

Economic Situation and Strategy

23 January 2025

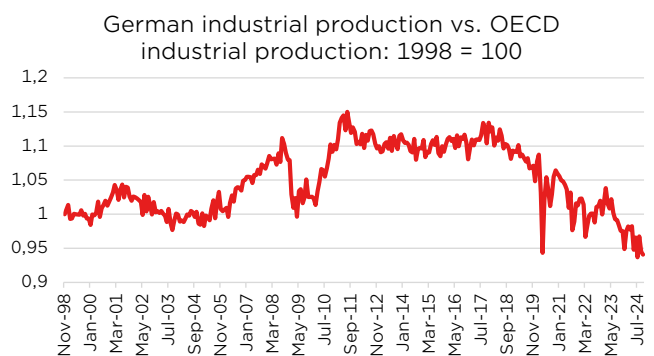
Germany in reverse gear: Dare to reform more!

Before the First World War, Germany was the third-largest economy in the world in terms of purchasing power, behind the USA and very close behind China (although there are major statistical uncertainties here). After the Second World War, Germany developed from an almost completely destroyed country back into a major industrial nation. In the 1970s, only the USA and Japan were ahead of Germany. Today, Germany is back in third place (measured by nominal GDP in US dollars and thanks to the extremely weak yen), after being relegated to fourth place by Japan for a time.

Against the background of these figures, it could be said that the “moaning” about Germany as a business location is perhaps somewhat exaggerated. In fact, the German economy still dominates European value creation, and in absolute terms, German industrial production still has a huge volume. In addition, the trade surpluses indicate that we have not yet completely collapsed in terms of competitiveness. On the other hand, Germany has been steadily falling behind the rest of the world in terms of industrial production since around 2017. In recent years, there has not been a major economy on the planet that has lost industrial skills and production as quickly and as much as Germany.

The reasons for this are complex. These include high taxes, high wages, high non-wage labour costs, sometimes absurd regulation at a satirical level, authorities that are sometimes dysfunctional or at least work far too slowly, a lack of digitalization, the inability in political circles to think strategically and act strategically, an ever-

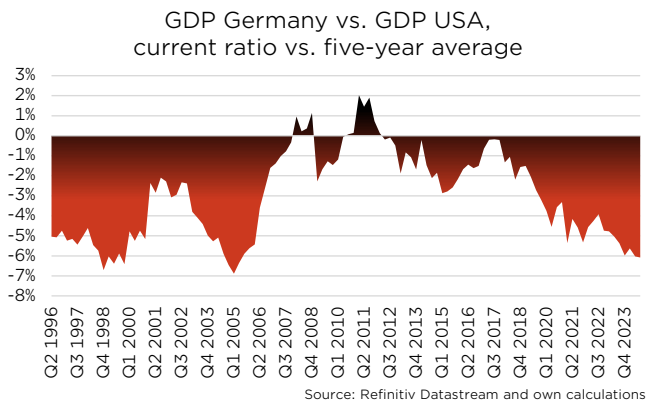
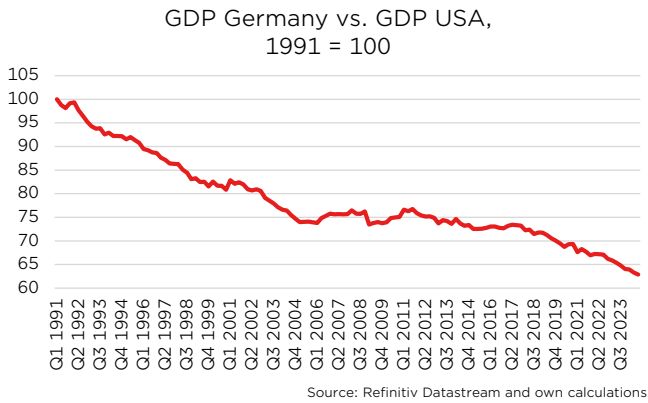
decreasing quality of education (from elementary school to universities) and a completely overburdened welfare state that creates little or no incentive to take up work with transfer withdrawal rates of around 100%. All of this is accompanied by a constantly declining volume of annual working hours. There is virtually no other country in the world where employees work as few hours as in Germany. Moreover, there is hardly a country in the world where people work as little per capita as in Germany. Labor market participation is rather low, as is the effective retirement age, the part-time rate is high, the number of sick days is record-breaking and so is the number of vacation days.



