Economy of Germany

Germany has a developed social market economy that is ranked the world's fourth largest economy in USD exchange-rate terms, and the largest economy in Europe.

The German economy is heavily export-oriented; as of 2008, Germany is the world's leading exporter of merchandise, and exports account for more than one-third of national output. As a result, exports traditionally have been a key element in German macroeconomic expansion. Germany is a strong advocate of closer European economic and political integration, and its economic and commercial policies are increasingly determined by agreements among European Union (EU) members and EU single market legislation. Germany uses the common European currency, the euro, and its monetary policy is set by the European Central Bank in Frankfurt, Germany.

Most foreign and German experts agree that there are/were domestic structural problems to be addressed. Beginning in 2003, the government gradually deregulated the labour market to tackle formerly high unemployment, and employment levels have been increasing. As of October 2008, the overall unemployment rate, as measured by the German authorities, was 7.2 percent (6.0 percent in West Germany, and 11.8 percent in East Germany). As of September 2008, as measured by ILO standards the German unemployment rate was 6.2 percent (compared with 7.4 percent as measured by German standards). Further issues, which are being addressed by governmental policies, are high non-wage labour costs and bureaucratic regulations that burden businesses and the process of starting new businesses.

Nevertheless, the export oriented economy is doing extremely well. Export growth in 2007 is estimated to be 9%, underscoring Germany's role as the world's biggest exporter. GDP growth in 2006 was 2.9% and in 2007 was 2.5%. However in 2008 GDP slowed down to a growth of 1.3%, because of the Economic crisis of 2008.

A problem can be seen in the weak domestic market, most likely stemming from stagnating wages over more than a decade. Germany finances its reunification to a large extent by social insurance contributions, forcing up non-wage labour costs. To conserve the competitiveness of German workers, unions have abandoned high wage demands since the mid-1990s. According to the Federal Statistical Office of Germany, the average net income after deduction of consumer price rises declined by 2% between 1991 and 2005. However, in 2007 collective bargaining sessions, unions' wage demands were strongly up compared with averages of the last decade.

Primary sectors

In 2004 agriculture, forestry, and mining accounted for only 1.1% of Germany's gross domestic product (GDP) and employed only 2.2% of the population, down from 4% in 1991. Much of the reduction in employment occurred in the eastern states, where the number of agricultural workers declined by as much as 75% following reunification. However, agriculture is extremely productive, and Germany is able to cover 90% of its nutritional needs with domestic production. In fact, Germany is the third largest agricultural producer in the European Union (EU) after France and Italy. Germany's principal agricultural products are potatoes, wheat, barley, sugar beets, fruit, and cabbages. Despite Germany's high level of industrialization, roughly one-third of its territory is covered by forest. The forestry industry provides for about two-thirds of domestic consumption of wood and wood products, so Germany is a net importer of these items.

Mining and minerals

Coal is Germany's most important energy resource, although government policy is to reduce subsidies for coal extraction. Coal production has declined since 1989 as a result of environmental policy and the closing of inefficient mines in the former East Germany. The two main grades of coal in Germany are "hard coal" and lignite, which is also called "brown coal." Despite its considerable reserves, the strong demand and high cost of domestic coal production turned Germany into a net importer of coal. Also as of January 2004, proven natural gas reserves were 10.8 trillion cubic feet (310 km^3), the third largest in the EU. Nearly 90% of Germany's natural gas production takes place in the state of Lower Saxony. In 2002 Germany imported 2.4 trillion cubic feet (68 km^3) of natural gas, or 75% of its requirements. The most important source of natural gas imports is Russia, with a 40.8% share, followed by Norway at 31.5%, and the Netherlands at 22.3%.

Energy

In 2002 Germany was the world's fifth largest consumer of energy, behind the United States, China, India and Japan with two-thirds of its primary energy being imported. In the same year, Germany was Europe's largest consumer of electricity; electricity consumption that year totalled 512.9 billion kilowatt-hours.

Government policy emphasizes conservation and the development of renewable energy sources, such as solar, wind, biomass, hydro, and geothermal. As a result of energy-saving measures, energy efficiency (the amount of energy required to produce a unit of gross domestic product) has been improving since the beginning of the 1970s. The government has set the goal of meeting half the country's energy demands from renewable sources by 2050. In 2000 the government and the German nuclear power industry agreed to phase out all nuclear power plants by 2021. However, renewables currently play a more modest role in energy consumption. In 2002 energy consumption was met by the following sources: oil (40%), coal (23%), natural gas (22%), nuclear (11%), hydro (2%), and other renewables (2%).

