

Berlin *Konjunktur*

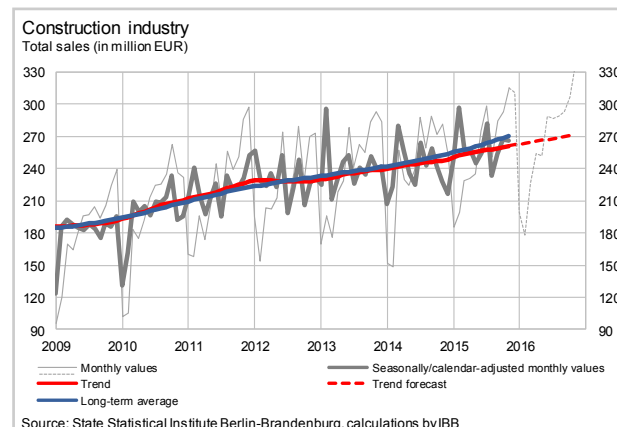
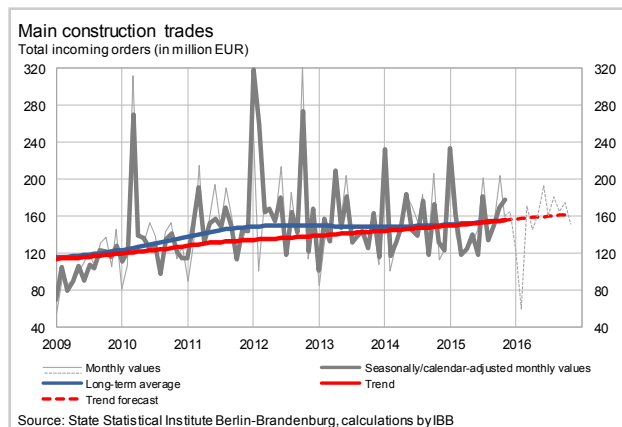
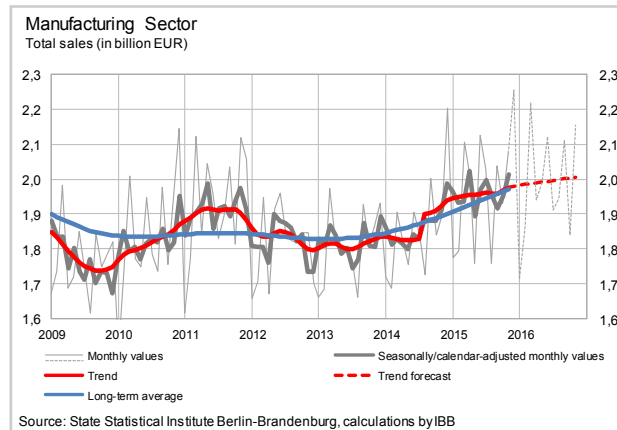
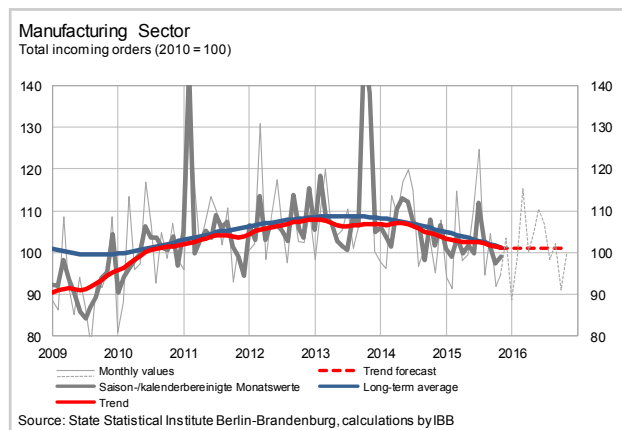
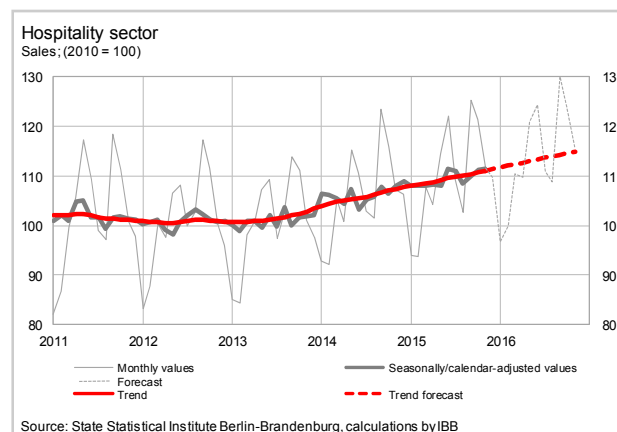
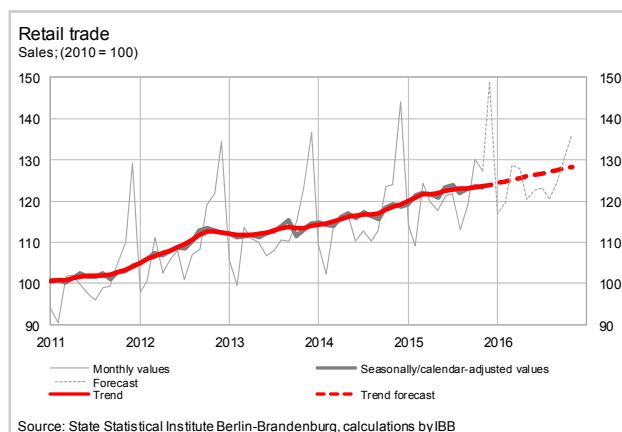
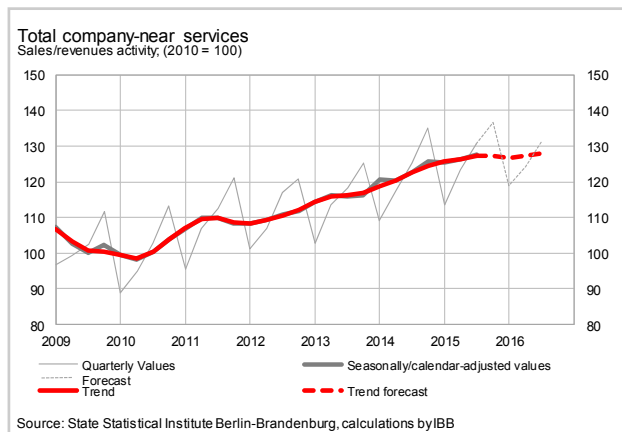
Good developments in a volatile environment

January 2015

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Seasonally and calendar-adjusted economic data/trends



Summary

Good developments in a volatile environment

In light of very low energy prices and the related low rate of inflation and a weak euro, the external factors for Berlin's economy in 2016 are excellent. This is coupled with dynamic economic strengths in Berlin, such as employment growth, which has been above average for a number of years, and a rapidly expanding services sector.

That being said, there is still some uncertainty regarding the slow recovery from the economic crisis in the eurozone, the geopolitical crises in the Middle East and worries about economic developments in important emerging economies. Apart from developments in China, the conflict between Russia and Ukraine is another factor that is heavily impacting industry. Incoming orders, for instance, declined significantly in 2015.

All in all, Berlin's gross domestic product in January 2016 is likely to increase by 2.0% while remaining unsettled in the first two quarters (+2.1% and 1.8%). This means that Germany's capital city is set to grow more over the course of 2016 than Germany as a whole (+1.8%). This estimate was also confirmed in the latest economic surveys, such as the survey of medium-sized businesses conducted by DIW.

Berlin's labour market benefited once again in 2015 from the strong expansion of the services sector. The number of people in regular jobs in Berlin has been on the rise again since 2006, at a much higher rate than the trend for the rest of the country. In 2016, employment can be expected to reach an average figure of 1,335,000. According to Germany's Federal Employment Agency, only 184,267 people were registered as unemployed in December 2015. The annual average for 2016 will fall below 195,000. However, the high number of asylum seekers is likely to have an adverse impact on declining unemployment. That's because in the months to come an increasing number of refugees who were granted asylum will be included in unemployment statistics. Contrary to the previous forecast, unemployment figures in Berlin can be expected to remain flat throughout 2016.

On the other hand, consumption in Berlin will be given an added boost in the current year by persistently high immigration and especially by the strong rise in asylum seekers. Considering the chaotic situation in the home countries of these people, the influx is unlikely to slow down in 2016. In light of this, consumption in Berlin in 2016 is likely to be much higher than in the previous year and this will once again trigger strong growth.

Generally speaking, consumption is currently being driven by already dynamic population growth, the strong rise in employment and increasing wages in the capital city. This, on the other hand, will have a positive impact on companies in Berlin that are geared to private consumers. The strong boom in tourism in Berlin should also not be forgotten. In the years to come, tourism will continue to be a strong pillar of Berlin's economy. The many visitors to Berlin are generating growing sales, especially for the retail and hospitality sectors. In the first eleven months of 2015, price-adjusted sales for the retail and hospitality sectors were up by 5.3% and 3.3%, respectively, against the previous year. This means that the retail and hospitality sectors in the capital city grew almost twice as much as the national average (retail: +2.8%; hospitality: +1.7%).

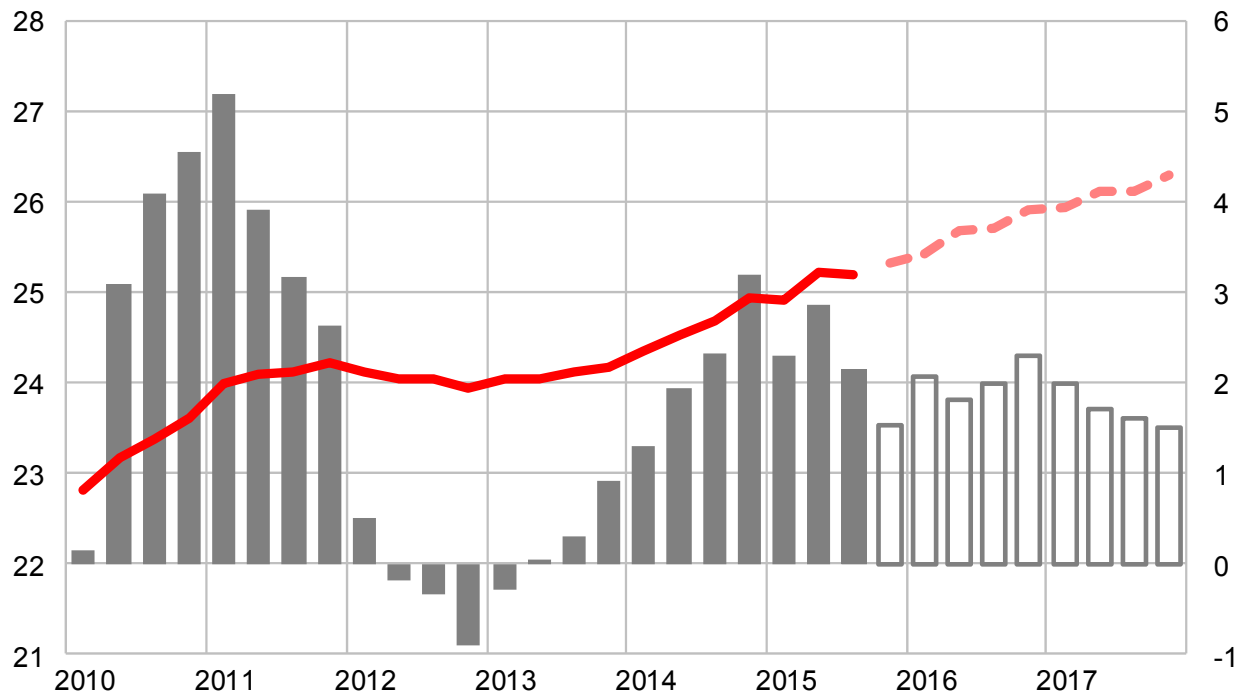
Berlin's industrial sector also generated a positive economic stimulus in 2015 with sales up by 6.1% to EUR 19.3bn in the first eleven months. This increase is largely down to pharmaceutical manufacturers who recorded sales of EUR 5.8bn between January and October 2015, marking a significant increase (+10.9%) against the same period of the previous year. That being said, however, the steep decline in industrial orders (-4.3%) is likely to lead to a drop in sales over the coming months.

Thanks to dynamic demand from the US, the Middle East and the eastern European countries outside the eurozone, Berlin's exports rose sharply by 4.2% in the first ten months. This was also due to the euro which was weaker than in the previous year. However, foreign trade must be expected to slow down in 2016. Although Berlin's exports are driven by a low euro/dollar rate, there are risks due to uncertainty in many emerging economies and due to the steep decline in industrial orders over the course of 2015.

The mood among the main construction trades is better than it has been for some time. From January to October 2015, sales totalled EUR 2.2bn, marking a 5.3% increase against the same period of the previous year. It is expected that the situation will continue to improve for Berlin's construction sector in 2016 due to the urgent need for housing and government investments already earmarked for public construction.

GDP development in Berlin

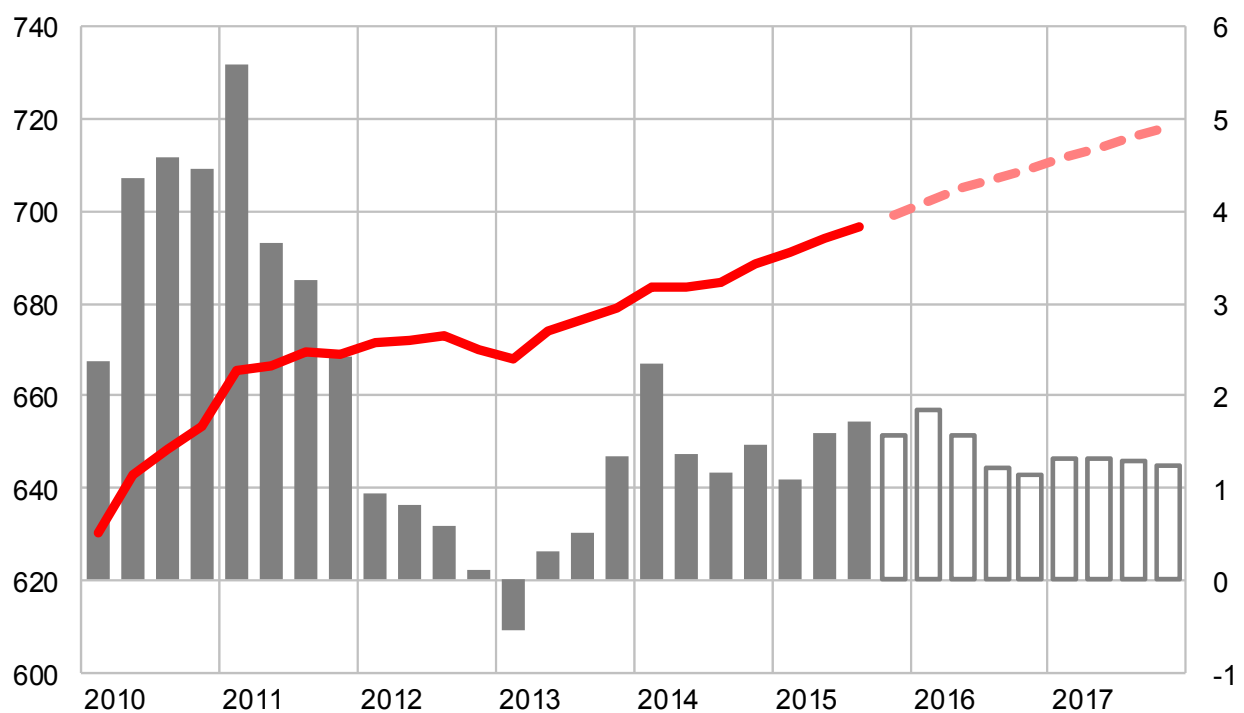
Billion EUR in 2010 prices, growth rates against the previous year in % (right scale)



Source: Statistical Offices of the Laender, calculations by IBB

GDP development in Germany

Billion EUR in 2010 prices, growth rates against the previous year in % (right scale)



Source: Destatis, calculations by IBB

Company-near services

Important position in Berlin

Company-near services are services that are largely demanded by companies, unlike services that are primarily geared to the needs of private households. With sales of around EUR 51.2bn, company-near services (excluding the retail sector, hospitality sector and public services) are important in the capital city (total share in sales: 26.4%).