The comparison with the USA is particularly striking. The USA is the economy that has grown particularly successfully in the Western world in recent decades, which is why the USA is in some ways the benchmark for efficient economic activity in democratic societies and economies. In addition, the comparison with Germany has not been particularly flattering for decades. This is particularly evident in the following chart, in which German GDP has been set in relation to US GDP; the ratio of the

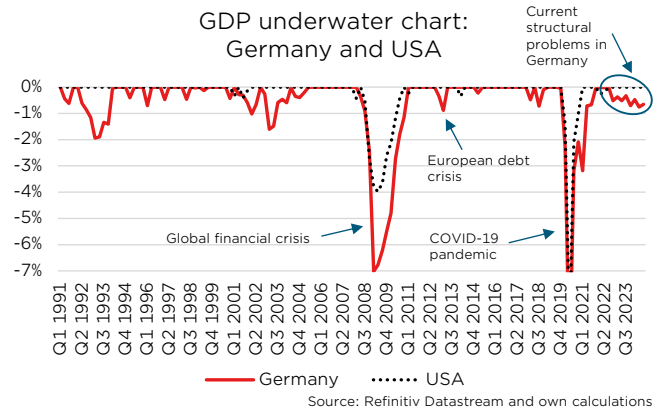
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two figures was indexed to 100 in 1991 to make it easier to interpret.



The statement in the graph above should be read carefully. Between 1991 and 2004, Germany lost 25% of its value added relative to the USA. At the end of this process, Germany was considered the “sick man” of Europe (as it is now). Then something amazing happened that is unfortunately hardly appreciated today. The then Chancellor Schröder reacted to this systematic decline with the so-called Agenda 2010. Agenda 2010 was essentially a reform project that amounted to a slight slimming down of the welfare state and an emphasis on supply-side policy ideas. The intensity of intervention was not particularly high and the scope of the measures was ultimately limited, and yet the impact was enormous. The program, which was implemented between 2003 and 2005, had an immediate impact. Compared to the OECD, the development of German industrial production improved significantly and the eternal downward trend in value added compared to the USA was halted. It is also instructive to

look at relative value added (Germany vs. USA) compared to a five-year moving average of this relative figure. At the time the Agenda 2010 was implemented, this time series was at an all-time low, but then immediately began to turn around and was even in positive territory some time later. Since around 2017, however, we have fallen back into the old rut and have returned to the dramatically poor figures that prompted Chancellor Schröder to take the reins.



There is another observation that should set alarm bells ringing. If you calculate an underwater chart for German and US value added, which shows the setbacks in current value added compared to a previous peak, you can see that Germany and the US had a similarly positive trend between 2005 and around 2017. The sharper decline in 2008 was only due to the greater German cyclicality in value added, while the short-term slump in 2012 was the result of the European debt crisis. No structural problems can be identified for Germany during this period. This has changed in recent years. Once again, a gap has opened up between the USA and Germany that is of a structural nature. We fear that Germany will fall even further behind in the coming years against the backdrop of Trump's America First policy. Chancellor Willy Brandt once called on Germans to dare to embrace more democracy. Now is the time to dare more reforms again. If we fail to do so, Germany will soon and rapidly experience a further enormous loss of importance and prosperity.