Industry

Industry and construction accounted for 29% of gross domestic product (GDP) in 2003, a comparatively large share even without taking into account related services. The sector employed 26.4% of the workforce. Germany excels in the production of automobiles, machine tools, and chemicals. With the manufacture of 5.5 million vehicles in 2003, Germany was the world's third largest producer of automobiles after the United States and Japan, although the People's Republic of China was threatening to displace Germany in the world rankings as early as 2005. In 2004 Germany enjoyed the largest world market share in machine tools (19.3%). German-based multinationals such as Adidas, Continental AG, Daimler, BMW, Bosch, BASF, Bayer, Siemens, Miele, and Volkswagen are brand names throughout the world. Of vital importance is the role of small- to medium-sized manufacturing firms, which specialize in niche products and often are owned by management. These firms employ two-thirds of the German workforce.

Service sector

In 2002 services constituted 70% of gross domestic product (GDP), and the sector employed 71.3% of the workforce. The subcomponents of services are financial, renting, and business activities (30.5%); trade, hotels and restaurants, and transport (18%); and other service activities (21.7%).

Tourism

Domestic and international tourism generates about 8% of gross domestic product (GDP) and 2.8 million jobs. Following commerce, tourism is the second largest component of the services sector. In 2004 Germany registered 45 million overnight stays by international tourists, 4% higher than in the previous year and an all-time record. Two-thirds of all major trade fairs are held in Germany, and each year they attract 9 to 10 million business travellers, about 20% of whom are foreigners. The four most important trade fairs take place in Hanover, Frankfurt, Cologne, and Düsseldorf. Germany's hosting of the FIFA World Cup in 2006 presented an opportunity for the tourism sector.

Financial Services

By tradition, Germany's financial system is bank-oriented rather than stock market-oriented. The process of disintermediation, whereby businesses and individuals arrange financing by directly accessing the financial markets versus seeking loans from banks acting as intermediaries, has not fully taken hold in Germany. One of the reasons that banks are so important in German finance is that they have never been subject to a legal separation of commercial and investment banking. Instead, under a system known as universal banking, banks have offered a wide range of services from lending to securities trading to insurance. Another reason for the strong influence of banks is that there is no prohibition of interlocking ownership between banks and their client companies. However, in January 2002 the government moved to discourage this practice and promote more rational capital allocation by eliminating the capital gains tax on the sale of corporate holdings from one company to another.

At the end of 2000, 2,713 out of 2,931 German financial institutions (92.6%) were universal banks, including 354 commercial banks, 1,798 credit cooperatives, and 561 savings banks. The non-universal banks specialized in such activities as mortgage banking and investments. The list of the six largest German banks illustrates the diversity of bank structure and ownership. Of the top six banks, ranked by total assets as of year-end 2002, four are private, but the fifth largest is public, and the sixth largest is a cooperative.

Despite the central role of banks in finance, stock markets are competing for influence. The Deutsche Börse (German stock exchange), a private corporation, is responsible for managing Germany's eight stock markets, by far the largest of which is the Frankfurt Stock Exchange, which handles 90% of all securities trading in Germany. The leading stock index on the Frankfurt exchange is the DAX, which, like the New York Stock Exchange's Dow Jones Industrial Average, is composed of 30 blue-chip companies. The other German stock exchanges are located in Berlin, Bremen, Düsseldorf, Hamburg, Hanover, Munich, and Stuttgart. Xetra is Germany's electronic trading platform. As of the end of 2004, the total market capitalization of the German stock markets was nearly US$1.1 trillion, representing about 45% of gross domestic product (GDP). The shares of some 684 companies trade on the exchanges.

Trade

In 2003 Germany conducted slightly more than half of its trade within the then 15-member EU, followed by, in order of volume, developing countries, Eastern Europe (including countries like Poland that subsequently joined the EU), the United States and Canada, non-EU Europe (Switzerland, Norway, Liechtenstein, and Iceland), and Japan. Increasing emphasis is being placed on trade with Russia and the People's Republic of China. The 2005 Hanover trade fair devoted much of its attention to Germany's growing economic and trade ties to Russia, particularly in the area of energy. Germany is Russia's top trade partner. In 2002, the People's Republic of China overtook Japan as Germany's top trade partner in Asia, and Germany is investing heavily in that rapidly rising economic power.

