



# Economic Situation and Strategy

10 May 2024

## Growth in Germany - what is going wrong, what could be better?

Anyone with school-age children inevitably comes into contact with textbooks and their content. And while today's math and physics textbooks are not particularly different from those of their own school days, there are one or two shifts in emphasis in the areas of economics and politics. For example, the critical approach to growth is striking. Many texts implicitly give the impression that humanity's problems would be better solved if there was no more economic growth. Indirectly, the texts often imply that economic growth necessarily goes hand in hand with additional resource consumption and that the limits of growth have therefore been reached for ecological reasons alone. This resonates with an idea of economic interrelationships that was certainly justified in the 1960s, but is no longer the case today. The days when the growth in added value came from the coal and oil industries are long gone. Added value can be created wherever there is a willingness to pay for a good or service. If growth is accompanied by structural change, nowadays this tends to lead to a reduction in resource consumption as value creation increases, since services and the development and implementation of high technology are increasingly replacing resource-consuming activities.

### No ecological targets without growth

It is actually even more extreme: only growth will enable the desired transformation to a climate-neutral economy. Many people are unaware of the incredible hurdles and problems that will have to be overcome if we are to achieve a CO<sub>2</sub>-neutral economy in a few decades' time. Electrification will have to progress dramatically - this starts with electro mobility and does not end with heat

pumps. Entire industrial processes will be electricity-based; hydrogen production via electrolysis will also require vast amounts of electricity. This not only requires an unprecedented expansion of renewable energies, but also a huge expansion of hydrogen storage facilities, CO<sub>2</sub> storage facilities and associated pipelines, an upgrading of the electricity grid over many tens of thousands (!) of kilometers in Germany alone and the expensive maintenance of conventional parallel structures for dark doldrums. The system costs of largely CO<sub>2</sub>-free electricity generation are therefore significantly higher than today's electricity costs and the necessary investments are almost beyond imagination. This will not work without growth. A static economy does not generate enough added value and thus, directly related to this, enough profits and wages to be able to bear such burdens.

### No social objectives without growth

Despite a high level of immigration, Germany is suffering from a desolate demographic situation. People are getting older and multimorbidity is on the rise. At the same time, treatment methods are becoming more individualized and more expensive. This burden can only be met by increasing health insurance revenues, which makes a rising wage bill unavoidable. Pension insurance will also only be financially viable with a rising wage bill. However, a rising wage bill requires growth if the profit total is not to fall. However, a falling wage bill is also undesirable from a socio-political perspective. One example is the sluggish construction of housing in Germany. There is now probably a shortage of one million homes in Germany. As a result, rents have risen to record levels and homelessness has reached a level that was completely unimaginable in Germany 20 or 30 years ago. There are districts in Frankfurt or Berlin where you can

literally feel the onset of impoverishment with your hands if you walk through the streets with your eyes open. Housing construction, however, needs a lot of private capital. Reinvested profits are the source of this capital, but also private savings, which in turn make bank lending possible. To put it briefly: without growth there are no additional wages and profits, without additional wages and profits there is no chance of accelerated housing construction.

## No scope for government action without growth

In the coming years, the state will be faced with probably the most challenging tasks since the founding of the Federal Republic of Germany. The once much-praised German infrastructure is now a horror - every year, the number of dilapidated bridges and sections of road and rail in need of renovation increases steadily. As the second largest immigration country in the world, Germany has to integrate millions of refugees. An almost non-existent Bundeswehr has to be rebuilt from scratch in view of the existing threats. The education system has massively lost its ability to perform and needs a fresh start. The healthcare system and administrations were waiting for a digitalization worthy of the name. And as if that wasn't enough, internal security also seems to deserve more focus. None of this works without money. We are not talking about a few billion euros per year here, but rather 100 or 200 billion euros per year, and that over a period of many years, in addition (!) to what is already in the medium-term budget planning. Such financing will not fall from the sky. Taxes and levies are linked to wages and profits. Without a rising wage bill and without rising profits, the state can only rely on additional debt - a daring strategy. Although in principle there is nothing to be said against a somewhat higher level of debt and perhaps even the abolition of the national debt ceiling, the capital market will only remain relaxed if rising debt is matched by rising value creation. Whichever way you look at it: The state will hardly be able to fulfill its tasks in a static economy. If we deliberately forego growth, the path to an increasingly dysfunctional state is mapped out. As the substance on which we live in Germany is still enormous, we will hardly notice at first how we are heading down a slippery slope. But at a certain point, the tipping effects will become so severe that the resistance will probably come too late.