Sales rise by 4.4%

In the first three quarters of 2015, sales with company-near services rose by 4.4% against the same period of the previous year. Developments in Berlin's important transport and storage sectors were also very good with sales up by 7.7%. Postal and courier services account for a large part of this with their sales up by 8.3% against the same period of the previous year. A particularly strong increase can be seen, especially in security services (+16.6%) due to the influx of refugees.

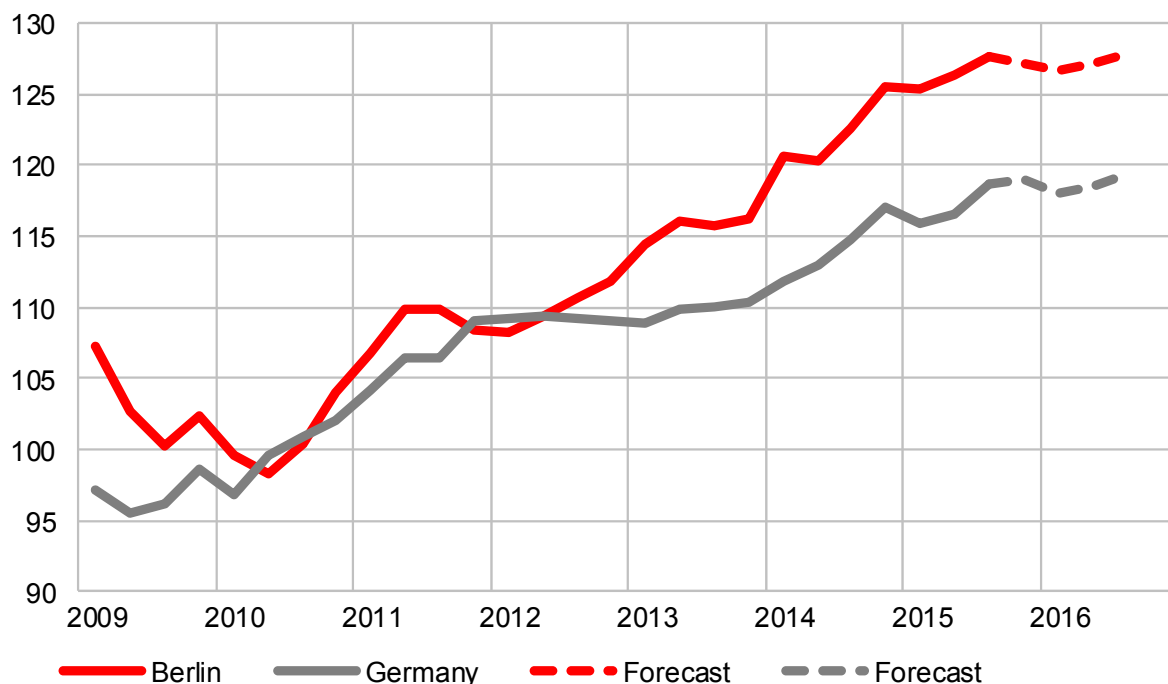
Employment up by 3.0%

Around a quarter of all people in jobs, i.e. close to 452,000, were recently employed in company-near services. Almost 159,000 people and hence 35.0% of people in jobs work in other commercial services. This is followed by freelance and scientific services, which account for 128,000 jobs (share: 28.1%), and transport and storage which accounts for around 72,000 people in jobs (share: 15.8%).

In the third quarter of 2015, more new jobs, especially in the field of information services, were created (+15%) compared to the same quarter of the previous year. This area, which is a vital engine for Berlin, has been growing at an above-average rate for some years now. Since 2009, the number of people working in this area in Berlin has risen by close to 30%. In Germany as a whole, the increase in jobs here over the same period was barely 10%. Due to the many new contracts related to accommodation for refugees, security firms stepped up their hiring in recent months (+5.0%). In the field of aviation, employment figures declined (-2.3%).

Company-near services – sales development

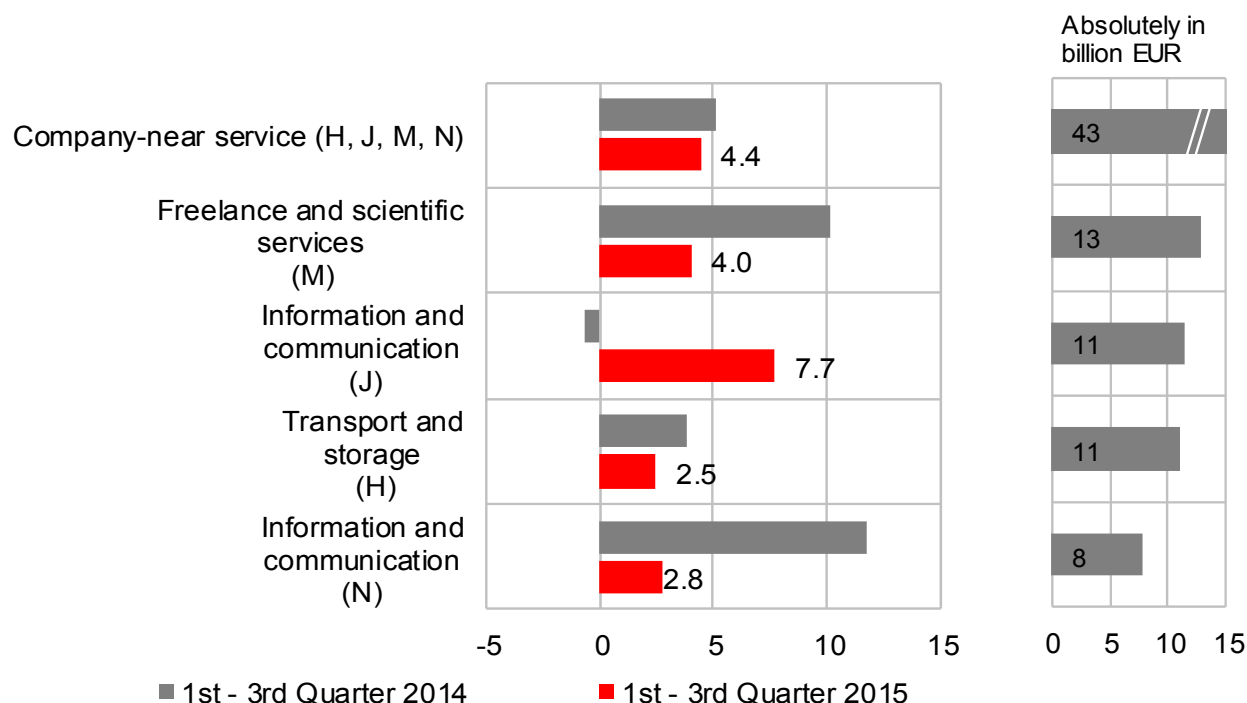
2010 = 100; seasonally/calendar-adjusted quarterly values



Source: State Statistical Institute Berlin-Brandenburg, Destatis, calculations by IBB

Company-near services – sales trend

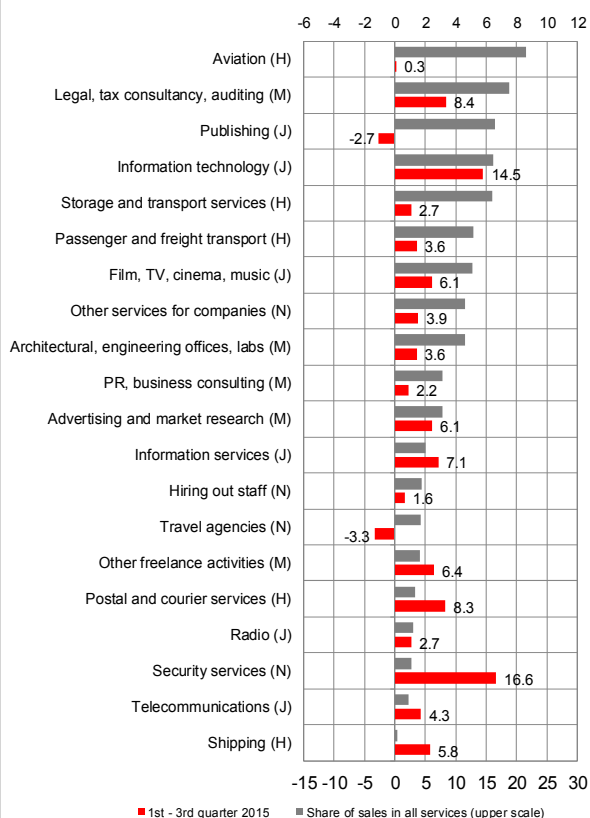
Change in % against the same period of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Selected services sectors – sales trends

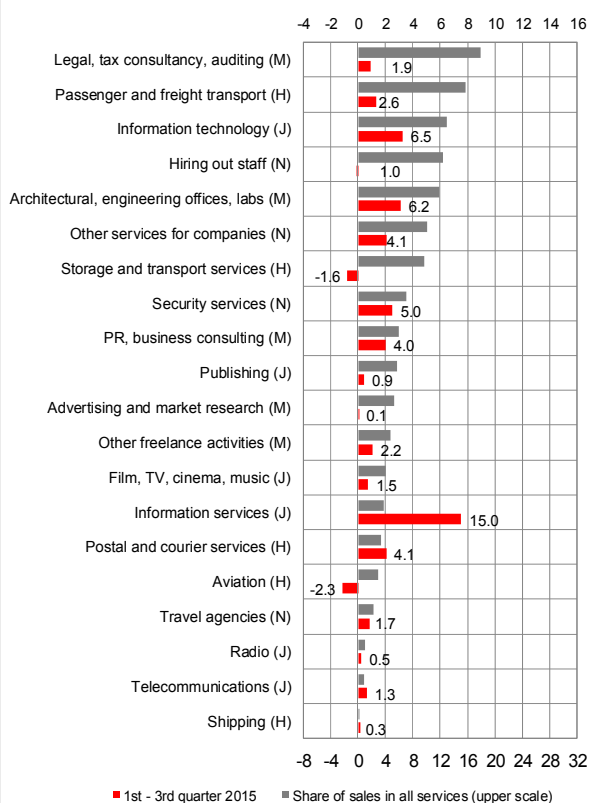
Change in % against the same period of the previous year; % share in sales



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Selected services sectors – employment trends

Change in % against the same period of the previous year; % share in sales



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Industry

Strong decline in incoming orders

According to the latest data by the Statistical Office for Berlin-Brandenburg, the order books of Berlin-based companies in the processing sector continue to be low. In the first ten months of 2015, incoming orders essentially declined by 4.3%. It was especially companies working in Berlin's all-important pharmaceutical industry that recorded a steep decline in orders (-20.1% against the same period of the previous year). Pharmaceutical sales account for around 30% of Berlin's total industrial sales and are hence relevant for overall economic development in the capital city.

It was especially pharmaceutical orders from abroad that dropped heavily in the first ten months of 2015 (-28.1%). This fall in orders is largely due to the conflict between Russia and Ukraine that has, for instance, already caused exports of pharmaceutical products to Russia and Ukraine to fall in the current year by EUR 44.4m (-29.5%) and EUR 12.0m (-40.1%), respectively. Falling orders will lead to a decline in sales in the coming year.

Sales: growth still strong

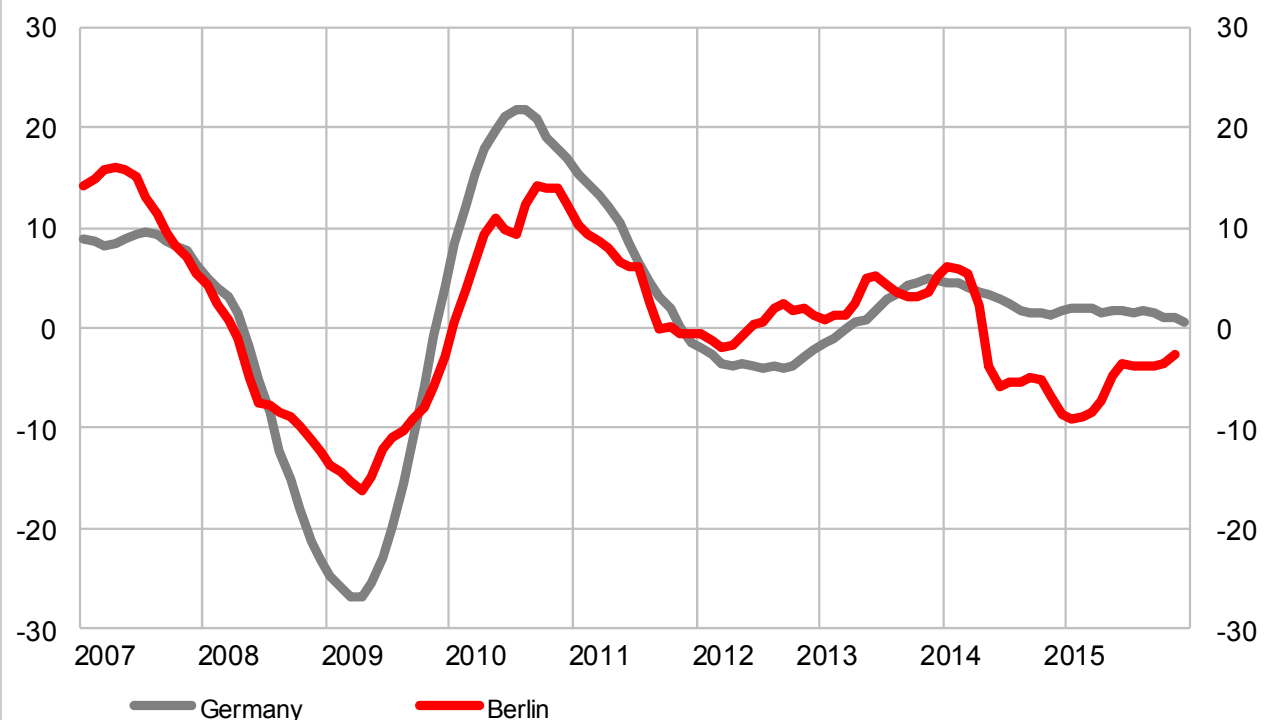
Industrial sales, on the other hand, continue to be very robust. In October 2014, industrial companies in Berlin with a workforce of 50 or more recorded sales of EUR 1.93bn (domestic sales: EUR 858m; foreign sales: EUR 1.07bn). Industrial sales in October 2014 rose by 4.8% compared to the same month of the previous year.

In the first 10 months of 2015, industrial sales even rose by 6.1% to a total of EUR 19.3bn. This increase is still due to pharmaceutical manufacturers who recorded sales of EUR 5.8bn between January and October 2015, marking a significant increase (+10.9%) against the same period of the previous year. Since sales by pharmaceutical companies already account for a third of all industrial sales, these increases are important for Berlin's overall industrial sales.

All in all, sales figures for Berlin-based industrial companies are likely to increase significantly for 2015 as a whole while the prospects for 2016 are likely to be more modest.

