

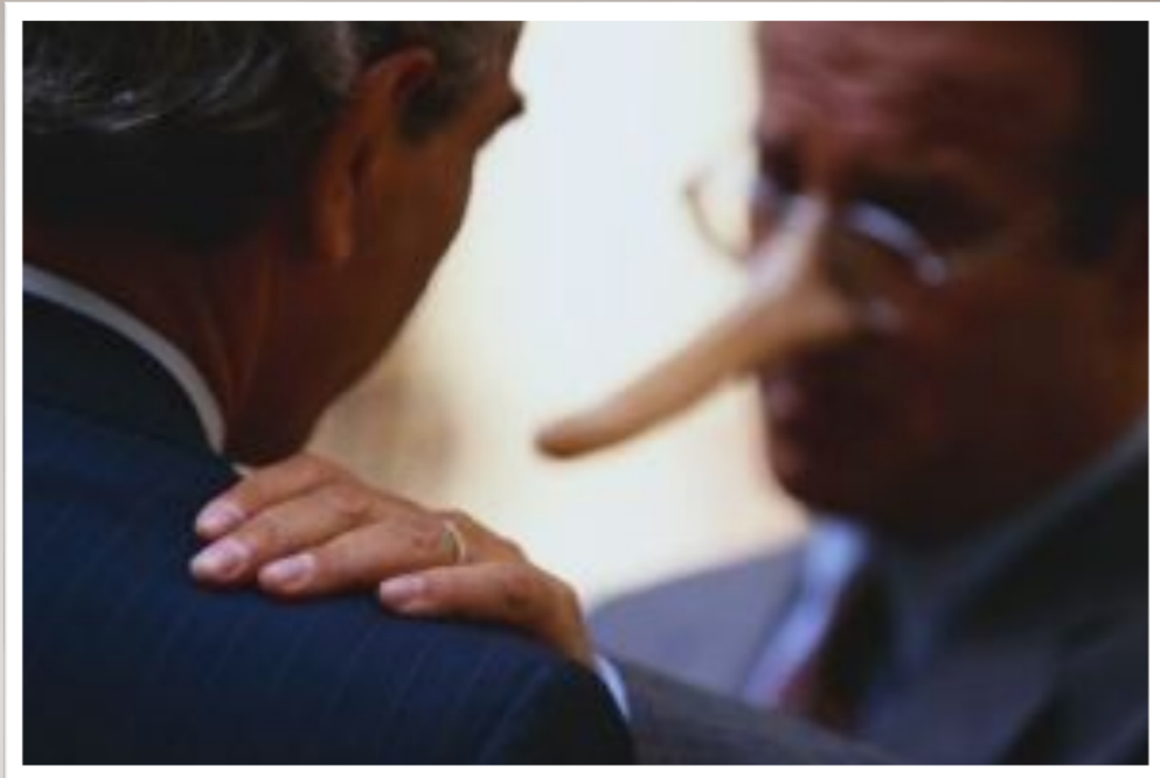
ANDBANK RESEARCH

Global Economics &
Markets

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Working paper - 40

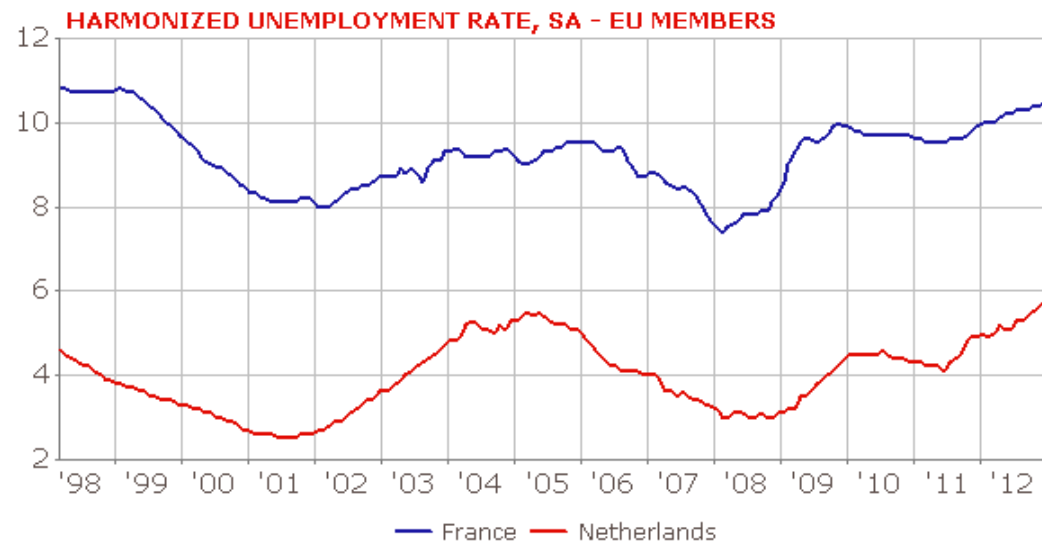
Europe. Beware of half-truths

March, 2013

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Private Bankers

Some market participants claim loudly that GIPSI cancer is spreading northwards ...

