

Berlin *Konjunktur*

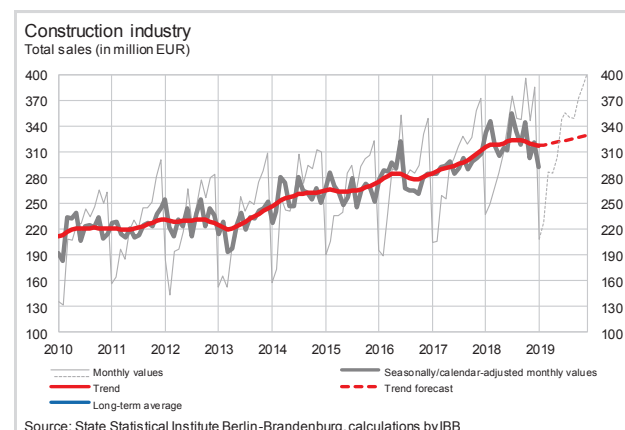
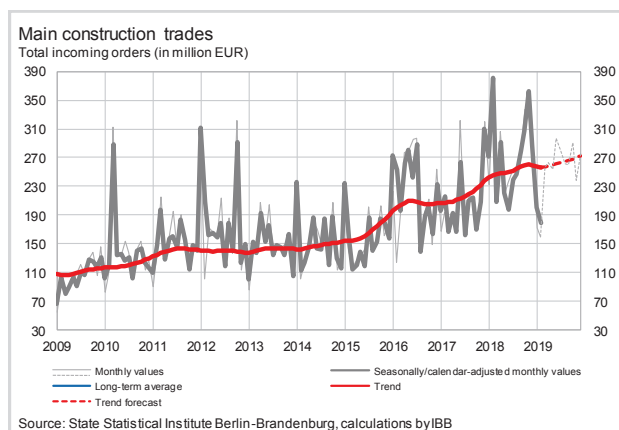
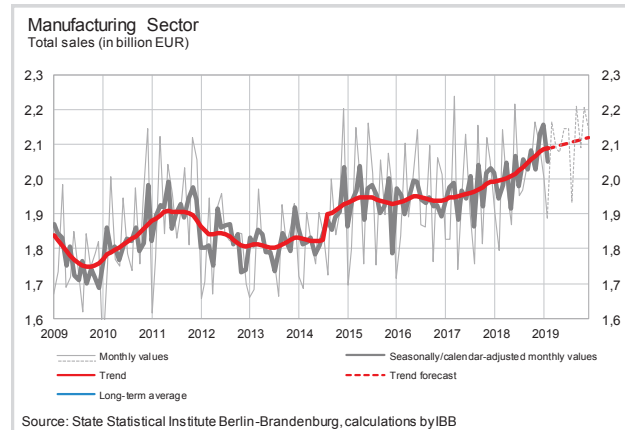
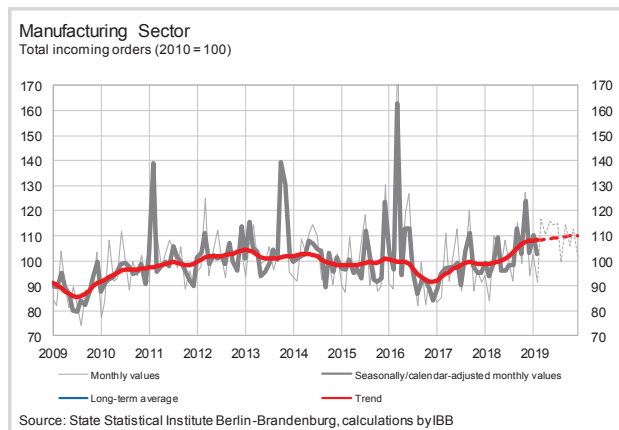
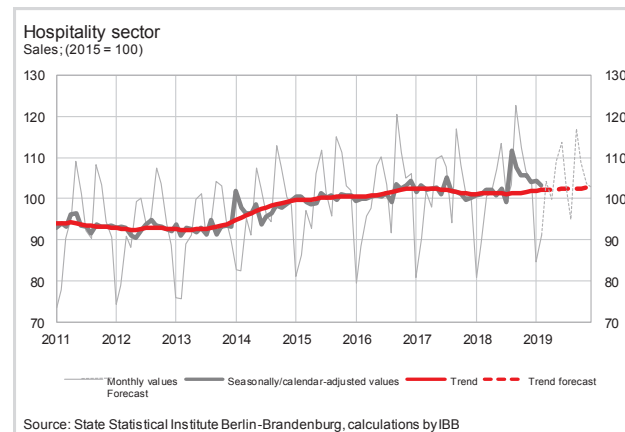
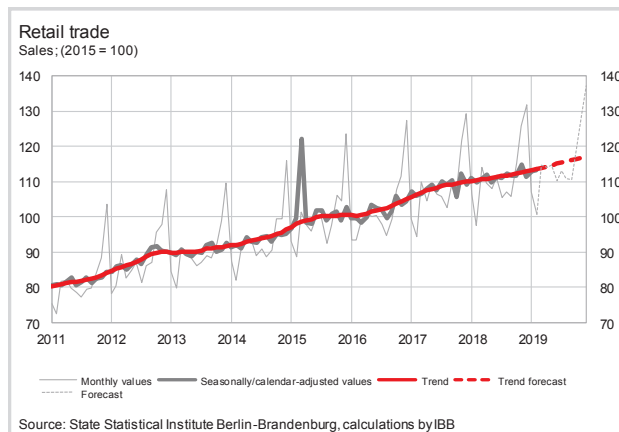
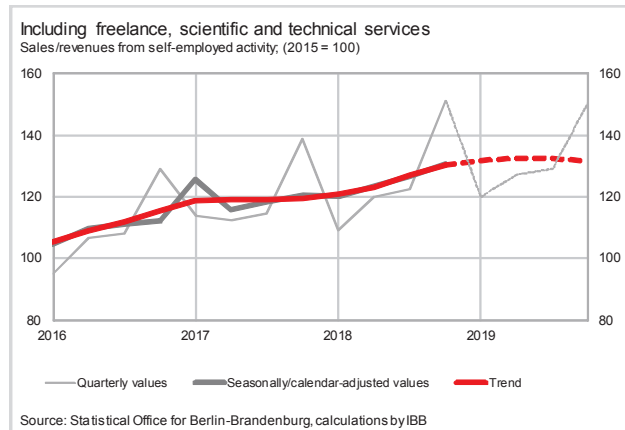
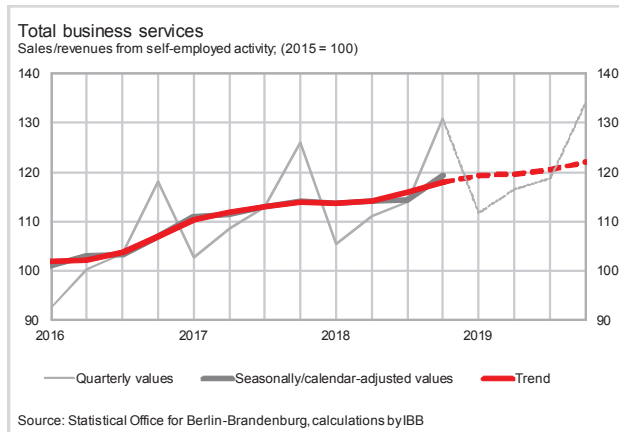
Headwind for the Economy

April 2019

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Seasonally and calendar-adjusted economic data/trends



Abstract

Slight cooling down of Berlin's economy

Berlin's economy can look back on a positive 2018 in which it managed to thrive despite a harsh international climate. The decline in foreign trade due to international uncertainty was absorbed by a strong domestic economy. Consumer spending in Berlin, the number of tourists as well as investments by public authorities and private companies have all risen. However, the economic cycle has reached its peak and Berlin's economy is likely to slow down next year. That being said, Berlin's growth in 2019, at just under 2%, is likely to remain well above the national increase of 1.0%.

Continuing over-utilisation of capacities in Berlin's economy will slow growth in the coming quarters. The shortage of skilled workers is increasingly weighing on the economy which has been expanding for a long time. This is particularly evident in the business services sector where employment growth was for a long time twice as high as in the economy as a whole and has now fallen to an average level of 3.5%. Capacity bottlenecks are also causing problems for the construction industry as can be seen by the record level of orders on hand.

Employment rises above the national average

Consumption by households in Berlin is supported by the historically good labour market. At the end of 2018, the number of people in regular jobs once again rose significantly against the previous year, up by 53,600 to just under 1.51 million. With a growth rate of 3.7%, Berlin is the leader among the federal states and close to 1.5 percentage points above the German average. Over the past three years, the total number of people in regular jobs in Berlin has risen by more than 170,000. Even though Berlin's labour market is extremely dynamic, 153,100 people were still registered as unemployed in February 2019. This corresponds to an unemployment rate of 7.9% (Germany: 5.3%). The gap between Berlin's employment rate and the national figure fell from 7.8 percentage points at its peak (May 2003) to recently 2.6 percentage points. If, however, the number of people undergoing vocational integration or continuing professional development is also included in the unemployment figure, the number increases to 221,100 people without jobs.

Slowed growth in the services sector

Business service providers, in particular, have made an above-average contribution to employment growth up to now. In 2018, employment still grew by 3.5%, but only on the same level as the rest of the country. The slowdown in employment growth was due to the transport and storage sub-sector where the insolvency of a former major Berlin-based aviation company reduced the number of people in jobs by around 6.8%. In the booming field of information and communication, however, employment growth was still strong at 8.5%. Although the 2.5% increase in sales recorded by service companies in Berlin was robust, it was far behind the figure reached during the same period of the previous year (+9.5%). Accounting for just under 30% of Berlin's sales, this economic sector continues to play a key role in Berlin's economic development.

A strong year for industry

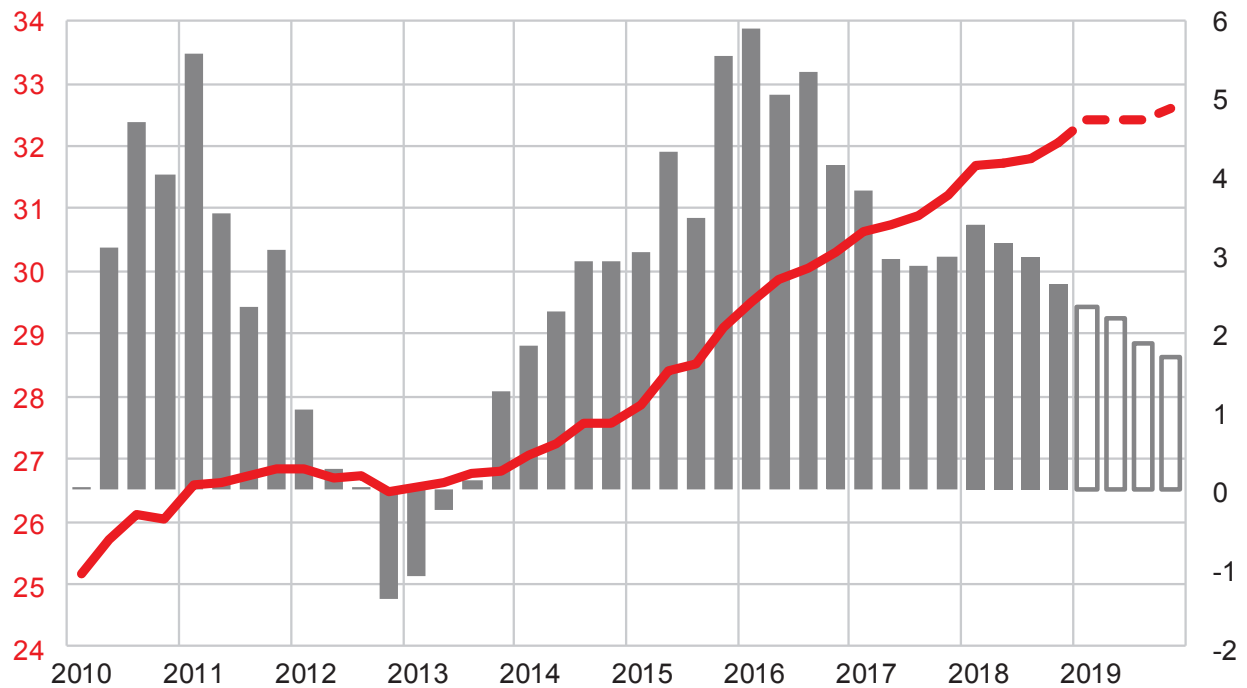
While order intake in 2017 was still 5.8% below the previous year's level, industrial orders were already reported to be up by 4.7% in 2018. Domestic orders especially rose by 15.5%, but orders from abroad also increased significantly (-1.4%). After a decline of EUR 400 million in gross domestic product in 2017, Berlin's industrial sector is likely to have once again made a positive contribution to Berlin's economic growth in 2018 with sales recorded by industrial companies in Berlin, for instance, up by 2.3% year-on-year to EUR 24 billion.

Construction industry booming

The construction industry will once again make a positive contribution to Berlin's growth this year. In 2018, sales in this industry rose steeply by 17.5% to EUR 4.5 billion. Construction orders also rose by 31.0%. That being said, however, construction activity is slowing down especially due to the shortage of skilled workers in many construction and craft trades, a lack of capacity, but also increasingly due to complex building regulations, land sites that are more difficult to develop as well as rising construction costs. In 2018 and 2019, around 18,000 or 20,000 apartments, respectively, are due to be completed.

GDP development in Berlin

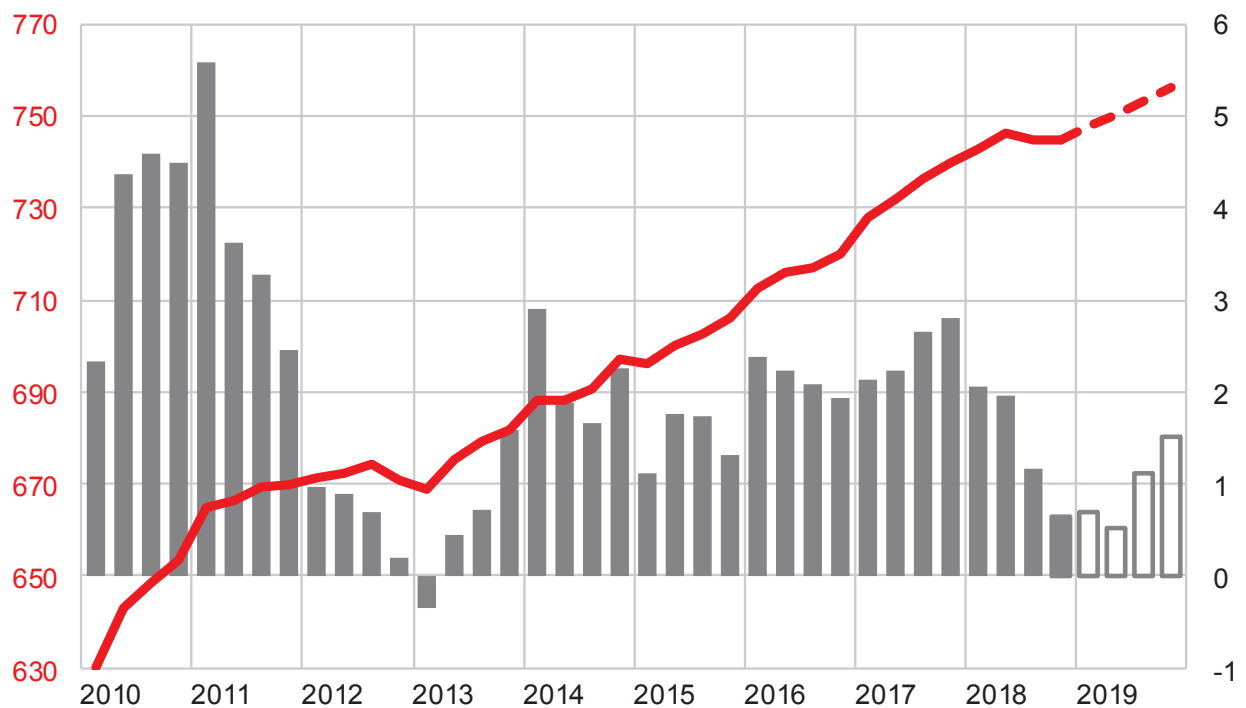
Billion EUR in 2010 prices (left scale); growth rates against the previous year in % (right scale)



Source: Statistical Offices of the Laender, calculations by IBB

GDP development in Germany

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



Source: Destatis, calculations by IBB

Business services

Sales: Slowed growth

The services sector is losing some of its momentum, but remains an important pillar of Berlin's economy. In 2018, companies providing business services recorded a moderate 2.5% increase in sales compared to the previous year, which is significantly lower than in 2017 (+8.7%). Sales in this segment of the economy total EUR 67 billion. Accounting for just under 30% of Berlin's sales, this economic sector continues to play a key role in Berlin's economic development.