Total incoming orders – industry

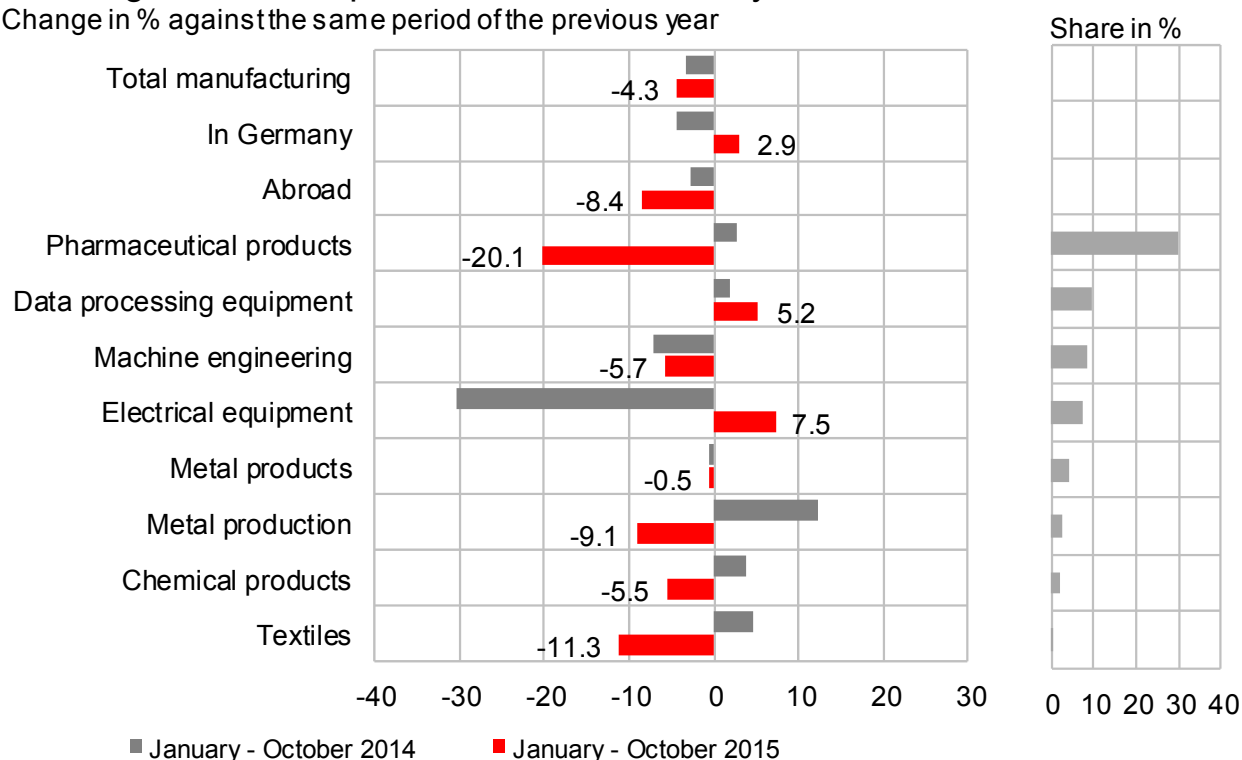
Moving 12-month average, change in % against the same month of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Incoming orders – important sectors of industry

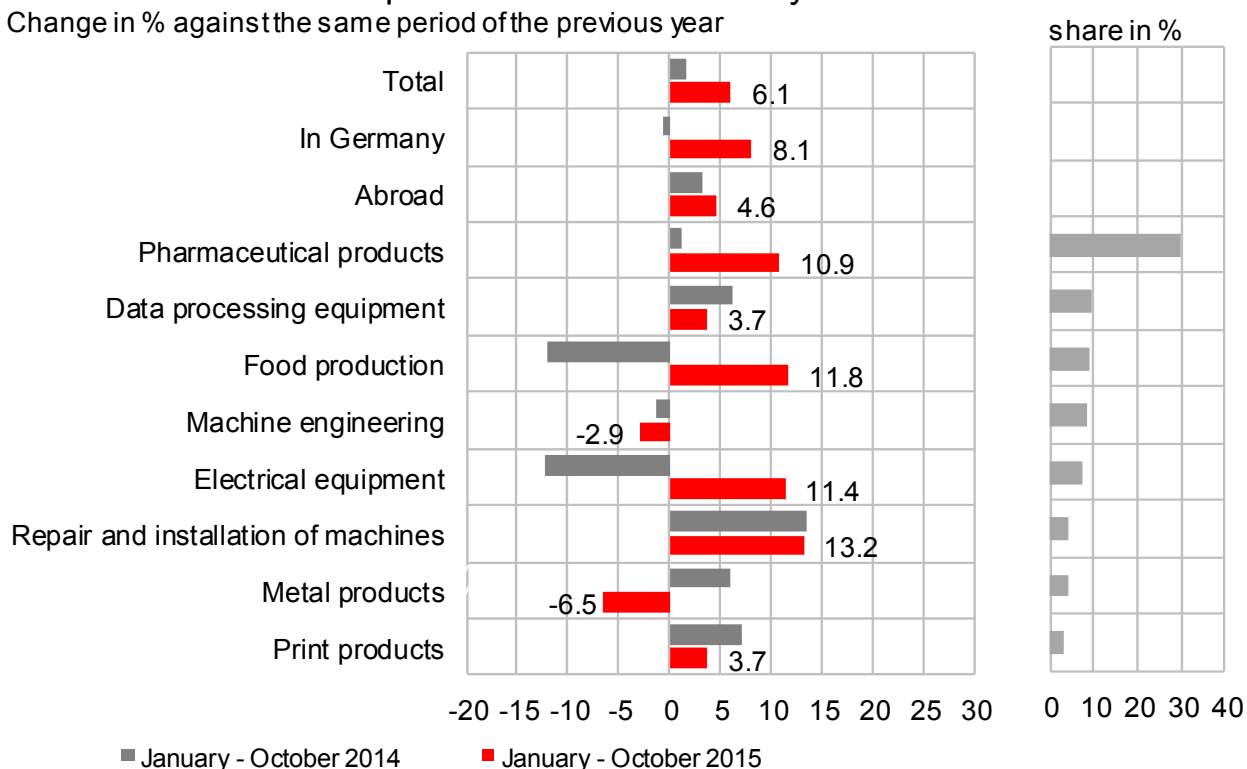
Change in % against the same period of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Sales trends – most important sectors of industry

Change in % against the same period of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Exports

Reliable support from the US

For the period from January to October 2015, exports from Berlin rose by 4.2% against the same period of the previous year to EUR 11.6bn. This is largely due to exports to Saudi Arabia and Poland. Exports to these two countries increased sharply by EUR 289m (+77.8%) and EUR 170m (+24.8%), respectively.

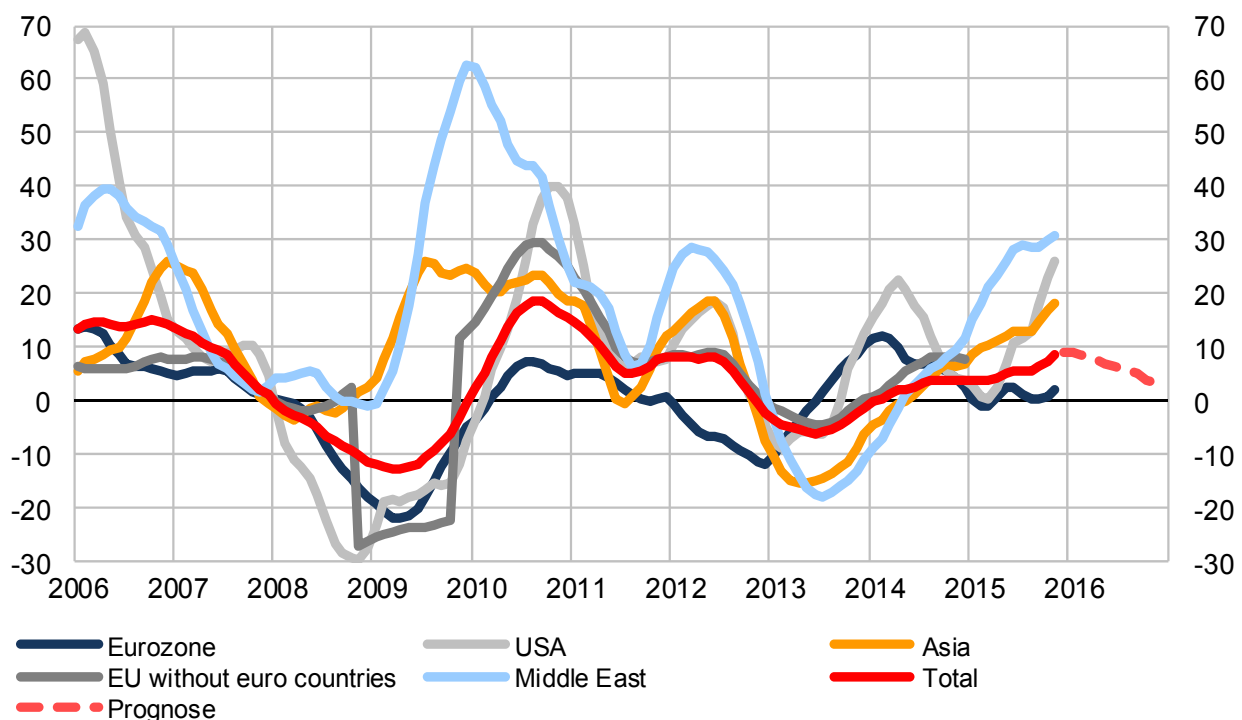
Exports to the US, for some time now Berlin's most important export country, also proved to be reliable. The US economy is edging close to full employment and is set to record strong growth rates in 2016. Supported by the low euro, exports from Berlin are popular in the dollar zone. In the first ten months of the year, goods worth EUR 1.4bn (+7.1%) were exported to the US. In October 2015 alone, goods worth EUR 186.6m were sold, the highest monthly figure ever recorded for a single export country. These exports comprised pharmaceutical products worth EUR 50.6m (+14.7%), motorcycles and motor vehicle parts amounting to EUR 40.3m (+24.4%) as well as power generation equipment in the order of EUR 34.5m (+324%).

In the first ten months of 2015, exports to Russia suffered foreseeable setbacks due to the sanctions policy (EUR -121m; -27.5%). Russia now only accounts for 2.7% of all exports from Berlin (11th place in the ranking of Berlin's export countries), whereas in 2011 this figure was as high as 6.3% (2nd). But it was trade with the Netherlands that declined the most. Goods worth only EUR 431m were exported, marking a fall of EUR 188m (-30.4%) against the same period of the previous year. Demand in the Netherlands declined, especially for power generation equipment, pharmaceutical products and telecommunication devices.

The pace of foreign trade must be expected to decline slightly in 2016. Although Berlin's exports are driven by a low euro/dollar rate, there are risks due to uncertainty in many emerging economies and due to the steep decline in industrial orders for companies in Berlin over the course of 2015.

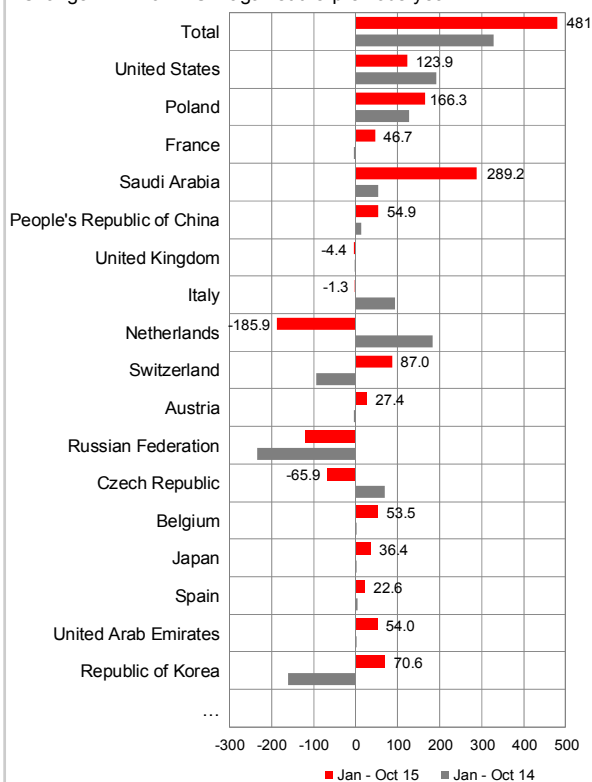
Exports

Monthly trend values, change in % against the previous year



Exports: most important export countries

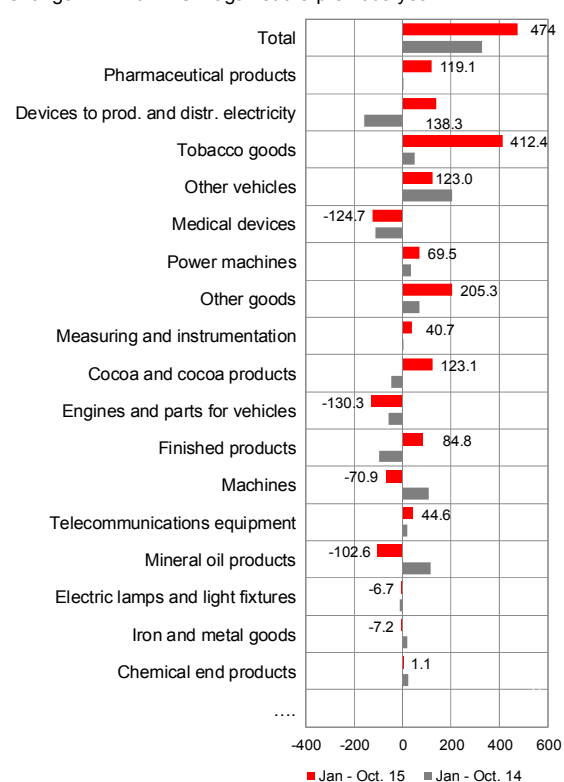
Change in million EUR against the previous year



Source: Federal Statistical Office; calculation by IBB

Exports: most important material groups

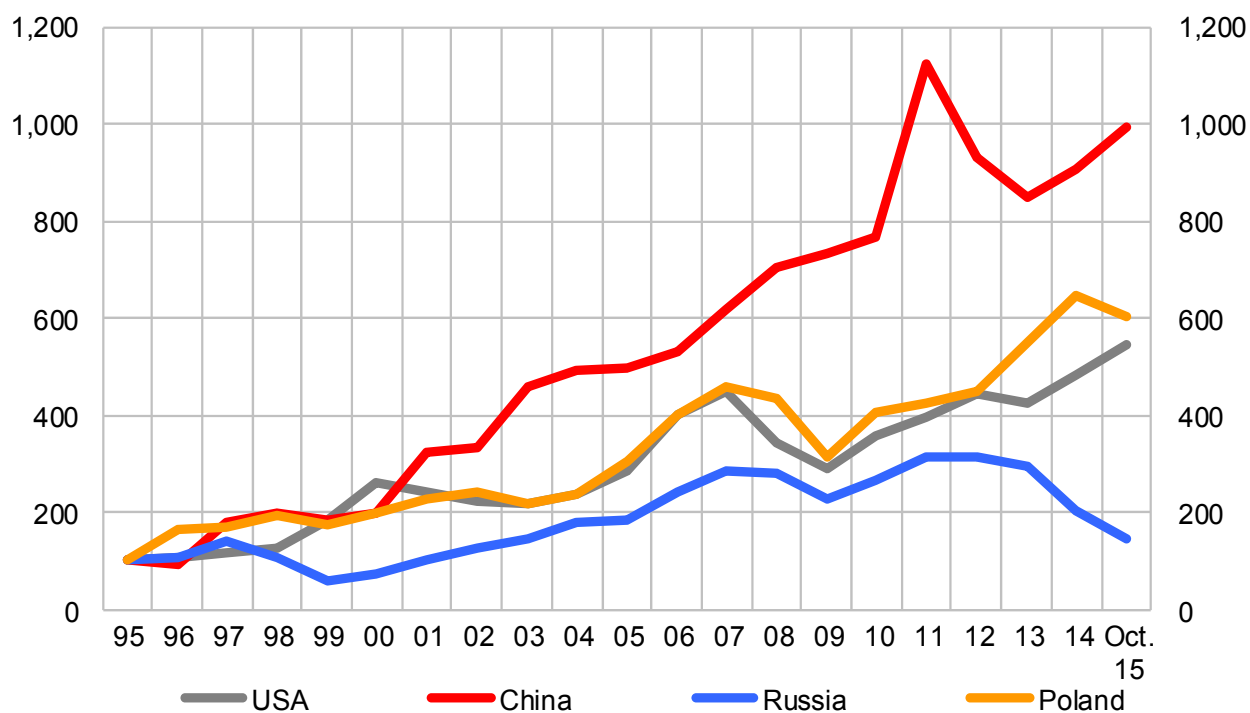
Change in million EUR against the previous year



Source: Federal Statistical Office; calculation by IBB

Exports to selected countries

1995 = 100



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Construction industry

More completions despite a permit backlog

The number of building permits rose rapidly in the first eleven months of 2015. The total number of building permits for apartments increased against the same period of the previous year by 1,886 to 19,267 (+10.9%). The number of building permits in the new housing segment increased only slightly by 347 applications (+2.4%) to 15,018, a disappointing development compared to the previous year. At least the number of building permits for existing housing rose strongly by 1,599 (+68.8%) to 4,131. A slowdown in the rapid pace of building permits will not have any effect on the expected 11,500 apartments to be completed in 2015 (2014: 8,744). The effects of the slowdown are not likely to be felt until 2016 and 2017.

