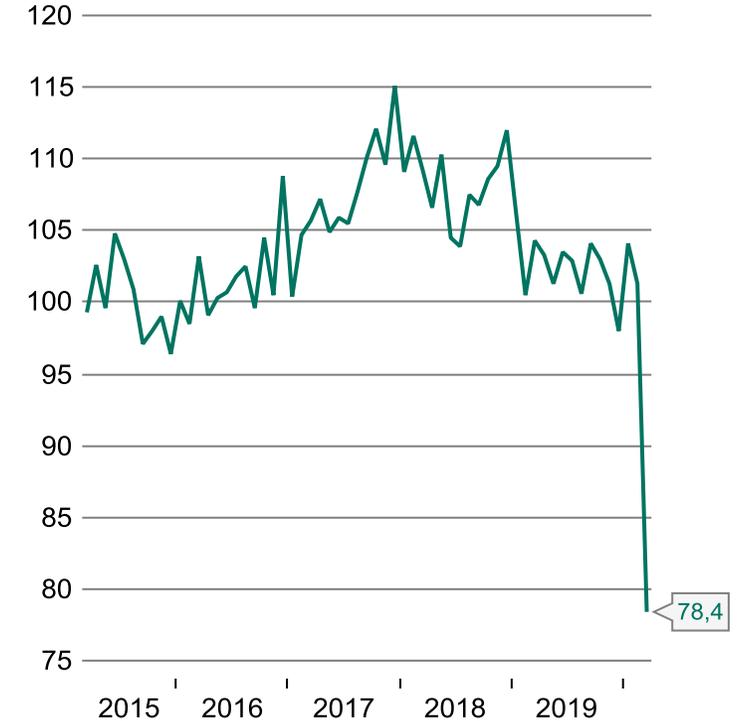
Source: Macrobond, Hamburg Commercial Bank Economics, BUBA

New orders, construction CA & SA (Februar 2020)



Source: Macrobond, Hamburg Commercial Bank Economics, DESTATIS

New orders, capital goods, CA & SA (März 2020)

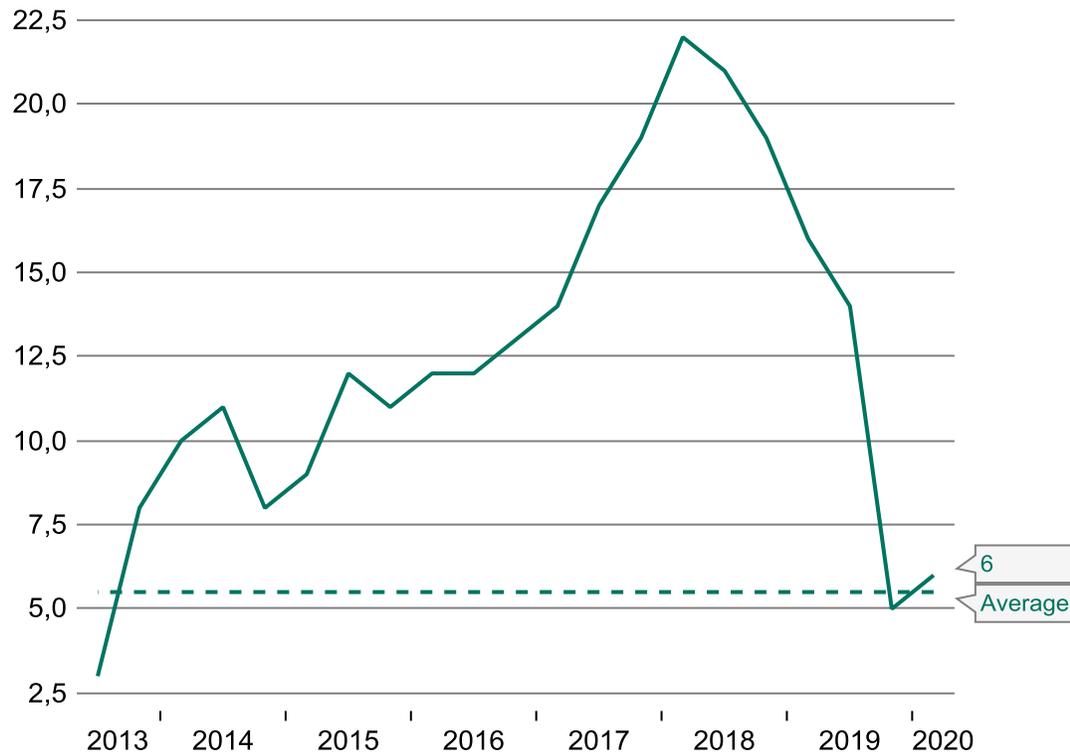


Source: Macrobond, Hamburg Commercial Bank Economics, DESTATIS

Capital expenditure: as profits fall, much will depend on a possible government investment program.

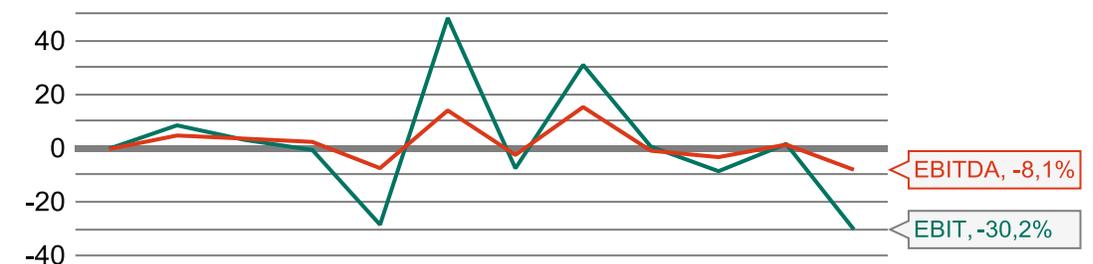
In June, the German government will discuss an economic stimulus package. Tax reliefs, accelerated depreciation rules and direct infrastructure investments are likely to be on the agenda.

DIHK, Enterprises' Investment Intentions Balance (2020 Q1)

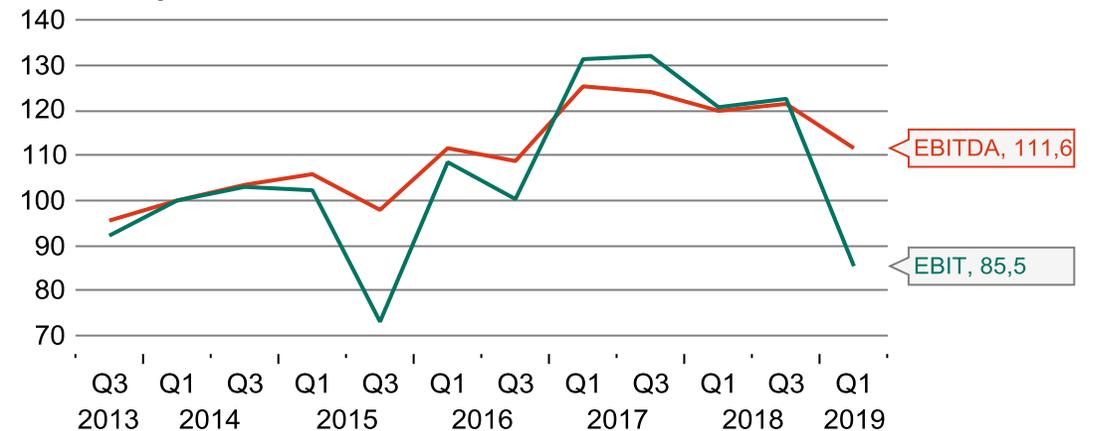


Source: Macrobond, Hamburg Commercial Bank Economics, DIHK

Profits in Euro, Change against six months before (H1 2019) (Bundesbank)



Profits, -5y = 100, based on euro

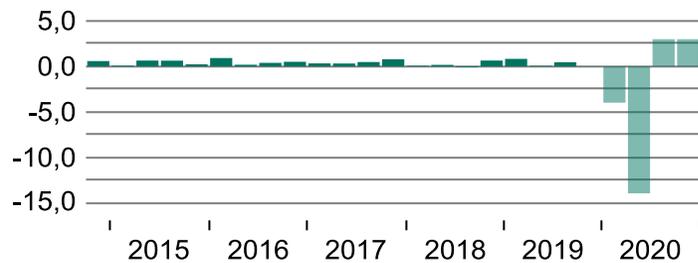


Source: Macrobond, Hamburg Commercial Bank Economics, BUBA

Private consumption: consumer spending is collapsing.

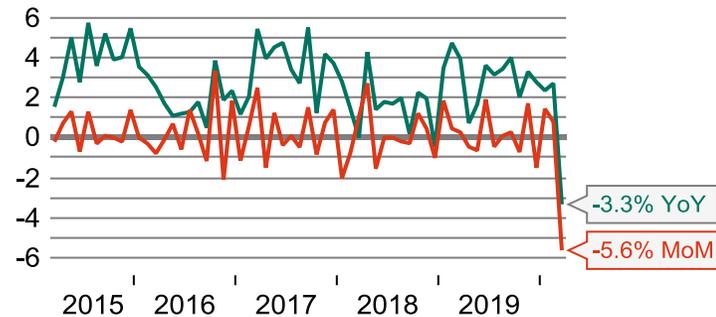
Due to the closures in the retail sector, there was practically a ban on consumption for goods outside the food retail sector in recent weeks. This ban is now being lifted, but in view of the significant income losses among short-time workers and the unemployed, private consumption will not suddenly return to its old levels. On the positive side, the relatively low debt ratio of private households should provide a buffer for consumption.

Private consumption, national accounts, QoQ (2020 Q4)



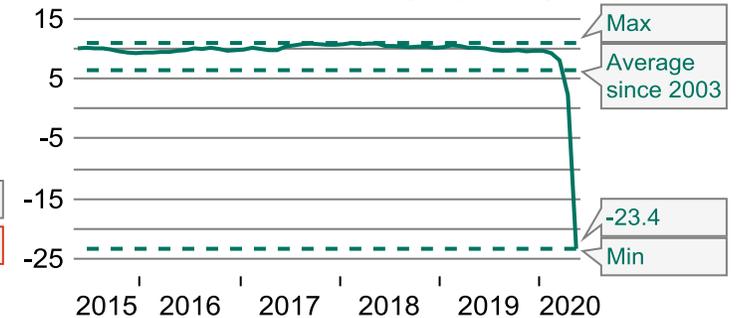
Source: Macrobond, HCOB Economics, BUBA

Retail sales, CA & SA (March 2020)



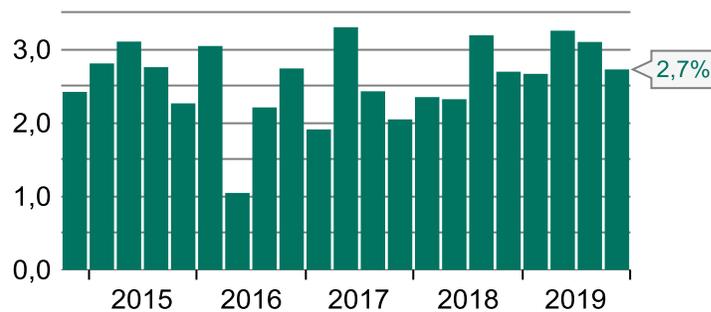
Source: Macrobond, HCOB Economics, DESTATIS

GfK consumer confidence (May 2020)



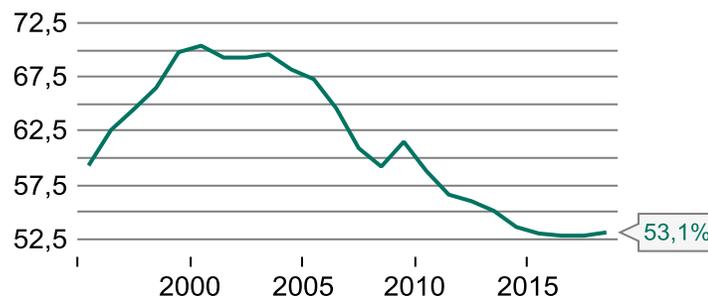
Source: Macrobond, HCOB Economics, GfK

Gross hourly wages, YoY (2019 Q4)



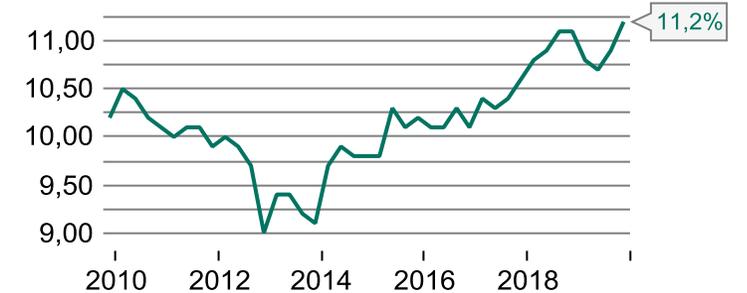
Source: Macrobond, HCOB Economics, DESTATIS

Private household debt, % of GDP (2018)



Source: Macrobond, HCOB Economics, Eurostat

Private households' saving ratio, SA (2019 Q4)

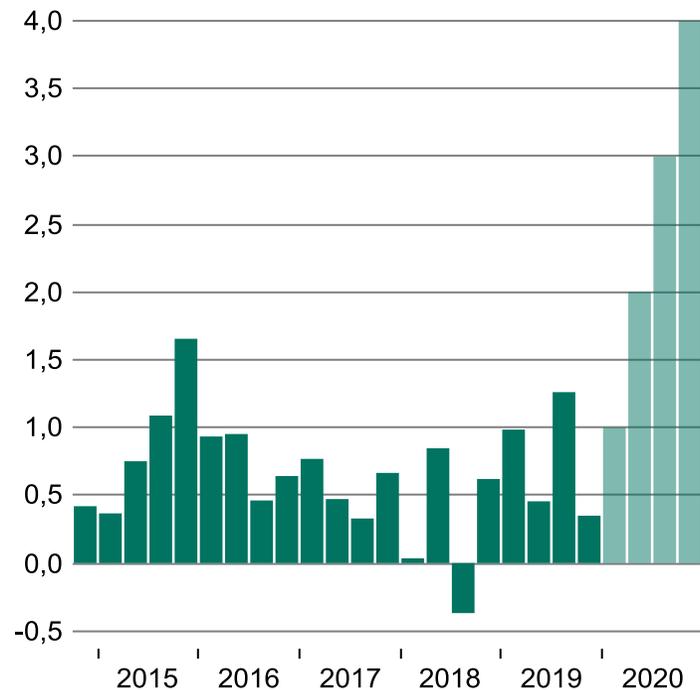


Source: Macrobond, HCOB Economics, BUBA

Public expenditure: massive increase in fiscal expenditure.