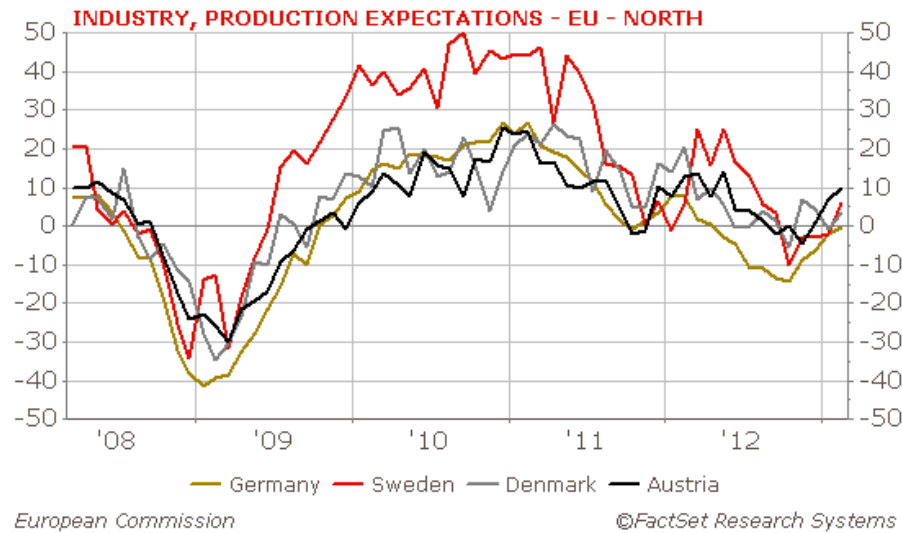
- ✓ Political paralysis in Italy
 - ✓ Portuguese protests
 - ✓ Greek national strikes
 - ✓ Spanish labor market drama
- ➔
- ✓ Unemployment rising fast in the Netherlands and France (both supposedly more stable & resilient economies)



Eurostat

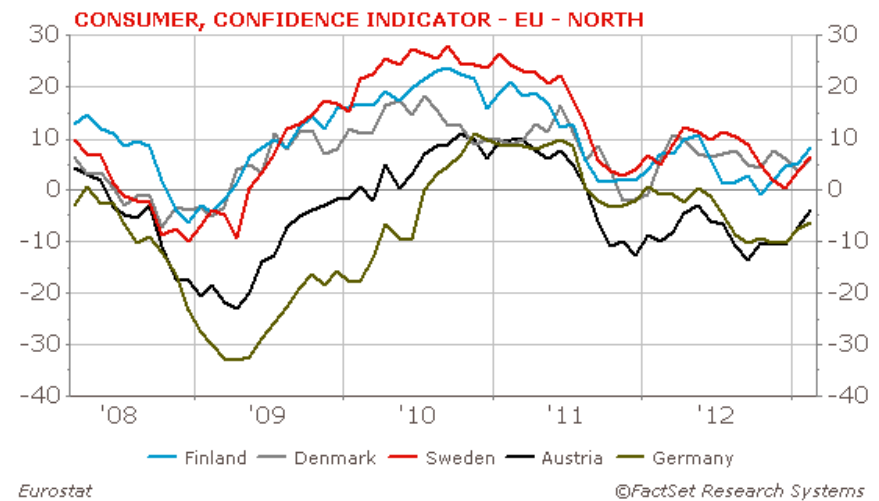
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... but, to be fair those market participants should mention the rest of dynamics ...