Incoming orders: Dynamism on the rise

In the first ten months of 2015, incoming orders for Berlin's main construction trades declined against the same period of the previous year by EUR 42.2m (-2.6%) to EUR 1.55bn. Declines were also recorded in commercial construction in particular (-10.7%). In contrast, orders in housing construction rose by only 0.3% to EUR 559m and in public construction by 10.7%

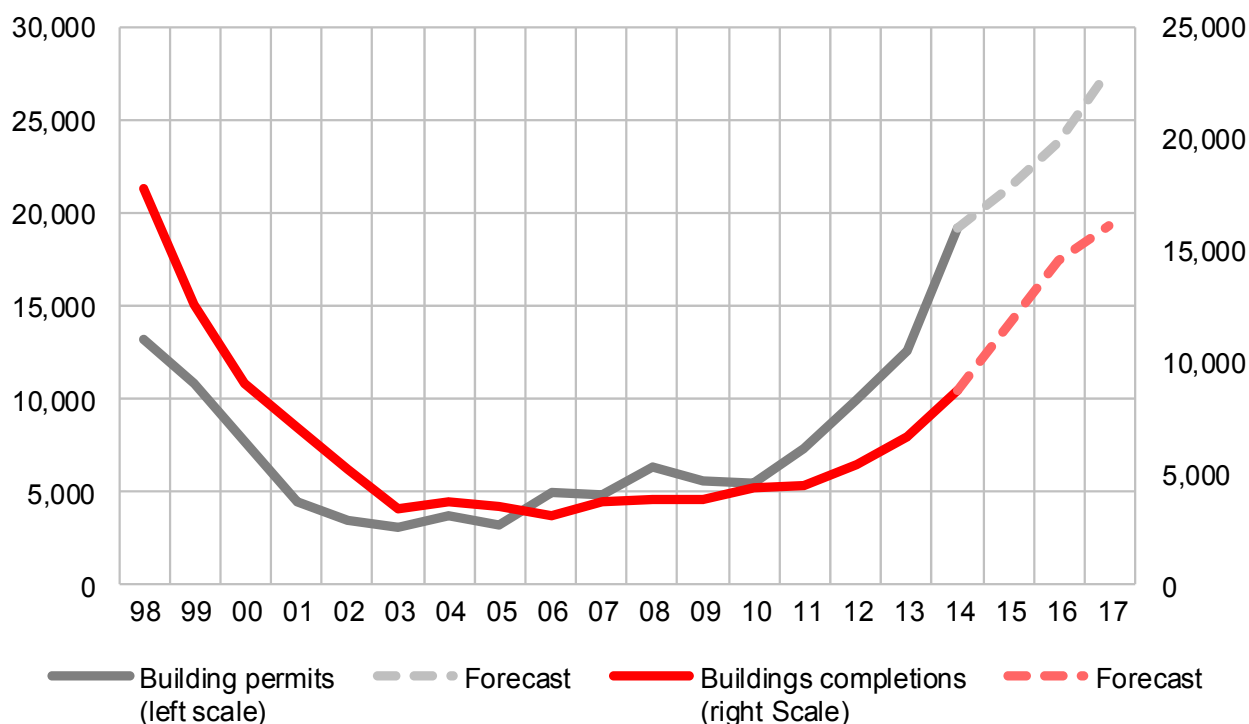
to EUR 350m. Public construction includes construction for public entities, road construction and public civil engineering. In light of strong population growth in the capital city, a decision was made to make use of funds from the newly established "Growing City" infrastructure fund in 2016 and 2017, for instance, for kindergartens, schools, public buildings and for road improvements. These investments will help to boost sales, also for Berlin's main construction trades.

Sales: increase thanks to housing construction

Sales for the main construction trades look better in the period from January to October 2015, rising by 5.3% against the same period of the previous year to EUR 2.5bn. Berlin's main construction trades can be expected to continue recovering in 2016 due to the urgent need for new housing and the government investments already earmarked for public construction.

Building permits and building completions

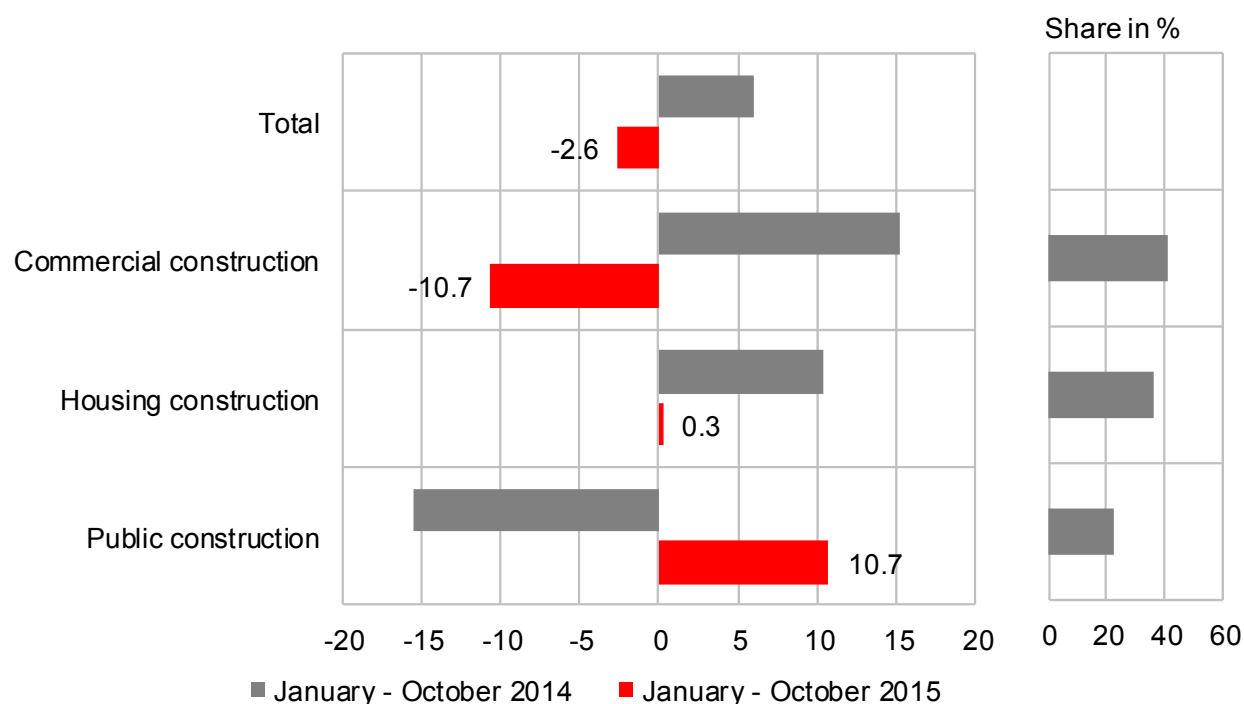
Houses



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Incoming orders - Main construction trades

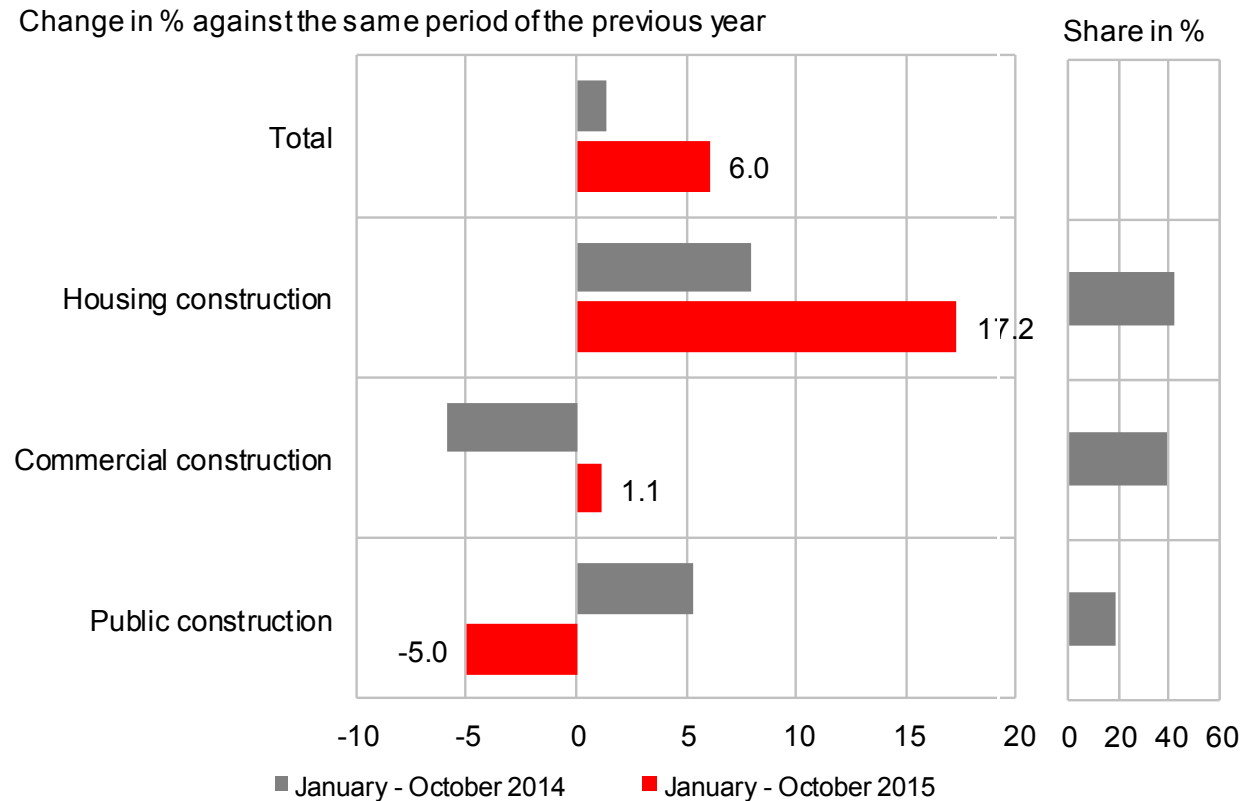
Change in % against the same period of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Sales trends – main construction trades

Change in % against the same period of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Tourism

Three million overnight stays a month

The number of guests rose in the first ten months of 2015 by 4.5% to 10.4 million. All in all, around 444,000 more visitors checked into hotels in Berlin than during the same period of the previous year. From January to October, more guests were recorded especially from the UK (+61,000; +15.5%) and from Spain (+42,000; +22.7%). As a result of the ease in the economic crisis in Spain, people there once again have more money at their disposal for travel. An average of 24,000 Spanish tourists now come to Berlin each month; in 2013, at the height of the crisis, this figure was only around 17,000. On the other hand, strong pressure on the rouble continues to prevent people in Russia from travelling to Berlin (-35,000; -23.8%).

The increase in the number of guests also means an increase in the number of overnight stays. In the first ten months of 2015, a total of 25.7 million overnight stays were recorded by Berlin's hotel and accommodation sector, almost 1.4 million more than in the same period of the previous year (+5.6%). The biggest increases were recorded in

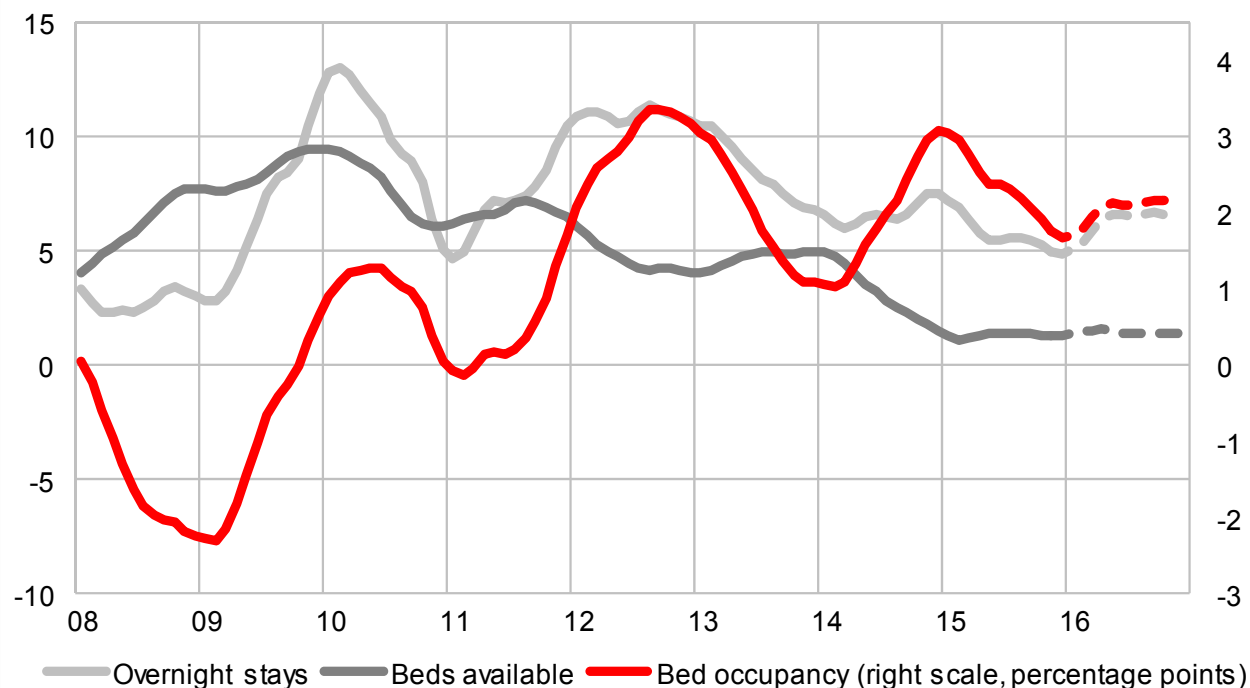
the number of overnight stays by international guests (+1.0 million; +9.2%). In a comparison of countries of origin, the highest number of overnight stays was recorded with guests from the UK, totalling around 1.2 million (+19.1%) followed by the US, totalling close to 950,000 (17.8%).

The increase in the number of guests and overnight stays has also meant that accommodation has also been growing for years. However, since 2004, there has been a slow down in this development. Between 2009 and 2013, growth still reached a figure of 7,000 beds: In the first ten months of 2015, this figure had fallen to as low as 1,900 more beds (+1.4%) than in the same period of the previous year. A rising number of guests and overnight stays combined with a slower rise in bed capacity led to a record bed occupancy rate of 61.7%.

In 2016, overnight stays can be expected to reach the 32-million mark. This is treble the number of overnight stays recorded in 2000.