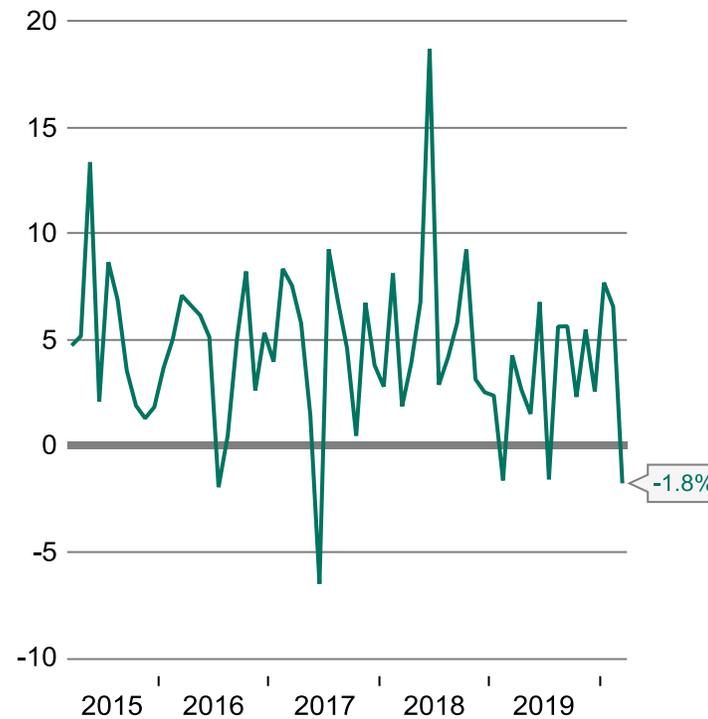
To protect the economy from the consequences of the Corona crisis, the government has adopted a comprehensive package of measures. Since economic output and tax revenues are falling at the same time, the (relative) national debt is rising sharply. The costs of the economic stimulus package expected for the middle of the year have not yet been included in the IMF's estimates.

Public spending, national accounts, QoQ (2020 Q4)



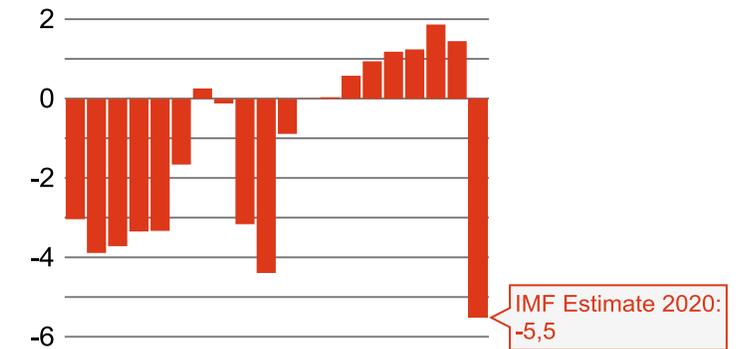
Source: Macrobond, Hamburg Commercial Bank Economics, DESTATIS

Tax revenues general government budget, EUR, YoY (March 2020)

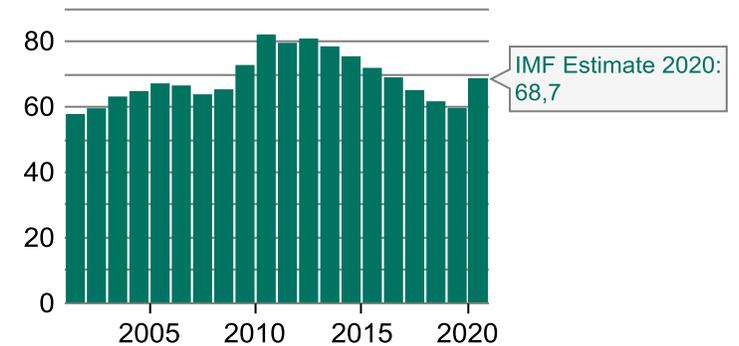


Source: Macrobond, HCOB, German Ministry of Finance

Budget balance in % of GDP (Forecast IMF)



Public debt, general government, in % of GDP

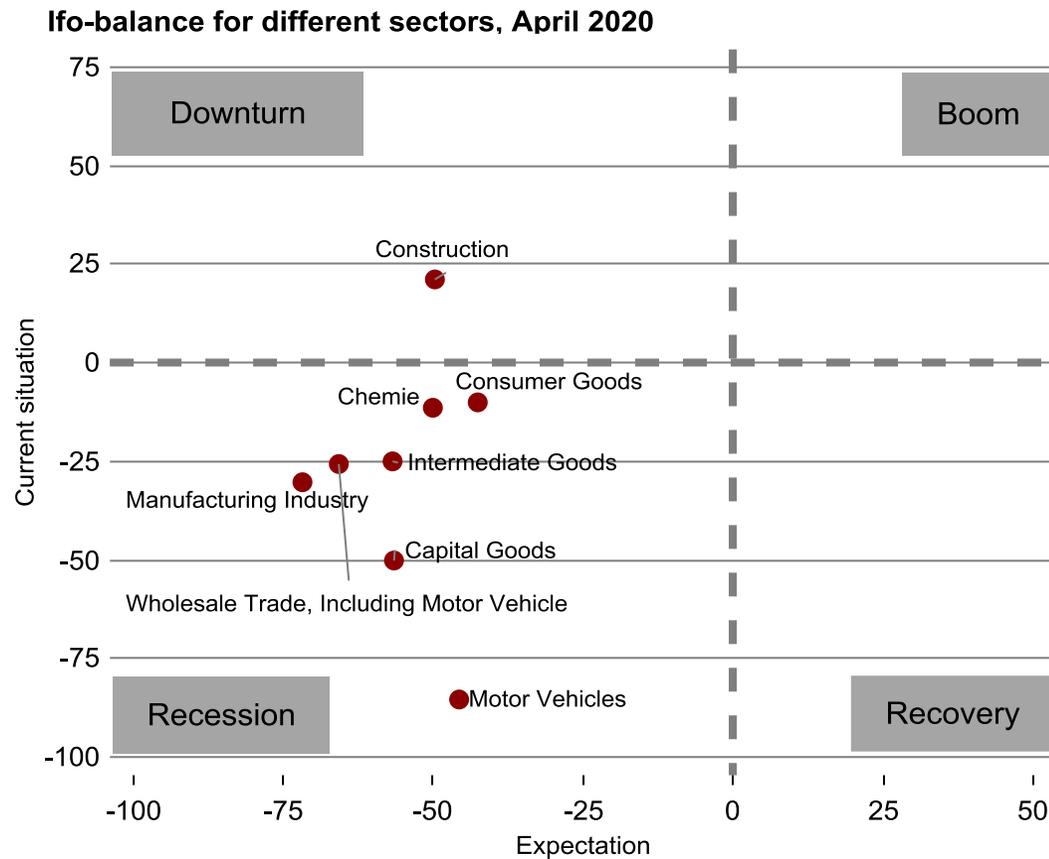


Source: Macrobond, HCOB Economics, IMF

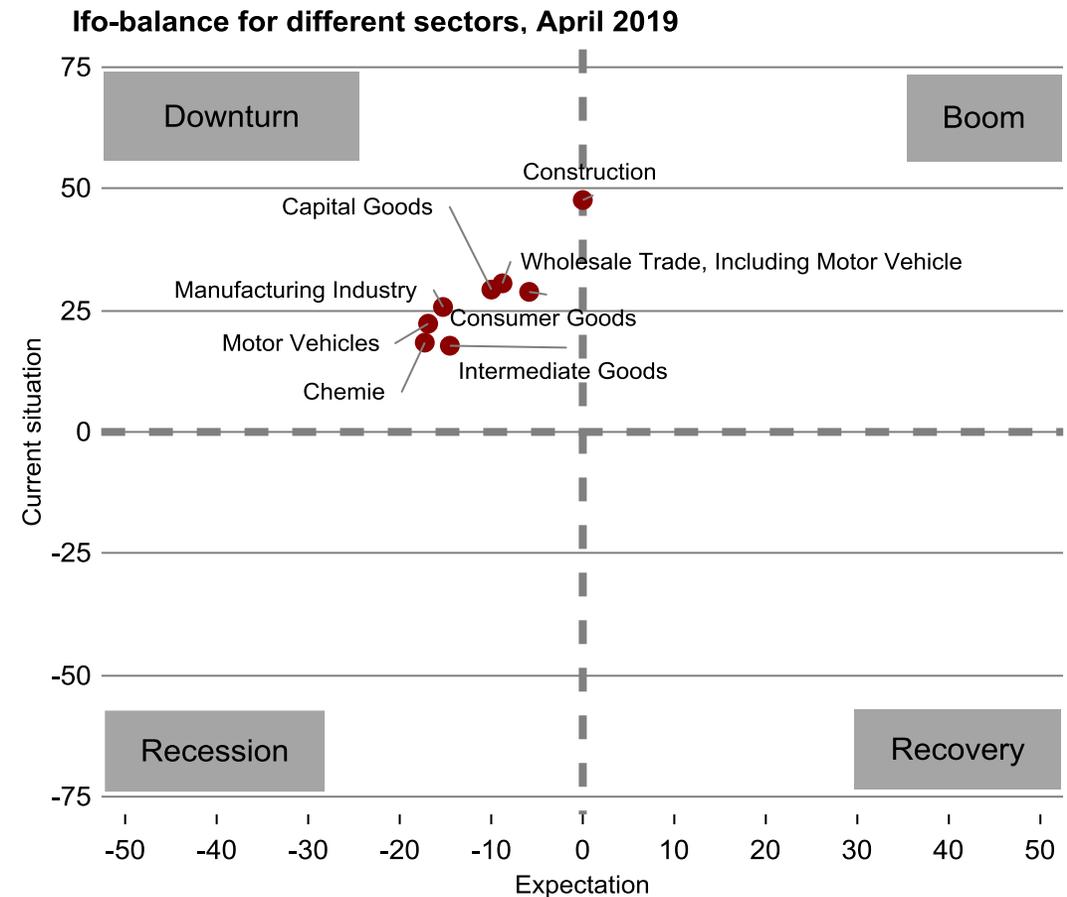
Sectoral view: services suffer most under the shutdown

Nearly all sectors are in recession according to the Ifo Index.

Only the construction sector is still assessed slightly positively in view of the current situation and is not yet seen in a recession.



Source: Macrobond, Hamburg Commercial Bank Economics, Ifo

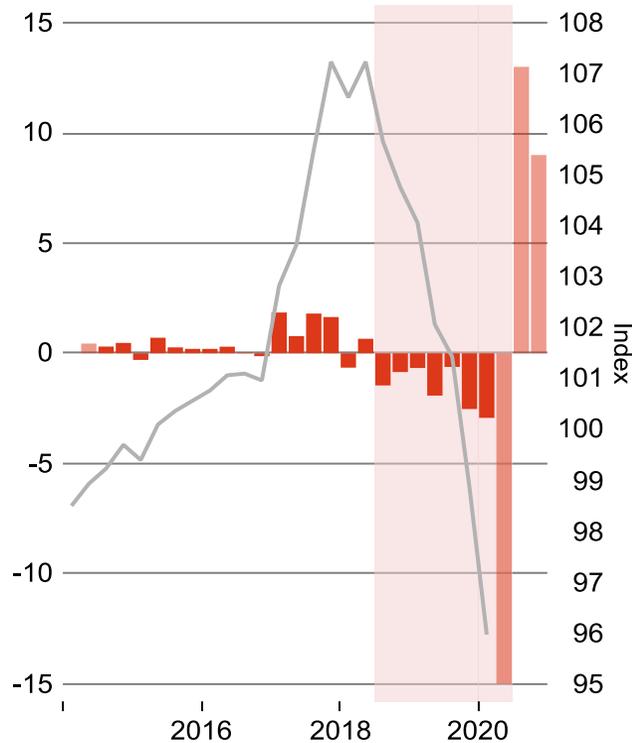


Manufacturing sector: free fall almost everywhere.

The recession deepened in almost all sectors in Q1. The apparent exception is the chemical sector, which could possibly profit from the lower oil price. However, clear traces of corona are also to be expected in this sector.

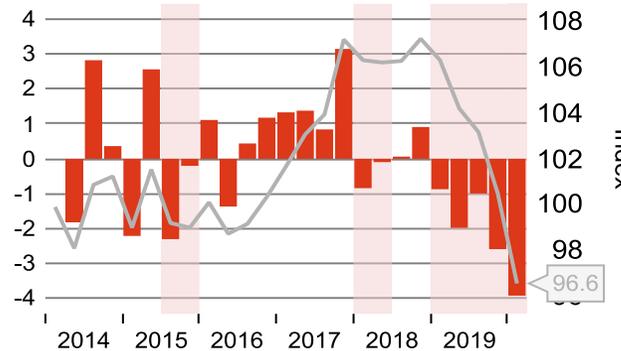
Change in output, QoQ. Pink shaded areas = recession, defined as production shrinking in two consecutive quarters. The latest monthly figures are used as the basis for estimating the last quarter

Manufacturing sector

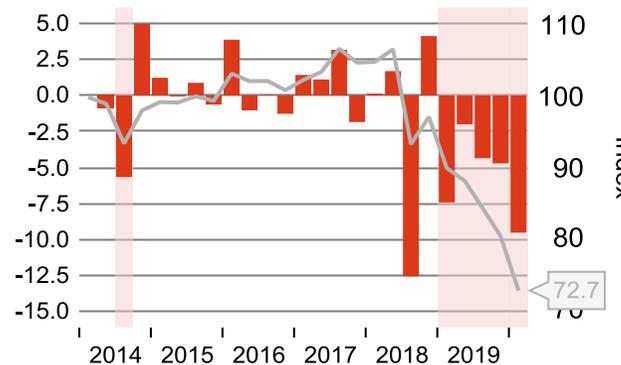


Source: Macrobond, HCOB Economics, DESTATIS

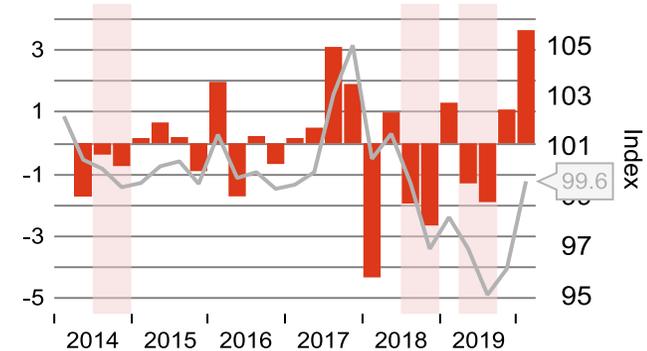
Machinery & equipment



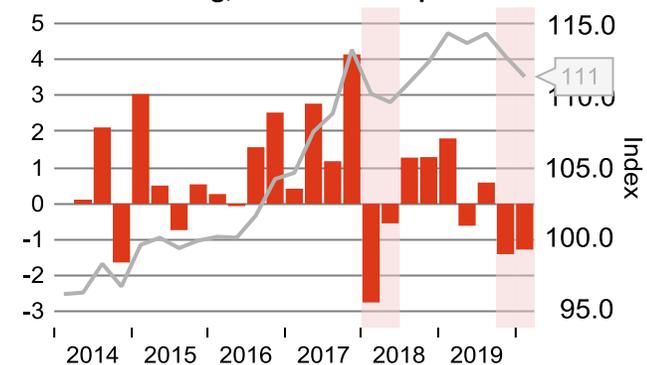
Motor vehicles



Chemical products (ex pharma)



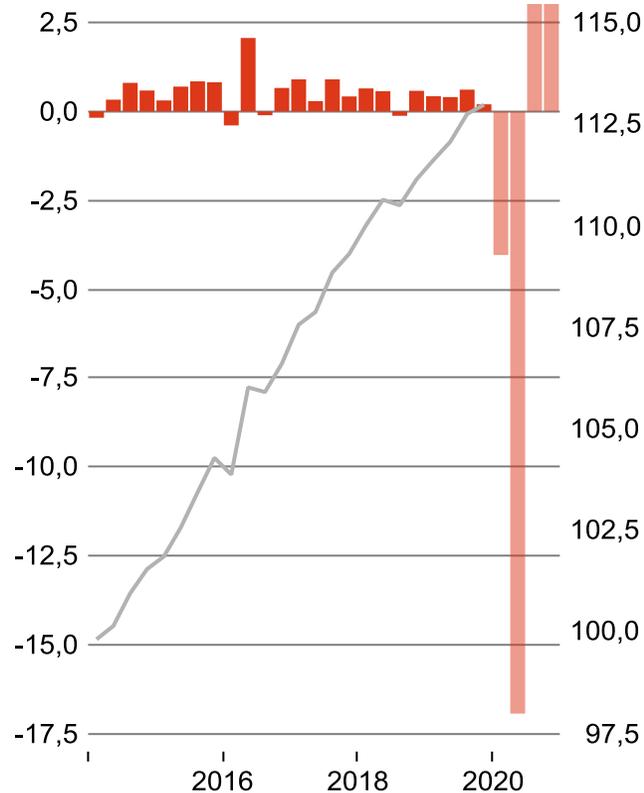
Data Processing, Electronic & Optical Devices



Service sector: leading indicators point to sharp declines.