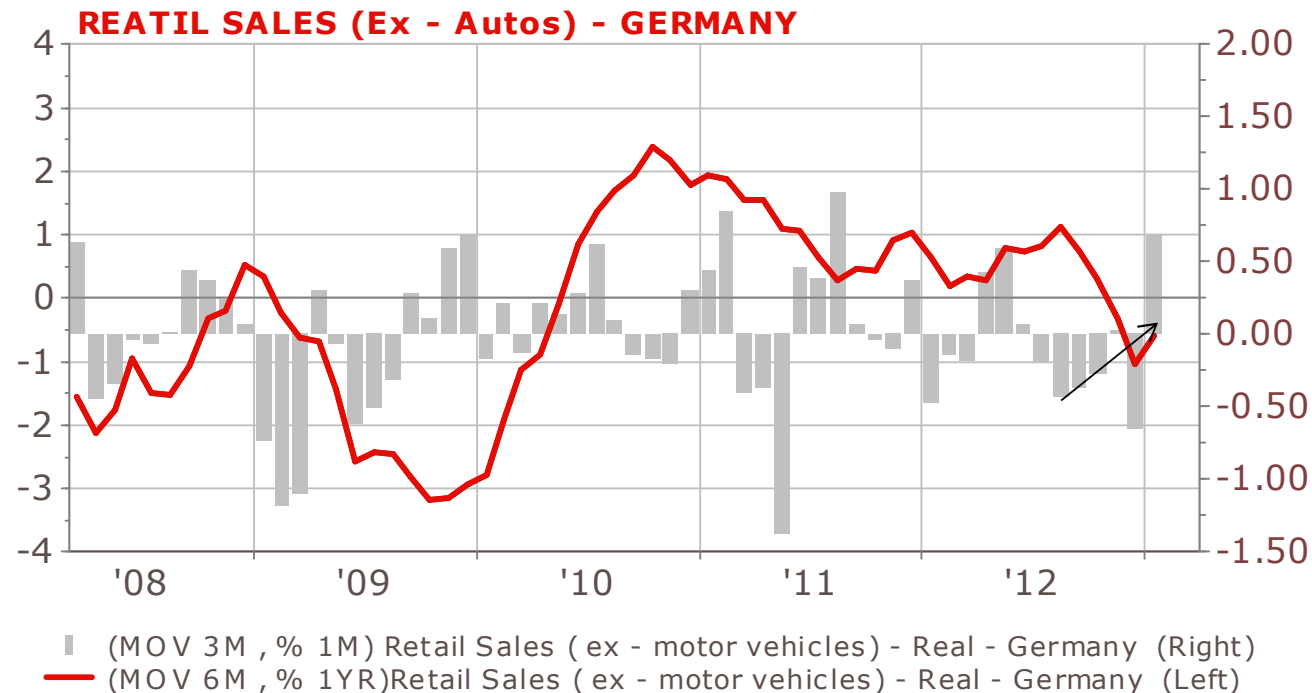
...and they should also refer to the observed improvement in many northern economies, showing signs of progress in their industries and consumption.

By itself, this evidence, at least would pose serious doubts about the hypotheses that "the cancer is spreading"



“The economic actor with perhaps the greatest potential to improve Eurozone global demand is ... German consumer”

(Francois Chauchat)



Deutsche Bundesbank

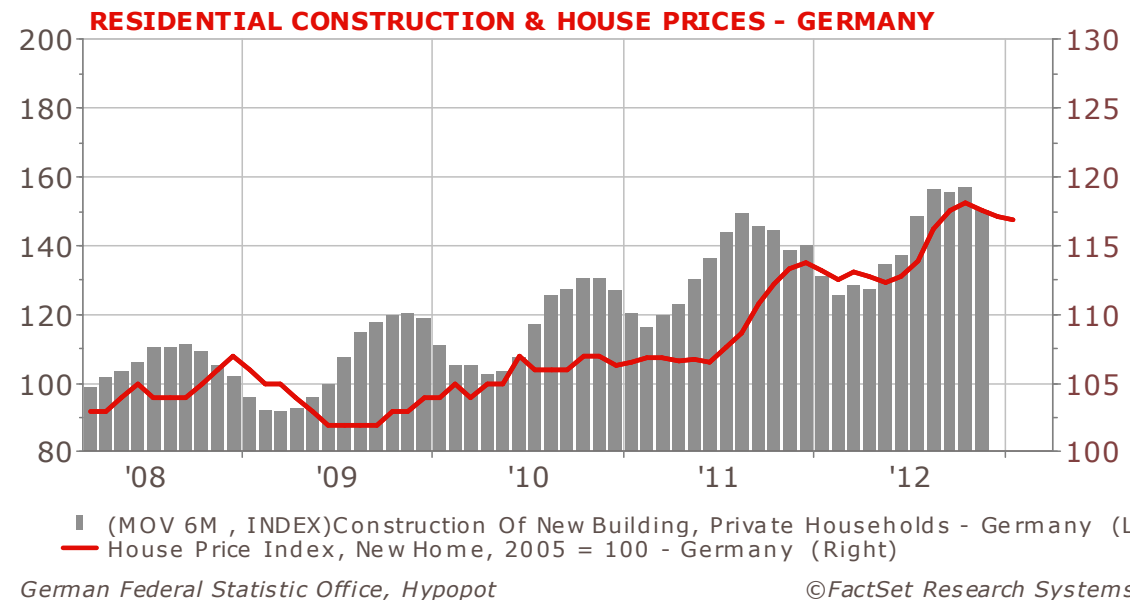
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German consumers have remained cautious during 2012, although recent data suggest that dynamics began to change during 2H2012 and point to a good start in 2013 (according to January and February figures)

The lackluster image that Germany still projects does not take account for the most buoyant part of German households (housing)

Residential construction ticked up in 2012, while house prices are currently rising at a 10% annualized ...