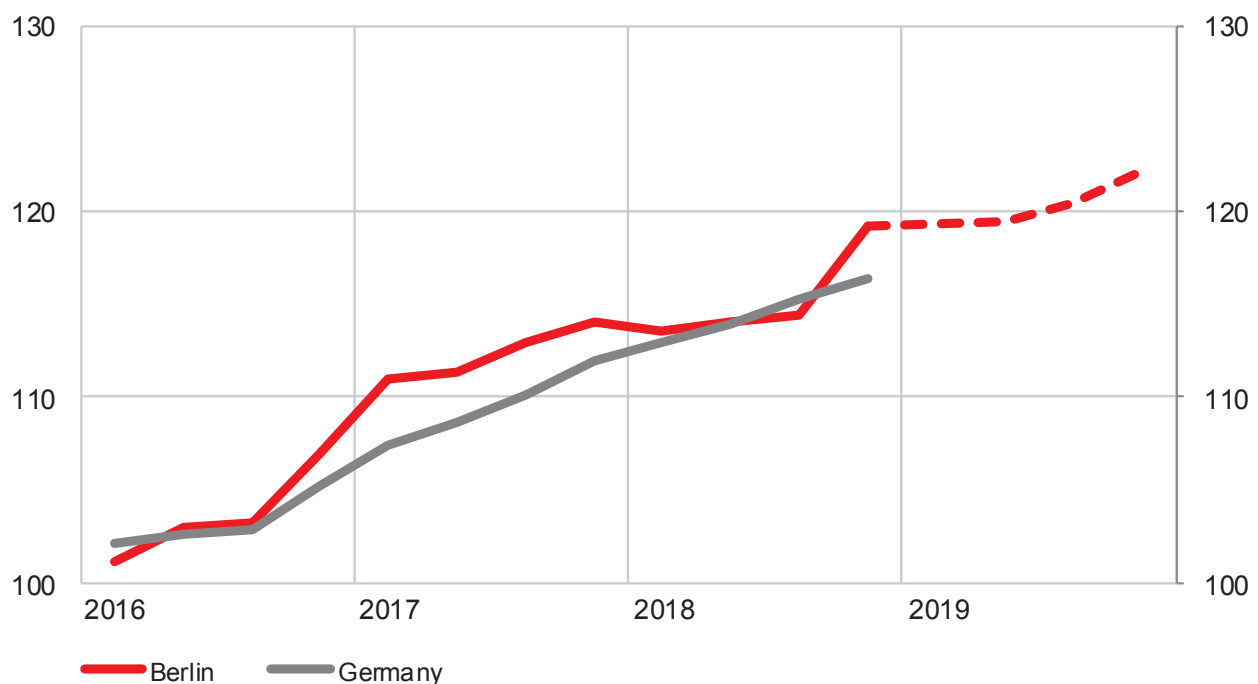
The slowdown can be attributed to the delayed impact of the insolvency of Berlin's largest aviation company on aviation revenue (-42.0%). Sales of other professional services also declined (-8.7%). However, this is a statistical rebound effect compared to the significant increases in the previous year (+31.6%). By contrast, travel agencies (+23.3%), management consultancies (+17.9%) and the core area of the digital economy (+11.0%) fared well.

Employment: Back to the Berlin level

In recent years, companies providing business services have greatly expanded recruitment, creating the majority of new jobs in Berlin. All in all, some 655,000 people are employed in the business services sector. In 2018, 3.5% more jobs were counted in this area than in the same period of the previous year. The previously above-average growth in employment has thus fallen back to the same level as Berlin as a whole. This development was due to the transport and storage sub-sector where the insolvency of what was Berlin's largest aviation company reduced the number of people in jobs by around 6.8%. The insolvency of another airline is likely to once again slow down the aviation sector next year. However, in the booming field of information and communication, employment growth was still strong at 9.0%. This sector includes the film industry (+6.1%) and the core sector of the digital economy (around 12%). All in all, business services will continue to make a positive contribution to economic development in Berlin in 2019. However, growth in employment will decline somewhat due to shortages of skilled labour.

Business services – sales development

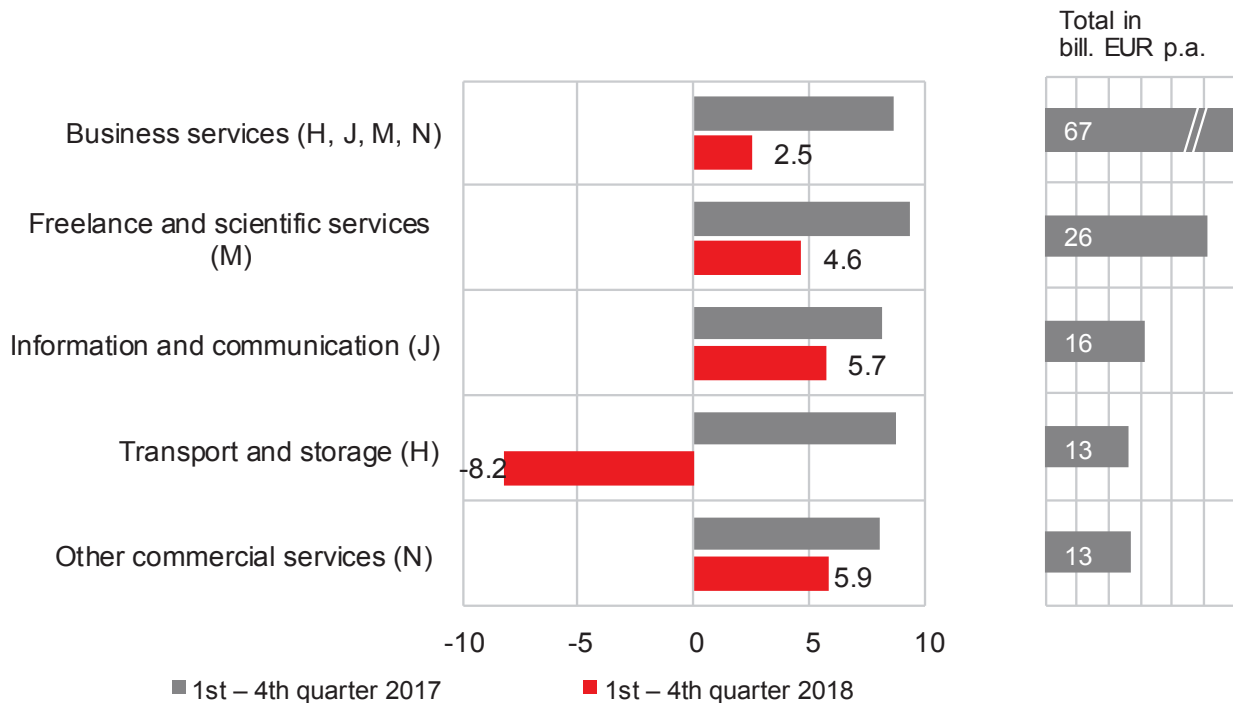
2015 = 100; seasonally/calendar-adjusted quarterly values



Source: Statistical Office for Berlin-Brandenburg, Destatis, own calculations

Business services – sales trend

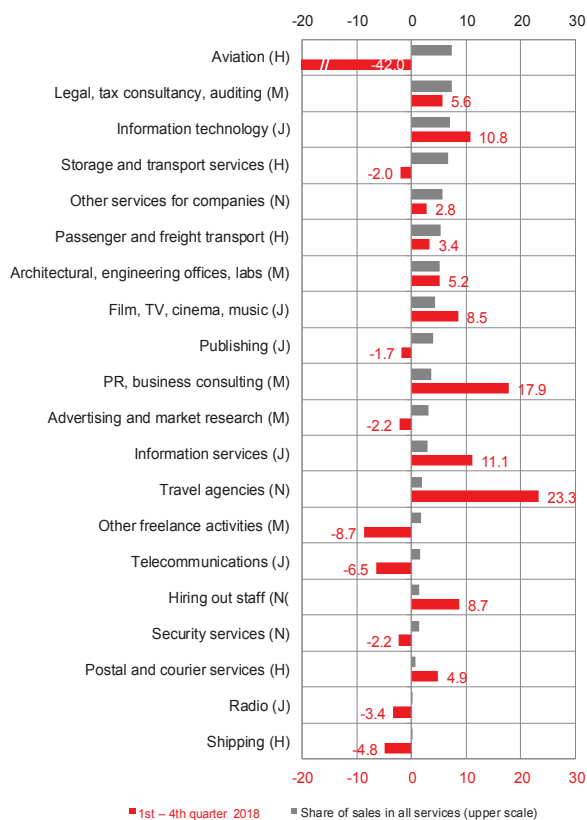
Change in % against the same period of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Selected services sectors – sales trends

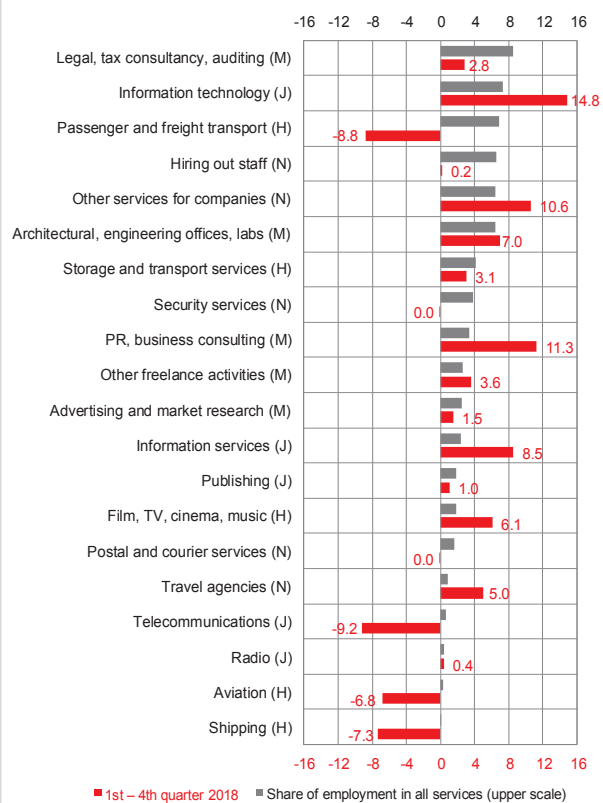
Change in % against the previous year; % share in sales



Source: Statistical Office for Berlin-Brandenburg, own calculations

Selected services sectors – employment trends

Change in % against the previous year; % share in employment



Source: Statistical Office for Berlin-Brandenburg, own calculations

Industry

Sales: Strong end to the year

Sales recorded by Berlin-based industrial companies were up 2.8% against the previous year. According to the Statistical Office for Berlin-Brandenburg, 338 Berlin-based industrial companies with 50 and more employees recorded sales totalling EUR 24.1 billion, EUR 9.9 billion of which was generated in Germany (share: 41%) and EUR 14.2 billion in foreign sales (share: 59%). Domestic sales in particular rose sharply by 5.8%, while foreign sales rose by only 0.7%.

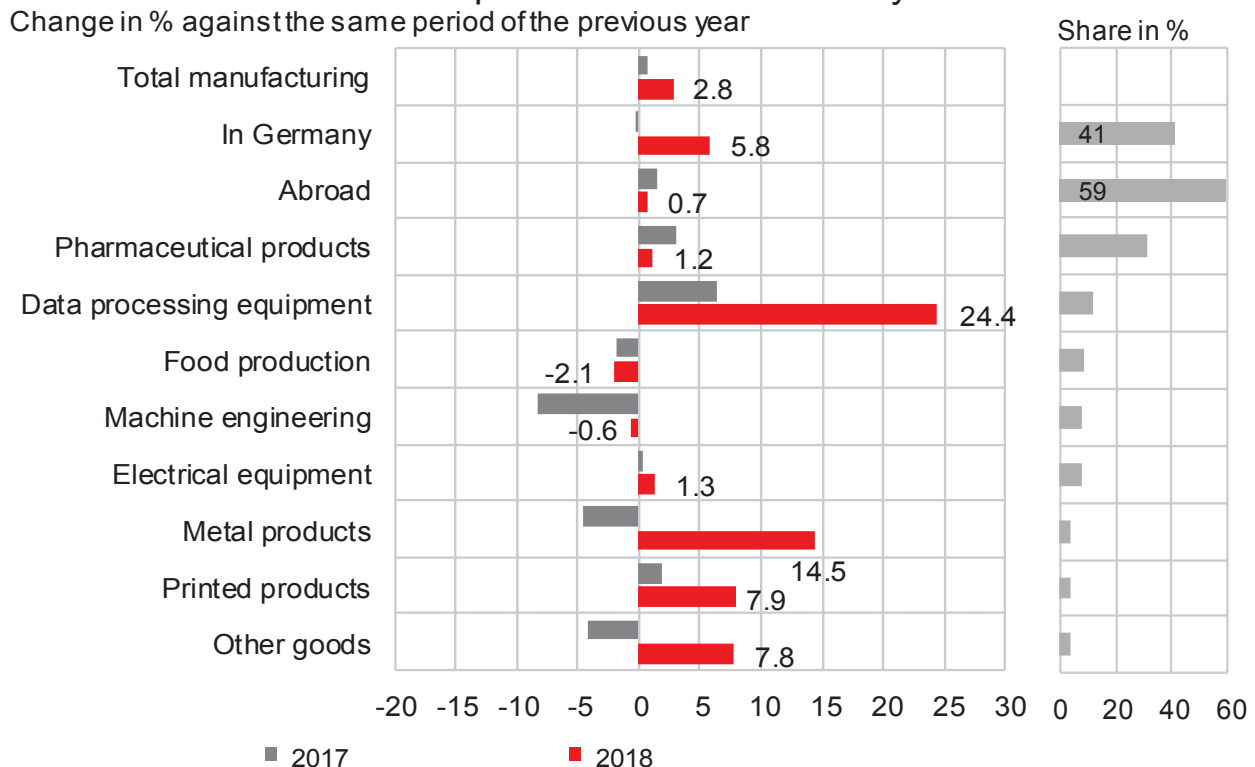
Manufacturers of data processing equipment (+EUR 508.0 million), manufacturers of metal products (+EUR 97.3 million), metal producers and processors (+EUR 60.8 million) and manufacturers of printing products (+EUR 52.9 million) recorded strong sales increases in 2018. The pharmaceutical industry, Berlin's industrial sector with the highest sales (share in industrial sales: 31%) was also able to significantly increase its sales by EUR 79.0 million. On the other hand, the mechanical engineering sector (share: 8.3%) reported a slight decline in sales of 0.6% (EUR -13.0 million).