German trade is consistent with the policy of the European Union (EU) to expand trade among the 25 member states and also with the goal of global trade liberalization through the latest Doha Round of the World Trade Organization (WTO). Germany uses its position as the world's leading merchandise exporter — a fact that partially reflects the strength of the euro — to compensate for subdued domestic demand. German companies derive one-third of their revenues from foreign trade. Therefore, Germany is committed to reducing trade restrictions, whether involving tariffs or non-tariff barriers, and improving the transparency of foreign markets, including access to public works projects.

The United States is Germany's second-largest trading partner after France. Two-way trade in goods totalled $88 billion in 2000. German exports to the USA totalled $58.7 billion while US imports to Germany were $29.2 billion. Germany's main exports to the USA include motor vehicles, machinery, chemicals, and heavy electrical equipment, while imports from the USA included aircraft, electrical, telecommunications and data processing equipment, and motor vehicles and parts.

Exports and imports

In 2003 Germany imported US $ 601.4 billion of merchandise, while imports of goods and services totalled US$773.4 billion. Principal merchandise imports were motor vehicles (US$64.4 billion), chemical products (US$63.2 billion), machinery (US$41.8 billion), oil and gas (US$39.9 billion), and computers (US$30.5 billion). Germany's main import partners were France (9.0%), the Netherlands (7.8%), the United States (7.3%), Italy (6.1%), the United Kingdom (6.1%), Belgium (4.9%), China (3.8%), and Austria (3.8%).

In 2003 Germany exported US$748.4 billion of merchandise, while exports of goods and services totalled US$873.3 billion. Principal merchandise exports were motor vehicles (US$145.5 billion), machinery (US$103.0 billion), electrical goods (US$210 billion), chemical products (US$181.5 billion), and telecommunications technology (US$35.1 billion). Germany's main export partners were France (10.6%), the United States (9.3%), the United Kingdom (8.4%), Italy (7.4%), the Netherlands (6.2%), Austria (5.3%), Belgium (5.0%), and Spain (4.9%).

Investments

Germany follows a liberal policy toward foreign investment. During the period 1998-99, France was the largest source of direct investment, followed by the United Kingdom and the United States (18%). From 1995 to 1999, annual average flows of U.S. direct investment in Germany were $3.4 billion, while those of German investors in the United States reached $21 billion. In terms of cumulative position (historical cost basis), German investment in the United States was valued at $111 billion in 1999, having more than doubled since 1995, while U.S. investment in Germany was worth just under $50 billion, having grown 12% since 1995.

Despite persistence of structural rigidities in the labour market and extensive government regulation, the economy remains strong and internationally competitive, not least because of its highly skilled work force. Although production costs are high, Germany is still an export powerhouse. Additionally, Germany is strategically placed to take advantage of the rapidly growing central European countries. The current government has addressed some of the country's structural problems, with important tax, social security, and financial-sector reforms. In the future, Germany faces further fundamental (and perhaps even more sweeping) economic adjustments to boost growth and job creation.

Labour force

The distribution of Germany's workforce by sector is very similar to the relative output of each sector. In 2004 the workforce was distributed as follows: agriculture, 2.2%; industry, 26.4%; and services, 71.3%. Participants in the workforce totalled 38.87 million. In summer 2007, Germany's seasonally adjusted national unemployment rate decreased to

9%, or nearly 38 million people. While as recently as December 2007 there was an even further decline to 8.4 percent. These statistics represented post-war records. Unemployment approached 20% in some states in the East, where high wages are not matched by productivity. However, by September 2005 overall unemployment had declined to 11.2%, or 4.65 million people. Germany's national unemployment rate is only partially comparable to unemployment rates in the United Kingdom or United States, because it includes a significant share of part-timers, who work less than 15 hours a week. Everyone working less than 15 hours a week, who is seeking and available for a job with full social security insurance (normally full-time job or part-time above 15 hours a week), can be registered as unemployed. Around one quarter of Germany's national unemployment is underemployed part-timers.

As a labour market performance index and for the current situation on the German labour market, the German job index BA-X has been established in early 2007.

At the start of 2005, the seasonally adjusted number of registered unemployed persons initially showed another sharp increase, reaching a rate of 12.6%, with more than 5.2 million Germans out of work. The considerable rise in the unemployment figures is largely due to the fact that former recipients of income support who now receive the new class-II unemployment benefit are registered as unemployed. This means that people who used to be numbered among the latent manpower reserve are now shown as registered unemployed persons. In particular, the labour-market statistics now include more unemployed young, older and low-skilled people.

A quarterly report prepared by the Economist Intelligence Unit on behalf of Barclays Wealth in 2007 estimated that there were 2400000 dollar millionaires in Germany.