The irony is that the enormous economic substance that still makes our lives quite comfortable is actually the result of previous growth. The fruits of the growth of previous decades are still so abundant that we have somewhat forgotten that it is time to generate new growth again. In fact, there is no alternative to more growth if we do not want to suffer massive collective welfare losses. In view of the challenges we face, it is a comparatively naïve idea that we can maintain our current level of prosperity by largely freezing current value creation and thus living without growth. A static country in a growing world with global challenges is simply not sexy, to put it that way. It is not attractive for highly qualified Germans who will then leave the country. It is not attractive to highly qualified potential immigrants who will seek their future elsewhere. It is not attractive to potential investors who will set up their new production facilities outside Germany and relocate old plants abroad. A static economy is the ticket to a worse world from an ecological, social and societal point of view. From a political point of view - not least to curb the rise of populist and extremist parties - all established democratic parties should actually have a major interest in overcoming the growth slump in Germany. Interestingly, people in broad political circles seem to be shrugging their shoulders at Germany's persistently weak growth, as if they had to surrender to a God-given fate. But is that really the case?

## New growth in Germany - actually quite simple!

When economists are asked about the reasons for Germany's extremely weak growth, the answers are comparatively homogeneous and unambiguous. Germany is perceived as extremely bureaucratic, over-regulated and not very digitalized, taxes and duties are too high and the level of education is too low. There are too few engineers, too few physicists and too few chemists. The number of relevant, high-quality patents per capita is falling and skills in key technologies are increasingly being lost. There is too little investment and too much redistribution, the infrastructure is deterrently poor, approval procedures take too long. Energy costs are too high, energy security is too low. And to top it all off, the mood is now depressive.

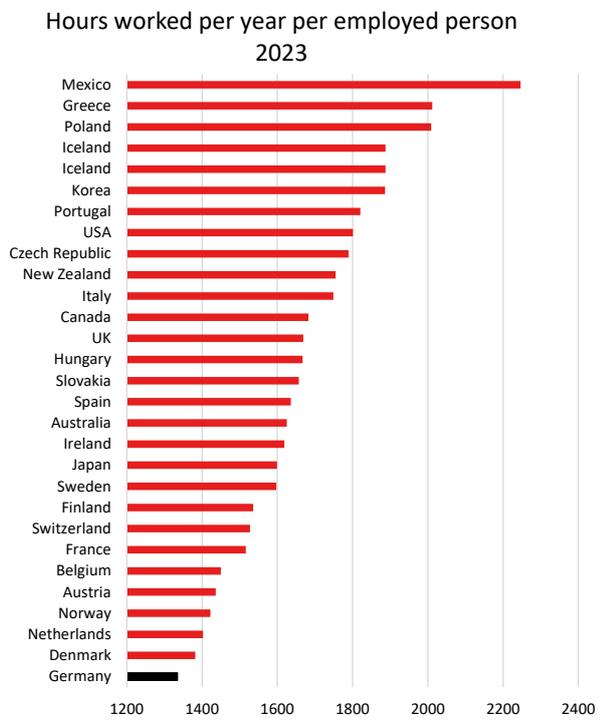
This list of shortcomings and problems is so depressing that you can actually despair. But is there no hope at all? The comforting answer is that there is, of course, always hope. An economy is not a biological organism that is bound to die at some point. Rather, economies are highly

# Economic Situation and Strategy

dynamic systems that can constantly reinvent and regenerate themselves. Nothing here is set in stone - in fact, a great deal is possible within certain limits, and nothing here is deterministic. The key to success has six letters and is quite simply: work!

## We simply work too little

The value added of a country is directly related to the number of hours worked. For a given level of labor productivity, a country's value added can be increased more or less directly and proportionally to the amount of labor input by working more. So if Germany has grown less in recent years than almost any other major country on this planet, then this is also due to the fact that extremely little work is done in Germany.