Order books are filling up

While order intake in 2017 was still 6.0% below the previous year's level, industrial orders were already reported to be up by 5.1% in 2018. Domestic orders rose by 16.6% while orders from abroad dropped slightly (-1.4%). The increase was largely driven by producers of capital goods (+16.8%). Strong increases in orders were reported by manufacturers of data processing equipment (+24.8%), vehicle manufacturers (+17.2%) and metal producers and processors (+11.7%). On the other hand, orders fell in the mechanical engineering (-7.9%) and pharmaceutical production (-2.0%) sectors which are important for Berlin. As incoming orders and new jobs (+1.4%) stabilise, this should secure industrial sales for the beginning of 2019. Berlin's industry will make a positive contribution to the city's economic growth in 2019. However, the latest IHK survey suggests that the number of companies considering job cuts is increasing. According to the current spring survey by the Berlin-Brandenburg business associations, export-orientated sectors, such as the metal and electrical industries, are preparing for weaker international business.

Sales trends of the most important sectors of industry

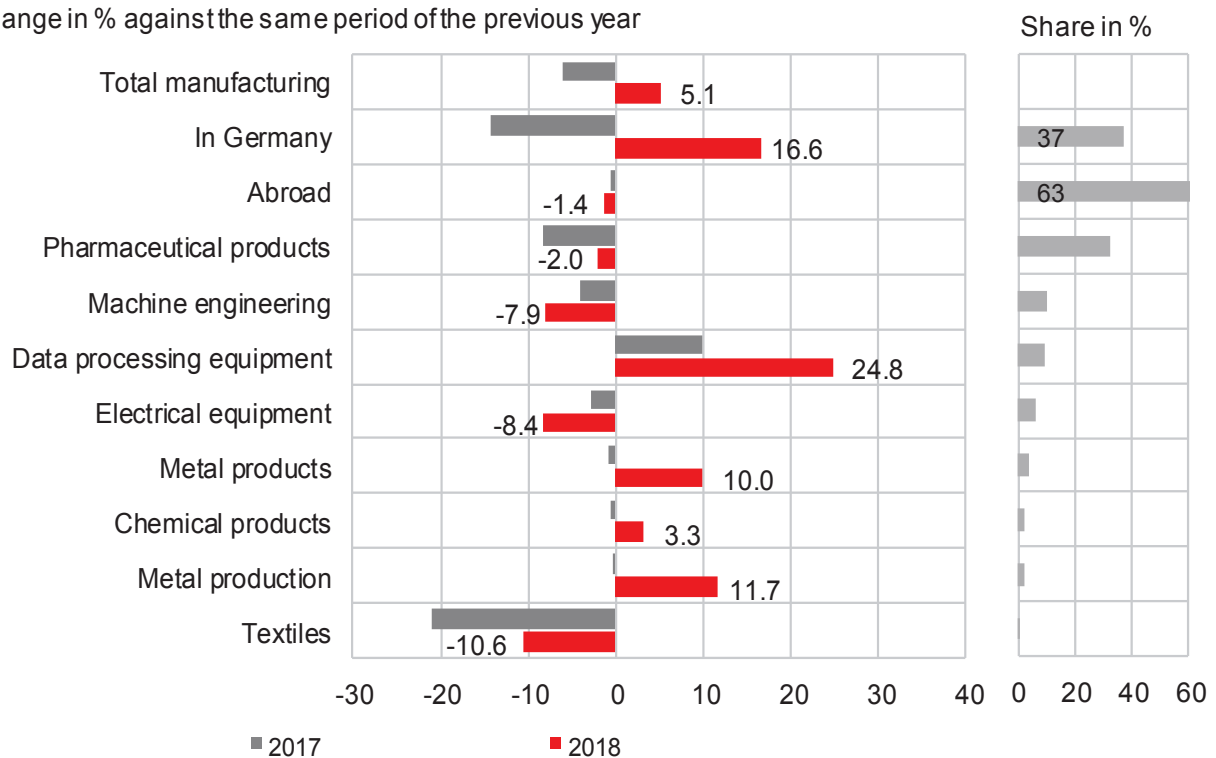
Change in % against the same period of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Incoming orders – important sectors of industry

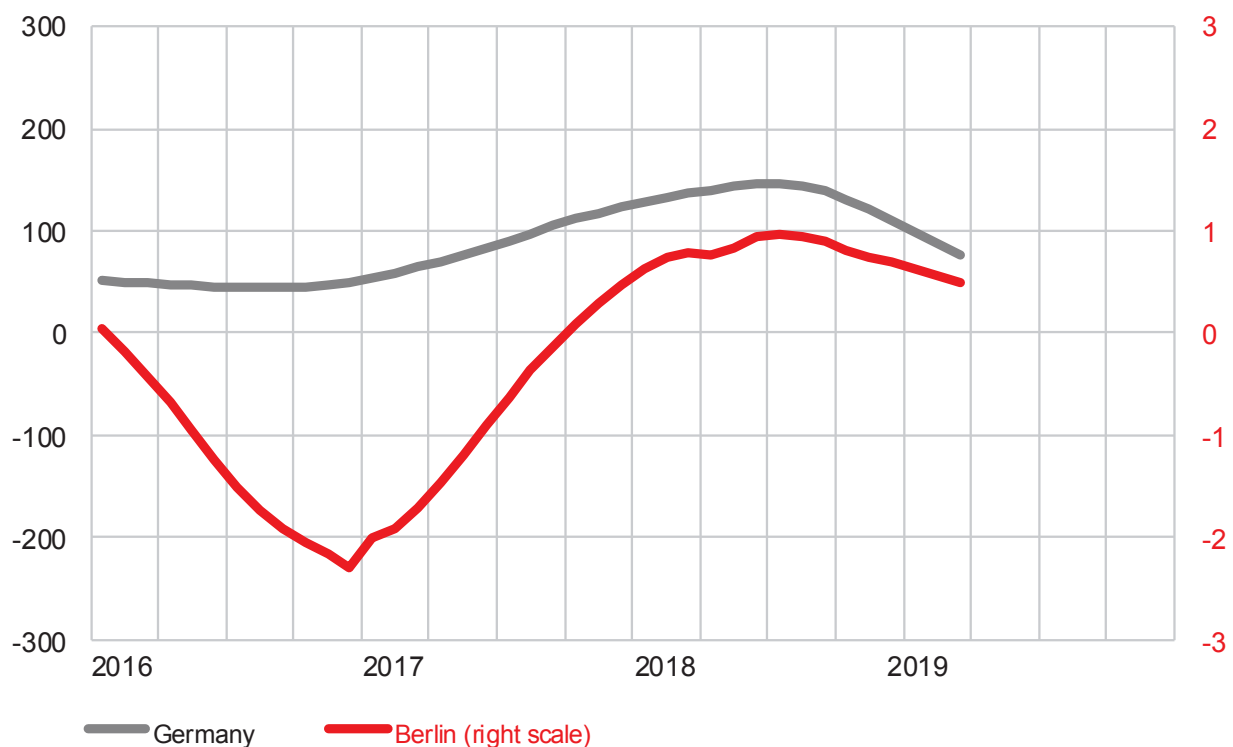
Change in % against the same period of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Jobs in industry

Moving 12-month average, change in 1,000s against the same month of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Exports

Uncertainty slows down foreign trade

Domestic and foreign policy uncertainties along with global trade disputes are putting pressure on incoming orders from abroad and clouding prospects for export-orientated industrial companies. In 2018, exports fell compared to the previous year by 2.3% to a total of EUR 14.5 billion. This is already the second decline after the -2.2% recorded in the previous year. German exports, on the other hand, rose by 3.0%.

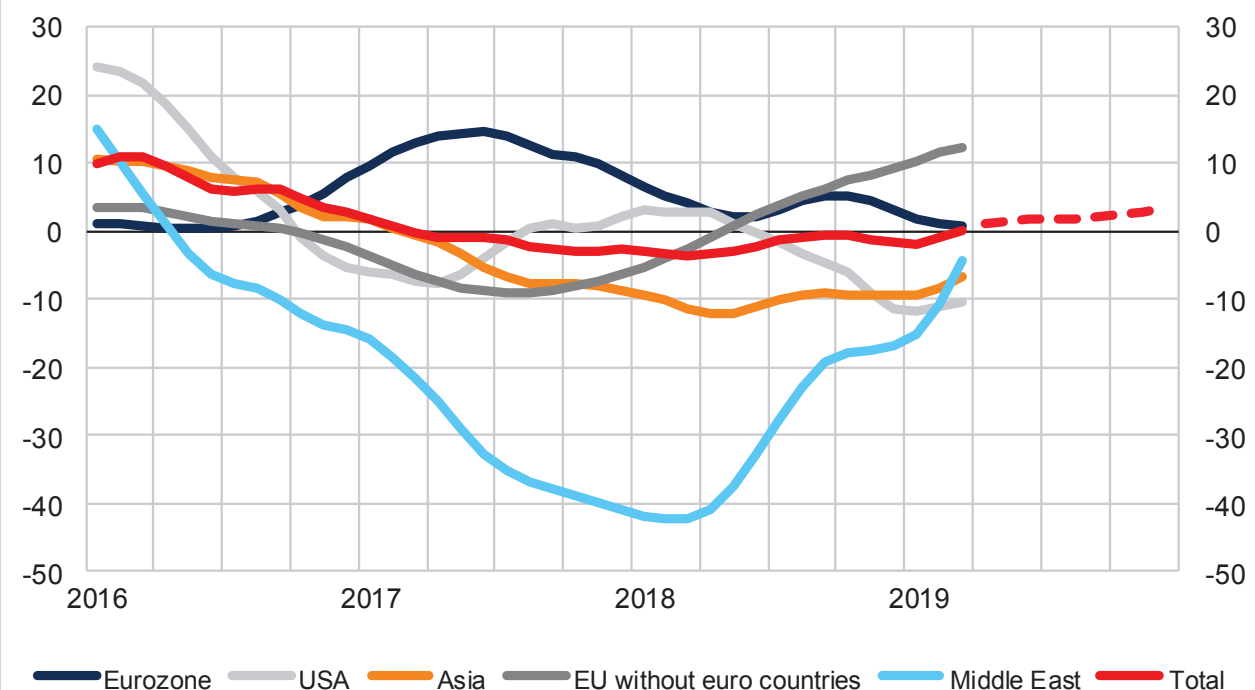
Berlin exported goods worth EUR 1.8 billion to the US, 1.6% less than in the previous year. For more than a decade now, the US has been by far the most important export country for Berlin (share of all exports: 12.6%). Strong economic growth in the US in 2018, the tax reform as well as infrastructure programmes are upping US demand for Berlin's capital goods. However, increasing uncertainty is having a dampening effect. In the US, demand is particularly strong for pharmaceutical products produced in Berlin; in this case, sales rose by EUR 29.5 million to EUR 405 million in 2018 (+7.9%). A trade conflict between the US and the EU could also have a negative impact on Berlin's traditionally strong trade with the US.

China is already burdened by this trade conflict. Exports from Berlin to China, the second most important export partner, are already down (-4.9% to EUR 920 million). Exports to France, Berlin's third most important export partner, increased by 0.9% (to EUR 854 million). Exports to Italy increased (+5.3% to EUR 787 million) and the country remains the fourth most important export country for Berlin. The UK is currently in sixth place (+9.7% to EUR 709 million). The ramifications of a chaotic Brexit could also affect Berlin, but to a lesser extent than other regions of Germany due to the city's low share of industry.

The eurozone, which currently accounts for 27.3% of Berlin's exports, is still on the road to economic recovery and exports are picking up (+3.0%). The balance for Berlin's exports in 2018 is generally restrained due to a climate of international uncertainty, and exports are expected to stabilise slowly in 2019. This will also depend heavily on whether companies in Berlin can succeed in securing major international orders.

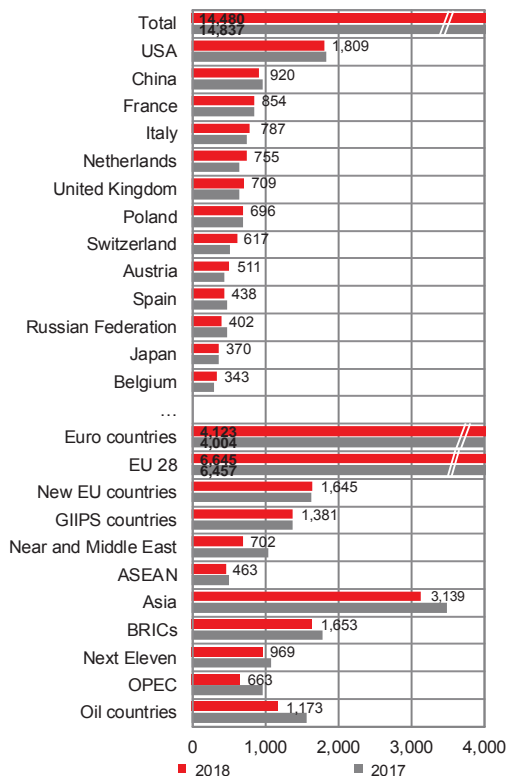
Berlin's exports

Monthly trends, change in % against the previous year



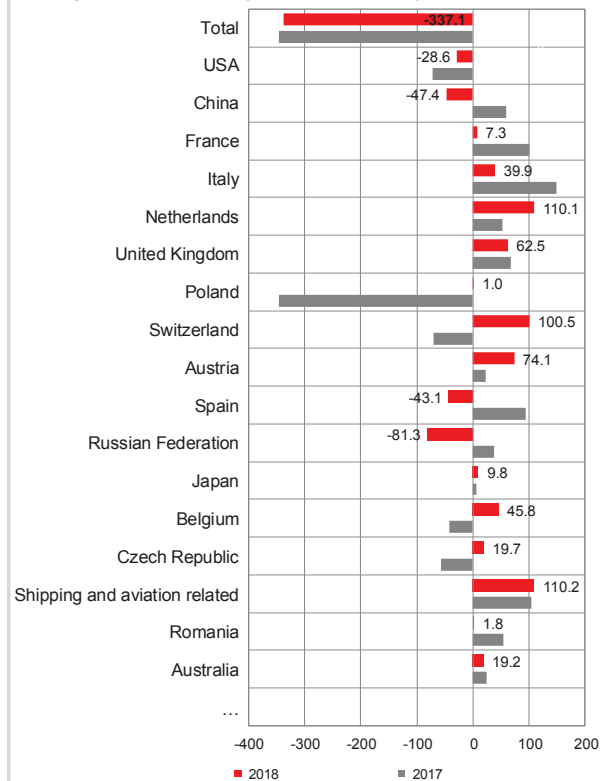
Source: Statistical Office for Berlin-Brandenburg, own calculations

Berlin's exports according to main customers in million EUR



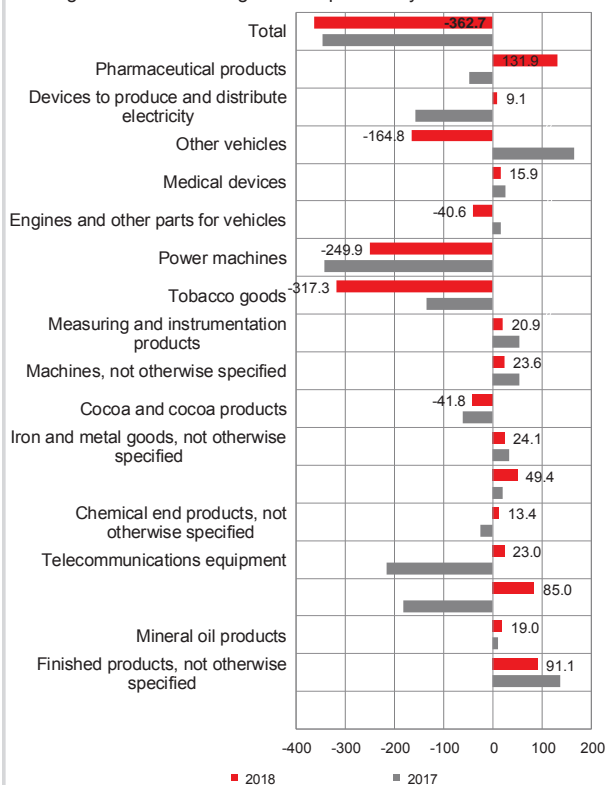
Source: Federal Statistical Office; own calculations

