



Economic Situation and Strategy

11 August 2023

Germany: The Sick Man of Europe Again

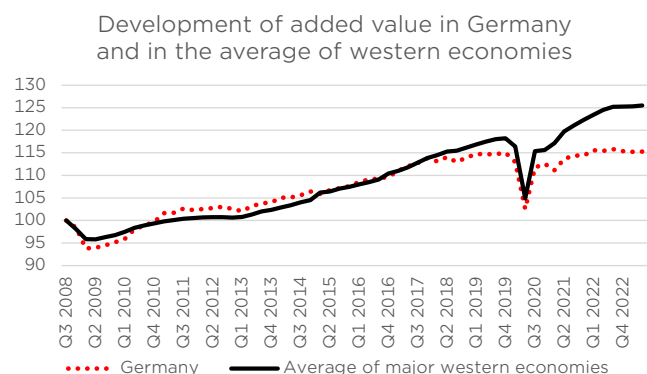
No one who regularly follows the economic news can avoid the realization that things are not running smoothly in Germany at present. But even without reading the newspapers on a regular basis or analyzing economic data in detail, an attentive observer will not fail to notice that the country seems to have been stagnating for several years - especially in comparison with many other Western economies.

Politicians do not deny the economic weakness, but they may be misinterpreting it. This is because the prevailing impression is that it is a phase of economic weakness that can be solved by economic means if necessary. However, if you take a closer look at the data, it seems doubtful that the economy is actually the problem. Cyclical phenomena are about the utilization of production potential. Capacity utilization rises in boom phases and falls in recessions. In economic life, this effect is as constant as the ebb and flow of the tide and is therefore not very exciting at first. Germany currently has a low degree of utilization of production potential, and accordingly Germany is undoubtedly in an unfavorable economic situation.

What is the problem?

The real problem, however, is that Germany is not only suffering from underutilized capacities, but the production potential seems to have virtually stopped growing. This is what makes the current situation so dramatic. Economic downturns come and go, but a lack of trend growth in the form of stagnating production potential is a medium-level disaster for an economy. This is because it reveals structural problems that are difficult to get to grips

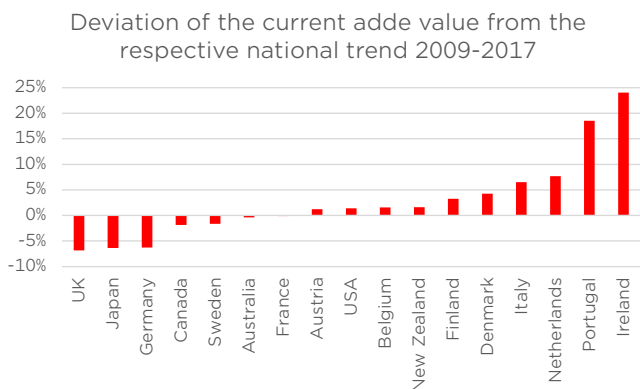
with. If we compare the development of German value added with the trend in other Western economies, it is noticeable that something seems to have gone wrong from around 2017 onwards. Whereas in the years before, Germany's value added trend was parallel to that of other Western economies (see list of countries in the second chart), in the years thereafter German GDP has steadily and systematically decoupled from the trend of almost all other major Western economies.



The resulting effects are of tremendous magnitude. If Germany had not decoupled itself from the growth trend of other countries, the German GDP in 2023 would be around 290 billion euros above the actual value! That is 290 billion euros that cannot be distributed in salaries and profits this year alone! Between 2017 and the end of 2023, there will be a range of almost 1000 billion euros in missed value creation, which is missing compared to the trend in other countries! To repeat that again: Due to its structural weakness, Germany has achieved almost 1,000 billion euros less in profits and salaries in the last few years than would have been possible with a "normal" development, because profits and salaries correspond to the creation side of the national accounts essentially of value added, if one abstracts from depreciation details.

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This really isn't trifle. And now it's becoming clear why you come home after a holiday abroad and you keep getting the feeling that Germany doesn't leave much of a dynamic impression in comparison to other countries. This is also reflected in a second evaluation, which examines the topic from a different perspective. To do this, we determined the country-specific trend in added value for each major western economy for the years 2009 to 2017 and calculated where the added value would have been if this trend had continued unchanged.



This shows that a large number of countries will be almost exactly on their "old" trend in 2023 as well. These include Canada, Sweden, Australia, France, Austria, the USA, Belgium and New Zealand. Then there are a few countries that surprise positively, including Ireland, Portugal, the Netherlands and also Italy. And there are a few countries that surprise negatively. These are Great Britain (shaken by Brexit), Japan (slowed down by poor demographics, among other things) and, of course, Germany. Now there are voices trying to put this disillusioning picture into perspective through various strands of argument. It is claimed that the welfare of an economy cannot be represented by the development of value creation and that alternative indicators should be used. And of course the happiness of people in a country does not only depend on value creation - but experience shows that welfare, happiness and value creation are unfortunately comparatively closely linked in real life. It is not uncommon for it to be argued that higher growth in

value creation is no longer desirable because it is associated with increasing resource consumption. That is not necessarily correct either. Because value is always created when there is a willingness to pay for a product and a service. Especially in the last few years, internationally the strongest growth in value creation has been in areas that are not resource-intensive. This includes areas such as software, AI, genetic engineering, entertainment and health. The fact remains: Stagnating value creation is actually not an option for an economy.

What needs to change?