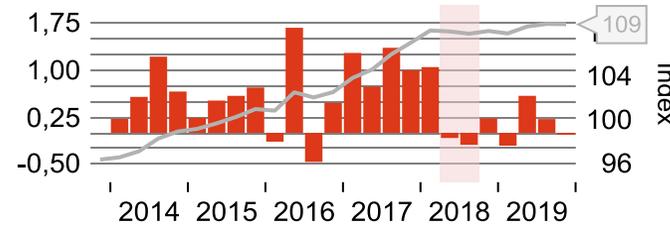
In the first and second quarter of 2020, massive losses are to be expected, especially in the service sector, due to the closure of many shops in the course of the shutdown.

Services, gross value added, QoQ, SA

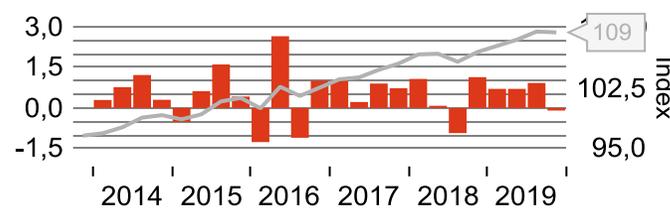


Source: Macrobond, HCOB Economics, DESTATIS

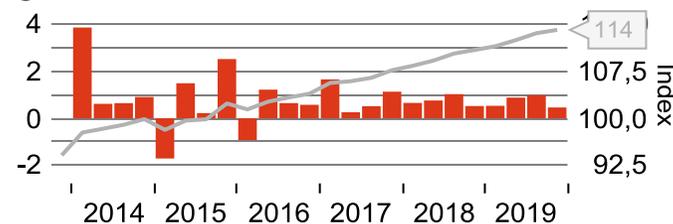
Corporate related services, gross value added, QoQ, SA



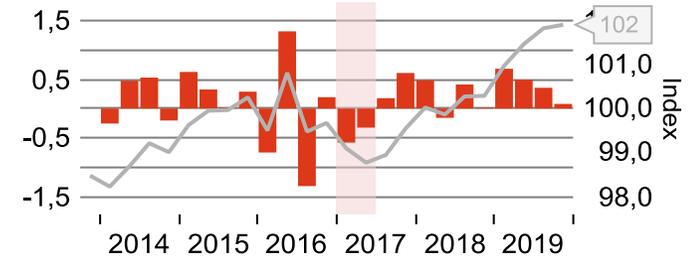
Trade, transport, hotels and restaurant sector, gross value added, QoQ, SA



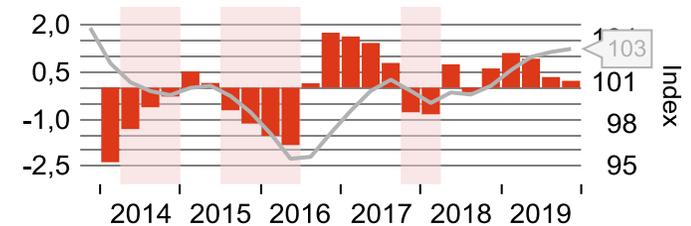
Information and communication activities, gross value added, QoQ, SA



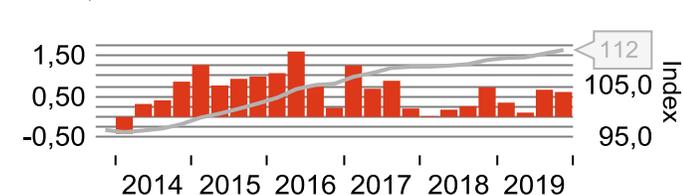
Real estate, gross value added, QoQ, SA



Financial institutions, gross value added, QoQ, SA



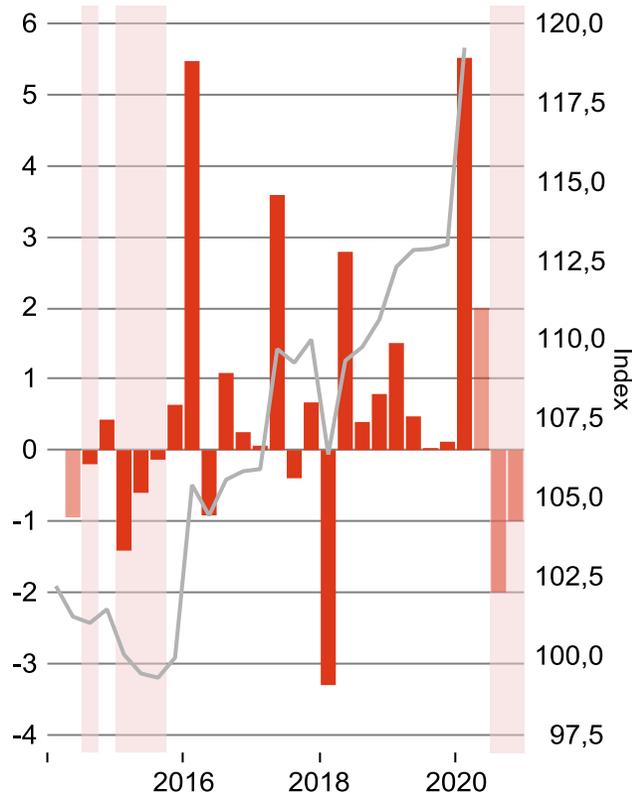
Education and health, gross value added, QoQ, SA



Construction sector: relatively little affected at present.

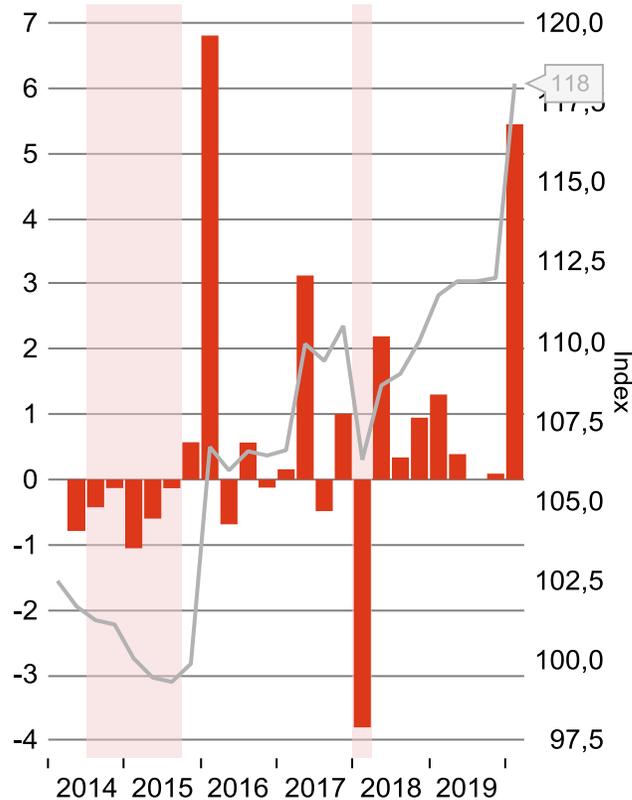
As the shutdown measures only indirectly affected the construction sector, growth there initially continued. Regardless, the general negative environment - rising unemployment and insolvencies - will also affect this sector. However, the construction sector should also benefit from an economic stimulus package that is still to be expected. This applies in particular to civil engineering.

Construction, QoQ, SA & CA

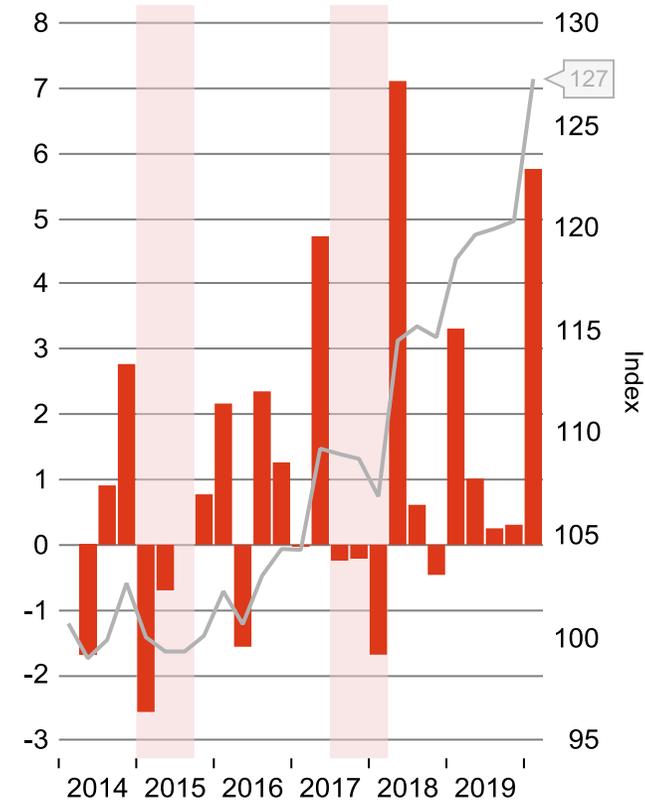


Source: Macrobond, HCOB Economics, DESTATIS

Construction of building, including completion work, QoQ, SA & CA



Construction, civil engineering, QoQ, SA & CA



Machinery and equipment: sharp decline.

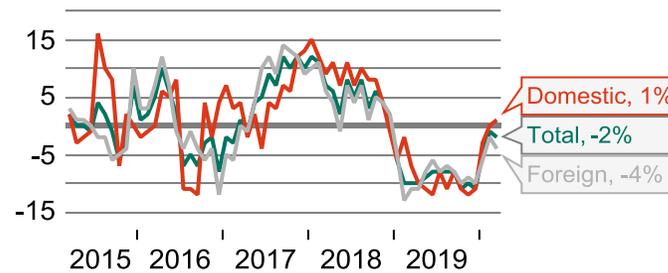
Capacity utilization and production are recording massive declines. As machinery accounts for a large share of German exports and companies around the world are cutting back on their investment plans, this sector is particularly hard hit.

Ifo, machinery & equipment (April 2020)



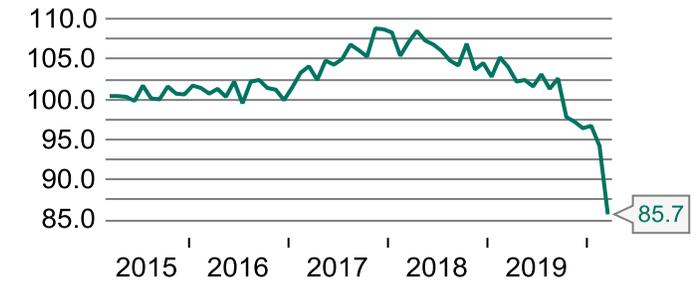
Source: Macrobond, HCOB Economics, Ifo

New Orders, machinery, 3 Month Rolling Change Y/Y (March 2020)



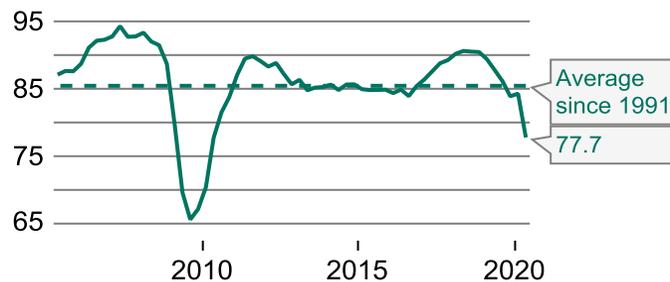
Source: Macrobond, HCOB, German Engineering Association

Production of capital goods, index (March 2020)



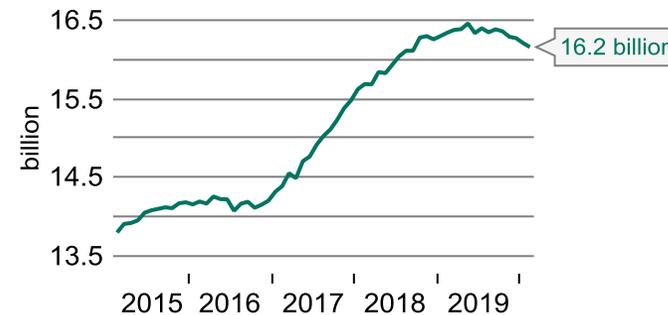
Source: Macrobond, HCOB, German Federal Statistical Office

Capacity utilization, machinery & equipment (April 2020)



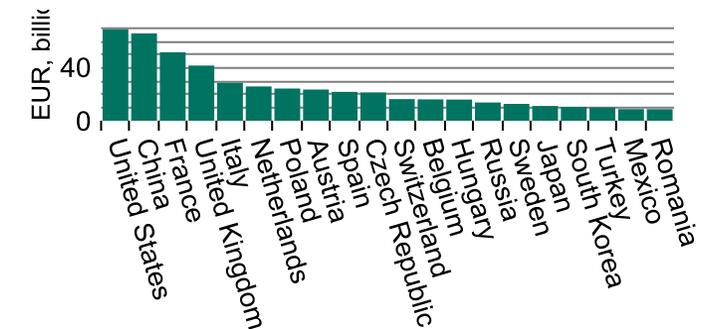
Source: Macrobond, HCOB, Ifo Institute

Exports of machines, EUR (February 2020)



Source: Macrobond, HCOB, German Federal Statistical Office

Top 20 export destinations of machinery & transport equipment (2018)

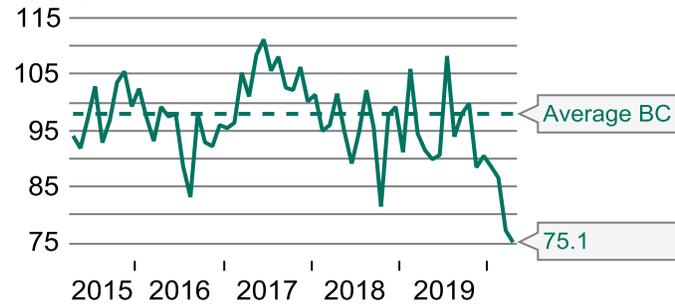


Source: Macrobond, HCOB Economics, DESTATIS

Automotive sector: production experiences drastic slump.