Export trends: most important export countries Change in million EUR against the previous year



Source: Federal Statistical Office; own calculation

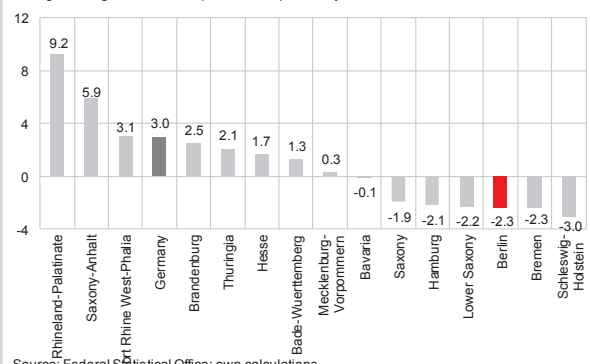
Export trends: most important material groups Change in million EUR against the previous year



Source: Federal Statistical Office; own calculations

Exports December 2018

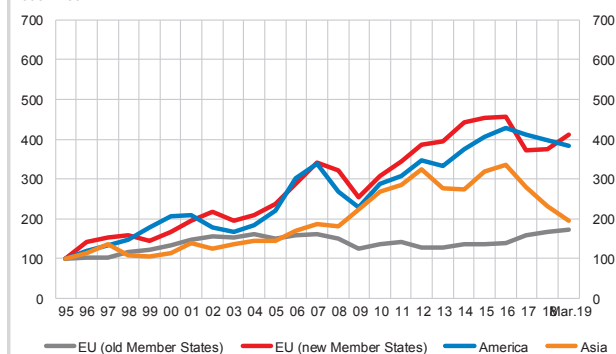
Change in % against the same period of the previous year



Source: Federal Statistical Office; own calculations

Exports acc. to groups of countries

1995 = 100



Source: Statistical Office for Berlin-Brandenburg, own calculations

Main construction trades

Decline in building permits

Since 2011, an average of 40,000 people have moved to Berlin every year and demand for homes is growing continuously. At least 20,000 new apartments would be needed to house this number of people each year. However, only 15,669 new apartments were in fact completed in 2017. The reason for this is the record backlog of approved but not yet completed apartments, which currently stands at 58,460 (+15% compared to the previous year). In addition, building permits continued to decline in 2018 despite increased political and public attention. A mere 24,218 apartments were approved (-1.7%), including 20,739, i.e. 86%, new buildings (-3.4%). The demand gap cannot be closed in the short term. Construction activity is being slowed down especially by the shortage of skilled workers in many construction and craft trades and by already over-utilised capacities. This is reflected in the order backlog in the main construction trades which rose by 12.1% to EUR 1.4 billion in 2018 – the highest level in 17 years. Increasingly complex building regulations, land that is more difficult to develop and rising construction costs are also weighing down on this sector. In 2018 and 2019, around 18,000 or 20,000 apartments, respectively, are due to be completed.

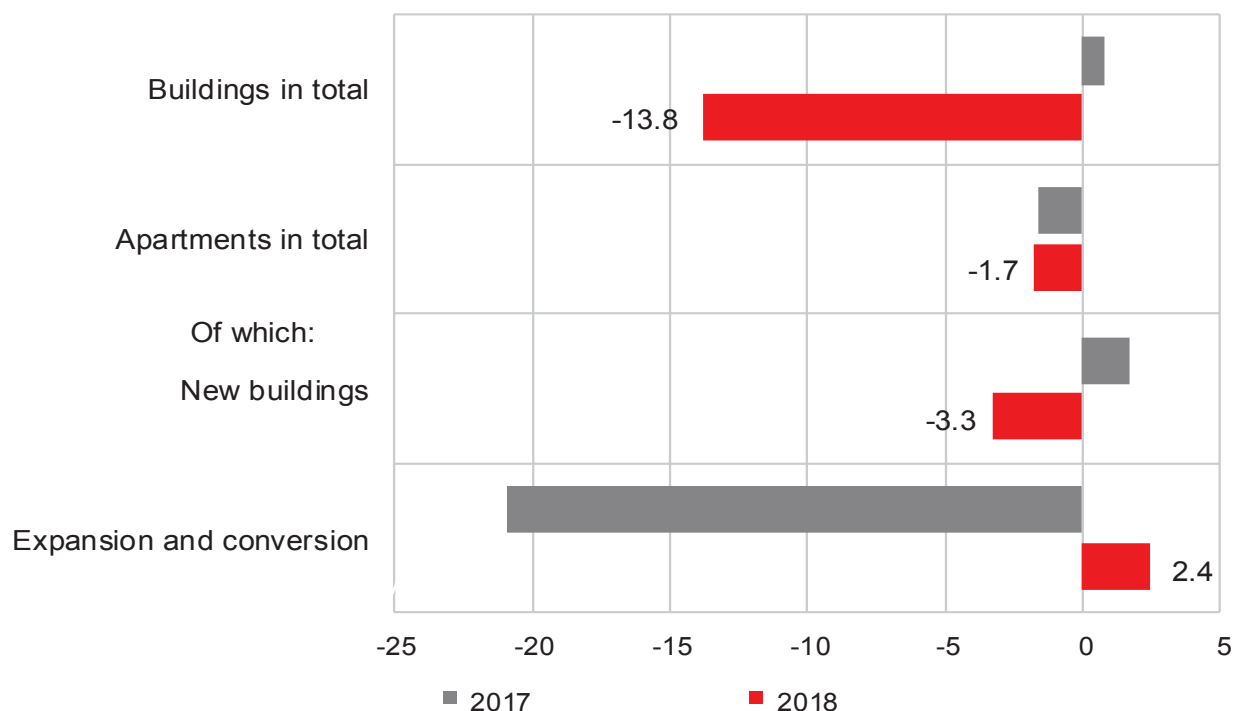
Construction sales benefit from strong demand

In 2018, sales in this industry rose steeply by 17.5% to EUR 4.5 billion. Residential construction (+18.2%) and commercial construction (+19.1%) generated around EUR 327 million and EUR 264 million, respectively, more sales than in the same period of the previous year. Sales in public construction also rose (+6.5%). In the finishing trades, sales of EUR 2.0 billion were generated in 2018, EUR 131 million more than in the previous year (+6.9%).

The trends in incoming orders in the main construction trades are also clearly on the rise. In 2018, construction orders were up by a third (31.0%) compared to the same period of the previous year. In total, construction contracts in this period amounted to EUR 3.3 billion. Residential construction (EUR 1.5 billion) and commercial construction (EUR 1.2 billion) accounted for the lion's share of this figure. The financial conditions for residential construction in Berlin will once again remain favourable in 2019. For example, earnings in Berlin will rise disproportionately compared to the rest of Germany and mortgage interest rates will remain low. The fact that demand for housing in Berlin exceeds supply can also be seen in rising rents and asking prices.

Building permits

Change in % against the same period of the previous year

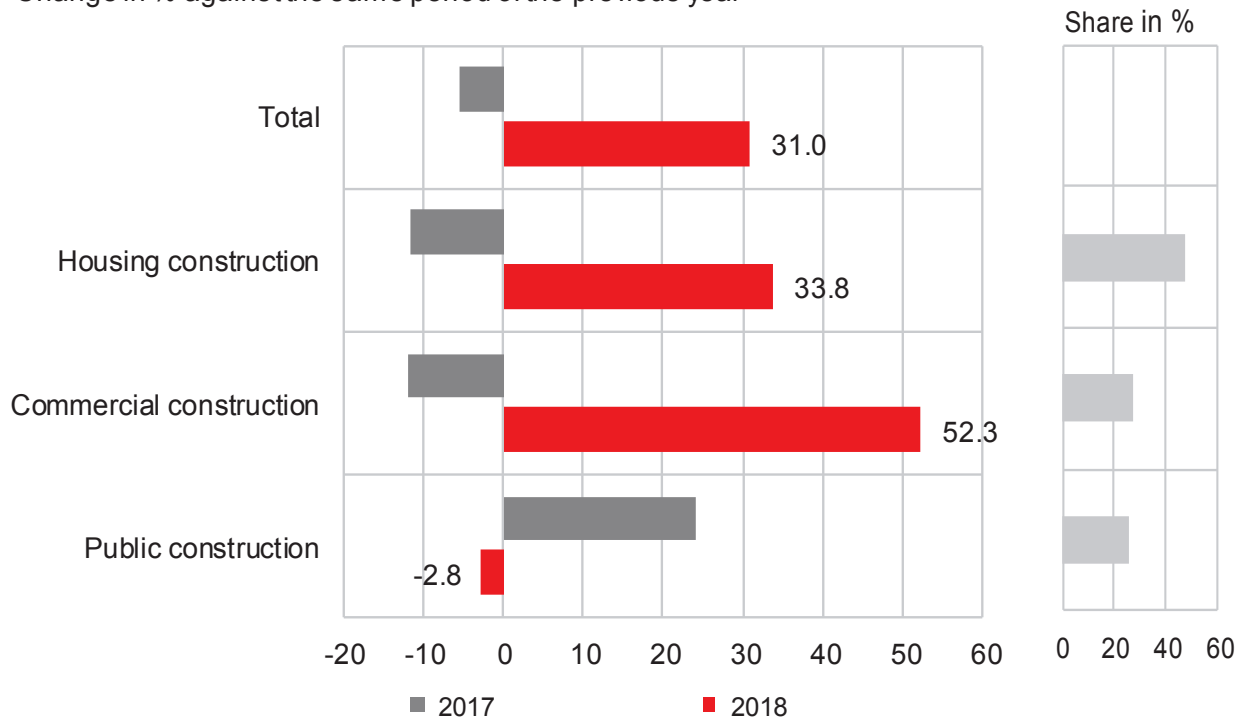


Source: Statistical Office for Berlin-Brandenburg, own calculations

Incoming orders trends

Main construction trades

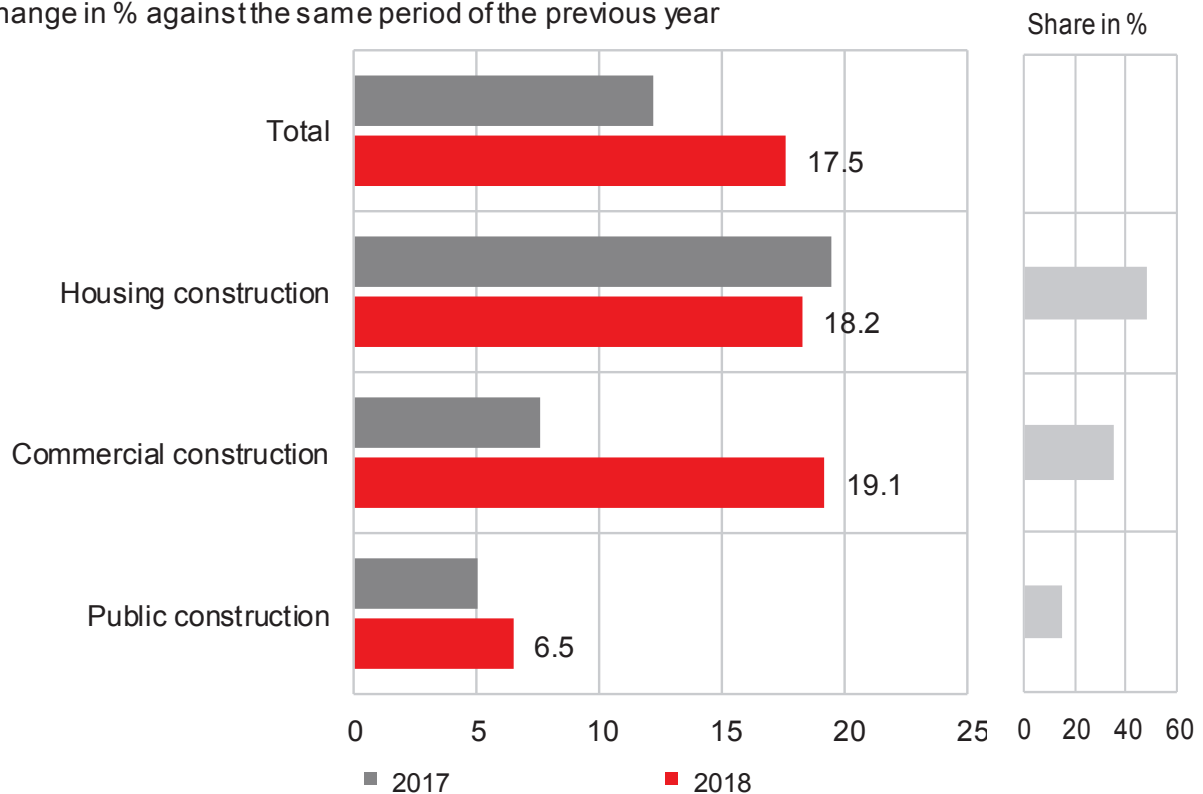
Change in % against the same period of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Sales trends – main construction trades

Change in % against the same period of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Tourism

Overnight stays rise to 32.9 million

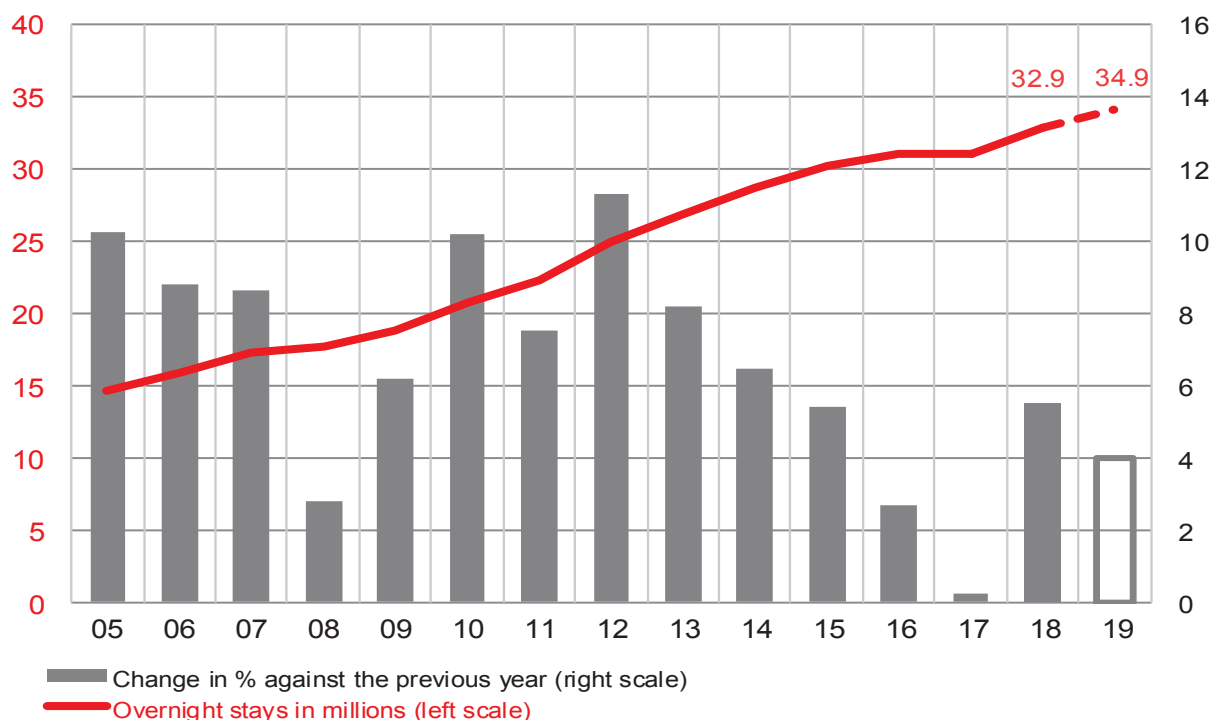
The number of guests reported by Berlin's accommodation industry rose to a good 14 million in 2018. This represents an increase of 4.1% compared to the previous year and was primarily due to foreign guests (+5.9%; +300,000), for example, spending their summer holidays in Berlin. The number of German guests rose by 3.0% to 8.1 million. A total of 536,000 more visitors checked into Berlin's hospitality sector.