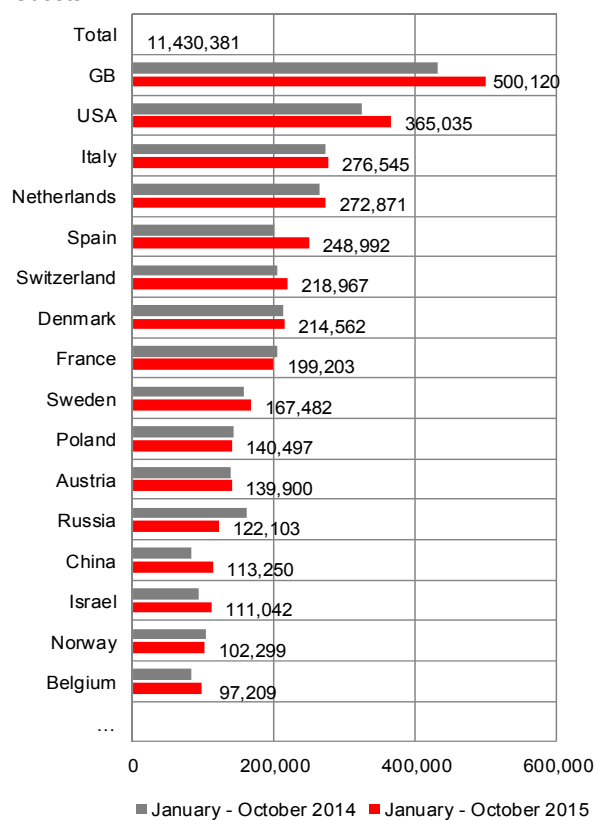
Overnight stay, bed capacity and occupancy

Monthly trend values, change in % against the same month of the previous year



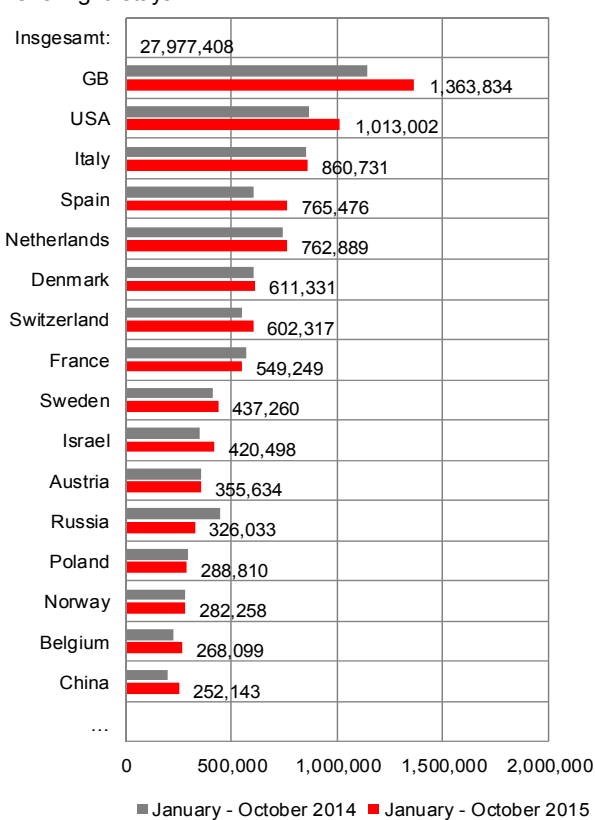
Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Guests

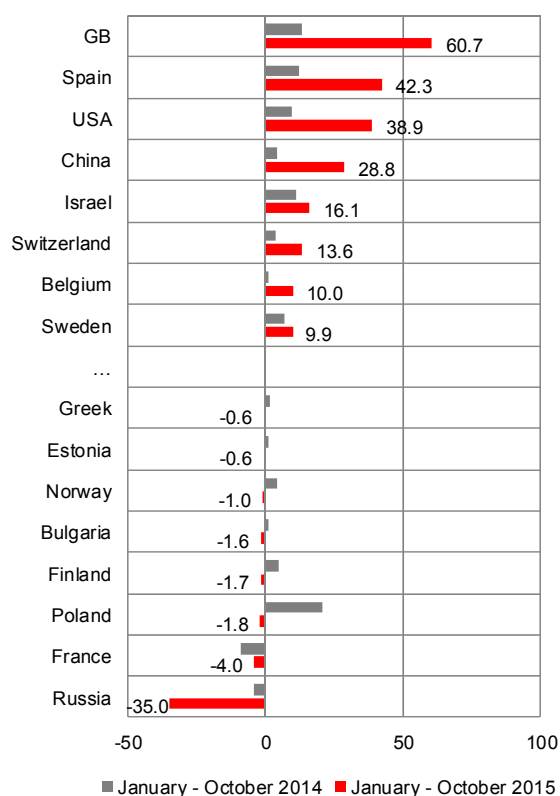


Source: Federal Statistical Office; calculations by IBB

Overnight stays



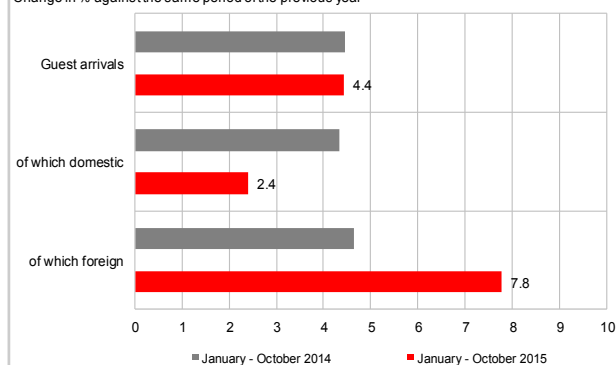
Source: Federal Statistical Office; calculations by IBB

Change in guest figures in 1,000s
compared to the same period of the previous year

Source: Federal Statistical Office; calculations by IBB

Guest arrivals

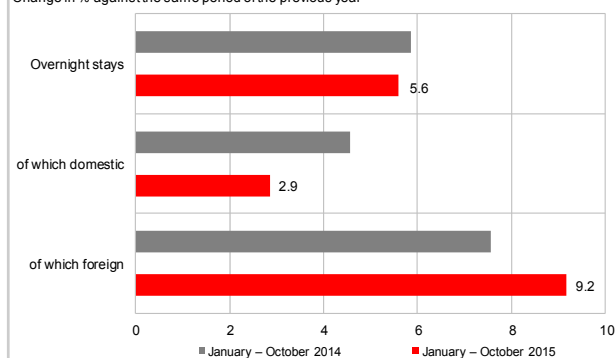
Change in % against the same period of the previous year



Source: Federal Statistical Office; calculations by IBB

Overnight stays

Change in % against the same period of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Retail sector

Stable trend

The situation for consumers has not been this good for a long time. Increases in real wages in recent years and the introduction of the minimum wage have now arrived in the pockets of employees while consumer prices remain flat and energy prices decline. Low interest rates offer no incentive to save money. The savings rate in Berlin has been falling continuously since 2008 and currently totals 7.6% of available income (Germany: 9.1%). Economic development in Berlin is stable and the number of people in jobs will continue to grow in the coming months at an above-average rate. Berlin's economic growth is also driven by strong private consumer demand.

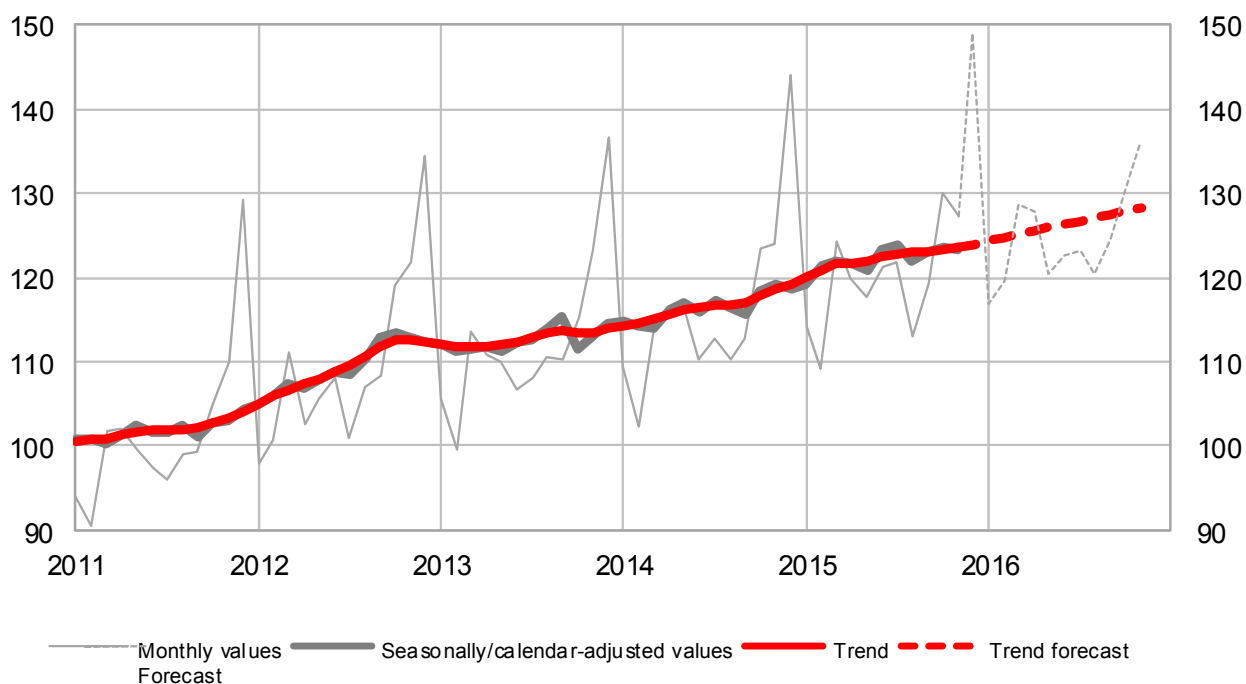
According to preliminary calculations by the Statistical Office for Berlin-Brandenburg, sales figures for Berlin's retail sector (without car sales) increased in real terms by 5.3% in the first eleven months of 2015 compared to the same period of the previous year. This means that the increase in Berlin's retail sector in the period from January to November 2015 was once again higher than in Germany's retail sector as a whole (real: +2.8%).

Tourism as well as online and mail-order retail have a key role to play in this extremely strong growth in Berlin's retail trade. In recent years, many business models were established in Berlin as innovative start-ups and are now operating on an international scale. Sales in this area rose by 19.9% in the first eleven months of 2015. Other traditional forms of retail also recorded increases in sales. Supermarket sales were up by 3.9%. Revenues generated by Berlin's retail trade with sports equipment and toys even rose by 5.4%.

The number of people working in the retail trade rose by 2.3% in the period from January to November 2015. Supermarkets, in particular, are hiring more staff, raising the number of people employed here by 5.6%, especially the number of full-time employees (+8.8%). The number of part-time jobs in this sector, however, increased by 2.7% only.

Retail trade

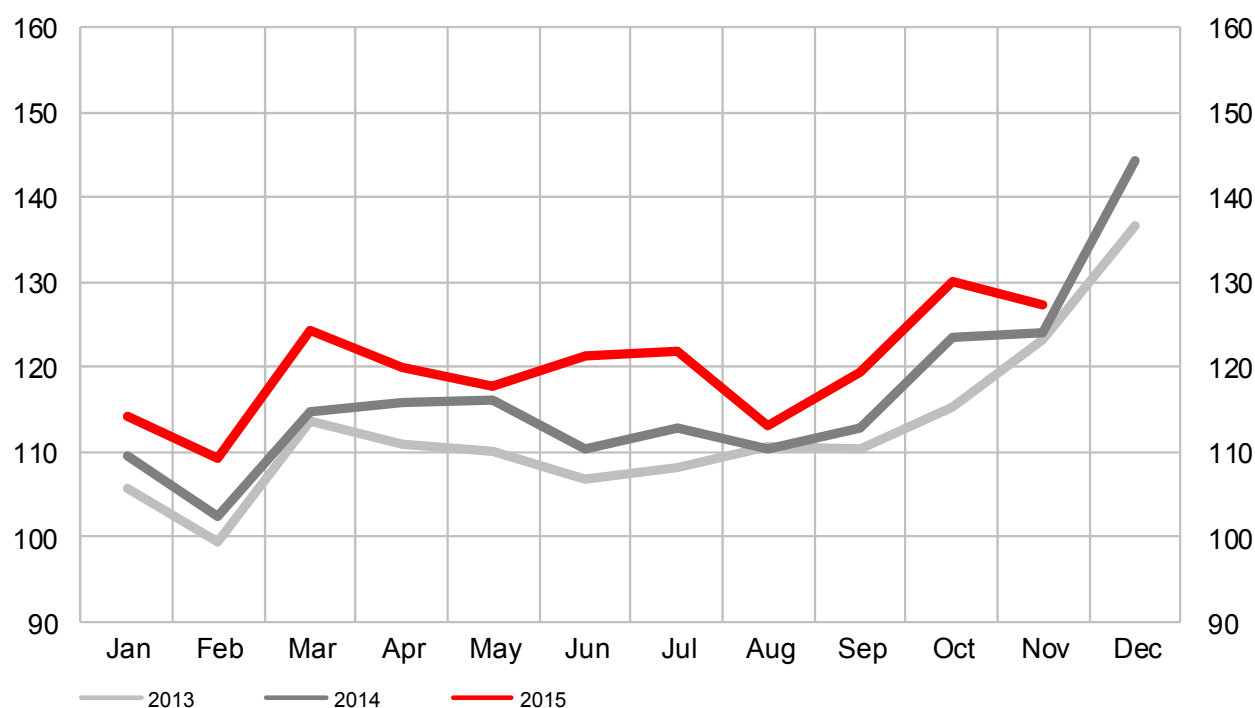
Sales; (2010 = 100)



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Retail trade

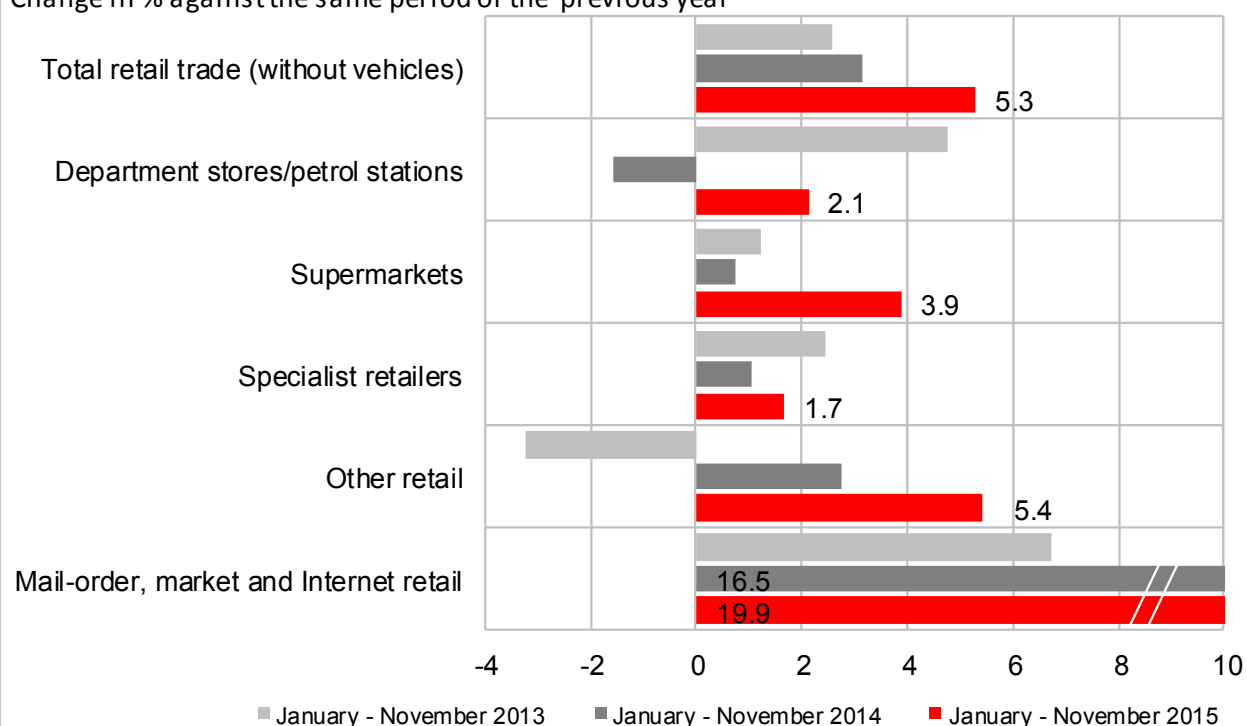
Sales; (2010 = 100)



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Retail trade – sales trends

Change in % against the same period of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Hospitality sector

Sales up by 3.3%

Although Berlin has become a top summer destination, the city has been drawing an increasing number of visitors in the winter months too. Especially when it comes to international guests, December has turned out to be a mini peak season. Following a seasonally weak November, the number of international guests in the city in December 2015 rose once again by around 36,000 to 378,000.

