

# ECONOMIC REPORT

## Overall economic climate

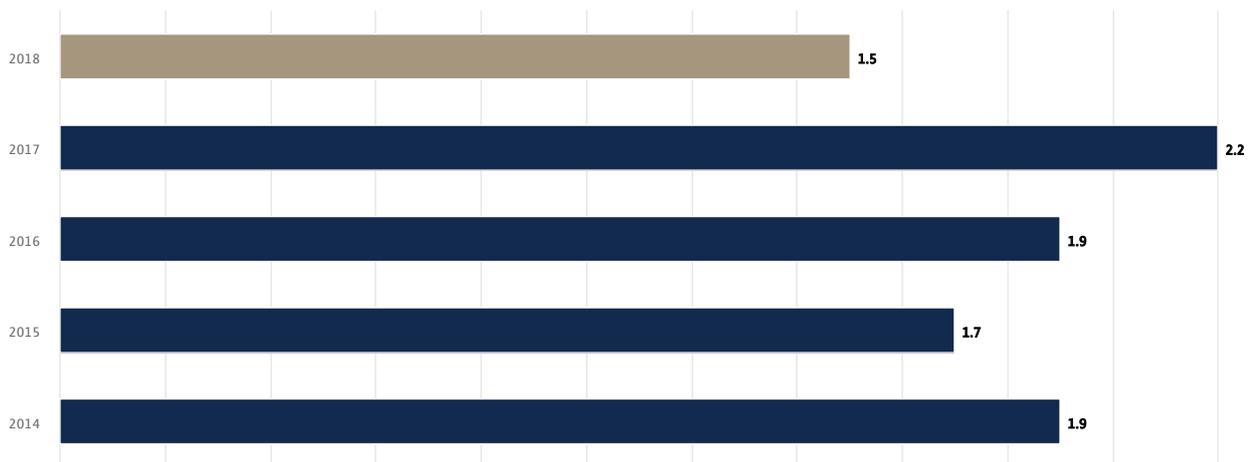
### Overall economic situation

The economy in the eurozone displayed weaker growth in the reporting year. In particular, the unfavourable external environment had a negative impact on dynamics. The ongoing international trade disputes with the US and the risk of a disorderly Brexit were perhaps the most important disruptive factors in this regard. According to estimates provided by FERI Investment Research, economic growth for the eurozone was 1.9% (2017: 2.3%).

The German economy also lost some of its growth dynamics in 2018. Just like the rest of the eurozone, Germany's economy was negatively impacted by the unfavourable framework conditions for foreign trade, while domestic demand remained robust. This was primarily bolstered by positive employment market developments, which led to notable increases in wages and salaries. According to calculations performed by FERI, inflation-adjusted gross domestic product (GDP) in Germany was only 1.5% in 2018.

German economic growth slowing down

Economic growth in Germany (in %)



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

Towards the end of the reporting year, the weak economic phase also affected consumer sentiment in Germany. As a result of this, the Consumer Sentiment Index of the German Consumer Research Association (GfK) declined slightly to 10.4 points in December 2018 – descending from its soaring level (previous year: 10.7 points). The sentiment among German company bosses also displayed similar development. The ifo Business Climate Index declined to 102.0 points in November 2018 – from a level of 105.1 points in January 2018. It continued to fall to a level of 101.0 points in December.

Consumer sentiment of German citizens dampened slightly

The upward trend in the German employment market continued. According to data published by Germany's Federal Employment Agency, the annual average number of registered jobseekers fell by 193,000 year-on-year to approximately 2.24 million in 2018. This corresponds to an unemployment rate of 5.2% (2017: 5.7%), which marks the lowest level since German reunification.

Ongoing recovery on 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 600,000 in 2018 – to just under 45 million. This increase is primarily based on an increase in jobs subject to compulsory social security contributions.

The prospects for university graduates in particular remained excellent in the German employment market. According to the latest data from Germany's Federal Employment Agency, the unemployment rate among academics remains at a very low level of just 2.3%.

The economic situation of private households in Germany remained good. According to data published by the Working Group on Tax Revenue Projection, gross wages and salaries increased by 4.7% in the reporting year, while the disposable income of private households increased by 3.6% according to the 2019 Financial Report of the German government. The savings rate in Germany increased slightly in the last financial year, reaching 10.3% (2017: 9.9%).

Increasing salaries and wages

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### *Industry situation and competitive environment*

Traditionally, the vast majority of MLP's total revenue is generated from the following four core fields of consultancy: old-age provision, wealth management, non-life insurance and health insurance. In the financial year 2018, they made up 93% of total revenue. Revenues in the fields of old-age provision and health insurance are generated in the financial consulting segment. Wealth management revenue is generated in the FERL and banking segments. Alongside the DOMCURA segment, revenue in non-life insurance is also generated at MLP Finanzberatung SE.

The main factors that had a particular influence on the market environment and the results of operations in the aforementioned consulting fields in 2018 are described below.

#### Old-age provision

In the past year, the market environment in the old-age provision business continued to indicate low interest rates, ongoing reservations on the part of consumers to sign up for long-term policies, as well as the ongoing political discussion regarding reforms to the old-age provision system. In addition to this, there was still a pronounced lack of transparency in terms of the anticipated total pay-outs from statutory and supplementary pension schemes.

According to the ERGO Risk Report, only one in five Germans know exactly how much pension they will actually receive in retirement. Just under 70% of respondents expect the pension level to decline further in the next ten years. One in two Germans believe that they will need to live a more restricted life following retirement. According to the survey, some 42% of Germans are saving nothing or less than € 50 per month towards their old-age.

Low saving rates and lack of trust

The ongoing period of low interest rates is having a negative impact on German savers. According to the Wealth Barometer 2018 of the Deutscher Sparkassen- und Giroverband Financial Group, one in three Germans (32%) list the European Central Bank's monetary policy as their primary source of concern when saving.

Low interest rates