Germany obviously has a structural problem, and structural solutions are therefore required after structural mistakes have been made beforehand. So it was certainly not a masterpiece of economic policy to switch off 36 (!) safe and efficient nuclear reactors in order to then produce the electricity for the base load at high marginal costs or to buy it expensively abroad. It was also no masterpiece to make oneself dependent on China (export market) and Russia (energy) and open to blackmail. But the child (or rather the children) fell into the well anyway. Now is the time to look ahead. Here's what needs to change: we need to work harder again; more years and more hours per week. The labor market participation of immigrants must increase. The standard of education must return to old levels. Taxes and duties must be reduced. We need strategic access to raw materials. Approval procedures must be massively accelerated. Bureaucratic processes must be streamlined. When it comes to digitization, German administrations must achieve international standards. Ideological barriers (keyword genetic engineering) must be broken down. Massive investments in infrastructure are essential. And politicians have to prove that they have an interest in Germany still existing as an industrial location in 30 years. Governments have expended a great deal of energy over the past few years in showing the right attitude. Maybe the right thing has to be done the right way again, in an old-fashioned way. And fast.

Market data

	As of	Change versus				
	11.08.2023 09:21	04.08.2023 -1 week	10.07.2023 -1 month	10.05.2023 -3 months	10.08.2022 -1 year	30.12.2022 YTD
Stock markets						
Dow Jones	35176	0,3%	3,6%	4,9%	5,6%	6,1%
S&P 500	4493	0,3%	1,9%	8,6%	6,7%	17,0%
Nasdaq	13738	-1,2%	0,4%	11,6%	6,9%	31,3%
DAX	15938	-0,1%	1,7%	0,3%	16,3%	14,5%
MDAX	28228	0,5%	4,4%	3,2%	1,5%	12,4%
TecDAX	3151	-1,0%	1,3%	-2,5%	-0,2%	7,9%
EuroStoxx 50	4358	0,6%	2,4%	1,2%	16,2%	14,9%
Stoxx 50	3990	1,3%	3,2%	-0,7%	9,1%	9,3%
SMI (Swiss Market Index)	11131	0,3%	1,9%	-2,8%	-0,2%	3,7%
Nikkei 225	32474	0,9%	0,9%	11,5%	16,7%	24,4%
Brasilien BOVESPA	118350	-1,0%	0,3%	10,1%	7,4%	7,9%
Russland RTS	1017	0,1%	2,4%	-3,3%	-9,0%	4,8%
Indien BSE 30	65394	-0,5%	0,1%	5,6%	11,2%	7,5%
China CSI 300	3884	-3,4%	1,0%	-2,8%	-5,5%	0,3%
MSCI Welt	2985	-0,1%	1,8%	5,7%	6,5%	14,7%
MSCI Emerging Markets	1008	-1,0%	2,7%	2,9%	1,1%	5,4%
Bond markets						
Bund-Future	132,43	42	136	-353	-2443	-50
Bobl-Future	115,57	-5	80	-284	-1173	-18
Schatz-Future	105,06	0	37	-81	-482	-36
3 Monats Euribor	3,76	11	36	61	343	187
3M Euribor Future, Dec 2023	3,89	2	-16	31	245	28
3 Monats \$ Libor	5,63	0	7	29	271	86
Fed Funds Future, Dec 2023	5,39	0	0	100	224	74
10 year US Treasuries	4,10	6	4	66	132	27
10 year Bunds	2,57	3	-6	28	175	1
10 year JGB	0,59	-5	14	17	40	18
10 year Swiss Government	1,03	0	-7	-1	60	-58
US Treas 10Y Performance	581,22	-0,5%	-0,5%	-4,5%	-7,1%	0,2%
Bund 10Y Performance	538,03	0,4%	1,4%	-1,1%	-11,4%	2,4%
REX Performance Index	433,51	0,2%	1,3%	-1,2%	-7,3%	0,2%
IBOXX AA, €	3,67	-3	-21	20	178	7
IBOXX BBB, €	4,48	-3	-29	4	146	-22
ML US High Yield	8,46	-11	-30	-13	91	-51
Convertible Bonds, Exane 25	6620	0,0%	0,0%	0,0%	-3,0%	0,0%
Commodities						
MG Base Metal Index	387,13	-0,8%	2,0%	-2,5%	-3,5%	-7,4%
Crude oil Brent	86,14	-0,1%	10,8%	12,7%	-11,7%	1,4%
Gold	1915,94	-1,2%	-0,3%	-5,3%	6,4%	5,5%
Silver	22,72	-4,0%	-1,5%	-10,4%	9,5%	-4,3%
Aluminium	2154,56	-1,3%	2,7%	-4,7%	-13,7%	-8,3%
Copper	8348,74	-2,0%	-0,1%	-1,0%	3,3%	-0,2%
Iron ore	104,60	-0,6%	-4,2%	-2,1%	-4,6%	-6,0%
Freight rates Baltic Dry Index	1137	0,1%	11,0%	-30,7%	-28,6%	-25,0%
Currencies						
EUR/ USD	1,0992	0,4%	0,3%	0,4%	7,2%	3,1%
EUR/ GBP	0,8644	0,0%	0,9%	-0,6%	2,4%	-2,6%
EUR/ JPY	159,00	1,9%	2,1%	7,3%	15,1%	13,0%
EUR/ CHF	0,9635	0,4%	-1,2%	-1,4%	-0,8%	-2,2%
USD/ CNY	7,2355	0,8%	0,1%	4,3%	7,6%	4,8%
USD/ JPY	144,75	2,1%	2,4%	7,7%	8,9%	10,4%
USD/ GBP	0,79	0,4%	0,8%	-0,7%	-3,5%	-5,4%

Source: Refinitiv Datastream

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