The increase in the number of guests also meant an increase in the number of overnight stays. In 2018, 32.9 million overnight stays were recorded, around 1.7 million more than in the previous year (+5.5%). Due to the high number of overnight stays, the bed occupancy rate at Berlin's 796 accommodation facilities has once again risen significantly since the beginning of 2018 – by an average of 0.1 percentage points for roughly each 10,000 overnight stays. Year-on-year, bed occupancy rose by 1.4 percentage points to 60.3 in 2018, with a registered guest in Berlin staying 59 hours (2.5 days) on average and spending by tourists amounting to EUR 6.7 billion. These figures do not include people coming to Berlin for the day

or relatives and friends visiting the city who are not included in official statistics. These guest groups are believed to have spent around EUR 6.2 billion. Spending by tourists in Berlin in 2018 totalled around EUR 12.9 billion.

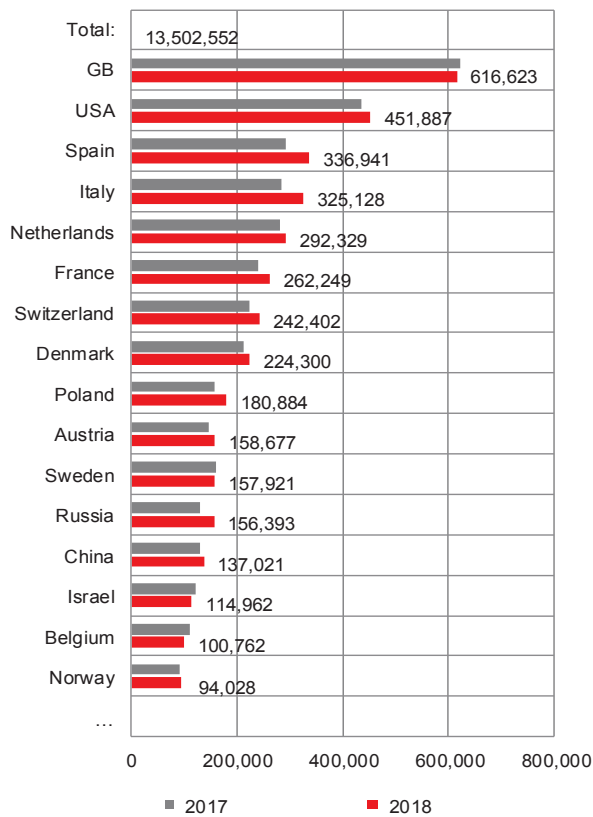
Foreign guests (1.1 million) accounted for the majority of the 1.7 million additional overnight stays compared with the previous year. More guests arrived in the city from Spain (+43,328), Italy (+40,129), Russia (+25,848) and Poland (+24,026). By contrast, fewer guests came from Belgium (-8,935), Israel (-7,237), and the UK (-6,576). Despite the insolvency of Berlin's largest airline, 34.7 million passengers flew to and from Berlin in 2018, 4.2% more than in the previous year. The insolvency of another airline could slow down development somewhat. Nevertheless, the number of flights should continue to stabilise in the coming months and tourist numbers should continue to rise. In 2019, overnight stays can be expected to be in the range of 35 million.

Overnight stays in Berlin
in millions



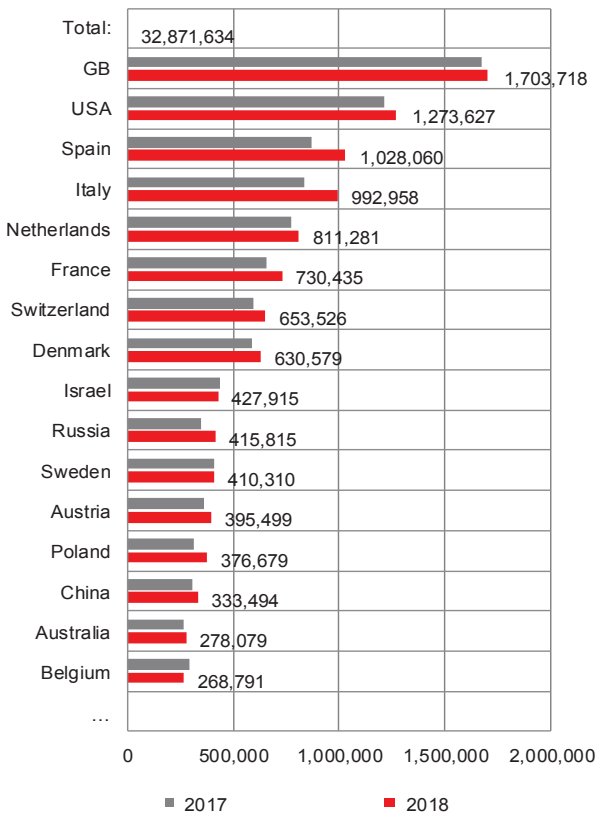
Source: Statistical Office for Berlin-Brandenburg, own calculations

Guests



Source: Federal Statistical Office; own calculations

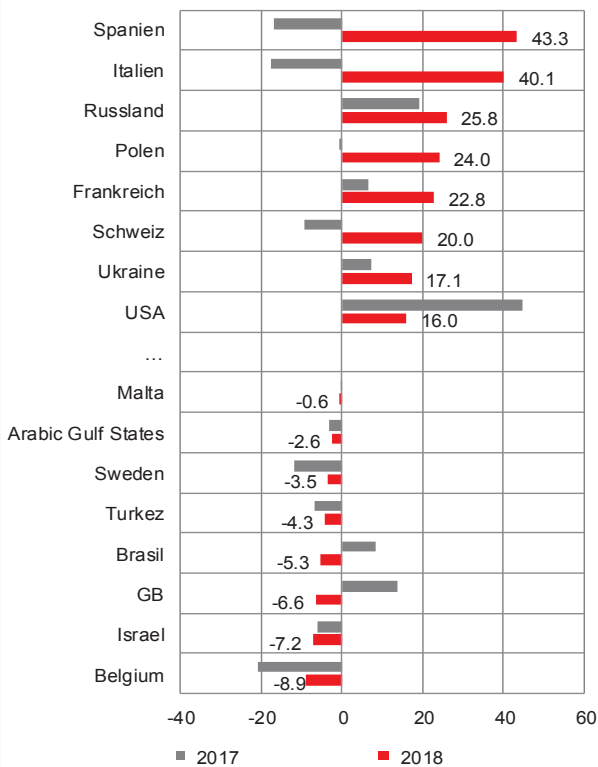
Overnight stays



Source: Federal Statistical Office; own calculations

Guest figures

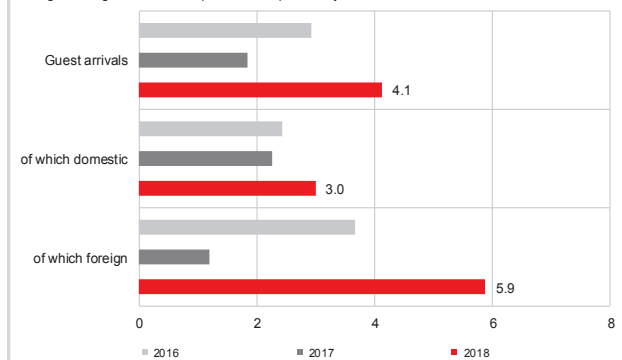
Change compared to the same period of the previous year in 1,000s



Source: Federal Statistical Office; calculations by IBB

Guests

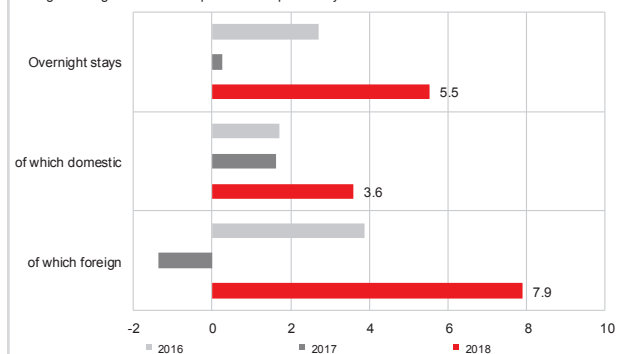
Change in % against the same period of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Overnight stays

Change in % against the same period of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Retail sector

Sales up by 3.2%

After satisfactory holiday season sales, Berlin's retail sector recorded an increase of 3.2% in price-adjusted sales in 2018 against the previous year, according to preliminary calculations by the Statistical Office for Berlin-Brandenburg. This means growth in Berlin's retail sector is higher than the German average (+1.7%).

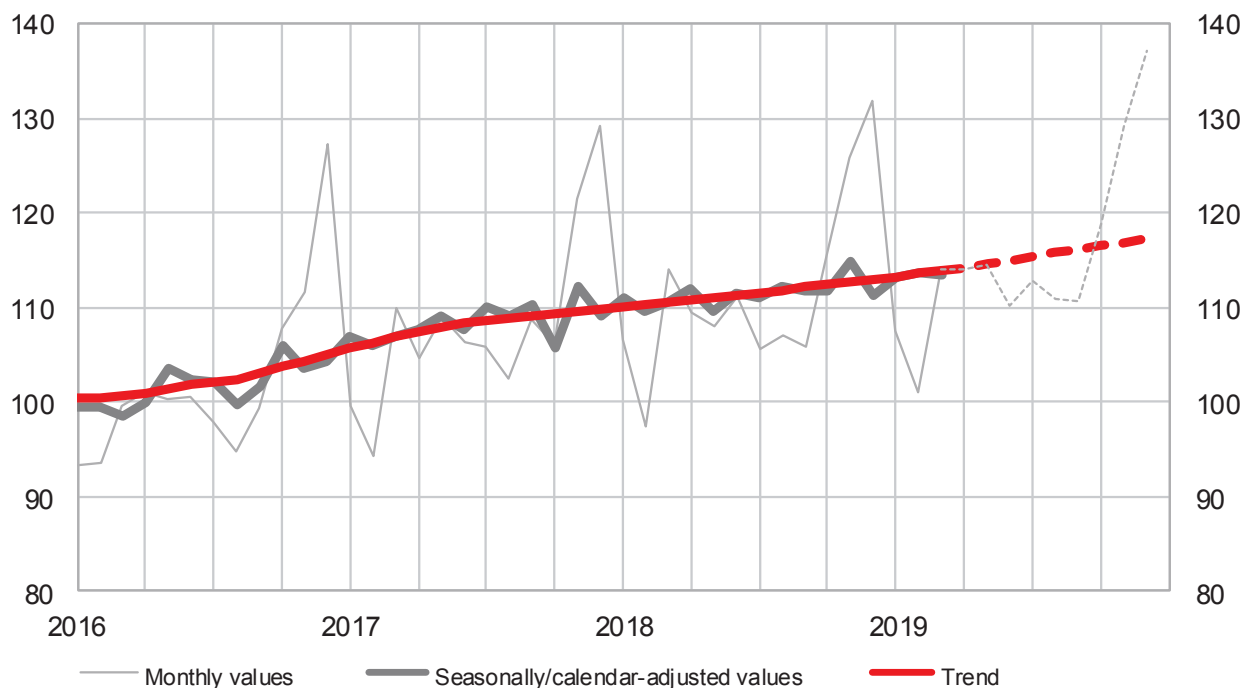
The decisive factors for growth in Berlin's retail sector are the city's population, which has been growing for a number of years by an average of around 40,000 people each year, as well as rising tourism figures. However, the strongest momentum now comes from online and mail order business. In recent years, many business models were established in Berlin as innovative start-ups and are now operating on an international scale. In the field of online retail business, revenues rose by 9.5% (Germany: +6.4%). On the other hand, sales of publishing products, sporting goods and toys declined (-0.2%). One reason for the nationwide moderate growth in retail sales are the many, very hot summer days that drew people more to outdoor pools or ice cream parlours than to the shops.

Holiday season business in Berlin revived the retail sector at the end of the year. The number of people working in the retail sector rose by 0.9% in 2018. Staff cutbacks were seen among specialist retail companies (-2.5%) and retailers of publishing products, sporting goods and toys (-0.1%). On the other hand, more staff were hired (+7.0%), particularly by fast-growing Internet and mail-order companies.

Economic development in Berlin continues to be dynamic and the number of people in jobs will continue to grow in 2019 above the national average. Conditions for consumers have not been this good for quite some time now. For the past four years, employees in Berlin have had more money in real terms in their household budgets. Wages in Berlin, for example, rose by a price-adjusted 1.2% in 2017 (Germany: 0.7%). Since the influx to Berlin over the coming months will be slow to level off and the number of tourists will continue to rise, the retail sector is optimistic about 2019 according to the current IHK survey.

Retail trade

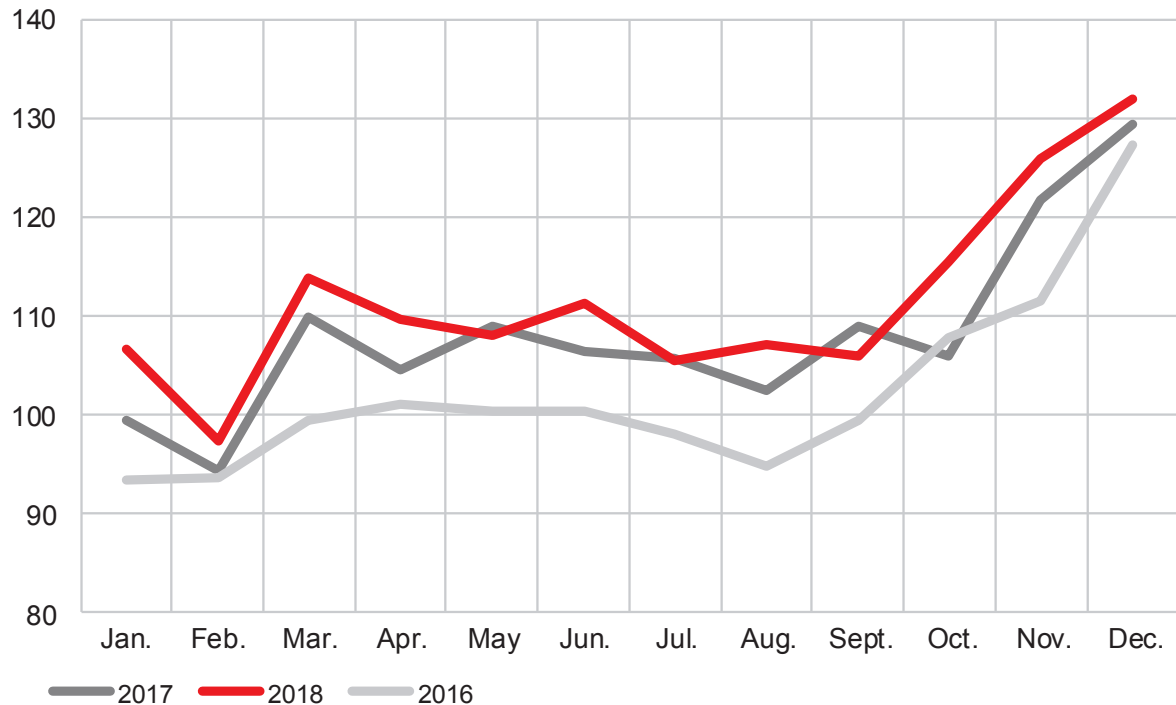
Sales; (2015 = 100)



