

ECONOMIC REPORT

Overall economic climate

Overall economic situation

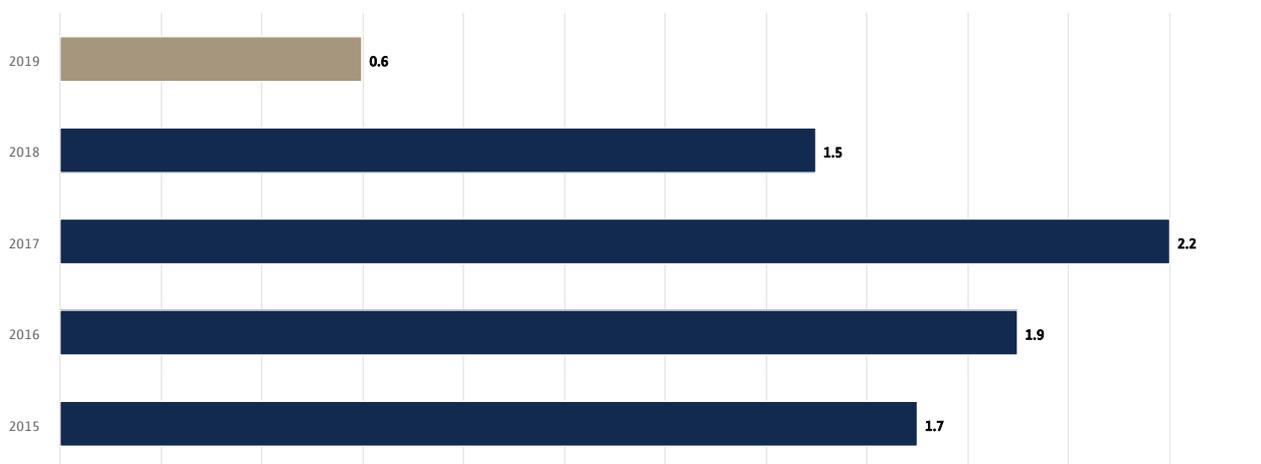
The economy in the eurozone continued to display weaker growth in the reporting year. Weaker exports in an unfavourable international economic environment were the main negative factor. According to estimates provided by FERI Investment Research, economic growth for the eurozone was 1.1% in 2019 (2018: 1.9%).

The German economy is suffering from foreign trade pressures and, moreover, is in a structural crisis. Alongside known risk factors, such as the weakness of the global economy, trade disputes and the uncertainties associated with Brexit, more and more reports on job cuts, for example in the automotive industry and the financial sector, started appearing in the second half of the reporting year.

German economy experiencing a downturn

However, domestic demand remained positive, largely thanks to the high level of employment and increasing incomes. The sustained boom in the building sector and the healthy situation in the service sectors also had a stabilising effect. The economy was bolstered by private consumption in the reporting year. According to calculations performed by FERI, inflation-adjusted gross domestic product (GDP) in Germany was only 0.6% above the previous year in 2019.

Economic growth in Germany (in %)



Source: FERI Investment Research, changes to gross domestic product, price-adjusted

The mood among consumers in Germany darkened somewhat in the reporting year due to the aforementioned factors and crisis hotspots. The Consumer Sentiment Index of the German Consumer Research Association (GfK) was at 9.7 points in December 2019 – and thereby slightly below the previous year's high level (December 2018: 10.2 points).

Consumer confidence in Germany coming under slight pressure

Sentiment among German companies also began to deteriorate in the course of the reporting year. The ifo business climate index fell to just 95.0 points in November 2019 – having previously reached a level of 100.0 points in January 2019. Towards the end of the year, sentiment improved noticeably. In December 2019, the index rose to 96.3 points.

The rather stifled development of the German economy also weakened the positive employment market development in the last financial year. According to data published by Germany's Federal Employment Agency, however, the number of registered unemployed still fell by 73,000 to 2.27 million persons in 2019 compared to the previous year. This corresponds to an unemployment rate of 5.0% (2018: 5.2%).

Economic headwind for the employment market

According to estimates provided by the Institute for Employment Research of the German Federal Employment Agency (IAB), the number of those in gainful employment displayed a year-on-year average increase of 382,000 persons in 2019 to 45.2 million. This rise can primarily be attributed to an increase in employment subject to compulsory social security contributions, although this figure rose more slowly in the reporting year than in previous years.

The prospects for university graduates in the German employment market remain excellent. According to the latest data from Germany's Federal Employment Agency, the unemployment rate among university graduates was at its lowest value since German reunification at 2.2%. This indicates full employment.

In 2019, private households in Germany benefited from a labour market situation that remained solid, as well as rising incomes. According to data published by the "Tax Estimates" workgroup, gross wages and salaries increased by 4.1% in the reporting year, while the disposable income of private households increased by 2.7% according to the 2020 Financial Report of the German government. The savings rate in Germany in the last financial year was 10.9% - which is almost exactly the same as the previous year's level (2018: 11.0%).

Salaries and wages still rising

ECONOMIC REPORT

Industry situation and competitive environment

Old-age provision

In the past year, the market environment in the old-age provision business continued to be characterised by low interest rates and ongoing reservations on the part of consumers to sign up for long-term policies. Various political discussions on reforms to statutory, company and private old-age provision schemes served to stimulate additional uncertainty. In addition to this, consumers generally struggled to understand the anticipated total payouts from statutory and supplementary pension schemes.

According to the ERGO Risk Report 2019, more than one in three Germans (37%) are completely in the dark as to how much money they are likely to receive each month when they retire. Almost one in three (29%) also have absolutely no idea of the average level of statutory pension paid in Germany. Fewer than half (40%) of all German citizens believe that they will be able to maintain their standard of living in their old age. According to the survey, some 44% are saving nothing or less than € 50 per month towards their private old age provision.

Great uncertainty and low saving rates

The product landscape in the old-age provision business field has undergone radical change as a result of the low interest rate environment. According to data published by the German Insurance Association (GDV e.V.), more than half (58%) of all newly signed old-age provision products are now policies with alternative guarantee concepts. Based on the most recent figures provided by the German Insurance Association (GDV e.V.), classic life and pension insurance policies with maximum technical interest rates represented just one third (33%) of all new contracts concluded.

Product landscape undergoing change