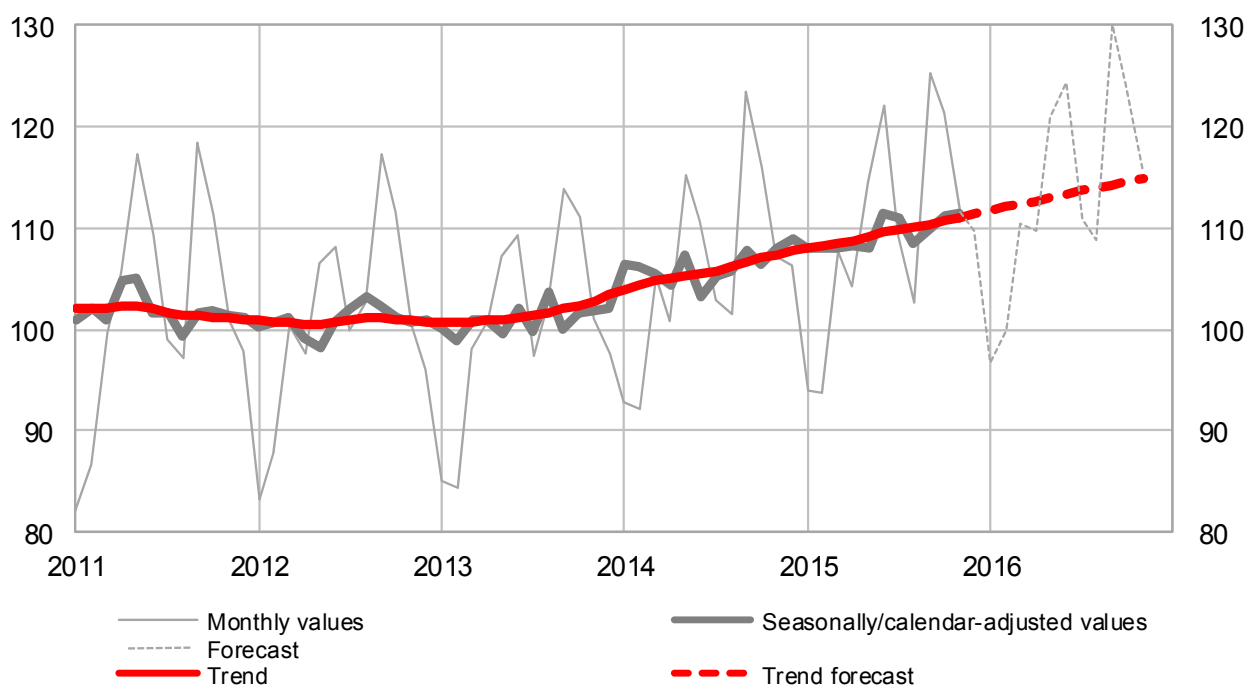
This is expressed in rising sales in the retail and hospitality sectors. In the first eleven months of 2015, sales recorded by Berlin's hospitality sector, which includes tourist accommodation and restaurants, once again rose sharply by a price-adjusted 3.3%. Over the same period, the number of tourists in Berlin increased by 4.8%. Sales for the catering sector rose by 4.1%. However, hotels in Berlin were not able to keep pace with this increase in sales. Due to price concessions resulting from stiff competition in Berlin, price-adjusted sales for this sector rose only by 2.1% (Germany as a whole: 2.3%).

Since the growing number of overnight stays has recently been accompanied by a slow down in the number of new hotels, hotel bed occupancy is increasing significantly. Hotel bed occupancy in Berlin has now risen to 61.7%, the highest rate ever. In recent years, the number of overnight stays has also risen faster than the number of guests. In mathematical terms, this led to a sharp increase in the length of stay that is measured in overnight stays per guest. In July 2011, this was calculated to be 54 hours (2.27 days), whereas more recently a guest stayed on average a good 5 hours longer in Berlin than four years ago. This longer length of stay leads to additional buying power in the city and hence has a positive impact on sales in the retail and hospitality sectors.

The number of people working in Berlin's hospitality sector has also increased. Between January and November 2015, the number of people employed rose by 3.9% against the same period of the previous year. The most rapid development here can be found in the number of people working in part-time jobs which increased by 4.3%.

Hospitality sector

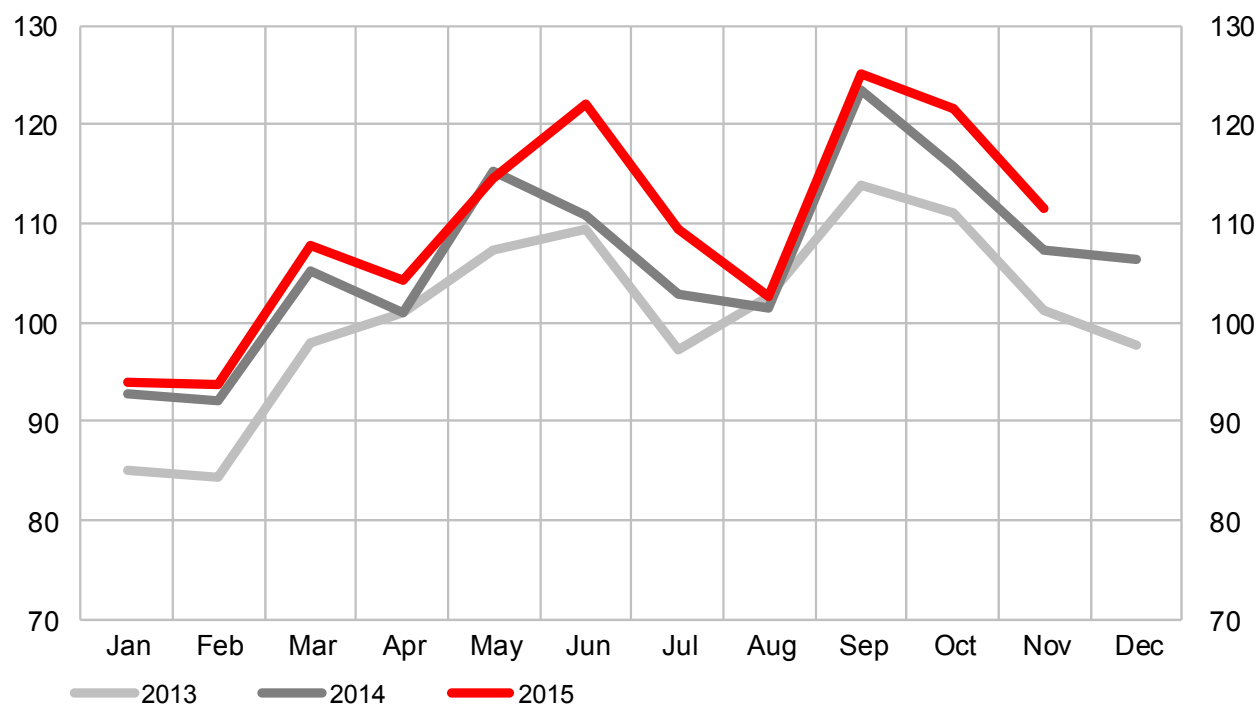
Sales; (2010 = 100)



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Hospitality sector

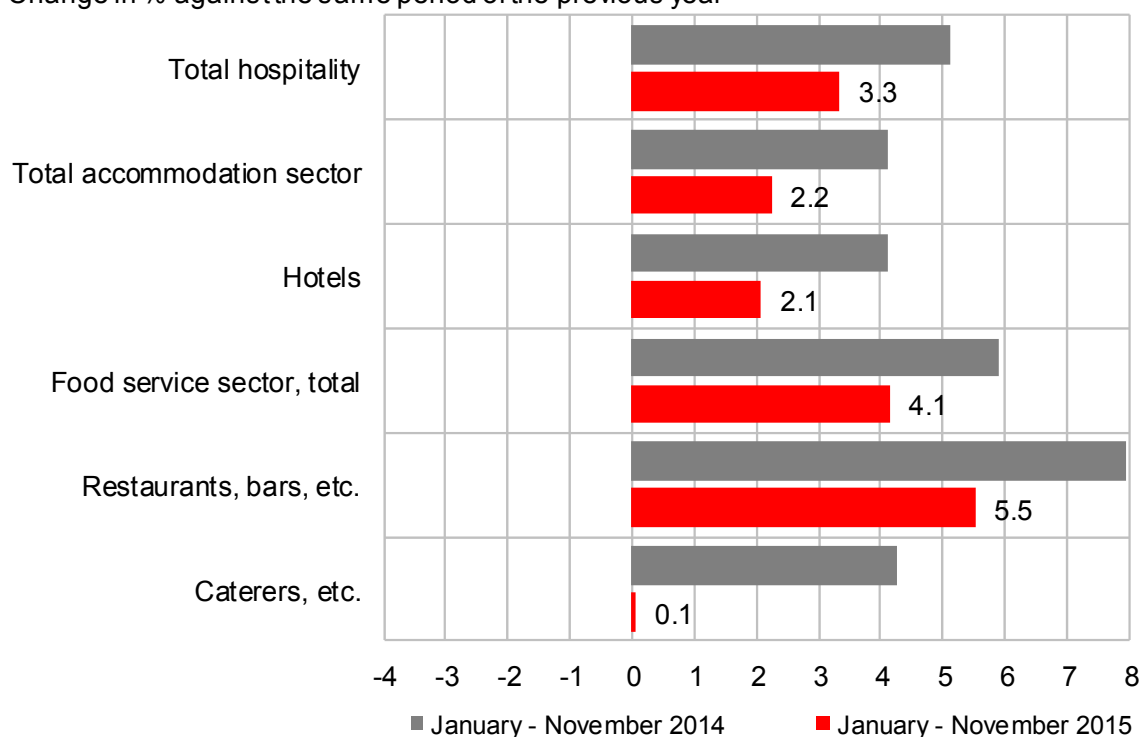
Sales; (2010 = 100)



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Hospitality sector – sales trends

Change in % against the same period of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Start-ups and insolvencies

More people going into business than out

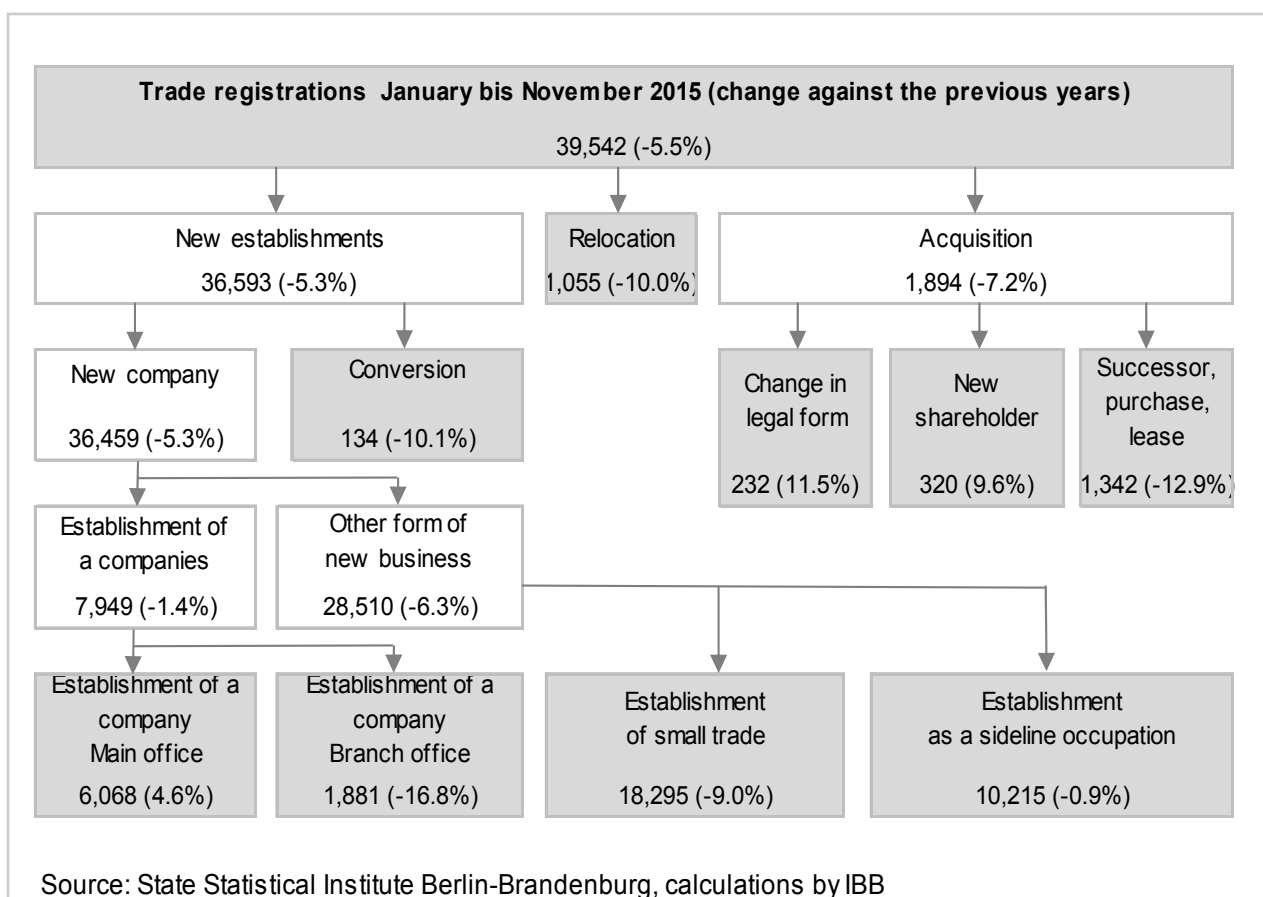
In the first eleven months of 2015, 39,542 trades registered with the commercial registries. This marked a fall of 5.5% or 2,301 fewer registrations than in the same period of the previous year. Over the same period, however, only 31,515 trades closed shop, so that the bottom line figure was ultimately positive showing around 8,027 companies.

It must be noted that the trade registrations between January and November 2015 also included 1,894 acquisitions. On top of that, not every one of the 33,400 new trades set up will create new jobs. Almost 80% of the new companies set up have started out as small businesses or as solo entrepreneurs as a supplementary source of income. These new companies are often set up in order to bridge unemployment. The decline in the number of small trades being set up (-9.0%) is due to Berlin's currently sound labour market which has around 26,000 vacancies in all areas of the economy. On the other hand, the 7,949 company start-ups are commercial enterprises which at the

time of registration can already be seen to be of significant economic importance. 75% of these companies are corporations, limited partnerships or stock companies that will create more jobs in the future. The fastest increase can be seen in the number of start-ups in Berlin's future industries. Over the first eleven months of 2015, net growth in the number of new companies in Berlin's key innovative and creative industries was twice as high as in other areas of Berlin's economy.