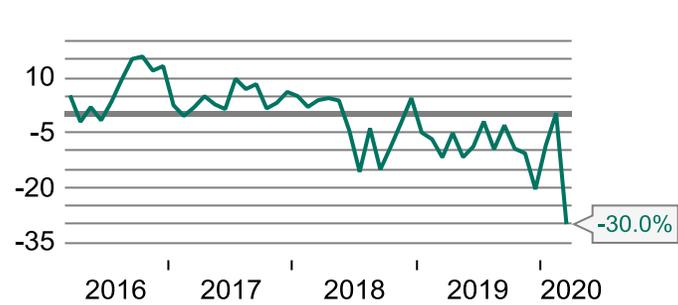
All major manufacturers have sharply reduced their production in the wake of the pandemic. At the same time, orders are falling. The important export business in particular is suffering from the Corona pandemic. Improved sales figures in China offer hope.

Ifo business climate, vehicles and parts (April 2020)



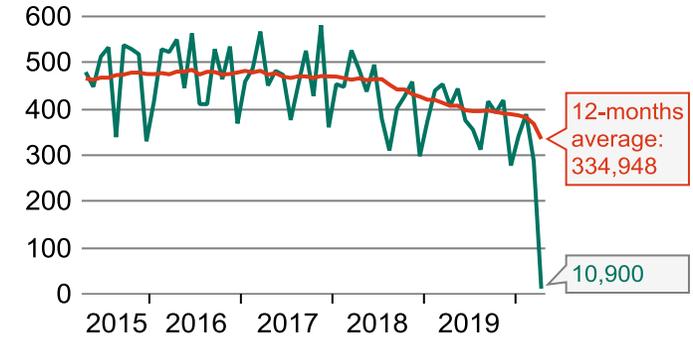
Source: Macrobond, HCOB, Ifo Institute

New orders, manufacturing of vehicles, YoY (March 2020)



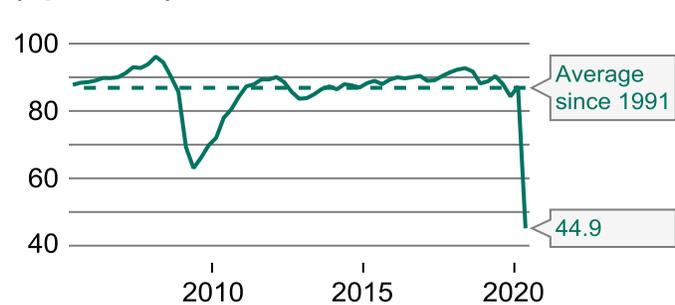
Source: Macrobond, HCOB, German Federal Statistical Office

Passenger cars production, units (April 2020)



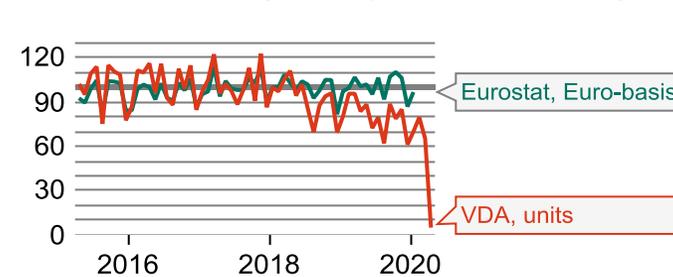
Source: Macrobond, HCOB Economics, VDA

Motor vehicles / trailers, capacity utilization (April 2020)



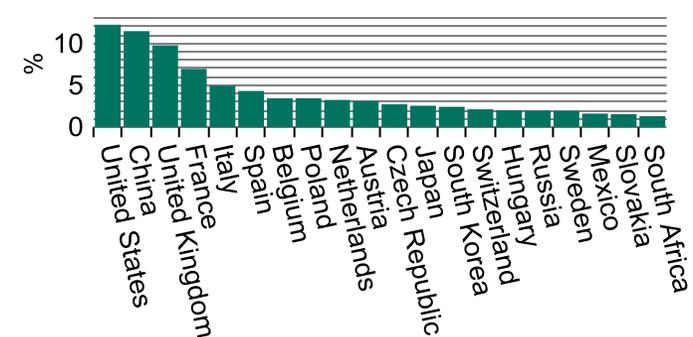
Source: Macrobond, HCOB, Ifo Institute

Exports of Passenger Motor Cars, Euro basis, 01.01.2018 = 100 (January 2020, April 2020)



Source: Macrobond, HCOB, Eurostat, German Association of the Automotive Industry (VDA)

Car export destinations from Germany (2018)

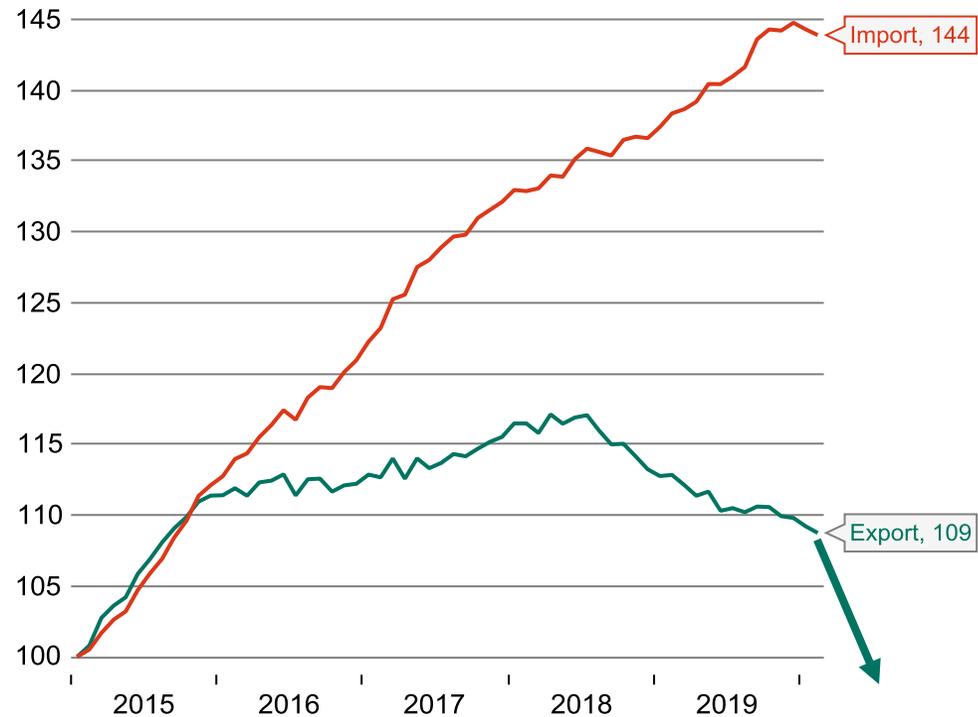


Source: Macrobond, HCOB Economics, DESTATIS

Automotive sector: German cars are increasingly produced abroad and imported from there.

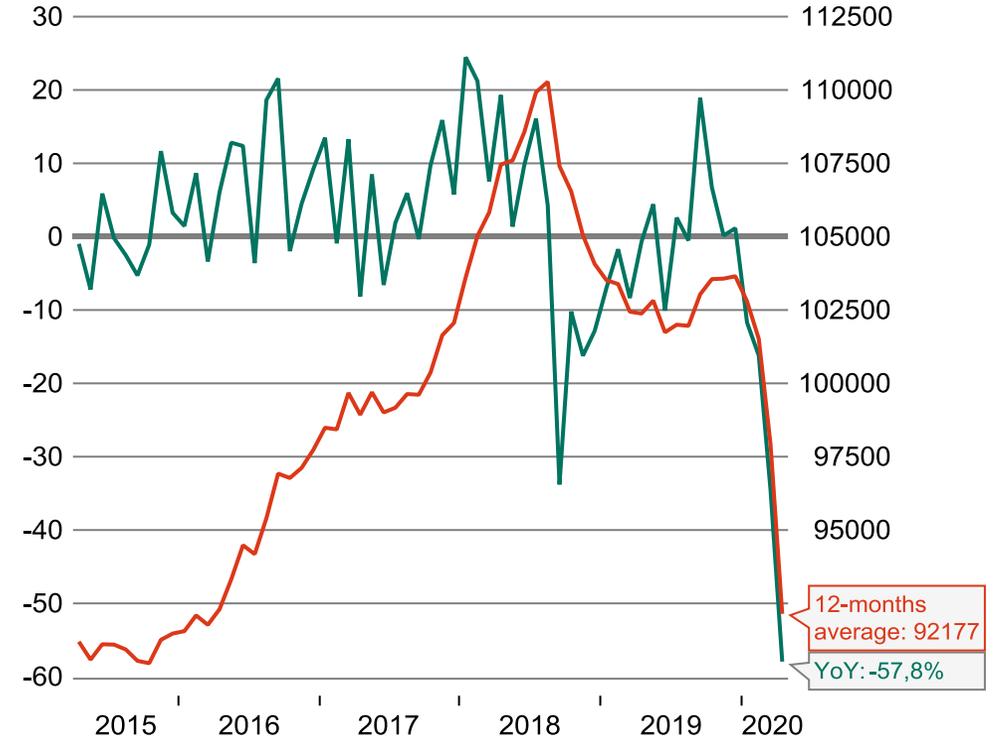
Foreign manufacturers would also benefit strongly from the currently discussed purchase premium for new cars.

Car exports and imports, 12-months average, 1.1.2015 = 100 (February 2020)



Source: Macrobond, HCOB, German Federal Statistical Office (Statistisches Bundesamt)

Domestic car registrations, YoY and 12-months average level (April 2020)



Source: Macrobond, HCOB Economics, KBA

Chemical sector: production and capacity utilization is declining.

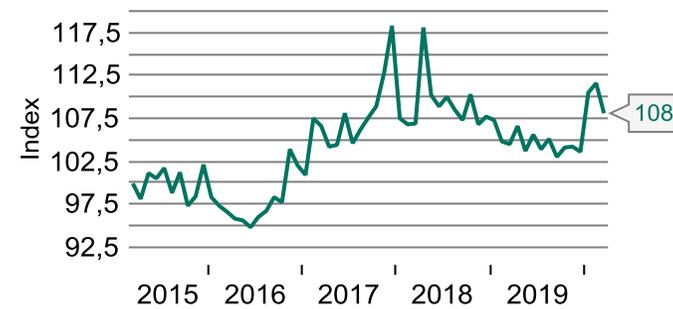
Agricultural products and especially pharmaceutical products ensure stable sales, while components and parts for the automotive industry are currently hardly in demand.

Ifo chemical products, index



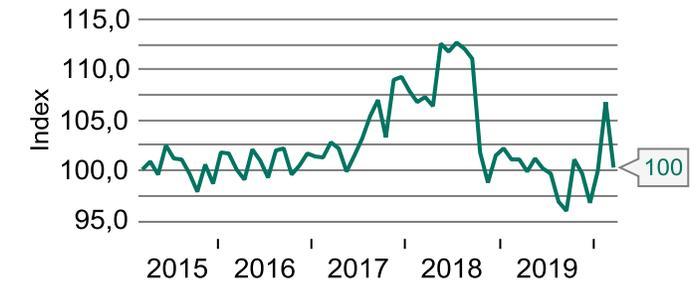
Source: Macrobond, HCOB Economics, Ifo

Chemicals & Chemical Products, new orders



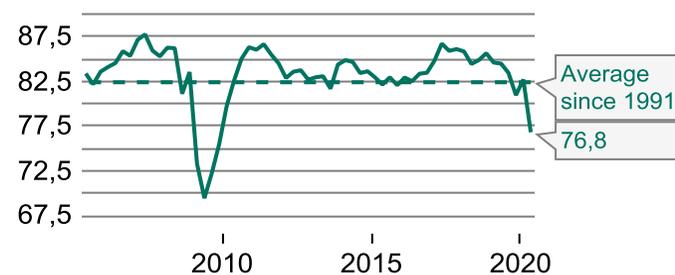
Source: Macrobond, HCOB Economics, DESTATIS

Chemical & Pharmaceutical Products, production index



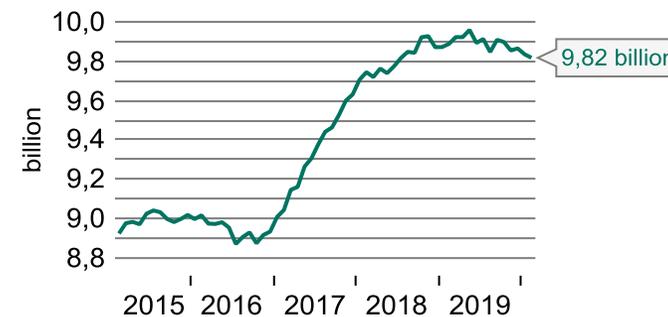
Source: Macrobond, HCOB Economics, DESTATIS

Chemicals & Chemical Products, capacity utilization



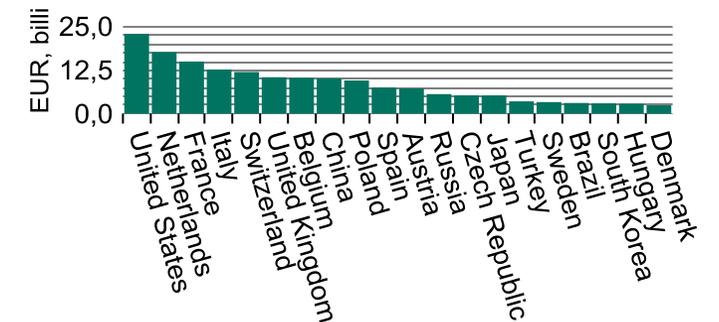
Source: Macrobond, HCOB Economics, Ifo

Exports of chemical products, EUR



Source: Macrobond, HCOB Economics, DESTATIS

Export destinations for chemical products

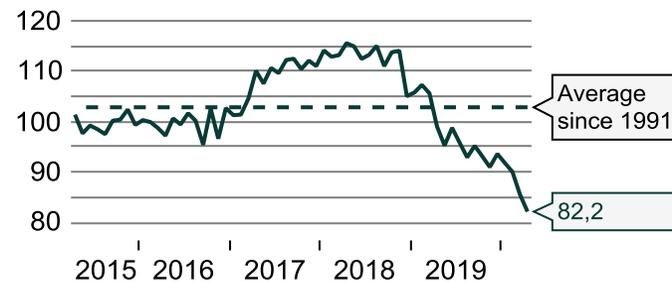


Source: Macrobond, HCOB Economics, DESTATIS

Data processing, electronic and optical equipment: long-term profiteers of the crisis.

While corporate confidence has deteriorated according to the Ifo index, incoming orders remain at a high level. Accelerated digitization should have a positive long-term effect on the industry in the wake of the corona crisis.