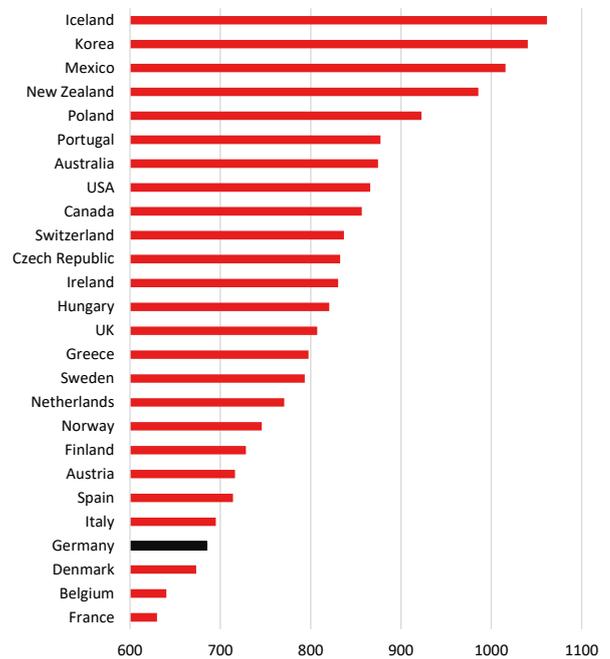


source: Refinitiv Datastream / OECD

However, there are various ways of approaching this topic. Depending on the point of view, one or other statistic is preferred, and it makes sense to approach this topic from several directions. The most common approach is to look at the number of hours worked per person in employment. Here the situation in Germany looks bleak - while only around 1300 hours are worked per employed person per year in Germany, many countries work 1700 hours or more. However, these statistics do not provide a complete picture, because in order to understand the impact of labor input on a country's welfare, it is just as important to look at the hours worked per year per inhabitant. This is because it makes a difference whether there are many or few people in employment relative to

the size of the population. The smaller the ratio, the bleaker the future prospects of a country.

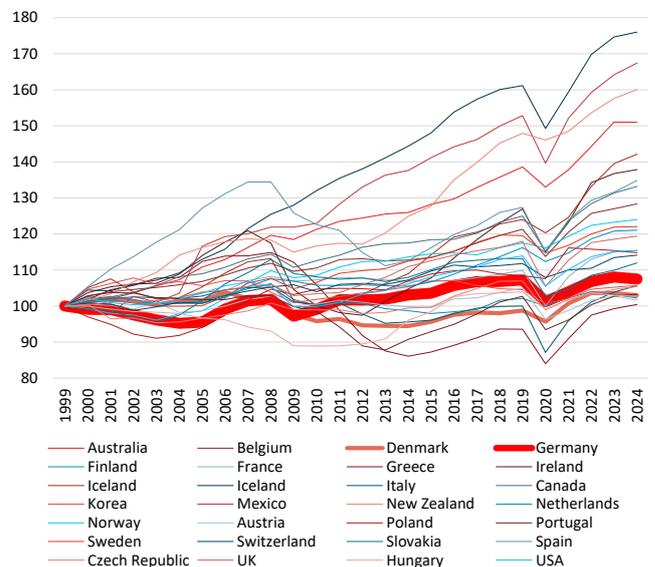
Working hours per year per inhabitant 2023



source: Refinitiv Datastream / OECD

Unfortunately, Germany does not do particularly well in the second statistic either, namely the number of hours worked per year per inhabitant. However, it becomes really problematic when you look at the development of the total volume of hours worked in the economy over the last 25 years. Here, Germany belongs to the group of countries that have more or less only moved sideways - despite extremely high immigration. This is a situation that is probably more or less unique in the world.

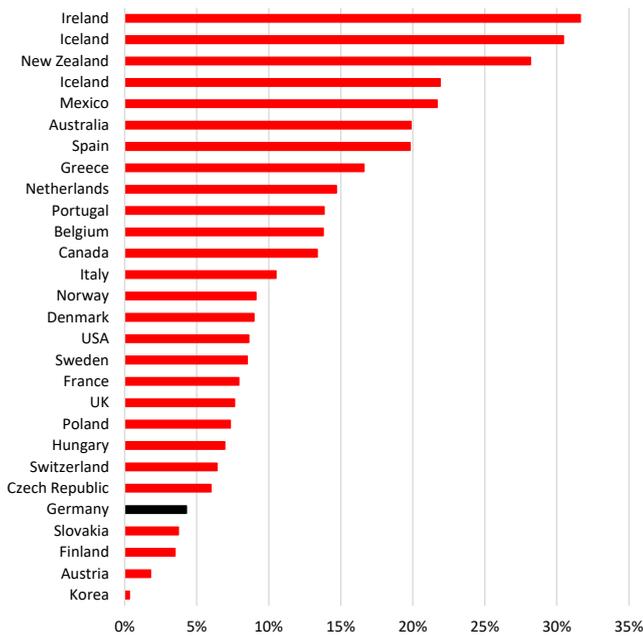
Economic hourly volume, 1999 indexed to 100