Source: Statistical Office for Berlin-Brandenburg, own calculations

Retail trade – total sales

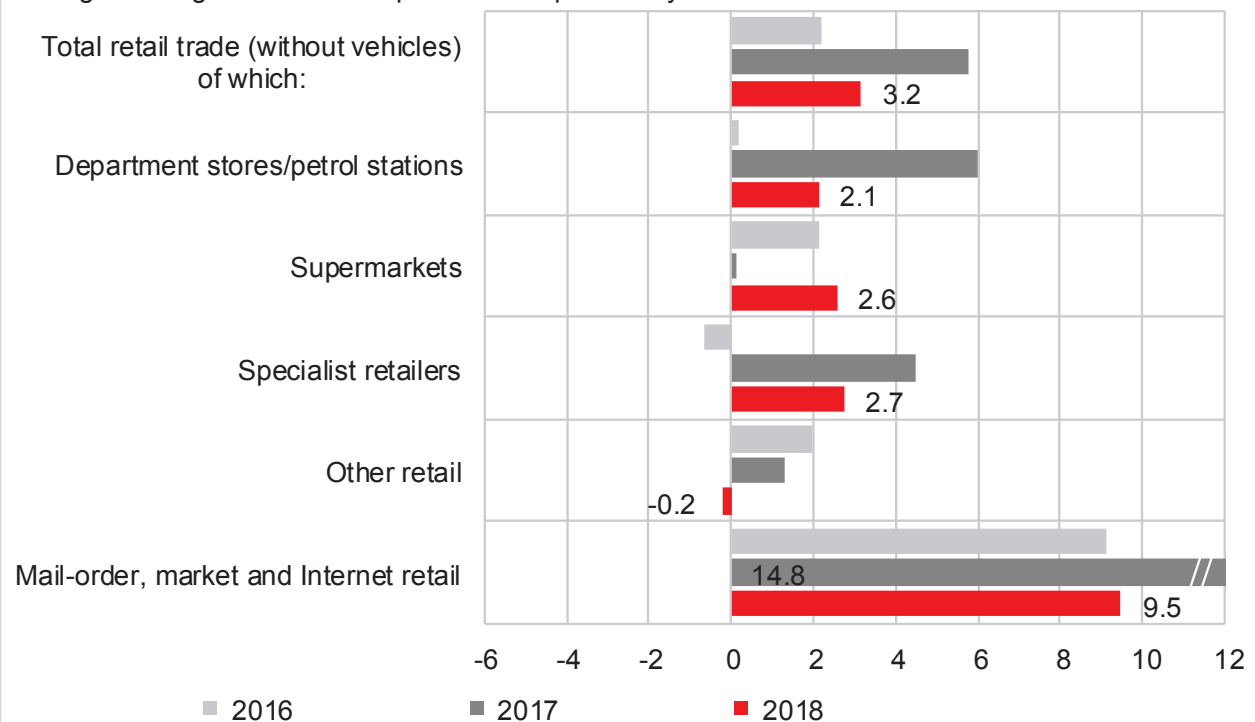
2015 = 100



Source: Statistical Office for Berlin-Brandenburg, own calculations

Retail trade – sales trends

Change in % against the same period of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Hospitality sector

Sales up by 1.8%

Berlin's hospitality sector (consisting of the accommodation and food service sectors) can look back on a cautiously positive 2018 that got off to a weak start. According to preliminary figures from the Statistical Office for Berlin-Brandenburg, sales rose by 1.8% in 2018 (Germany: +1.3%). The latest economic survey conducted by Berlin's Chamber of Industry and Commerce (IHK) and the Chamber of Skilled Crafts reports that around seven out of ten companies in the hospitality sector are nevertheless very satisfied with the business situation.

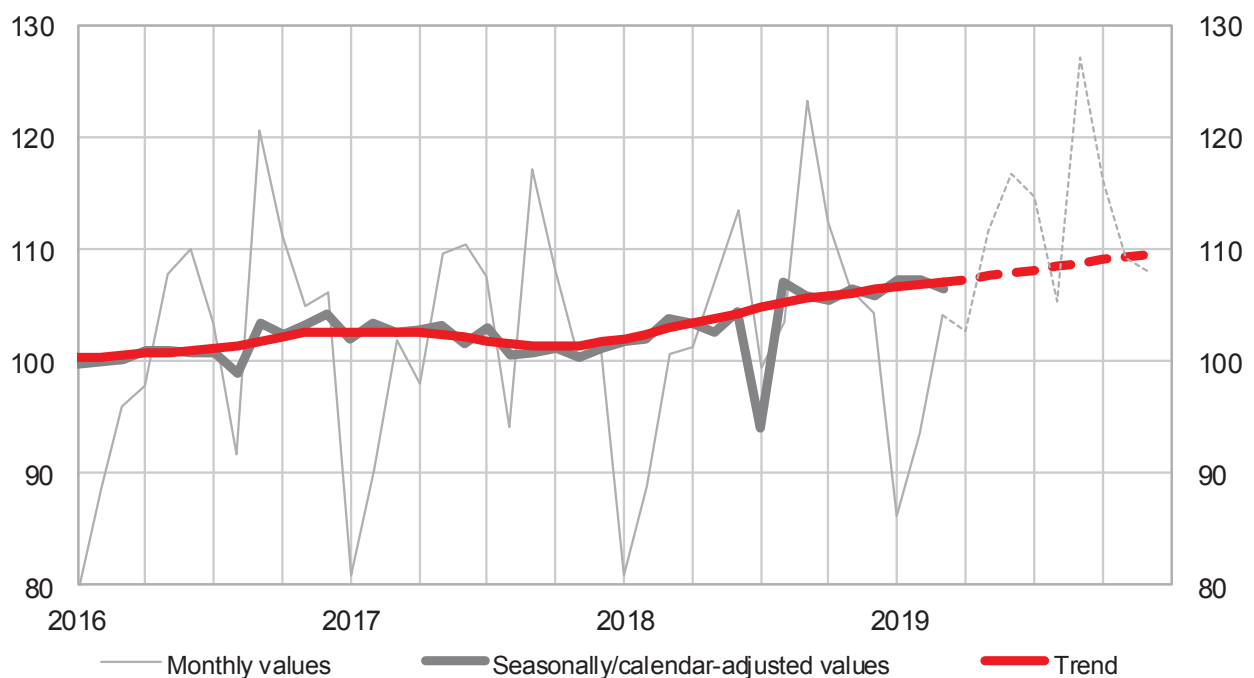
Sales recorded by hotels, inns and B&Bs in Berlin increased by 5.1% (Germany: +1.4%). Since August, in the wake of the exceptionally warm late summer and the Christmas season, far more tourists had come to Berlin than in the previous year. In addition to traditional hotels and guest houses, tourists from abroad are also using alternative forms of accommodation, so that the actual number of overnight stays is likely to be much higher.

Berlin's food service sector reports almost stagnating sales for 2018 (+0.1%; Germany: +1.2%). While sales recorded by Berlin's restaurants, bars, snack bars, cafés and ice cream parlours stagnated (+0.1%), caterers reported a strong 1.9% increase in sales. The number of people working in the hospitality sector fell by 0.8% in 2018 (Germany: +0.7%). However, developments in the individual areas of the hospitality sector varied. Berlin's hotels, inns and B&Bs, for instance, reported a slight increase in employment (+1.0%). Caterers also hired more new people to meet increasing demand (+3.1%). Restaurants, however, recorded a decline in jobs (-2.3%) due to weak sales.

For 2019, companies in the hospitality sector expect that the growing shortage of skilled labour and weather prospects could result in sales remaining below the figures recorded in the "summer of the century". That being said, however, the number of tourists is likely to increase further.

Hospitality sector

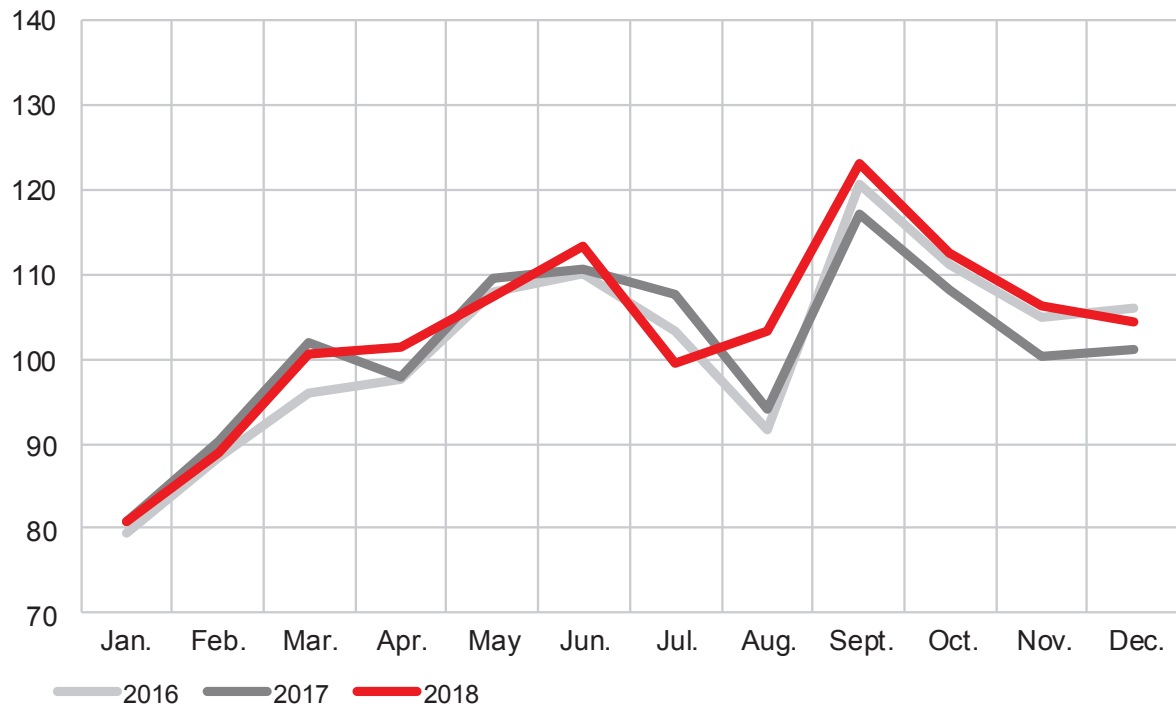
Sales; (2015 = 100)



Source: Statistical Office for Berlin-Brandenburg, own calculations

Hospitality sector sales

2015 = 100



Source: Statistical Office for Berlin-Brandenburg, own calculations

Hospitality sector – sales trends

Change in % against the same period of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Start-ups and insolvencies

More new companies going into business

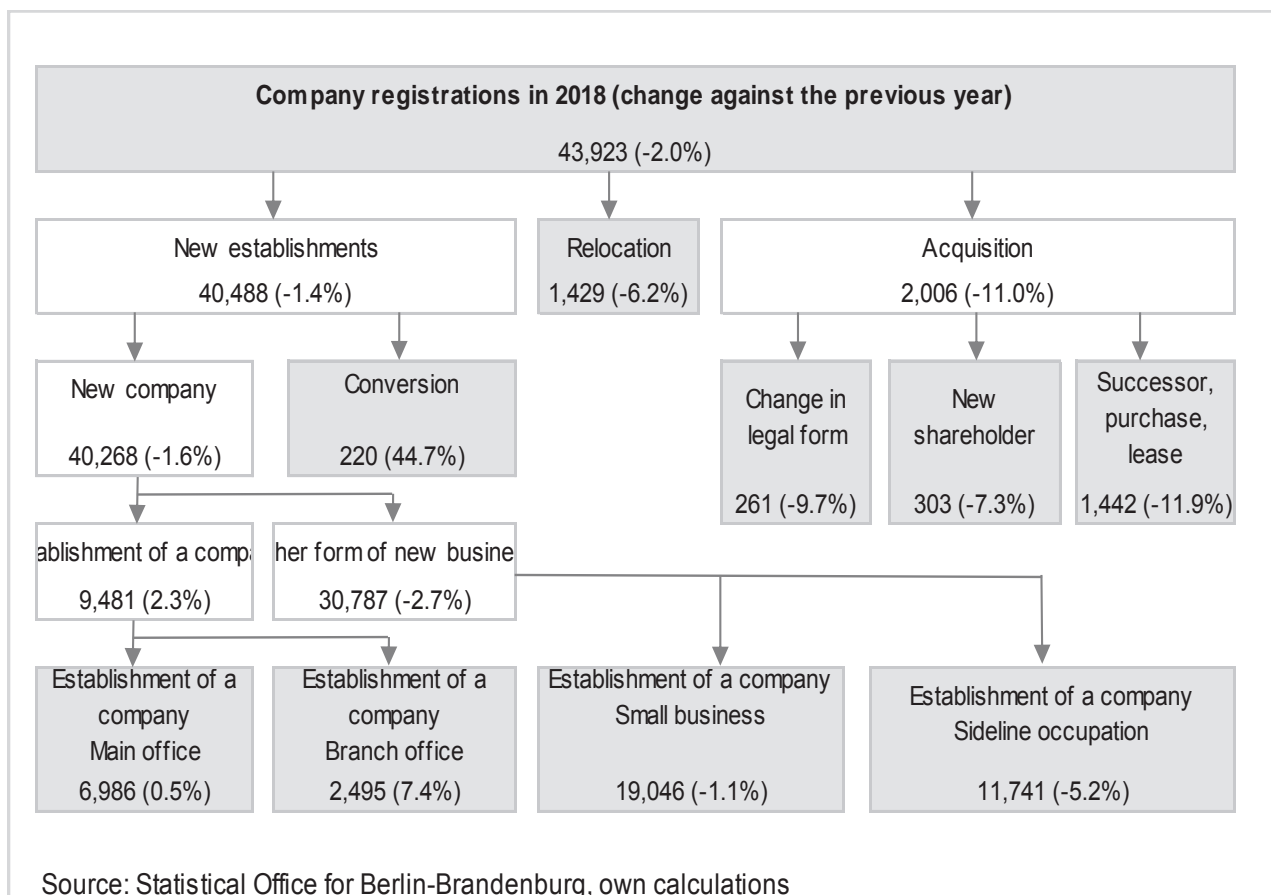
In 2018, 43,923 new companies were registered with Berlin's trade licensing authorities. That was 916 fewer than in the same period of the previous year and thus a decline of 2.0%. In Germany as a whole, the number of start-ups up until November fell by 0.6% (latest available data).

At the same time, 38,156 businesses were de-registered in 2018 in Berlin, leaving a positive balance of 5,767 more business registrations. This positive balance was particularly high for freelance, scientific and technical services (1,643) as well as other services (hiring out workers, cleaning services, trade fair organisers, etc. (1,043)). The information and communications industry also witnessed a flurry of activity where new registrations and de-registrations resulted in a positive balance of 1,030. The number of business start-ups rose by 2.3% year-on-year to 9,481. These start-ups are commercial enterprises which at the time of registration can already be seen to be of significant economic importance. That's because 75% of these companies are corporations with particularly good conditions for job creation.

Decline in insolvency claims

In 2018, the number of company insolvencies rose slightly against the previous year to 1,393 (+3.3%). The sum of creditors' claims against insolvent companies fell significantly against the previous year by 86.1% to EUR 1,438,807 million.

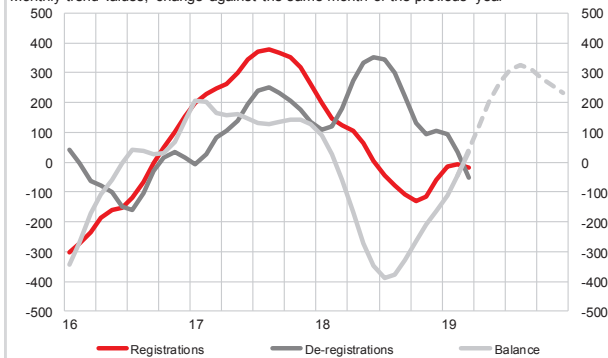
Most bankruptcies were recorded in trade and vehicle repair (247), construction (193), freelance, scientific and technical services (180) as well as hotels and restaurants (162). However, 108 companies in the information and communication sector also had to close shop, 13 more than in the previous year. Due to the high start-up dynamics of recent years, however, the rise in bankruptcy figures comes as no surprise. Given the large number of start-ups, especially in the digital economy, not every concept can work. If companies financed with venture capital fail to reach predefined targets, such as the number of users or market penetration, further growth financing is very quickly denied and this often forces these companies out of business immediately. However, losses like these are priced in, at least by venture capitalists, in their portfolios from the outset.