Ifo computer, electronics, optical products, index (April 2020)



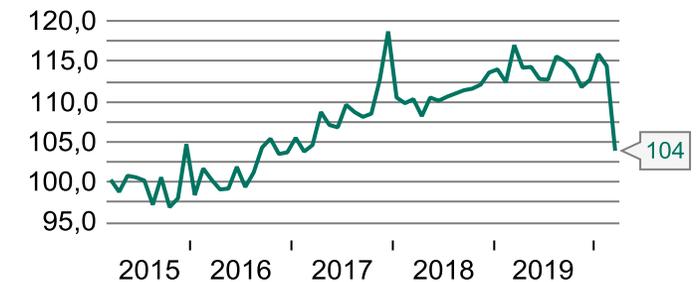
Source: Macrobond, HCOB Economics, Ifo

New orders, computer, electronic & optical products



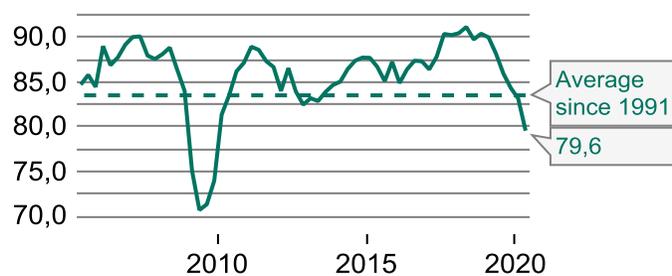
Source: Macrobond, HCOB Economics, DESTATIS

Production index data processing, electronic & optical devices



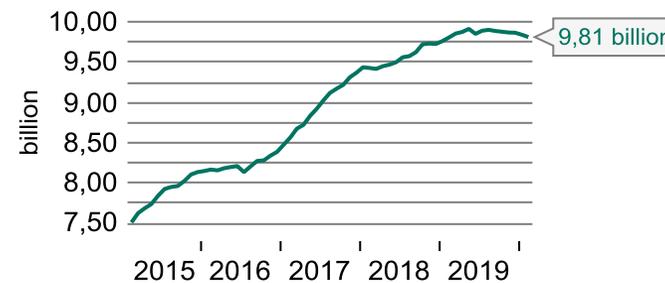
Source: Macrobond, HCOB Economics, DESTATIS

Capacity utilization, computer, electronic & optical products



Source: Macrobond, HCOB Economics, Ifo

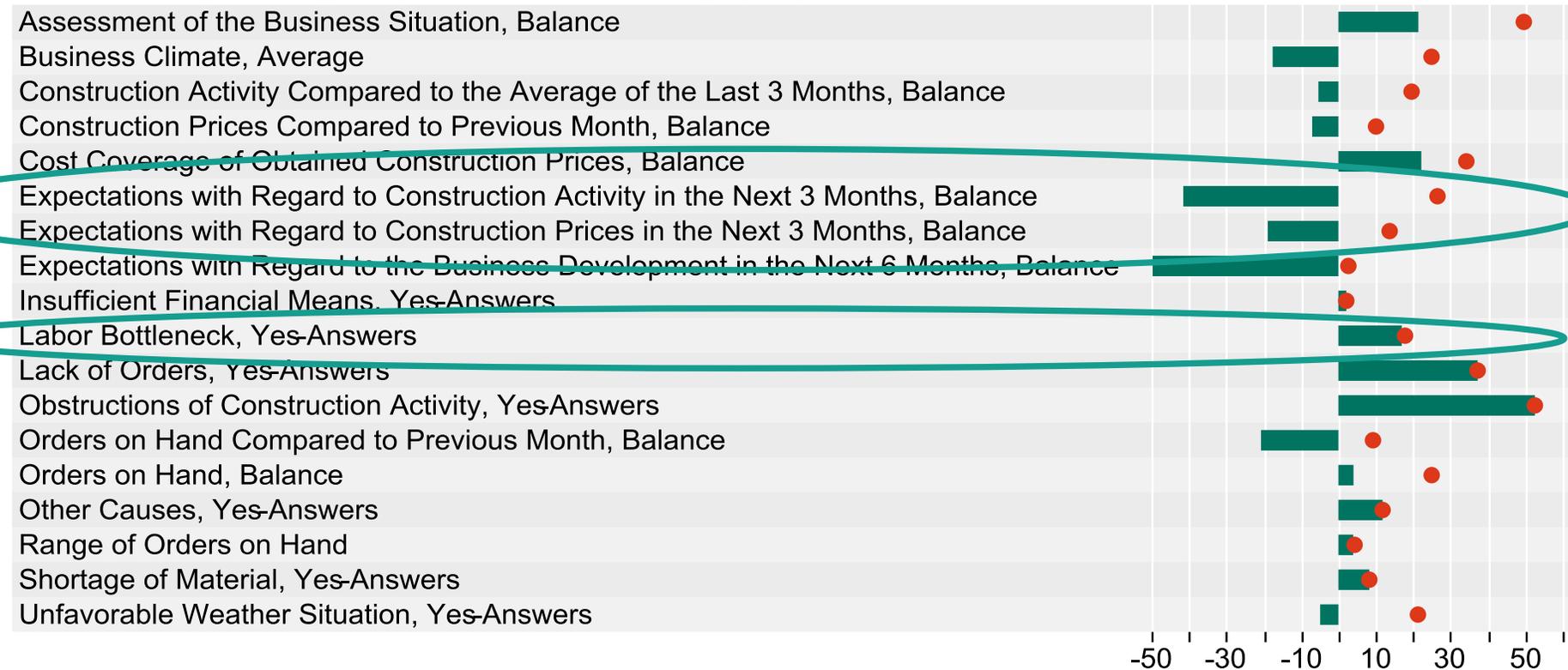
Exports of data processing devices, electronic & optical devices, EUR



Source: Macrobond, HCOB Economics, DESTATIS

Construction/Real Estate: sentiment has deteriorated significantly, while labour shortages remain.

Current survey result (green) versus 12-months high (red)

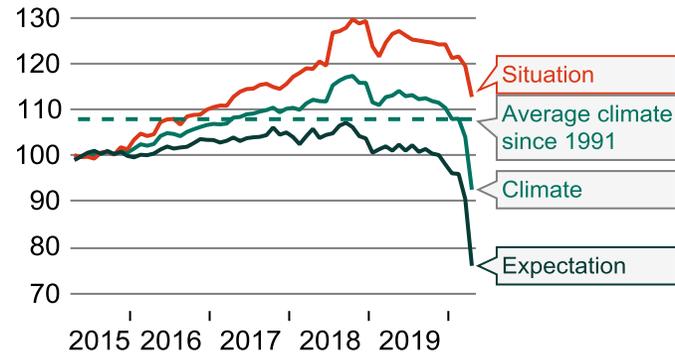


Source: Macrobond, HCOB Economics, Ifo

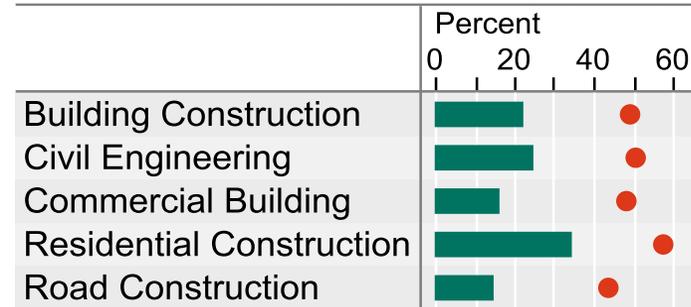
Construction/real estate: large discrepancy between the assessment of the current situation and expectations.

The occupancy rate remains very high. The crisis in this sector has not yet really hit home.

Ifo Construction, index

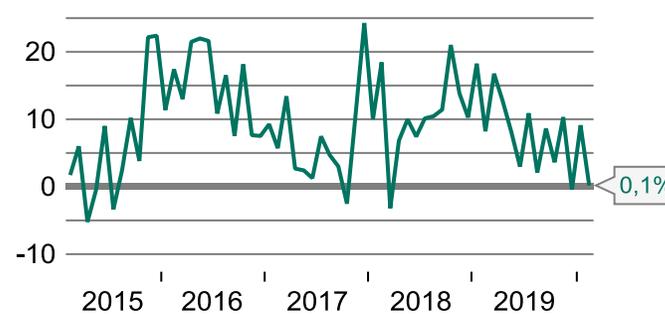


Current situation (Ifo) compared to 12m high (red dot)



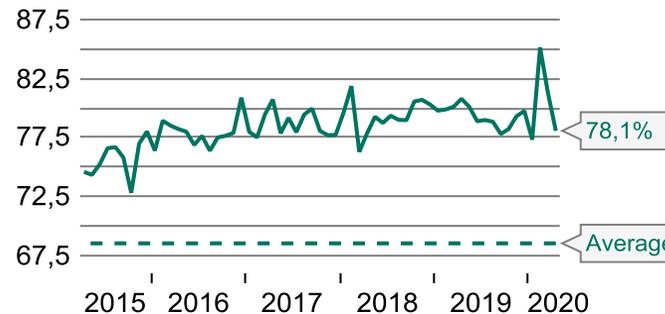
Source: Macrobond, HCOB Economics, Ifo

New orders, construction, YoY



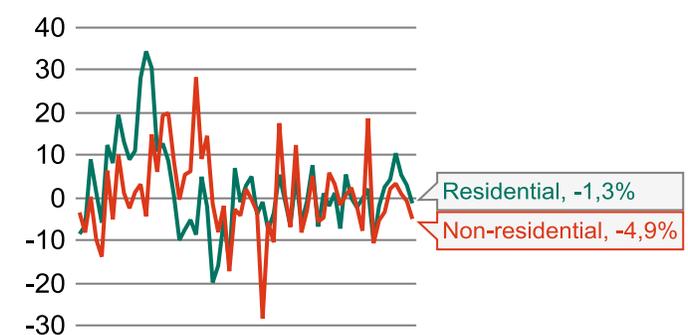
Source: Macrobond, HCOB Economics, DESTATIS

Construction, capacity utilization (April 2020)

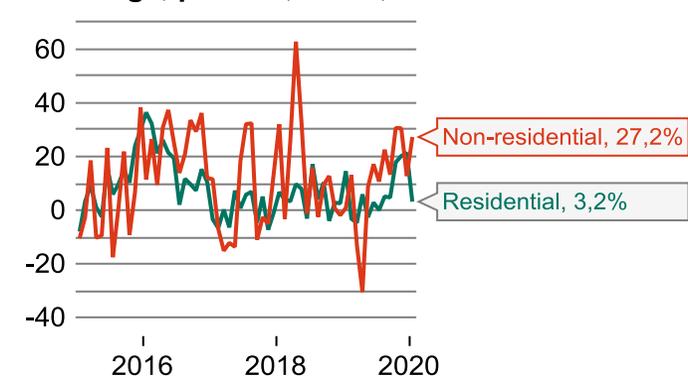


Source: Macrobond, HCOB Economics, Ifo

Buildings, permits, number (Januar 2020)



Buildings, permits, costs, EUR

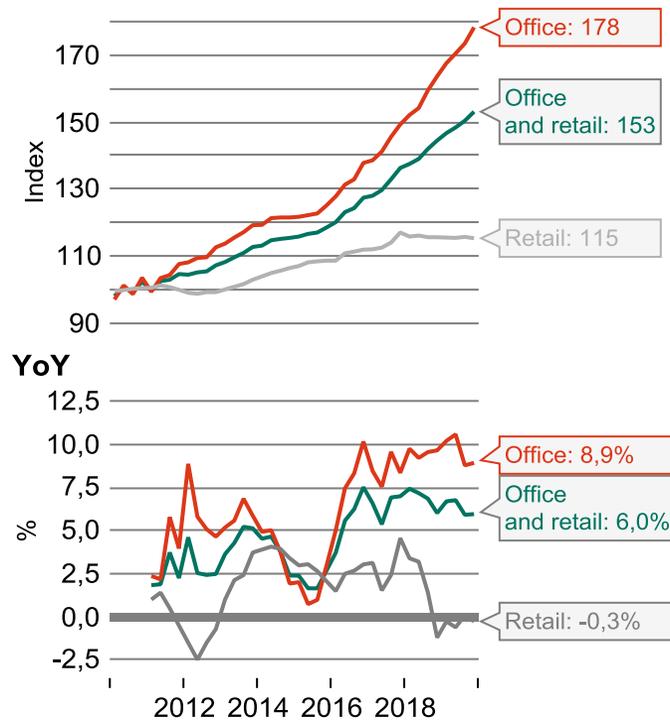


Source: Macrobond, HCOB Economics, DESTATIS

Construction/real estate: the coronavirus will continue to leave its mark on the commercial property market in the long term.

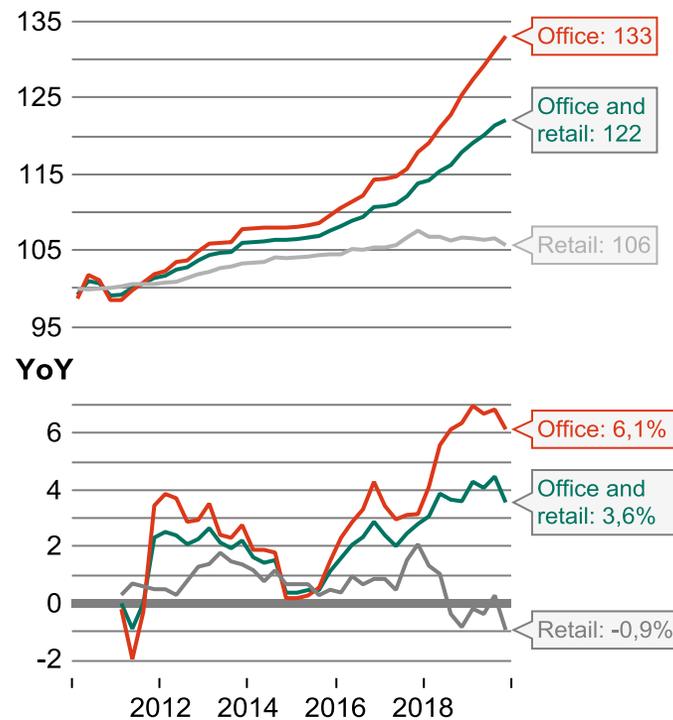
Office properties could face lower demand due to a trend towards more home office workplaces. E-commerce may accelerate, which would increase the pressure on retail properties.