source: Refinitiv Datastream / OECD

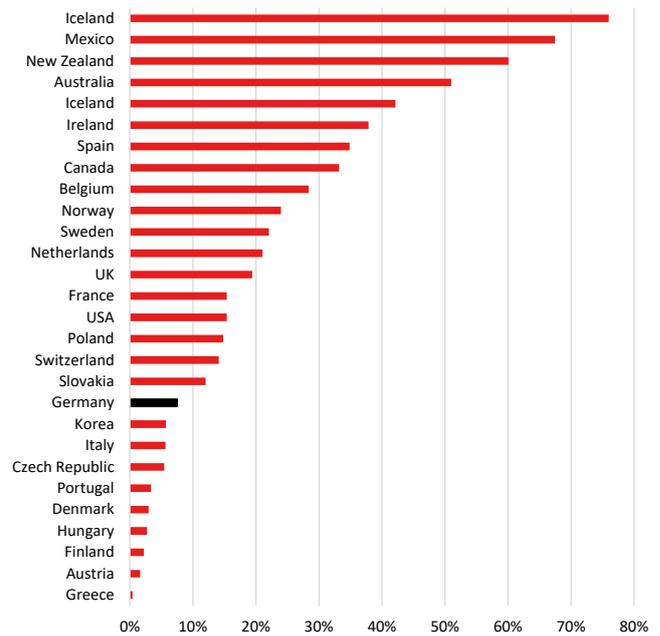
# Economic Situation and Strategy

Development of the economic hourly volume in the last 10 years



source: Refinitiv Datastream / OECD

Development of the economic hourly volume over the last 25 years



source: Refinitiv Datastream / OECD

So while many countries have been able to generate growth over the last 25 years by simply increasing their total volume of working hours, Germany has had to achieve its growth primarily by increasing labor productivity - and this has not worked, as we will see in a moment. Incidentally, the development of the overall volume of work in the economy has been particularly disappointing over the last ten years; it is no wonder that growth in Germany has been almost zero in the last ten years in particular. The whole situation is now exacerbated by the fact that labor productivity - previously a paragon of German performance - is also weakening. Although there were a few countries in which the development of labor productivity was even weaker than in Germany, there was still more work done per worker and almost always per inhabitant in absolute terms. At the same time, there are a number of countries that have experienced dramatically better growth in labor productivity than Germany.

You can spin it however you like. Basically, we need to work more and harder again. More hours per week, more years and with a higher participation rate in the labor market! We are leaving a huge amount of human capital in Germany virtually unused, to put it in very economic terms. In the 80s, there was a group called Geier Sturzflug. I can still memorize the lyrics of their only successful song today: " Ja ja ja jetzt wird wieder in die Hände gespuckt, wir steigern das Bruttosozialprodukt...". Let's forget our collective depression and just do it like we used to!