... giving signals that the Construction sector is at its most confidence since 1990

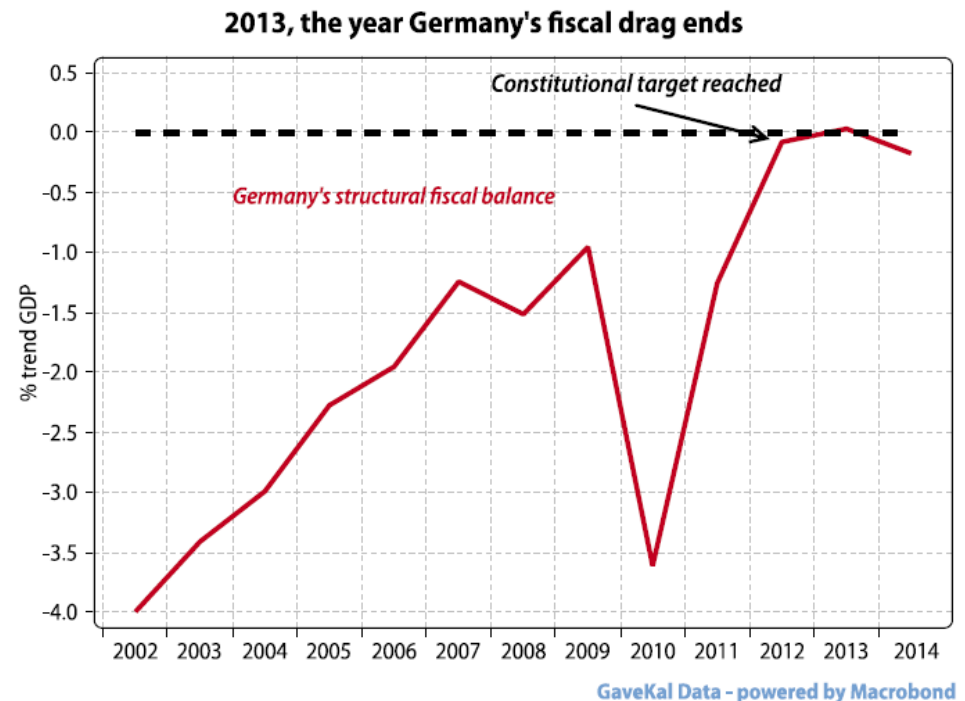


A re-acceleration of German private sector demand will probably represent a welcome boost to the rest of Eurozone.

The million dollar question is: Will we see such a re-acceleration in German domestic factors?

We think so for four reasons

1. Having achieved its legally required deficit reduction, Germany has finally entered a period where it should not face any fiscal drag for years to come (see the chart)
2. German labor market has become tight, with unemployment reaching a 23-year low of 5,3%. This represents upward pressure for wages and eventually more consumption. (Remember that German trade union IG Metall demands 5% higher wages for workers in steel industry – a benchmark level for the rest)
3. ... and the mentioned boom in the labor intensive construction sector could tighten even further the labor market, spurring wage increases
4. Given the improved outlook and ahead of the federal election, risks are on the upside for wage changes.



Conclusions.

1. Some market participants claim that GIPSI cancer is spreading northwards incorporating additional dose of stress in the market...
2. ... But, deliberately or unintentionally, they forgot to mention the observed improvement in many other northern economies showing signs of progress in their industries and consumption
3. German consumer is probably the economic actor with perhaps the greatest potential to improve Eurozone global demand, and recent data suggest that dynamics began to change during 2H2012 and point to a good start in 2013
4. Residential construction ticked up in 2012, while house prices are currently rising at a 10% annualized. A signals that the Construction sector is at its most confidence since 1990?
5. Having achieved its legally required deficit reduction, Germany has finally entered a period where it should not face any fiscal drag for years to come
6. German labor market has become tight, with unemployment reaching a 23-year low of 5,3%. This represents upward pressure for wages and eventually more consumption.
7. In fact, the most important trade union in Germany (IG Metall) demands 5% higher wages for workers in steel industry – a benchmark level for the rest - ...
8. ... and the mentioned boom in the labor intensive construction sector could tighten even further the labor market, spurring wage increases. Given the improved outlook and ahead of the federal election, risks are on the upside for wage changes.
- 9. For all mentioned above, we consider re-acceleration in Germany is not only possible but probable, and could represent an incentive to the rest of the Eurozone.**

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