Prices commercial real estate, different types of property, 2010 = 100 (2019 Q4)



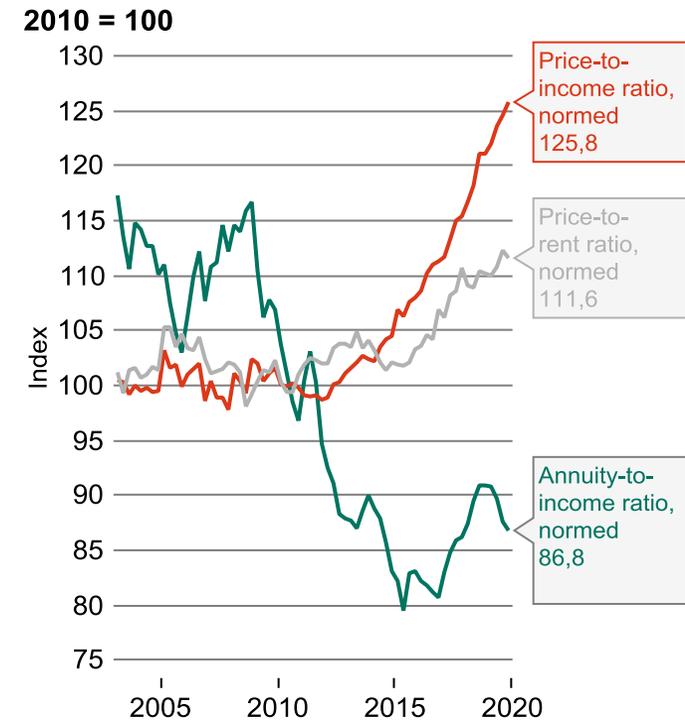
Source: Macrobond, HCOB Economics, BUBA

Rents commercial real estate, different property types, 2010 = 100 (2019 Q4)



Source: Macrobond, HCOB Economics, BUBA

Affordability-indicators for the residential market (2019 Q4)

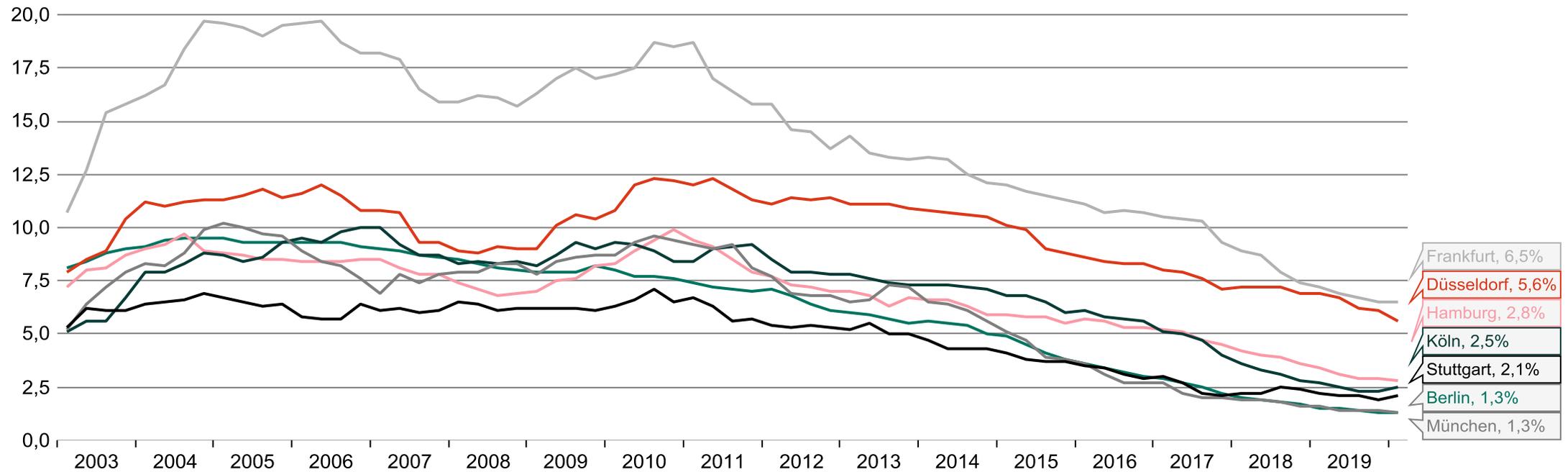


Source: Macrobond, HCOB Economics, BUBA

Construction/Real Estate: office building vacancy rates remain very low in Q1 2020.

The record low vacancy rates in the office sector in most cities will rise with a certain delay as a result of insolvencies, staff cuts and a long-term increased use of home office workplaces

Vacancy rates in the office sector (2020 Q1)

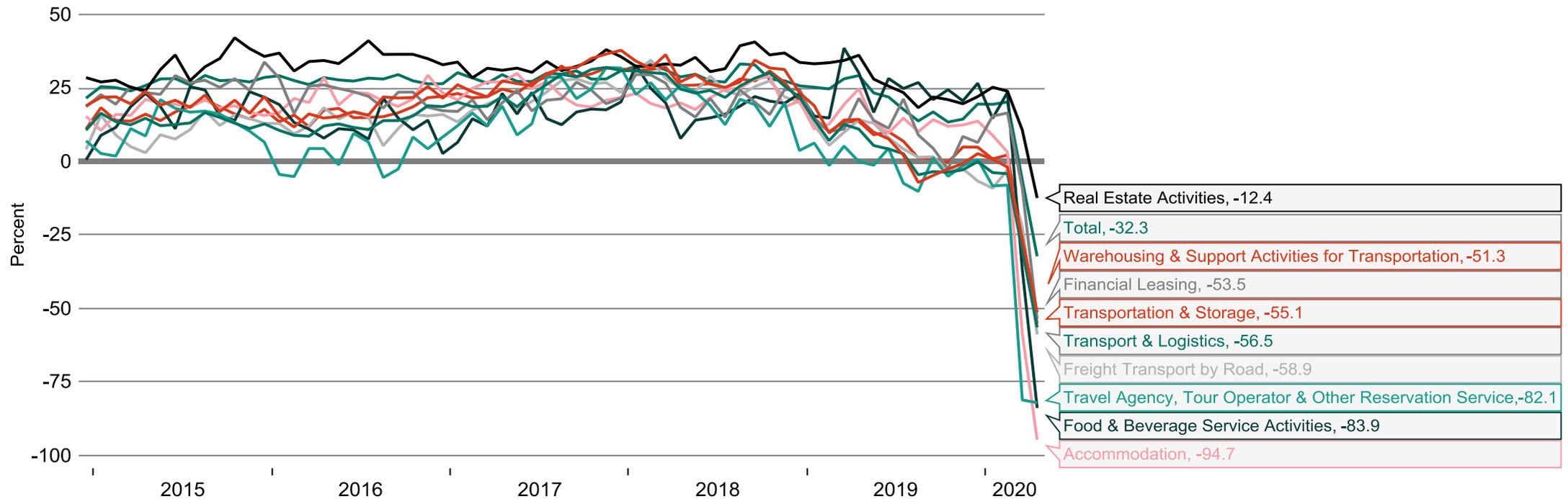


Source: Macrobond, Hamburg Commercial Bank Economics, Bulwiengesa

Services: the gradual lifting of the shutdown will unlikely be a total liberation, but should ease the difficult situation.

Presumably, consolidation will take place in many sectors in the coming months, and the number of insolvencies will also increase significantly. In the long term, warehousing and logistics could benefit from a stronger build-up of inventories of supplier products, as many companies are likely to perceive just-in-time production as too risky based on current experience.

Ifo, Business Survey, Services (ex retail and wholesale), selected sectors



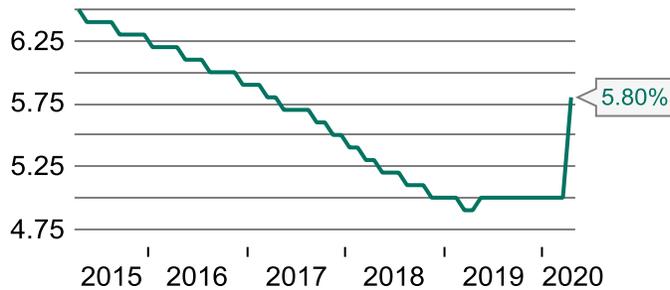
Source: Macrobond, HCOB, Ifo Institute

**Labour market and inflation:
short-time work at record level,
unemployment could rise by 1.5
million people**

Labour market: unemployment rate increases comparatively moderately.

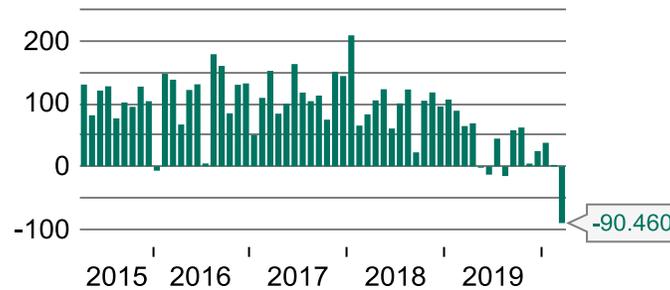
The expanded short-time working allowance and other government support measures have so far prevented a wave of redundancies. In the coming months, however, a more substantial increase is likely to be recorded here. An unemployment figure of 4 million (currently: 2.65 million) corresponding to a rate of approx. 8% seems realistic for the next 12 months.

Unemployment rate (April 2020)



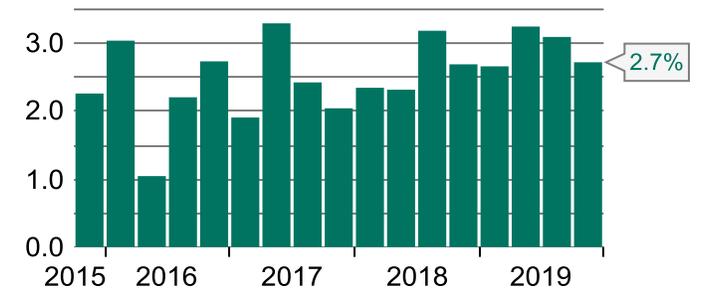
Source: Macrobond, HCOB, German Federal Employment Ag

Employment change (number) (March 2020)



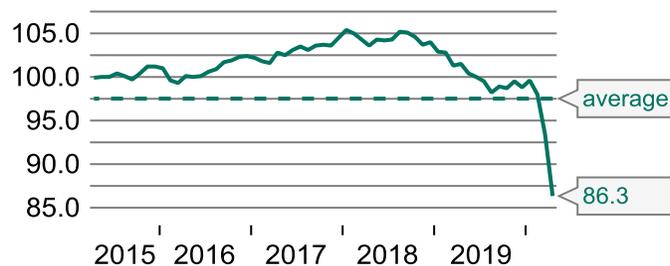
Source: Macrobond, HCOB, German Federal Statistical Office

Gross hourly wages, YoY (2019 Q4)



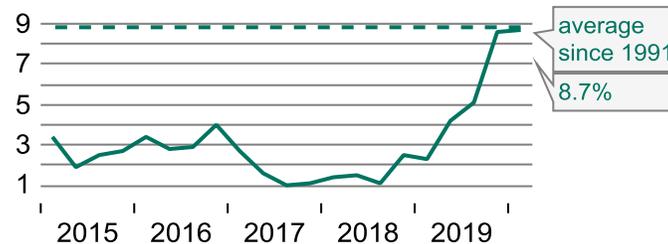
Source: Macrobond, HCOB, German Federal Statistical Office

Ifo employment barometer (April 2020)



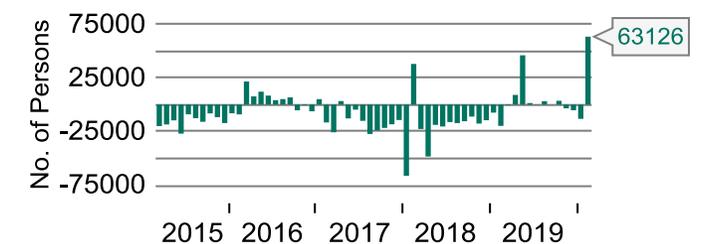
Source: Macrobond, HCOB, Ifo Institute

Short-time work, Ifo, Yes answers, in percent (January 2020)



Source: Macrobond, HCOB, Ifo Institute

Underemployment incl. short time work, change (February 2020)

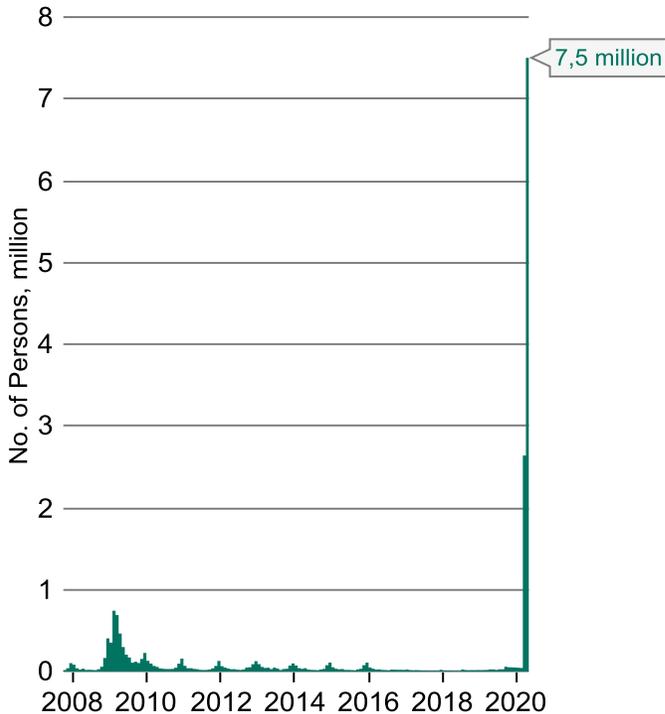


Source: Macrobond, HCOB, German Federal Employment Ag

Labour market: 22% of the working population is currently on short-time work.

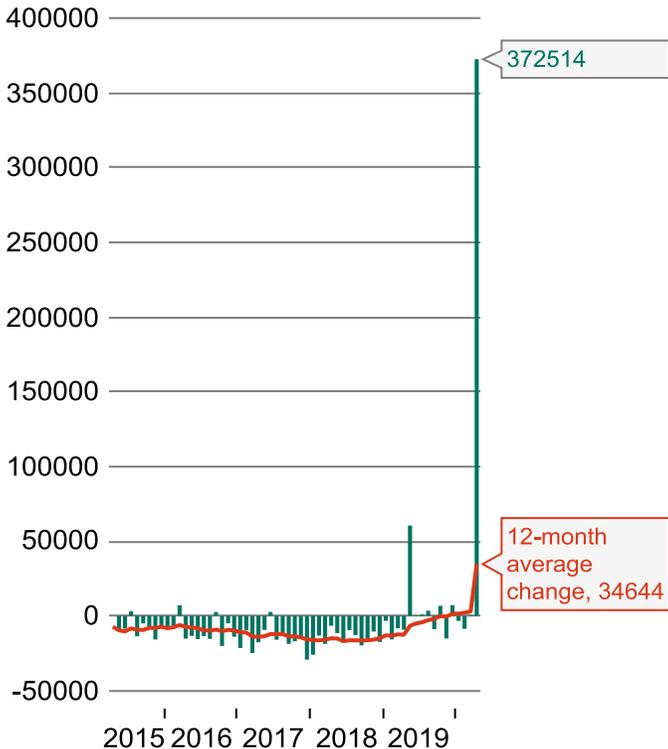
Unemployment and especially short-time work have risen sharply, while the number of unfilled positions has declined. However, the number of vacancies is at a fairly high level.