Source: Statistical Office for Berlin-Brandenburg, own calculations

Company registrations

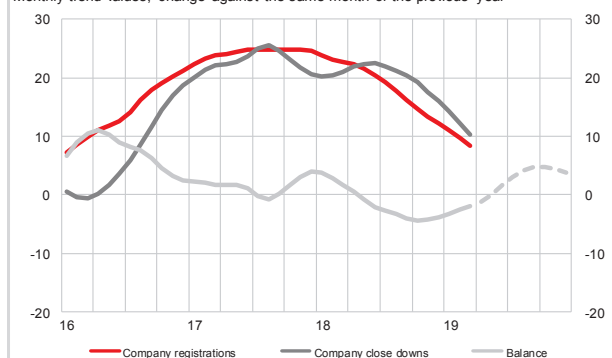
Monthly trend values, change against the same month of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

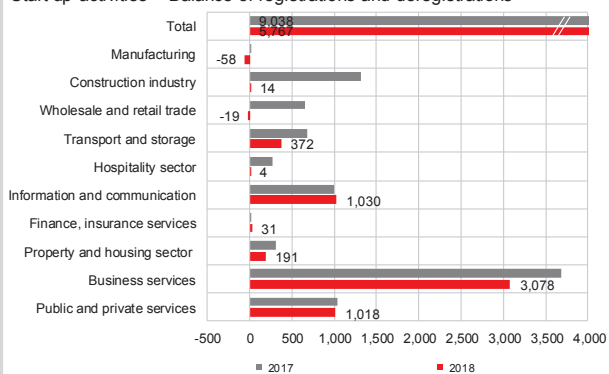
Companies set up and closed down

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



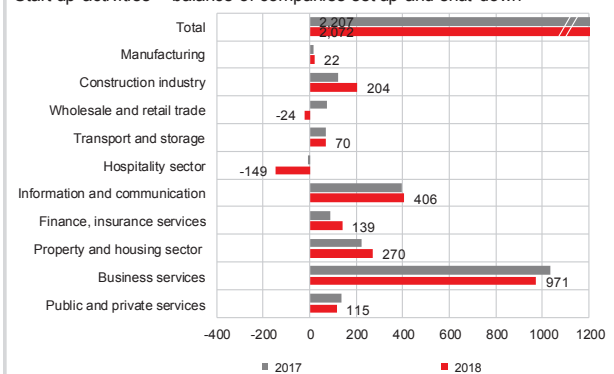
Source: Statistical Office for Berlin-Brandenburg, own calculations

Start-up activities – Balance of registrations and deregistrations



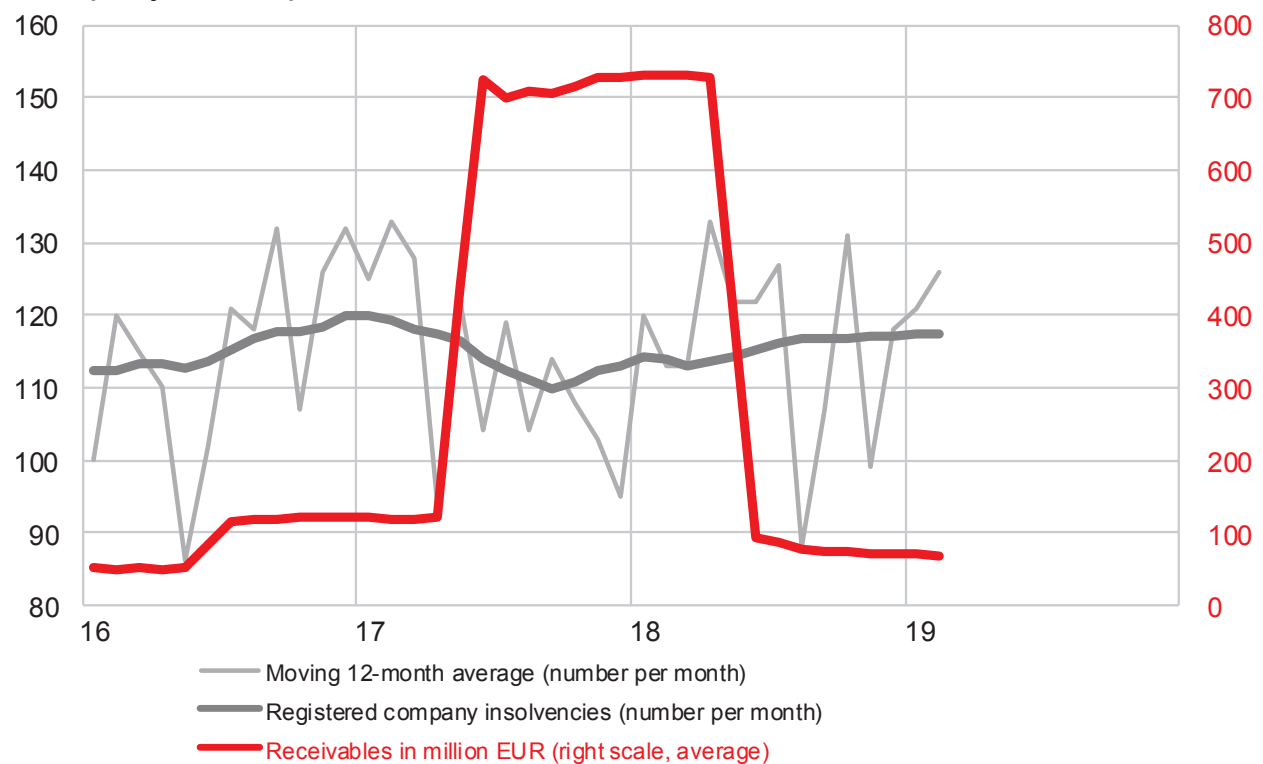
Source: Statistical Office for Berlin-Brandenburg, own calculations

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



Source: Statistical Office for Berlin-Brandenburg, own calculations

Company bankruptcies



Source: Statistical Office for Berlin-Brandenburg, own calculations

Labour market

Good development only slightly weakened

The development of the labour market was dynamic in 2018. At the end of the year, the number of people in regular jobs increased once again significantly against the previous year by 53,600 to 1.51 million. Even if this growth rate is not as high as in 2017, Berlin is at the top of all federal states with 3.7% and is 1.5 percentage points above the German average. Over the past three years, the total number of people in regular jobs in Berlin has risen by 170,900. Every 5th new job in Berlin is created in the information and communication sector (with its above-average salaries) with 11,100 new jobs compared to the previous year. That being said, 7,200 more jobs were also recorded in real estate, scientific and technical services.

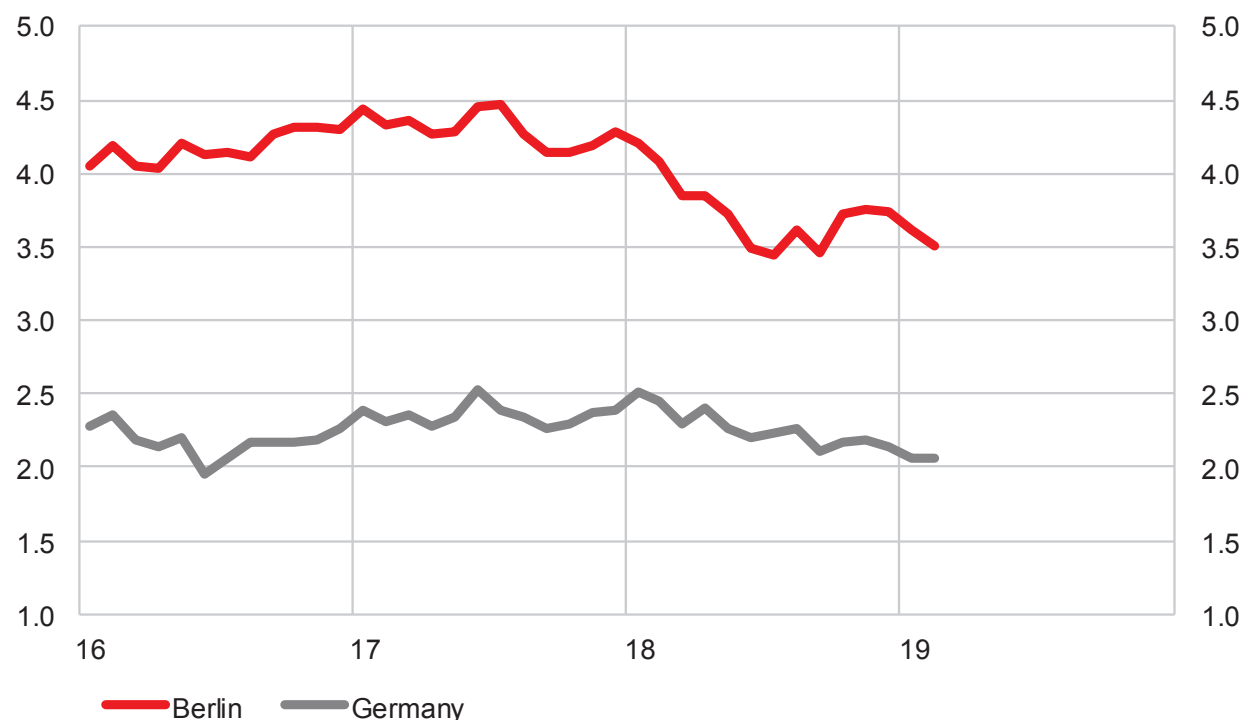
Demand for personnel in companies, especially for skilled workers, will remain high in the future. In February 2019, the Federal Employment Agency reported a total of 30,300 vacancies, 6,000 more than one year earlier, including just under 26,000 regular jobs subject to social insurance contribution requirements and only 332 so-called marginal jobs that are temporary or low-paid. In addition, the number of jobs with no social security contribution

requirements has risen by around 2,500 to 3,700, including not only trainees, but also civil servants. According to IBB forecasts, at least 45,000 new jobs will be created in Berlin in 2019. This would put Berlin at the top of the list of federal states.

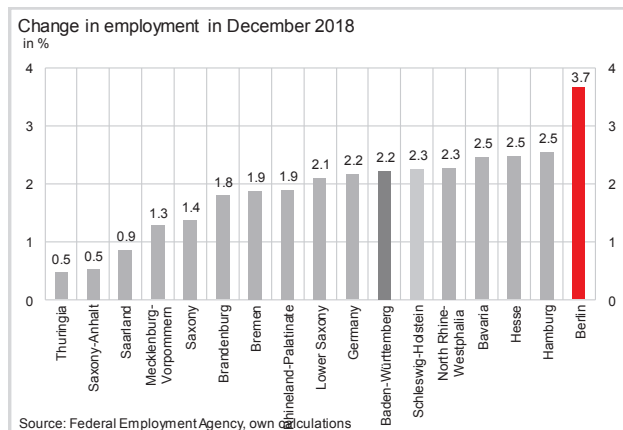
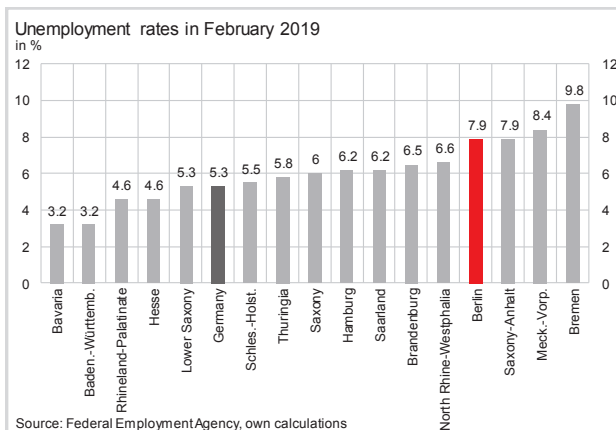
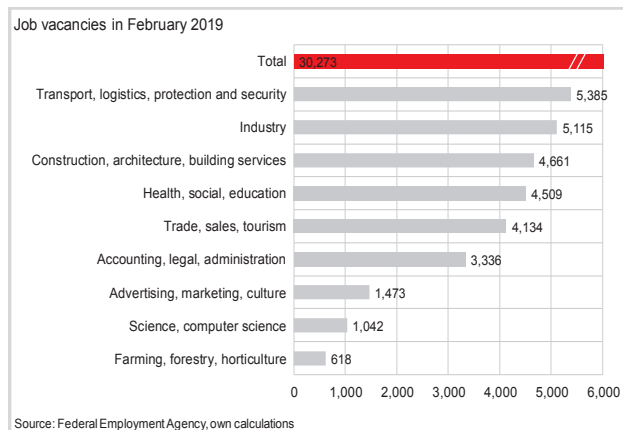
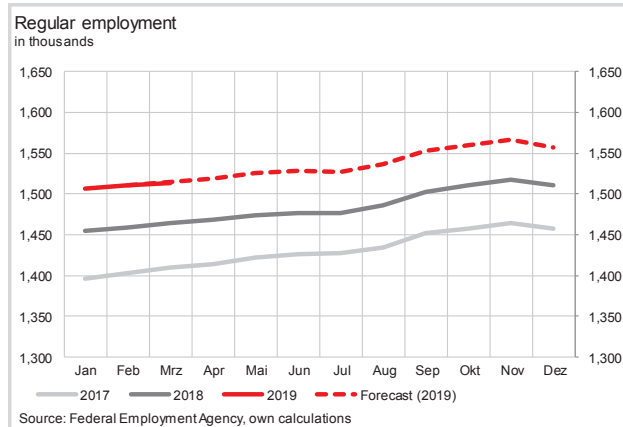
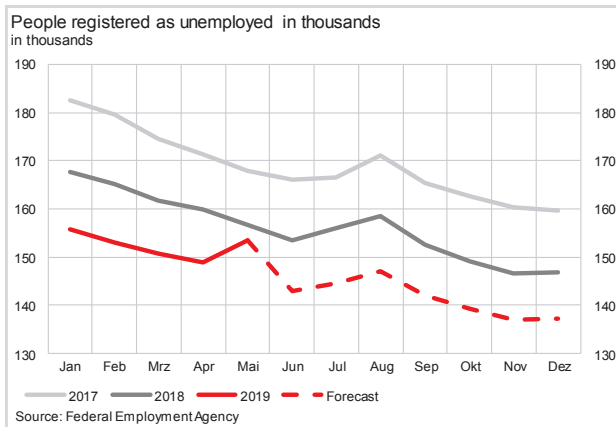
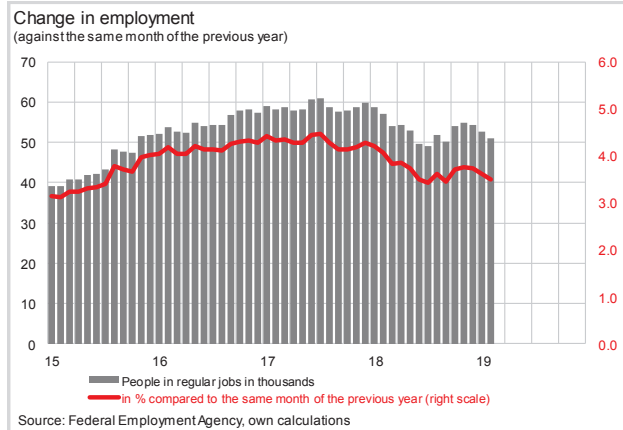
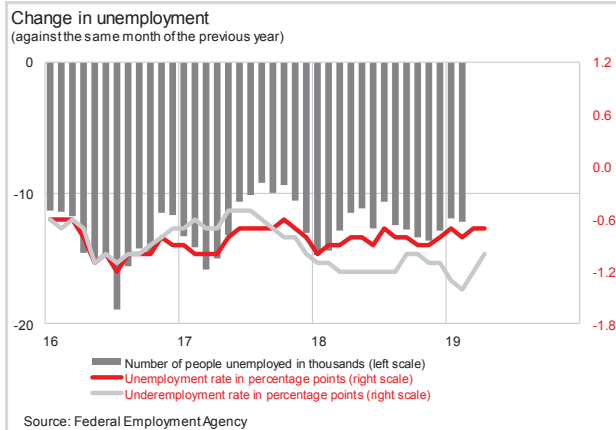
However, the shortage of skilled workers and increasing global uncertainty are clouding prospects for business development in some sectors. Although Berlin's labour market is developing at an extremely rapid pace, 153,100 people were still registered as unemployed in February 2019. This corresponds to an unemployment rate of 7.9% (Germany: 5.3%). If, however, the number of people undergoing vocational integration or continuing professional development is also included in the unemployment figure, the number increases to 221,100 underemployed people. The gap between Berlin's unemployment rate and the national figure fell from 7.8 percentage points at its peak (May 2003) to recently 2.6 points. However, due to higher frictional and structural unemployment, base unemployment in Berlin will also be at least 1.5 percentage points above the German average in the medium term.