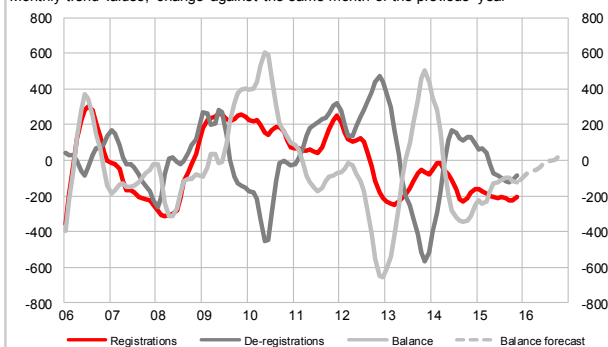
Increase in insolvencies

The number of companies that were forced to close shop rose in the first eleven months by .8% to 1,289. This is a fate that is being increasingly observed among companies from the I&C sector (+53.2%) with its many start-ups – a sign that not every business idea is a winner. Receivables claimed by creditors against bankrupt companies rose in the first eleven months by 50.7% and now total EUR 929.9m.



Trade registrations – total

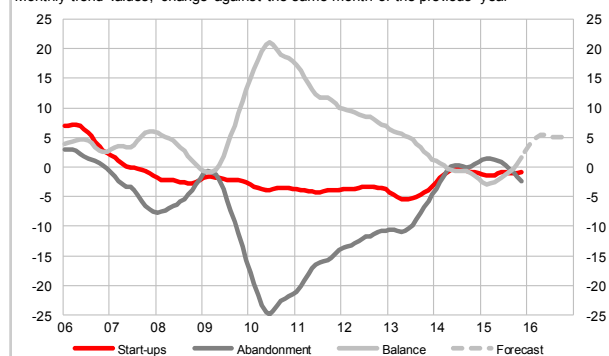
Monthly trend values, change against the same month of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

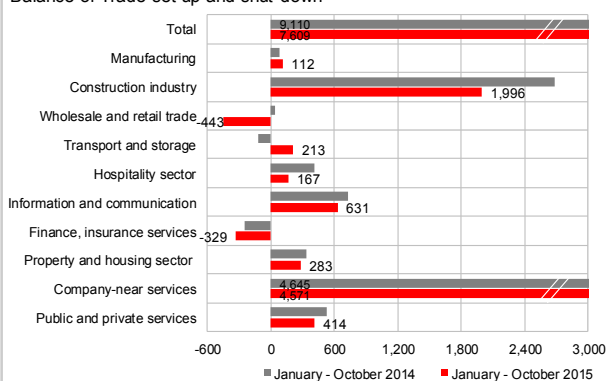
Companies set up and closed down – total

Monthly trend values, change against the same month of the previous year



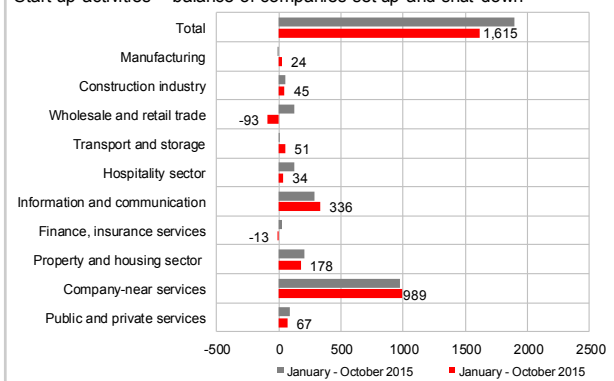
Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Balance of Trade set up and shut down



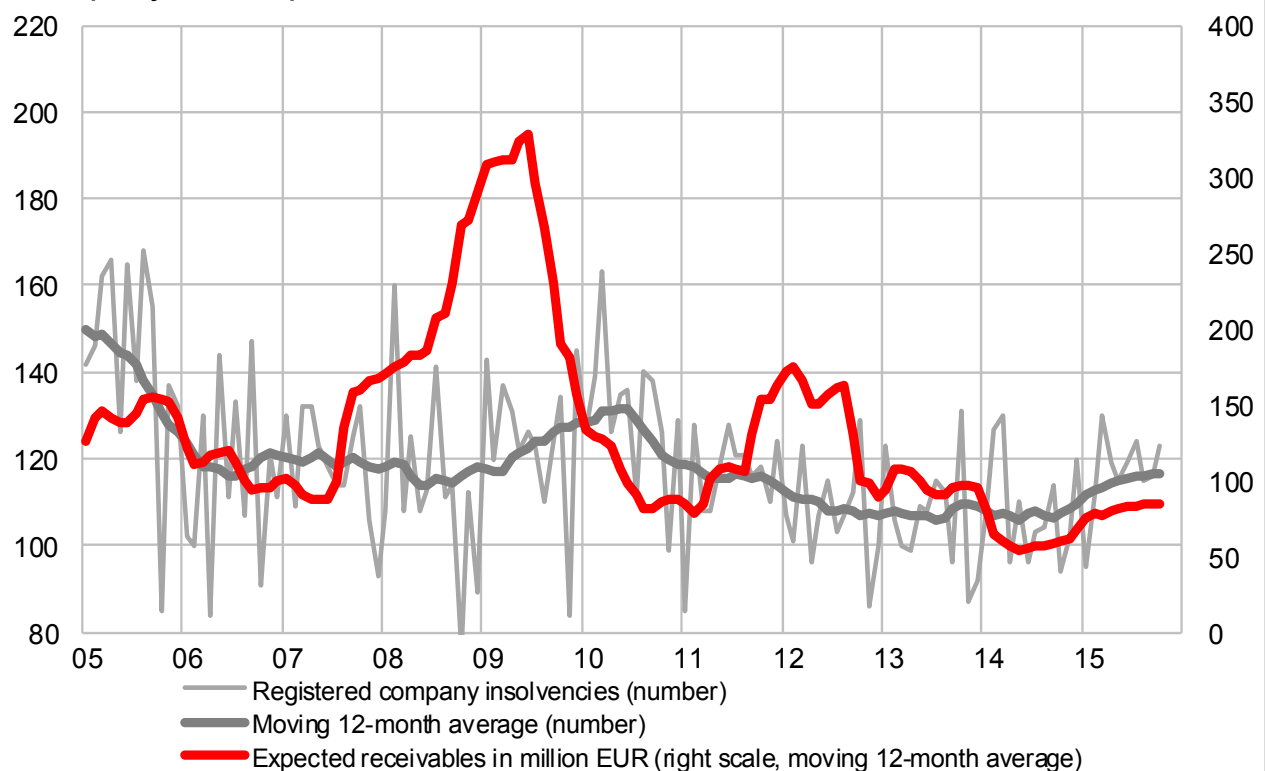
Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Start-up activities – balance of companies set up and shut down



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Company bankruptcies



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Labour market

Fewer than 195,000 out of work in 2016

According to Germany's Federal Employment Agency, only 184,267 people were registered as unemployed in December 2015. Although this was 1,879 more than in November 2015, it was 7,456 fewer than in the same month of the previous year (-4.8%).

In January 2016, however, there will be a seasonal increase in this figure to 198,000. On top of that, the high number of asylum seekers is likely to have an adverse impact on declining unemployment in the current year. That's because as more refugees are granted asylum, they will begin to receive social insurance benefits and will hence be included in unemployment figures. This is why unemployment figures in general are expected to remain flat throughout 2016.

On the other hand, Berlin's labour market also offers hope of employment for people with low qualifications. This can be seen by the currently high demand for workers, especially in lower-paid areas, such as transport, logistics and security (+4,754), as well as the retail sector (+3,218).

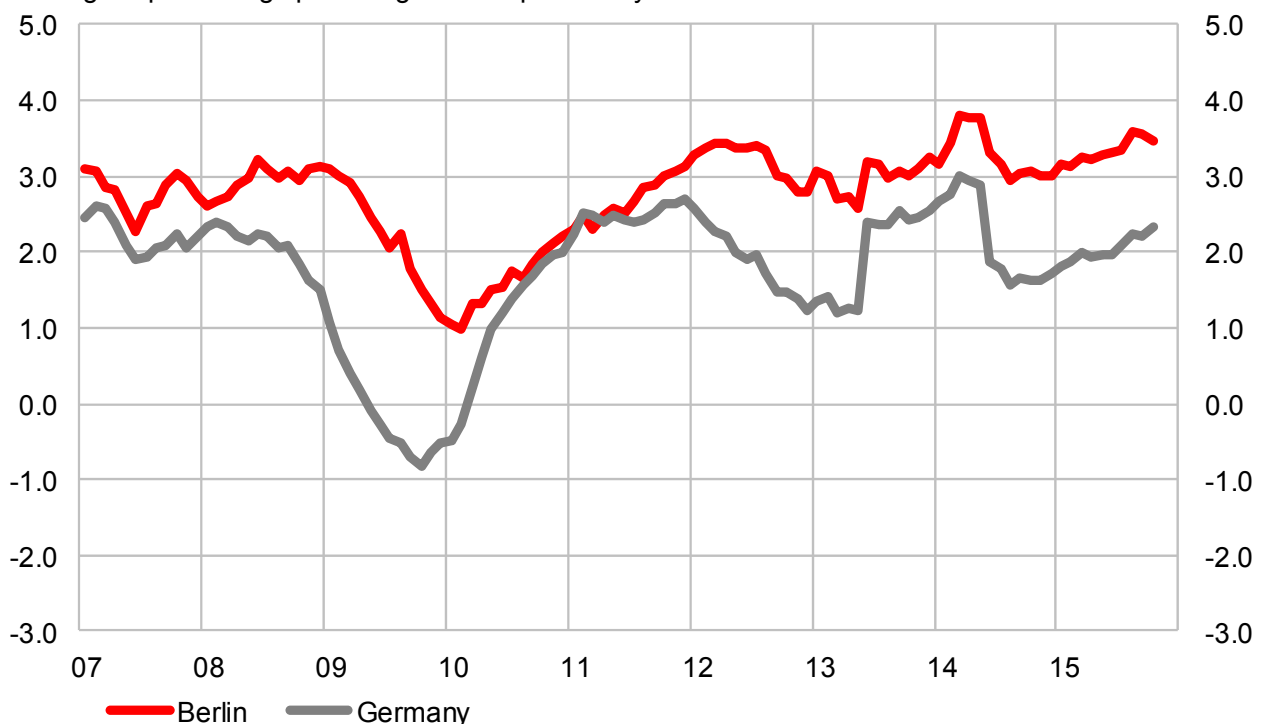
More than 1.3 million people in jobs for the first time

The number of people in regular jobs remains at a very high level. In September 2015 (more recent figures were not available), this figure totalled 1,331,800, marking an increase of 43,757 people in jobs compared to the same figure for the previous year (+3.4%).

In September 2015, jobs were primarily created in the real estate sector and in the field of freelance and scientific services where employment was up by 9,214 to 151,100 compared to the previous year (+6.4%). In Germany's rapidly growing capital city, demand for teachers, educators and kindergarten staff has been growing continuously which is why the number of people in jobs in these areas has risen by 4,144 (+4.9%) to today's figure of 88,000. Employment also rose sharply again in Berlin's fast-growing I&C sector (+5,642) and its tourism-driven hospitality sector (+6,735). There is no sign of a slowdown in Berlin's employment boom in 2016. This is also confirmed, for instance, by a recent survey of medium-size companies conducted by DIW which found that every fourth company is planning to hire staff.

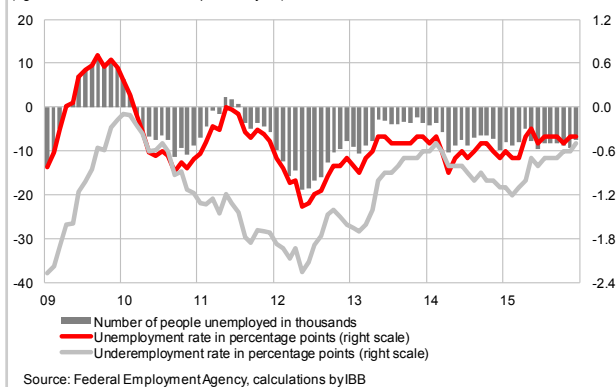
Regular employment

Change in percentage points against the previous year

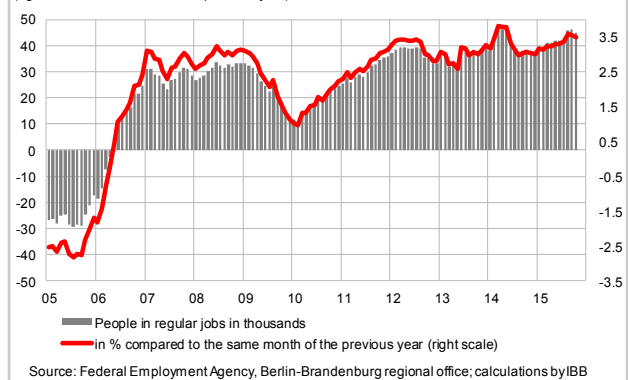


Source: Federal Employment Agency, calculations by IBB

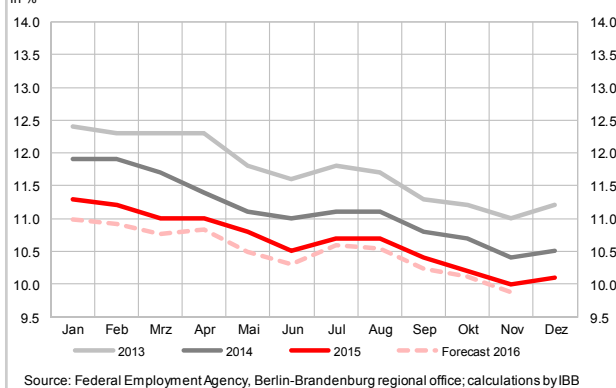
Change in unemployment
(against the same month of the previous year)



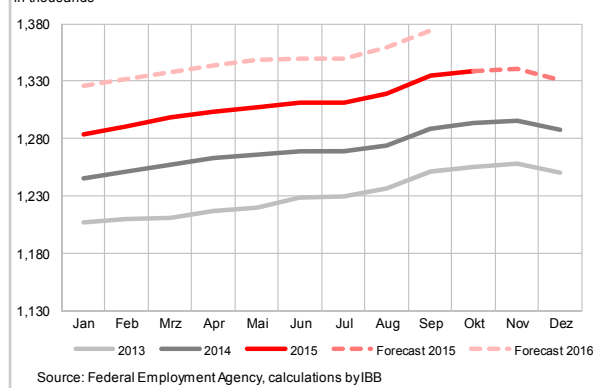
Change in employment
(against the same month of the previous year)



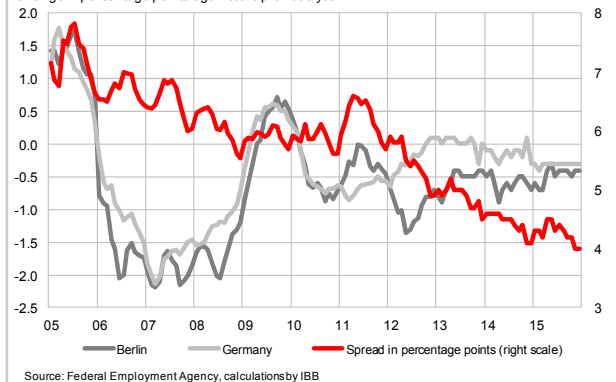
Unemployment rate
in %



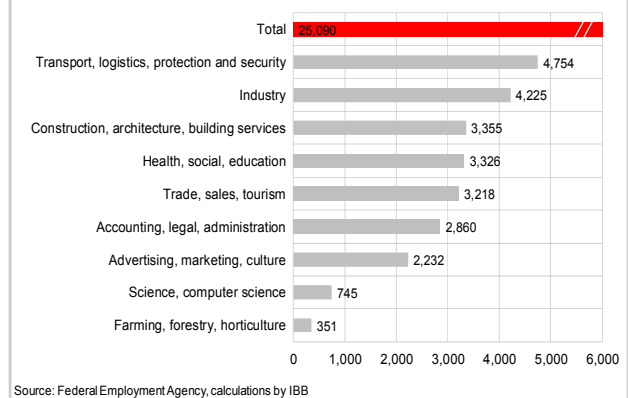
Regular employment
in thousands



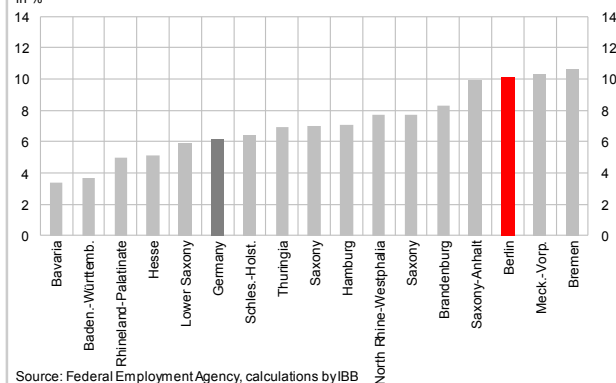
Unemployment rate in comparison
Change in percentage points against the previous year