Germany, Short-time Work, Persons Concerned in Announcements (April 2020)



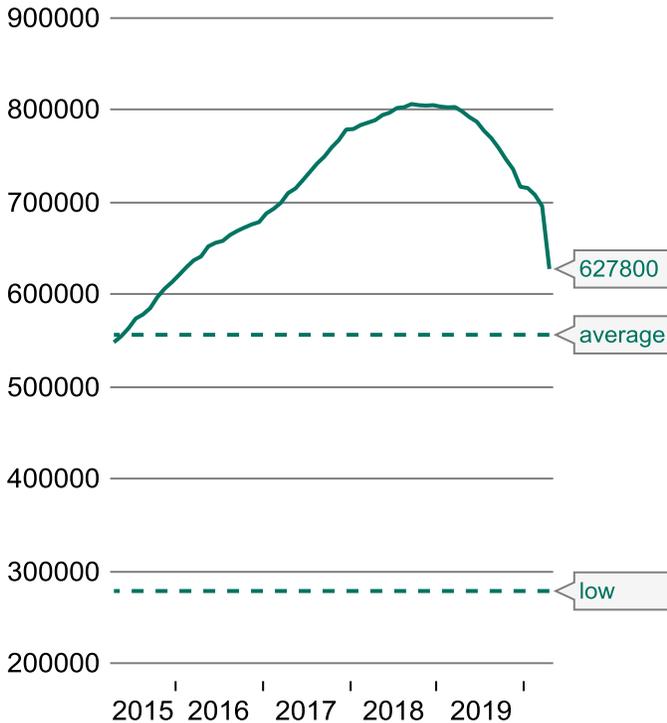
Source: Macrobond, HCOB Economics, BA

Unemployment change (April 2020)



Source: Macrobond, HCOB, BA

Unfilled Vacancies (number)

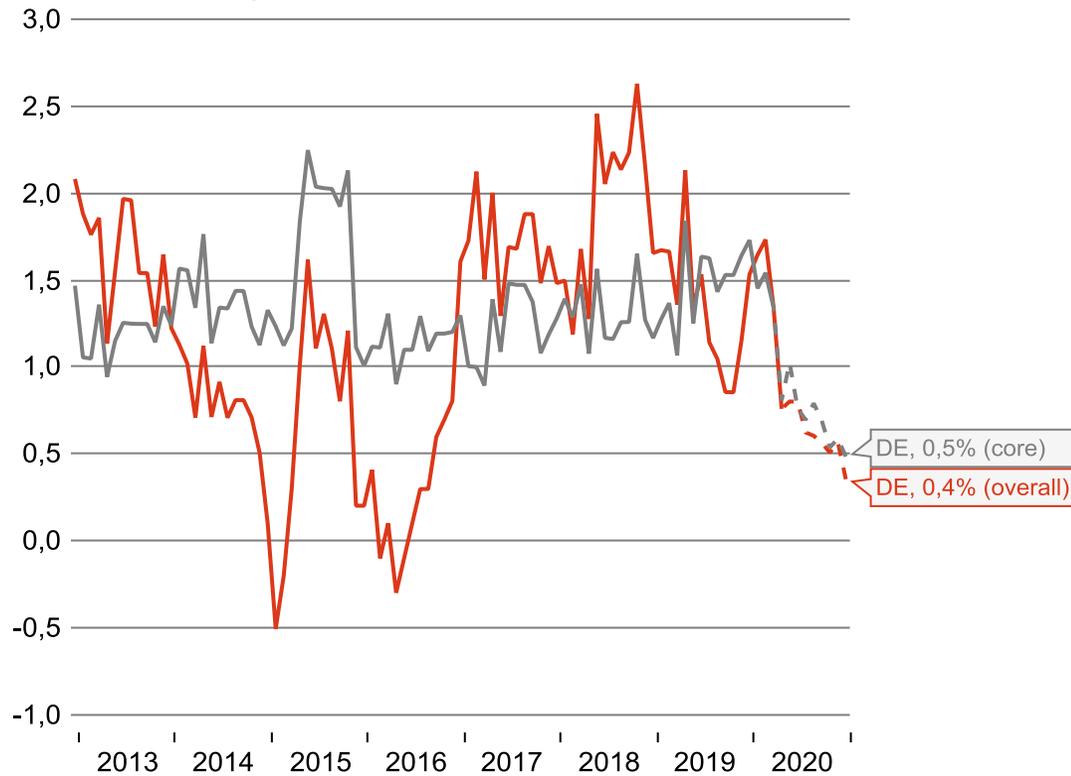


Source: Macrobond, Hamburg Commercial Bank Economics, DESTATIS

Inflation: inflation is slowing down sharply.

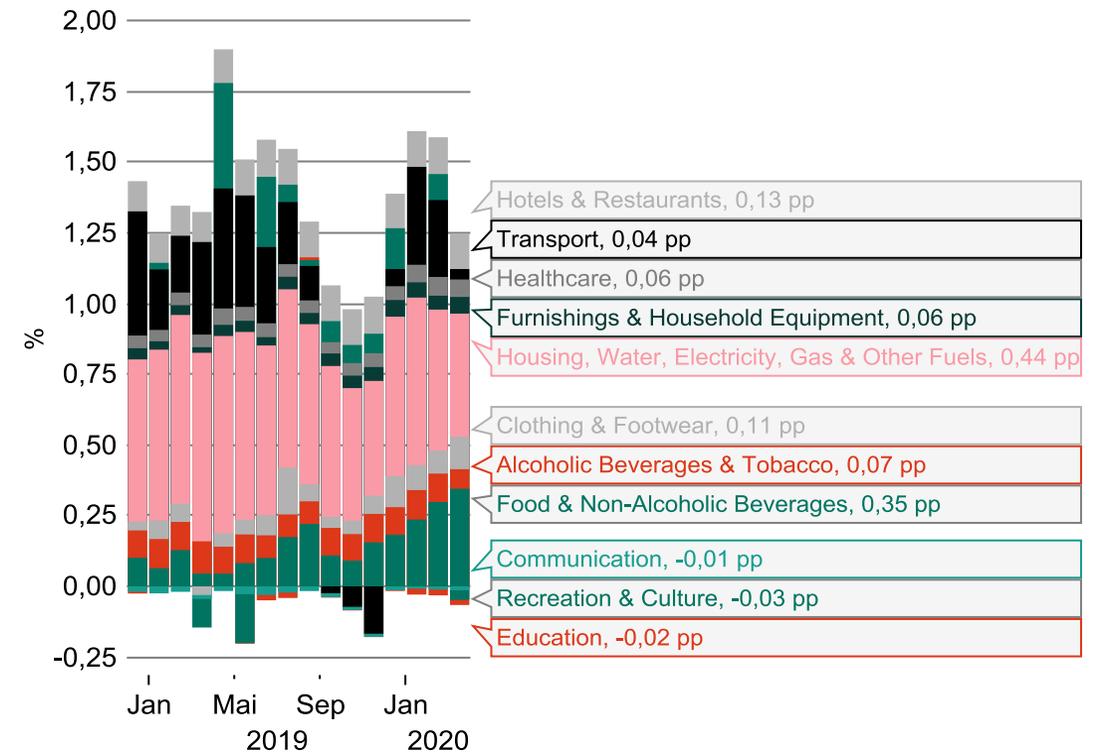
Due to the fall in oil prices, inflation is falling more sharply than core inflation. In view of rising unemployment figures and in view of the reluctance to invest, inflation should fall even further this year.

Inflation Germany, YoY



Source: Macrobond, Hamburg Commercial Bank Economics, DESTATIS

German inflation, contribution from sectors (März 2020)



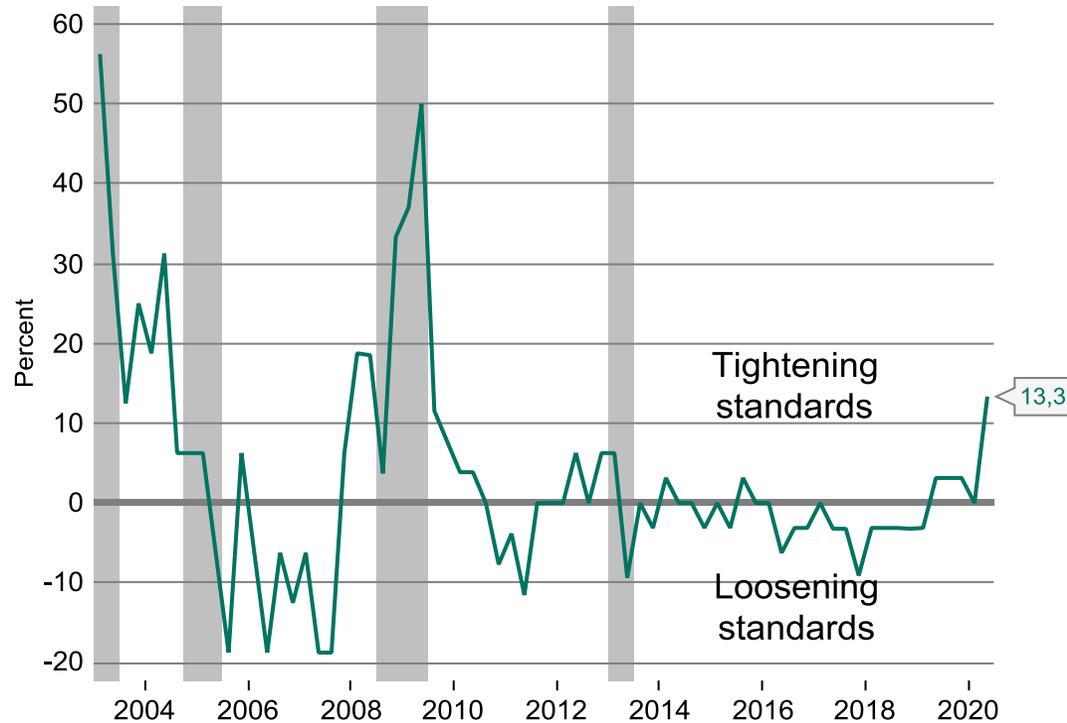
Source: Macrobond, Hamburg Commercial Bank Economics, DESTATIS

Lending activity, interest rates: loose, looser, ECB

Lending activity: supported by the KfW and increased demand, lending might increase in the coming months.

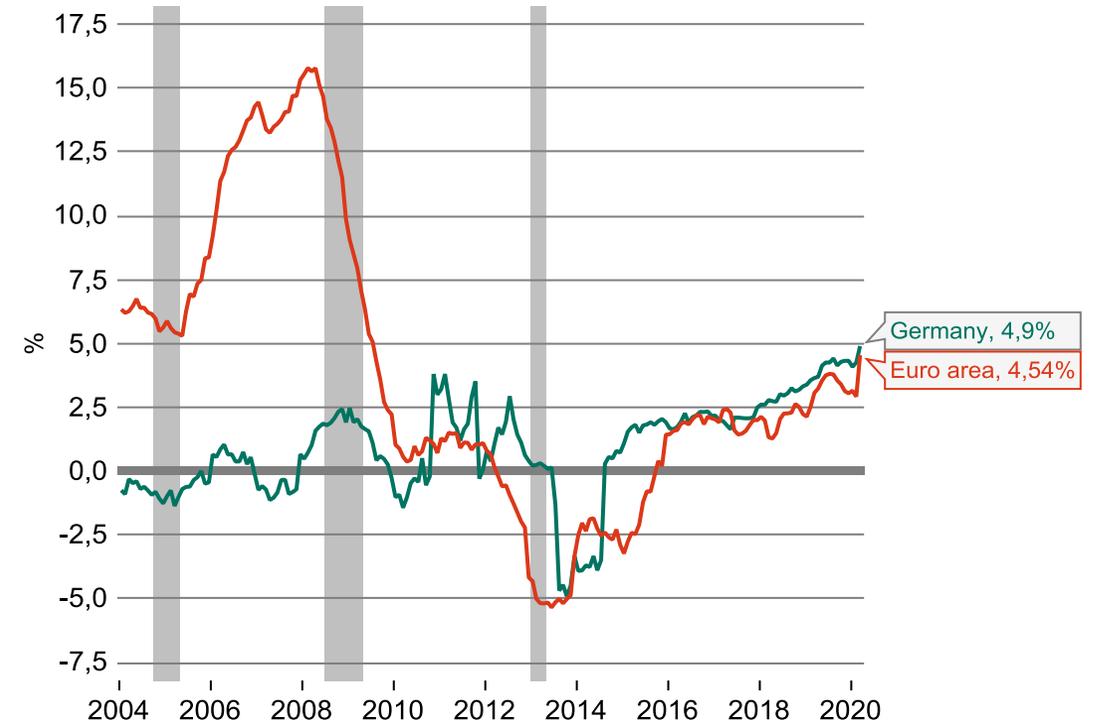
According to the latest survey on lending business, banks have recently tightened credit standards significantly.

Germany, Lending Surveys, Central Bank of Germany, Bank Lending Survey, All Enterprises, Bank's Credit Standards, Overall, Net Percentage



Source: Macrobond, Hamburg Commercial Bank Economics, BUBA

Stock of loans to non-financial corporates, YoY change / grey area: recessions in Germany

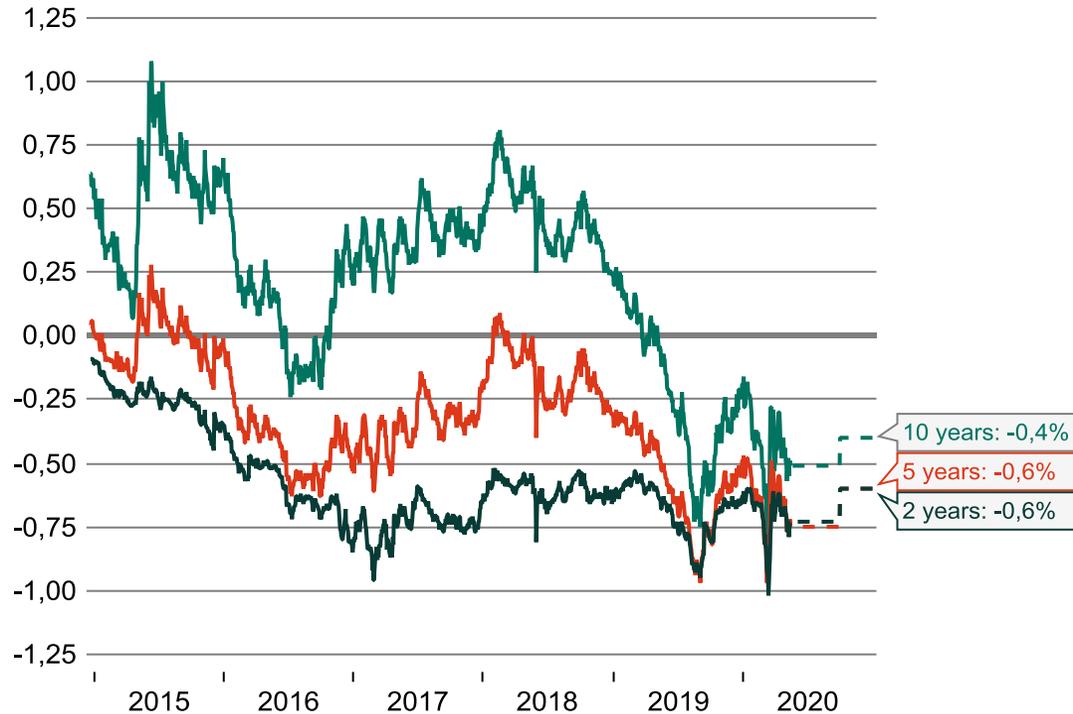


Source: Macrobond, Hamburg Commercial Bank Economics, ECB

Interest rates: Bund yields remain below zero and hardly react at all to the economic crisis.