Regular employment

Change in % against the previous year



Source: Federal Employment Agency



Taxes and loans

Record income at the beginning of 2019

The disproportionate rise in employment figures and high sales for Berlin-based companies are leading to record-level revenues for the Federal State of Berlin. In the first two months of 2019, tax revenues before tax distribution rose compared to the previous year by EUR 0.4 billion to EUR 5.3 billion (+8.1%).

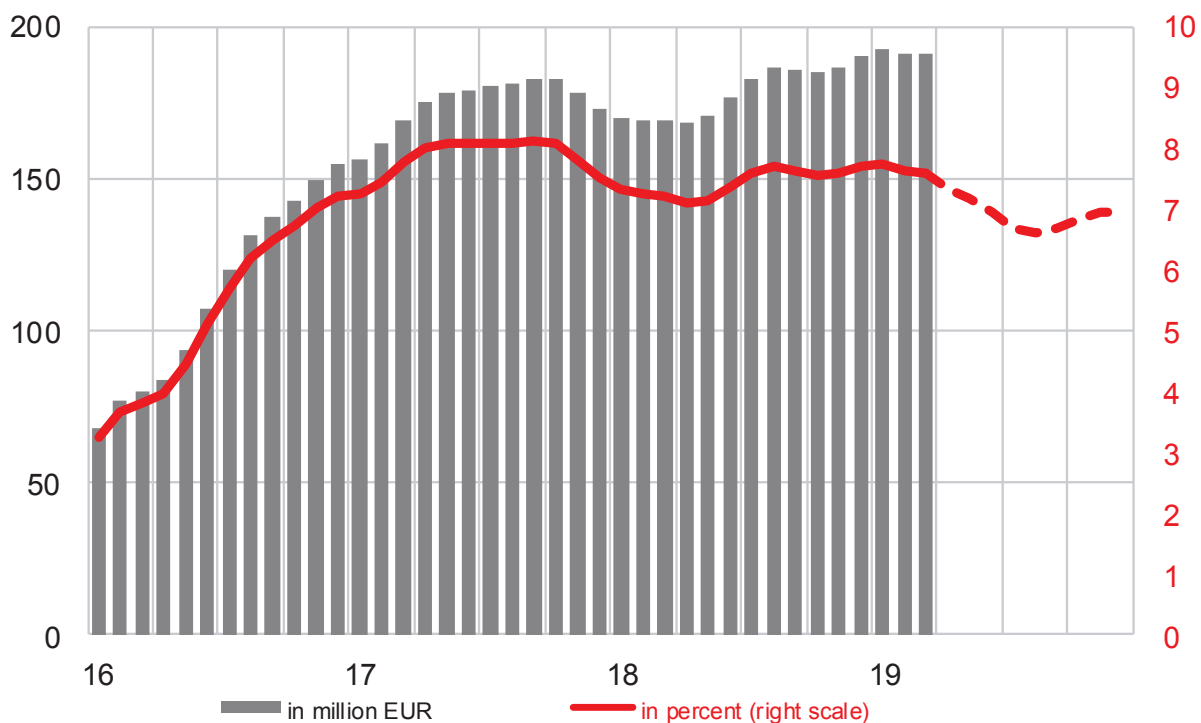
Significant increases were recorded in sales tax (+17.4% to EUR 1.9 billion) and in wage tax (+9.9%), which rose to EUR 2.1 billion in the first two months of the year. Income tax also rose (+6.5% to EUR 146 million). On the other hand, business tax (-254.4% to EUR -8 million), settlement tax (-69.4% to EUR 14 million), as well as corporate income tax (-30.7% to EUR 62 million) recorded some strong declines. The Federal State of Berlin also achieved a record surplus of EUR 2.4 billion in 2018, so that debt can be reduced and necessary investments made. This positive development is likely to continue next year, but will be dampened by a weaker economy.

Strong 7.8% decline in loan portfolios

According to the German Bundesbank, the loan portfolios of banks operating in Berlin totalled EUR 135 billion at the end of the third quarter. This represents a decline of 7.8% compared to the previous year's quarter. Corporate loans, the largest portfolio item at EUR 76 billion, declined by 9.1%. The majority of this decline is due to the repayment of large loan positions by housing companies that already took place in the first quarter of 2018. This item alone accounts for a decline in the portfolio of EUR 3.4 billion to EUR 24 billion (-12.3%) – especially in the case of long-term loans, which expire or in some cases are even redeemed early in order to be concluded again under more favourable terms, possibly by banks outside Berlin. Loans to energy and water utilities also fell by EUR 3.8 billion or -47.9%, respectively, to EUR 4 billion. Consumer loans, on the other hand, increased by 1.3% to EUR 9.3 billion.

Berlin's tax revenues before tax distribution

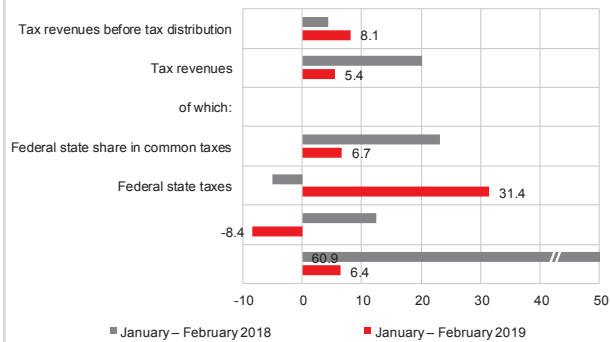
Monthly trend values, change against the same month of the previous year



Source: Senate Department of Finance; own calculations

Berlin tax revenues

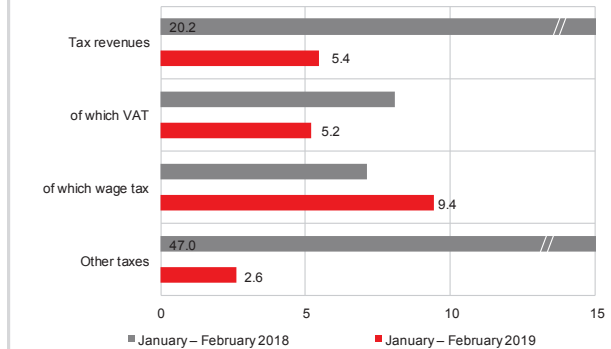
Change in % against the same period of the previous year



Source: Senate Department of Finance; own calculations

Tax revenues broken down according to types of taxes

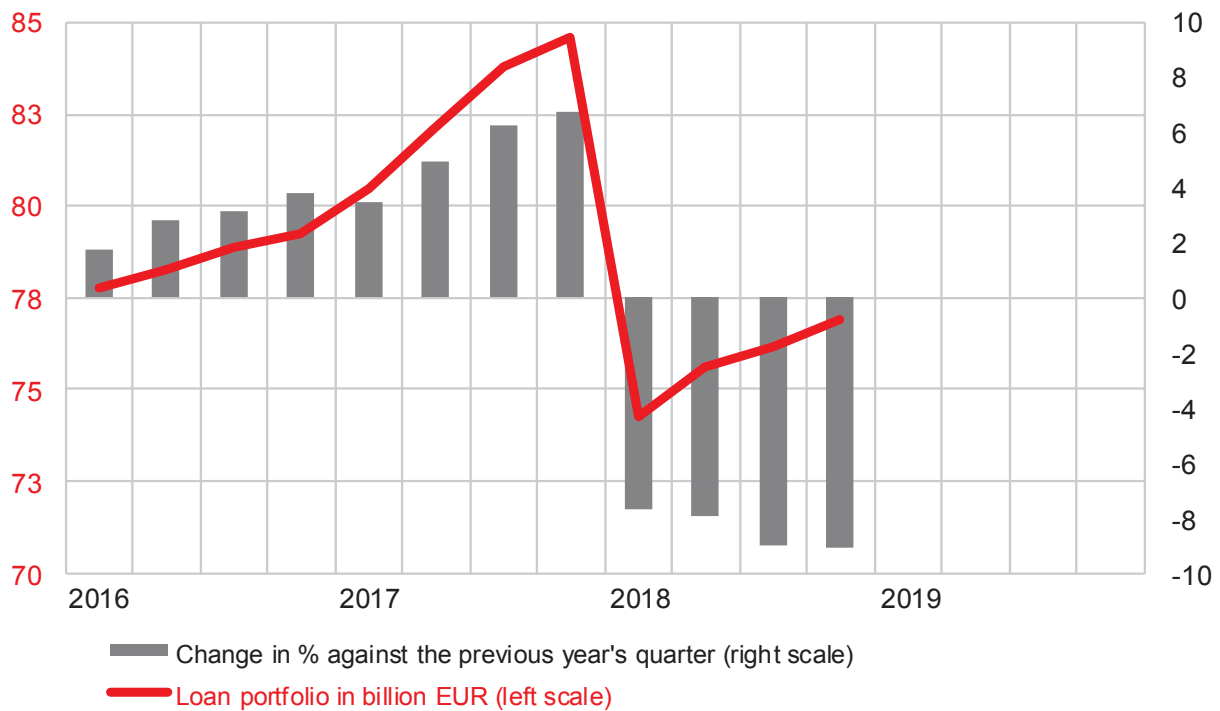
Change in % against the same period of the previous year



Source: Senate Department of Finance; own calculations

Corporate loans

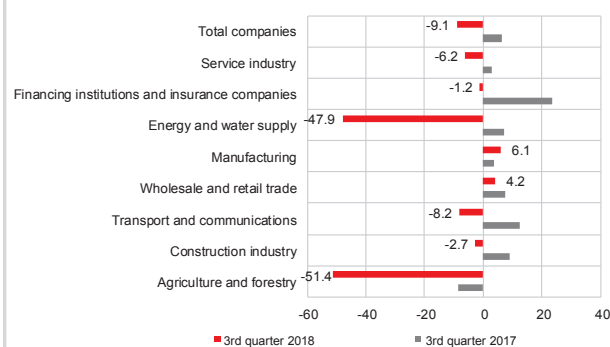
Loan portfolio of all bank branches in Berlin



Source: Deutsche Bundesbank, own calculations

Loans to companies

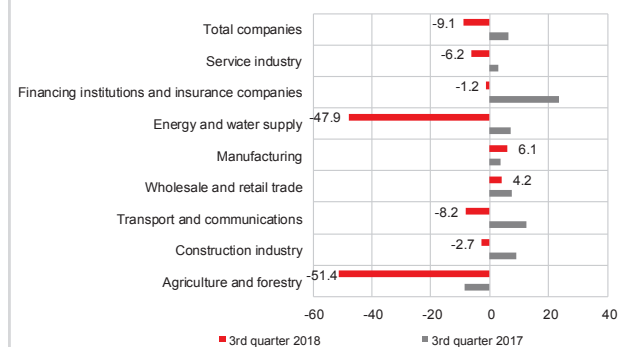
Loan portfolio of all bank branches in Berlin; change against the previous year in percent



Source: Deutsche Bundesbank, own calculations

Loans to companies

Loan portfolio of all bank branches in Berlin; change against the previous year in percent



Source: Deutsche Bundesbank, own calculations

Conclusion

End of the boom phase, but no recession

In recent months, both economic and political uncertainties have increased noticeably. A number of protectionist trade restrictions have already slowed global economic momentum. Several climate indicators show that the economic mood is darkening. Nevertheless, many indicators are still at comparatively good levels even after the end of the boom. Companies in Berlin also see clouds on the horizon, after all, Berlin's economic development is not independent of supra-regional connections. This is evident not only directly in Berlin's export industry, which closed last year with a minus, but also in related service sectors. The forecast for Berlin is therefore always based on assumptions about the global economy, the eurozone and the capital markets, which in turn depend heavily on the policies pursued by central banks. In 2019, growth of Berlin's gross domestic product will be reduced to just under 2.0%. However, as in previous years, it will again be above the 1.0% national average now estimated.

Even though the pace of growth has slowed significantly, an economic downturn is not expected in 2019. Although seasonally adjusted GDP growth in the euro zone only reached 0.2% in the final quarter of 2018, there is no sign of a further slowdown. France, in particular, was the main source of positive surprises, showing an upturn triggered by higher net exports despite massive obstacles caused by the Yellow Vest protests. Italy, on the other hand, is in technical terms at least in recession after two consecutive quarters of decline. With zero growth in the fourth quarter, the German economy was barely able to escape this scenario. Europe continues to enjoy good conditions for a stable domestic economy. Private households are benefiting from the improved labour market situation and somewhat stronger wage increases. For the countries of the European Union, an unemployment rate of 6.5% is even below the pre-crisis level of 2007/2008, when it was as high as 6.9%. Lower oil prices and a slow increase in inflation should help domestic growth. Measured against the worries circulating, the economic trend in 2019 could bring some positive surprises.

A calmer tone has also been struck recently in the customs dispute between the US and China. However, since both parties are ultimately concerned with technology leadership and geopolitical claims, the fundamental conflict will not be quickly resolved. Ongoing political pressure and tariff blockades are slowly leading to a reorientation of international value chains. In such a phase of reorientation, investment activities are the first to suffer as they depend heavily on stability and predictability for companies.

On the other hand, there is no easing in the still entirely unpredictable course of withdrawal by the United Kingdom and Northern Ireland from the European Union. In 2018, goods with a value of EUR 706 million were exported to the UK. This figure is up EUR 59 million against the previous year (+9.1%). With a share of just under 5%, the country is Berlin's sixth most important export market. If Brexit takes an unfavourable course, this will have a noticeably negative impact on the entire German economy and subsequently also on Berlin's economy. Especially since more than 400 companies in Berlin maintain intensive business relations with the UK. Around 120 domestic companies employ around 37,000 people at locations in the UK, generating annual sales of EUR 7.3 billion there. In return, around 13,000 employees work at 70 branches of British companies in Berlin where they generate annual sales of EUR 3.2 billion.

Despite all the geopolitical difficulties, Berlin's growth in 2019 will once again be above average. This is primarily due to the stable labour market, which, according to the Federal Employment Agency, has 30,000 vacancies available in February, 6,000 more than one year earlier. Among the jobs to be filled there are almost 26,000 regular jobs subject to social insurance contribution requirements and only 332 jobs that are either low-paid or temporary. In addition, the number of jobs with no social security contribution requirements has risen by around 2,500 to 3,700, including not only trainees, but also civil servants. Thanks to housing construction and extensive investment projects in the infrastructure of the growing city, the construction industry will also continue to contribute to economic growth in Berlin.

Publisher:

Investitionsbank Berlin
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