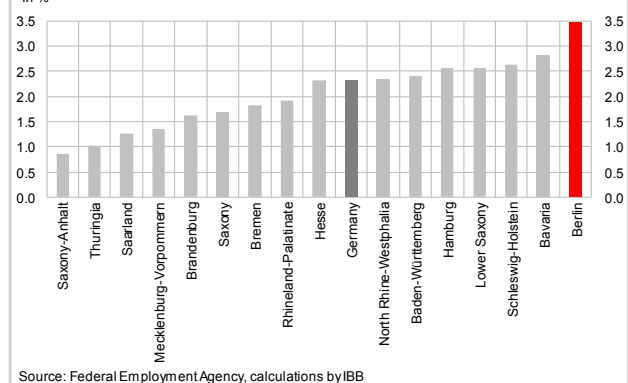
Job vacancies in December 2015



Unemployment rate in December 2015
in %



Change in employment in October 2015
in %



Taxes and loans

Much higher tax revenues

The overproportionate rise in employment figures and sales for Berlin-based companies on the one hand are leading to record tax revenues for the Federal Land of Berlin on the other. In the first eleven months of 2015, tax revenues rose sharply by EUR 591m (+5.0%) to EUR 12.4bn. Wage tax and VAT already accounted for more than half of this amount, i.e. EUR 3.9bn and EUR 3.5bn, respectively. Due to the strong increase in construction, property transfer tax also reached a record level totalling EUR 872m (+19.9%) in the period from January to November. Berlin's booming tourism is also a source of higher tax revenues. This is due, on the one hand, to accommodation tax (EUR 39.6m; +48.9%), and to higher VAT revenues from retail, restaurants, etc.

Due to the positive tax revenue trend, the Federal Land of Berlin was able to end the 2014 budget year with a fiscal surplus amounting to EUR 872m.

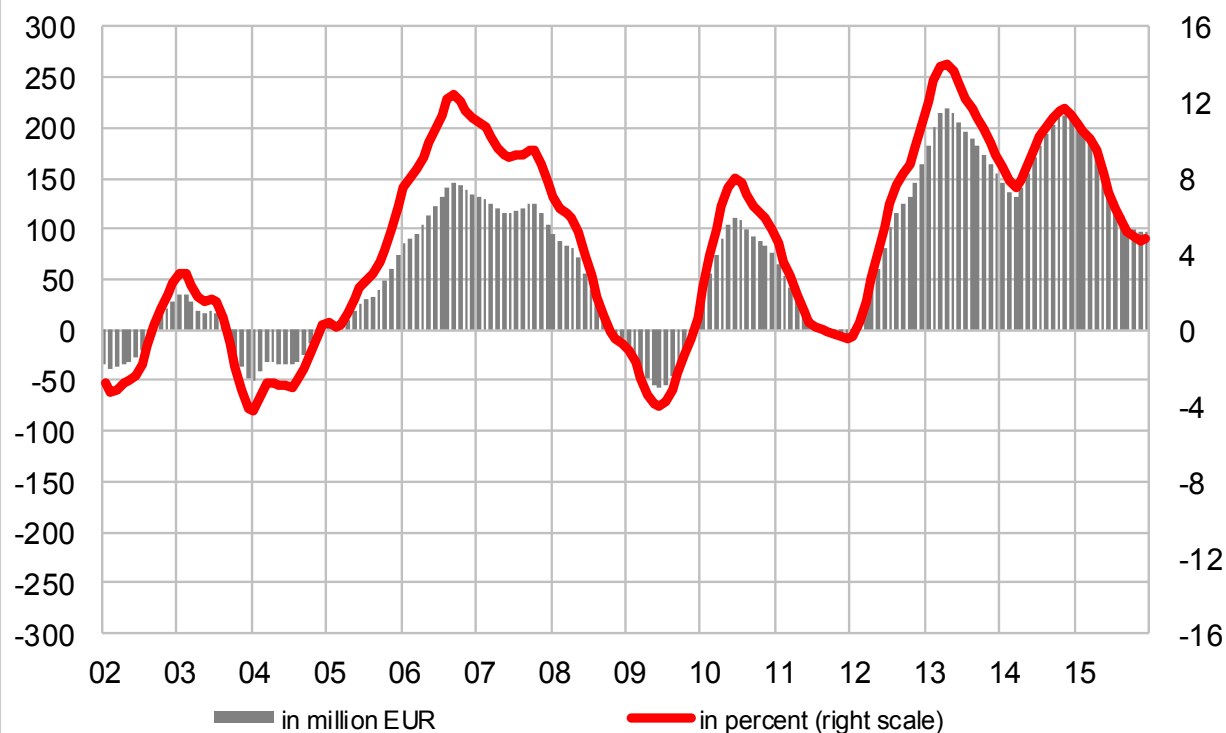
This now provides the Federal Land of Berlin with financial freedom. EUR 434m of this surplus was used to service debt and EUR 438 for the SIWA infrastructure fund (special infrastructure fund to finance city growth). Stepped up public investment in education and transport infrastructure will ultimately improve conditions for production in Berlin. A more attractive location will have an additional positive impact on private investment.

Mortgages on the rise

Now that a growing number of old loans were prematurely repaid in recent quarters and replaced with loans at more favourable interest rates, the stock of housing mortgages held by local banks has recovered significantly. In the third quarter of 2015, this rose by EUR 704m (+3.0%) against the previous year, totalling EUR 24bn. Due to the construction boom in Berlin, it can be assumed that the granting of new loans, in particular, has once again been revived.

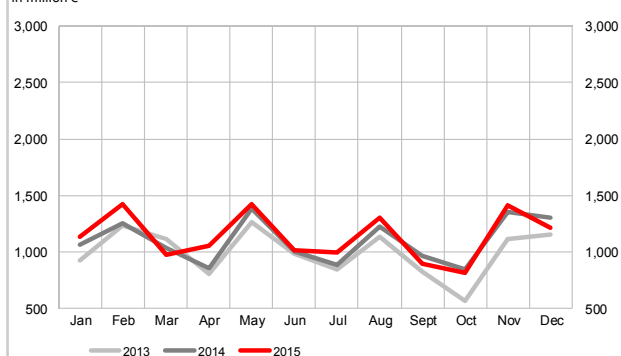
Berlin's tax revenues before tax distribution

Monthly trend values, change against the same month of the previous year

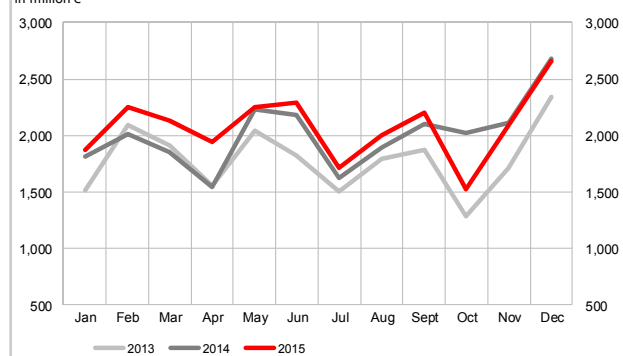


Source: Senate Department of Finance; calculations by IBB

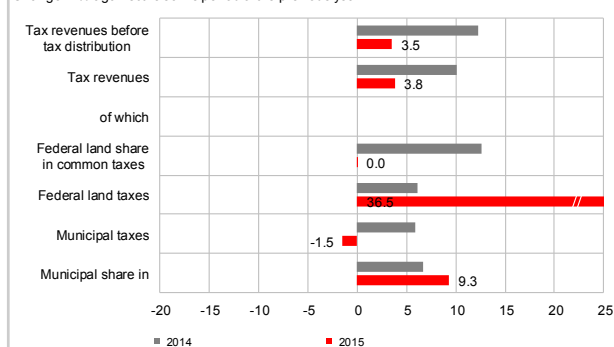
Berlin's tax revenues
in million €



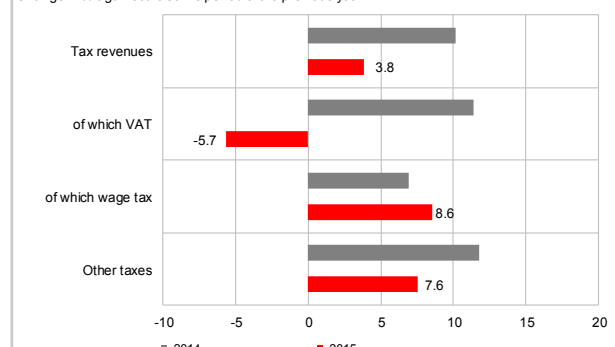
Tax revenues before tax distribution
in million €



Tax revenues of the Federal Land of Berlin
Change in % against the same period of the previous year

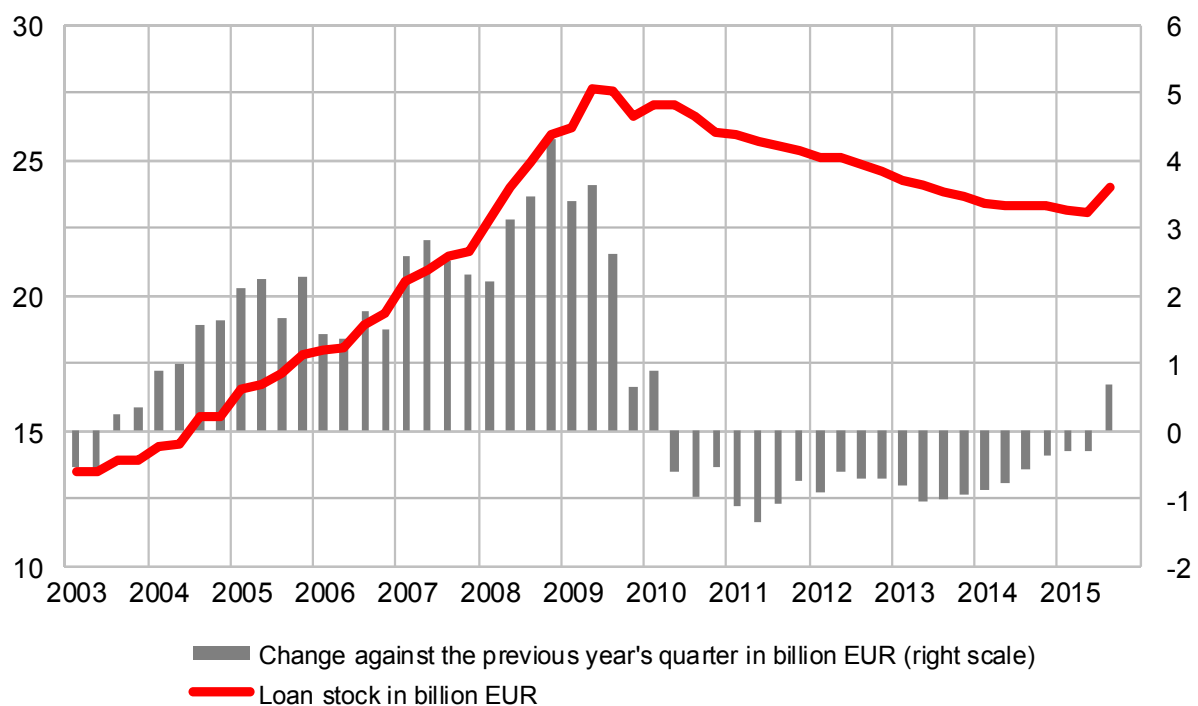


Tax revenues broken down according to types of taxes
Change in % against the same period of the previous year



Mortgages

Loan stock of all bank branches in Berlin



Conclusion

Prospects also good for 2016

The really big difference between 2016 and the previous year is that the US Federal Reserve is the first major central bank to attempt a departure from an extremely loose monetary policy. The decisive factor will be the speed at which monetary policy normalises. This depends primarily on whether the increase in wages picks up, signalling higher inflation. It can be assumed that the US economy is approaching full employment and will reach sound growth again in 2016.

In China, on the other hand, growth will continue to decline in 2016. That being said, however, there will be no hard landing. In 2016, government banks will also supply highly indebted companies with loans. All in all, the Chinese economy will see comparatively slight growth in the coming years and will be slow to recover.

This upward trend in the eurozone will continue slowly. This will be primarily supported by extremely loose monetary policy and to a growing degree by the fiscal policy due to the petering out of austerity measures. On top of that, the decline in oil prices and the devaluation of the euro will continue to have an impact into much of 2016. Moreover, the turnaround in interest rates in the eurozone is still a long way off.

In Germany, conditions for continued growth are still favourable. In 2016, Germany's economy will also benefit overproportionately from the ultra-loose monetary policy of the ECB and historically low interest rates. Although the slowdown in growth in China and the crisis in some emerging countries are impacting the export-orientated German economy more than other western industrialised countries, Germany's economy will continue to demonstrate its resilience. A decline in demand from China can be largely offset by exports to other industrial countries. Consumption, backed by growing employment, rising wages, low inflation and low interest rates will continue to be a strong pillar of growth in 2016. All positive impact factors will continue to be felt in 2016. That's not to forget government consumption spending on refugees who also represent total economic demand. This, however, is only a temporary economic effect for the coming years. Following a slight dip in growth in winter, Germany's economy is generally set to increase strongly again over the course of the next year (1.8%).

In Berlin, economic momentum will continue in 2016 too. That being said, the coming months are likely to be rather mixed for Berlin's economy. Uncertainty related to the geopolitical crises in the Middle East, refugee movements and worries about economic developments in important emerging countries could have a dampening effect on Berlin's economy.

The situation for consumers, on the other hand, has not been this good for a long time. Increases in real wages in recent years and the introduction of the minimum wage have now arrived in the pockets of employees while consumer prices remain flat and energy prices decline. Low interest rates do not offer an incentive to save money. The savings rate in Berlin has been falling continuously since 2008 and currently totals 7.6% of available income (Germany: 9.1%). Consumption in Berlin is also being additionally driven by the lasting boom in tourism. On top of that, there is a growing number of people moving to the city. The beneficiaries of this good consumption climate in Berlin will be the retail sectors and services related to consumption.

Berlin's labour market will continue to benefit from the fast-growing services sector and a booming tourism industry. Employment will continue to rise in 2016, however, there will be no decline in unemployment. The reason for this is the significant rise in the number of people looking for jobs as a result of inner-European labour migration and the influx of refugees. The high number of asylum seekers is especially likely to have an adverse impact on declining unemployment next year. Following several years of declining unemployment in Berlin, this figure can be expected to stagnate throughout 2016. In a matter of years, however, the many refugees currently coming to Berlin could become an important pillar of Berlin as a growing city.

In 2016, Berlin's economy is expected to grow by 2.0%. Growth will be driven by high consumption combined with continuously low oil prices and persistently high immigration figures. Favourable wage developments will also contribute to growth.

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