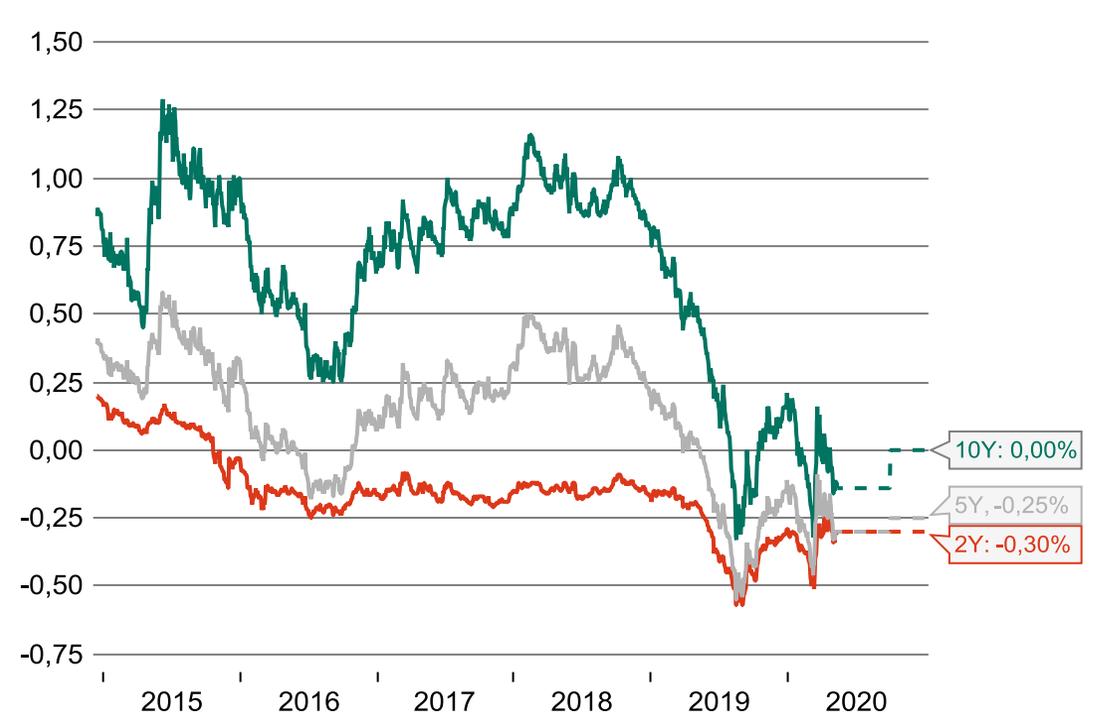
The low level of interest rates ensures that the interest burden of the state will not increase for the time being, despite considerable new borrowing.

German government bonds, yields



Source: Hamburg Commercial Bank Economics, Macrobond

Euro swap rates

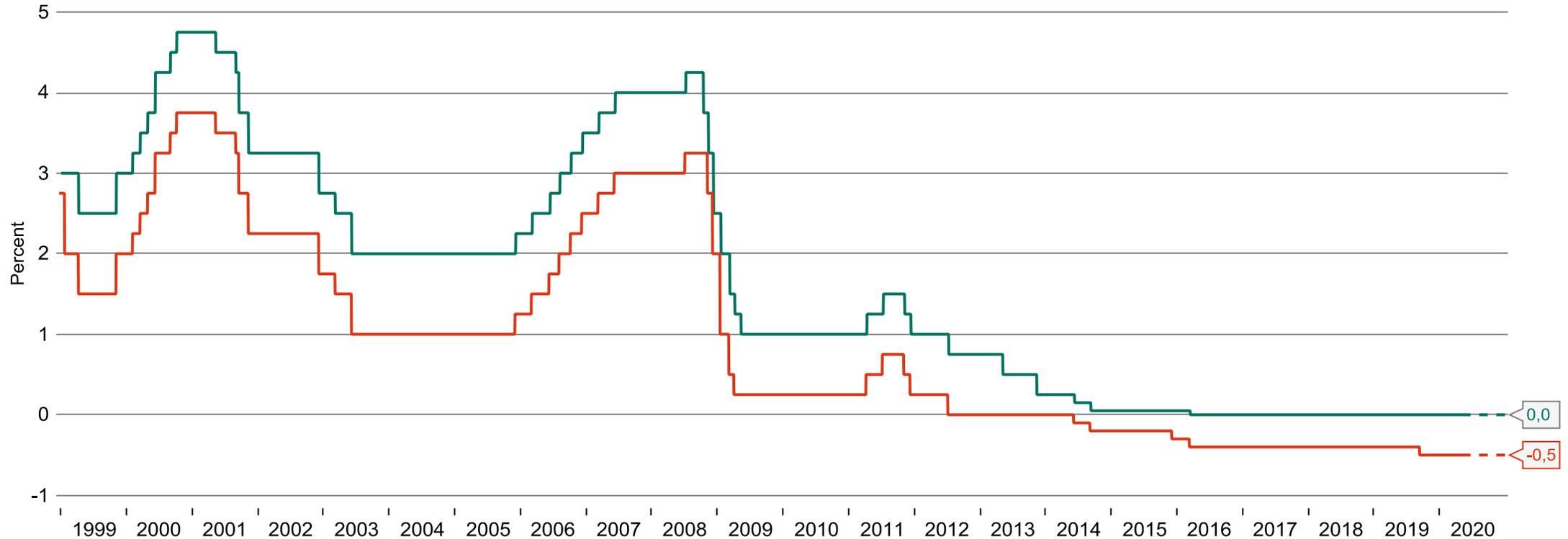


Source: Macrobond, Hamburg Commercial Bank Economics

Key policy rate: the ECB leaves key policy rates unchanged only at first sight.

Monetary policy will become even more expansionary as a result of the lowering of interest rates on longer-term refinancing operations and the relaxation of the requirements for collateral.

Euro Area, Policy Rates



Source: Macrobond, Hamburg Commercial Bank Economics, ECB

EUR/USD should appreciate in our baseline scenario.

The euro is, historically speaking, relatively cheap against the US dollar. This helps companies that export goods to the dollar zone.

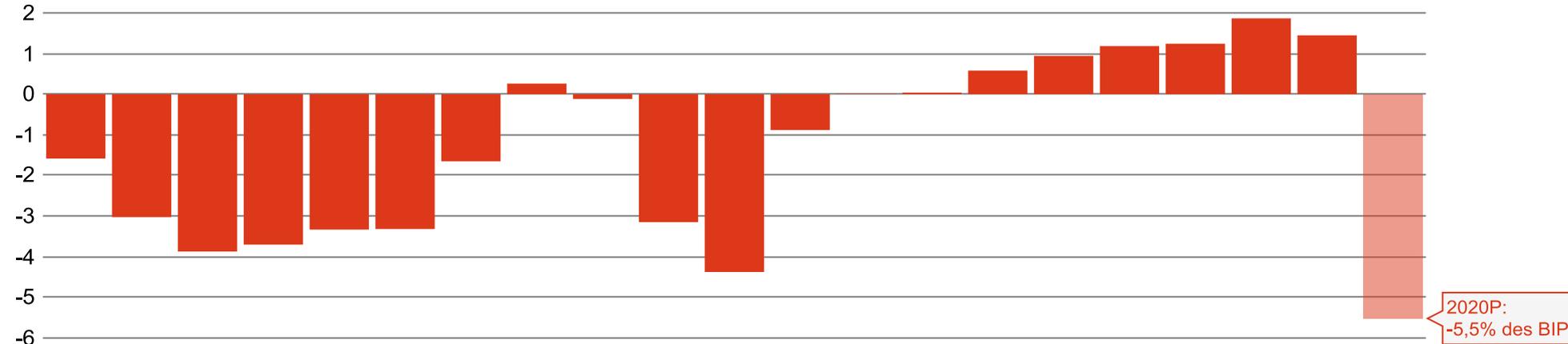


Source: Hamburg Commercial Bank Economics, Macrobond

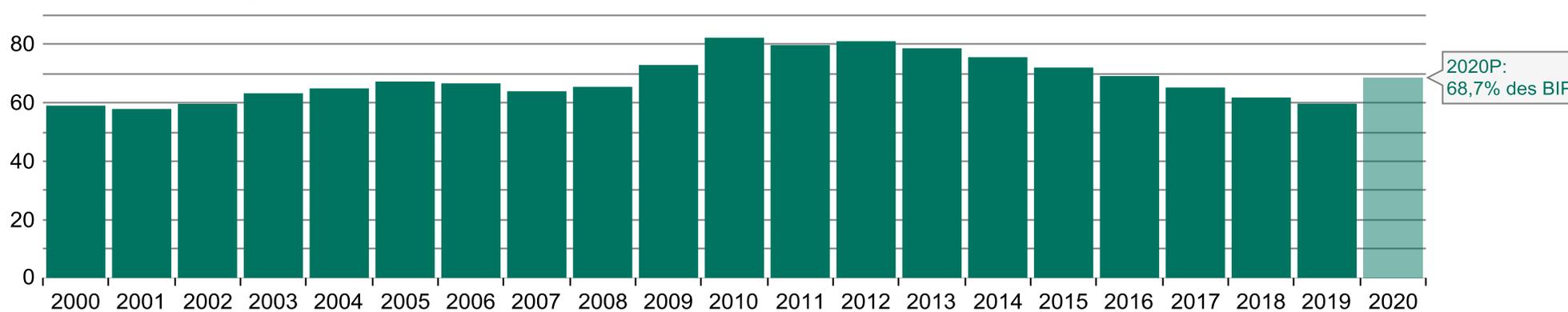
Public finances: “Black zero”, what's that again?

Public finances: the relatively low level of debt allows for a generous response to the recession.

Budget balance in % of GDP (Forecast of IMF)

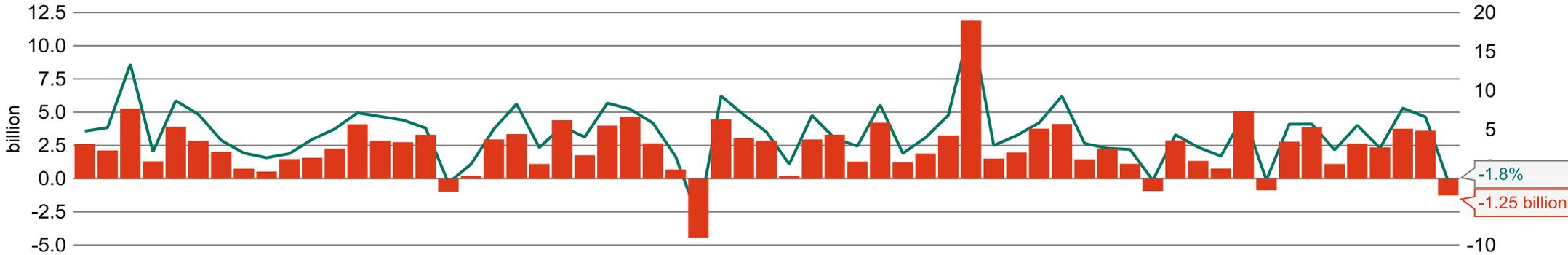


Public debt, general government, in % of GDP (Forecast of IMF)

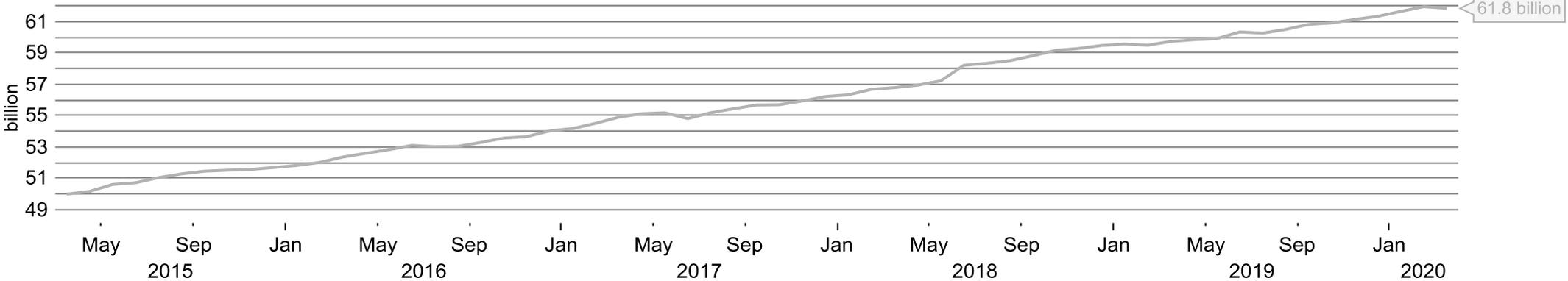


Public finances: according to the most recent tax estimate, taxes will fall short of the previous forecast by approx. 100 billion Euros this year.

Tax revenues general government budget, EUR, YoY (March 2020)



Tax revenues general government budget, EUR, 12 months average



Forecasts

Forecasts

Economic activity	GDP Change			Inflation		
	2019	2020	2021	2019	2020	2021
Euro area	1,2	-8,2	5,8	1,3	0,0	1,0
Germany	0,6	-7,2	6,1	1,5	0,4	1,3
United States*	2,3	-7,6	4,5	1,6	0,6	1,6
China	6,1	1,2	9,2	4,5	1,8	2,4
World	2,9	-3,1	5,8	2,4	1,4	2,1

Interest rates (eop)	14.05.2020	Jun 20	Dez 20	Jun 20	Dez 21
Euro area					
Policy rate	0,00	0,00	0,00	0,00	0,00
Deposit rate	-0,50	-0,50	-0,50	-0,50	-0,50
3 months Euribor	-0,26	-0,30	-0,30	-0,30	-0,30
2 year Bunds	-0,74	-0,65	-0,60	-0,53	-0,50
10 year Bunds	-0,54	-0,40	-0,40	-0,35	-0,35
USA					
Fed funds target rate (upper bound)	1,75	0,25	0,25	0,25	0,25
3 months Libor	0,39	0,40	0,35	0,35	0,40
2 year T-Notes	0,15	0,30	0,30	0,35	0,40
10 year T-Notes	0,61	0,80	0,90	1,15	1,40

FX	14.05.2020	Jun 20	Dez 20	Jun 21	Dez 21
EUR/USD	1,08	1,09	1,12	1,13	1,14
EUR/GBP	0,89	0,85	0,86	0,87	0,88
USD/JPY	107,08	107	105	108	109
USD/CNY	7,10	7,10	7,20	7,20	7,25

Stocks	14.05.2020	Jun 20	Dez 20	Jun 21	Dez 21
Dax	10337	9600	10500	11000	11400
Stoxx Europe 600	327	310	339	355	368
S&P500	2804	2400	2625	2750	2850

Commodities	14.05.2020	Jun 20	Dez 20	Jun 21	Dez 21
Oil (Brent) in USD/USD	30,27	30	40	48	52
Oil (WTI) in USD/Barrel	26,03	25	35	43	47

Source: Bloomberg, Hamburg Commercial Bank Economics *As inflation index the PCE core rate is considered

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