Dr. Christian Jasperneite

## Market data

	As of 10.05.2024 09:37	Change versus				
		03.05.2024 -1 week	09.04.2024 -1 month	09.02.2024 -3 months	09.05.2023 -1 year	29.12.2023 YTD
<b>Stock markets</b>						
Dow Jones	39388	1,8%	1,3%	1,9%	17,4%	4,5%
S&P 500	5250	2,4%	0,8%	4,4%	27,5%	10,1%
Nasdaq	16346	1,2%	0,2%	2,2%	34,2%	8,9%
DAX	18761	4,2%	3,8%	10,8%	17,6%	12,0%
MDAX	26812	1,9%	-0,7%	4,2%	-1,8%	-1,2%
TecDAX	3394	3,9%	0,1%	-0,6%	4,9%	1,7%
EuroStoxx 50	5074	3,1%	1,7%	7,6%	17,4%	12,2%
Stoxx 50	4513	3,1%	3,4%	7,1%	11,7%	10,3%
SMI (Swiss Market Index)	11681	3,6%	1,5%	5,3%	1,2%	4,9%
Nikkei 225	38229	0,0%	-3,9%	3,6%	30,7%	14,2%
Brasilien BOVESPA	128188	-0,2%	-1,3%	0,1%	19,7%	-4,5%
Russland RTS	1181	-0,3%	2,0%	5,2%	15,9%	9,0%
Indien BSE 30	72487	-1,9%	-2,9%	1,2%	17,4%	0,3%
China CSI 300	3666	1,7%	3,8%	9,0%	-9,0%	6,9%
MSCI Welt	3411	1,5%	0,0%	4,0%	21,2%	7,6%
MSCI Emerging Markets	1064	0,2%	0,8%	6,8%	8,3%	3,9%
<b>Bond markets</b>						
Bund-Future	131,02	13	-155	-228	-438	-620
Bobl-Future	117,02	10	-81	10	-115	-226
Schatz-Future	105,27	-2	-32	-29	-52	-128
3 Monats Euribor	3,81	-9	-9	-10	54	-7
3M Euribor Future, Dec 2024	3,25	2	17	46	50	95
3 Monats \$ Libor	5,59	0	2	2	25	-1
Fed Funds Future, Dec 2024	4,95	1	20	64	193	112
10 year US Treasuries	4,46	-4	9	27	93	59
10 year Bunds	2,48	-1	13	13	14	48
10 year JGB	0,91	1	15	19	48	28
10 year Swiss Government	0,73	-2	2	-24	-37	3
US Treas 10Y Performance	581,17	0,3%	-0,4%	-1,3%	-3,9%	-3,3%
Bund 10Y Performance	549,29	0,1%	-0,8%	-0,4%	1,3%	-2,8%
REX Performance Index	440,66	0,2%	-0,2%	-0,2%	0,6%	-1,6%
IBOXX AA, €	3,41	-2	13	0	-10	34
IBOXX BBB, €	3,98	-2	15	-5	-49	23
ML US High Yield	8,09	2	8	16	-58	30
<b>Commodities</b>						
MGBase Metal Index	438,29	-0,1%	4,4%	18,4%	8,6%	12,1%
Crude oil Brent	84,35	1,0%	-6,2%	3,2%	8,9%	8,6%
Gold	2366,55	3,2%	0,9%	17,1%	16,8%	14,6%
Silver	28,13	6,8%	1,5%	25,3%	10,2%	16,0%
Aluminium	2513,78	0,1%	4,3%	15,0%	8,6%	7,2%
Copper	9780,61	-0,1%	5,4%	21,3%	14,2%	15,6%
Iron ore	116,96	-0,9%	12,1%	-9,2%	10,3%	-14,2%
Freight rates Baltic Dry Index	2166	15,5%	38,0%	40,2%	35,5%	3,4%
<b>Currencies</b>						
EUR/ USD	1,0781	0,3%	-0,8%	0,1%	-1,6%	-2,4%
EUR/ GBP	0,8597	0,2%	0,4%	0,7%	-1,0%	-0,8%
EUR/ JPY	167,90	2,0%	1,8%	4,3%	13,5%	7,4%
EUR/ CHF	0,9771	0,3%	-0,5%	3,6%	-0,2%	5,5%
USD/ CNY	7,2252	-0,1%	-0,1%	0,3%	4,4%	1,7%
USD/ JPY	155,47	1,6%	2,4%	4,1%	15,0%	10,2%
USD/ GBP	0,80	0,1%	1,1%	0,8%	0,7%	1,7%

Source: Refinitiv Datastream

Carsten Klude  
+49 40 3282-2572  
cklude@mmwarburg.com

Dr. Rebekka Haller  
+49 40 3282-2452  
rhaller@mmwarburg.com

Martin Hasse  
+49 40 3282-2411  
mhasse@mmwarburg.com

Dr. Christian Jasperneite  
+49 40 3282-2439  
cjasperneite@mmwarburg.com

Simon Landt  
+49 40 3282-2401  
mlandt@mmwarburg.com

This article does not constitute an offer or an invitation to submit an offer but is solely intended to provide guidance and present possible business activities. This information does not purport to be complete and is therefore not binding. The information provided should not be considered a recommendation to purchase financial instruments individually but serves only as a proposal for a possible asset allocation. The opinions expressed herein are subject to change without notice. Where statements were made with respect to prices, interest rates or other indications, these solely refer to the time when the information was prepared and do not imply any forecasts about future development, particularly regarding future gains or losses. In addition, this information does not constitute advice or a recommendation. Before completing any deal described in this information, a product-specific consultation tailored to the customer's individual needs is required. This information is confidential and exclusively intended for the addressee described herein. Any use by parties other than the addressee is not permissible without our approval. This particularly applies to reproductions, translations, microfilms, saving and processing in electronic media as well as publishing the entire contents or parts thereof.

This article is freely available on our website.