Dr. Christian Jasperneite

Market data

	As of	Change versus				
	23.01.2025	16.01.2025	20.12.2024	22.10.2024	22.01.2024	29.12.2023
Stock markets	15:52	-1 week	-1 month	-3 months	-1 year	YTD
Dow Jones	44242	2,5%	3,3%	3,1%	16,4%	17,4%
S&P 500	6116	3,0%	3,1%	4,5%	26,1%	28,2%
Nasdaq	19915	3,0%	1,8%	7,2%	29,7%	32,7%
DAX	21330	3,3%	7,3%	9,8%	27,9%	27,3%
MDAX	25907	1,6%	1,4%	-4,4%	0,6%	-4,5%
TecDAX	3652	2,9%	7,0%	7,9%	10,5%	9,4%
EuroStoxx 50	5203	1,9%	7,0%	5,3%	16,1%	15,1%
Stoxx 50	4511	1,3%	6,1%	1,3%	10,7%	10,2%
SMI (Swiss Market Index)	12230	2,4%	7,4%	0,5%	8,5%	9,8%
Nikkei 225	39959	3,6%	3,2%	4,0%	9,3%	19,4%
Brasilien BOVESPA	123565	1,9%	1,2%	-4,9%	-2,4%	-7,9%
Indien BSE 30	76520	-0,7%	-1,9%	-4,6%	6,7%	5,9%
China CSI 300	3804	0,1%	-3,2%	-3,9%	18,2%	10,9%
MSCI Welt	3838	2,4%	3,1%	2,9%	20,4%	21,1%
MSCI Emerging Markets	1082	1,5%	0,9%	-5,2%	12,3%	5,7%
Bond markets						
Bund-Future	131,85	34	-229	-98	-262	-537
Bobl-Future	116,80	-13	-138	-210	-83	-248
Schatz-Future	106,56	-8	-55	-26	68	2
3 Monats Euribor	2,67	-7	-10	-43	-127	-124
3M Euribor Future, Dec 2025	2,08	1	22	-73	-53	-22
3 Monats \$ Libor	4,36	2	2	-36	-110	-104
Fed Funds Future, Dec 2025	3,95	3	0	-57	-13	12
10 year US Treasuries	4,65	4	12	45	55	79
10 year Bunds	2,53	1	24	21	27	53
10 year JGB	1,21	3	17	27	59	59
10 year Swiss Government	0,42	1	16	-7	-47	-28
US Treas 10Y Performance	591,98	0,1%	-0,2%	-2,0%	0,1%	-1,5%
Bund 10Y Performance	559,05	0,2%	-1,5%	-0,9%	0,7%	-1,1%
REX Performance Index	450,86	0,2%	-0,9%	-0,1%	1,9%	0,7%
IBOXX AA, €	3,10	-5	13	8	-23	3
IBOXX BBB, €	3,54	-6	14	4	-45	-21
ML US High Yield	7,40	-10	-19	3	-58	-39
Commodities						
MGBase Metal Index	418,78	0,1%	3,0%	-3,6%	12,2%	7,1%
Crude oil Brent	79,43	-1,6%	9,1%	4,5%	-0,7%	2,2%
Gold	2743,85	0,9%	4,4%	0,0%	35,7%	32,8%
Silver	30,78	-0,3%	4,6%	-11,0%	36,7%	26,9%
Aluminium	2613,83	-0,5%	4,8%	0,4%	23,5%	11,4%
Copper	9105,45	-0,2%	3,1%	-3,5%	10,3%	7,6%
Iron ore	101,40	0,9%	-2,3%	-3,4%	-25,1%	-25,6%
Freight rates Baltic Dry Index	893	-12,7%	-9,8%	-39,7%	-41,2%	-57,4%
Currencies						
EUR/ USD	1,0408	1,3%	0,2%	-3,8%	-4,4%	-5,8%
EUR/ GBP	0,8441	0,3%	1,8%	1,3%	-1,4%	-2,6%
EUR/ JPY	162,69	1,4%	-0,1%	-0,3%	1,1%	4,1%
EUR/ CHF	0,9447	0,8%	1,6%	0,9%	-0,1%	2,0%
USD/ CNY	7,2871	-0,7%	-0,2%	2,3%	1,3%	2,6%
USD/ JPY	156,54	0,9%	0,1%	3,6%	5,7%	11,0%
USD/ GBP	0,81	-0,8%	1,7%	5,3%	3,2%	3,4%

Source: Refinitiv Datastream

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