# Makro Research
# *Deka-S-Financial Climate*

December 19, 2024

## *S-Financial climate in the 4th quarter of 2024: standstill in Germany*

- Economic optimism looks different: in the Deka-S-Financial Climate sentiment survey of savings bank's board members, both the assessment of the economic situation and economic expectations plummeted in the 4th quarter. The resulting economic climate fell to 56 points, the lowest level in the three-year history of this survey. The overall indicator, which covers both macroeconomic aspects and the individual economic situation of the savings banks, fell less sharply to 91.7 points.
- A new negative factor is the recent political course set in the USA: 81% of savings banks expect the new US government to have a negative impact on companies in their area of business.
- The savings banks reported a decline in demand for loans outside the residential construction sector in the 4th quarter. This indicates a further decline in investment activity: in the German corporate sector, the mood is one of uncertainty rather than optimism. On the one hand, this shows the chances of creating stable and reliable framework conditions again with the new Bundestag elections, which will help to overcome the stagnation. On the other hand, management board members are skeptical about the economic policy outlook in view of the Bundestag elections: 52% of savings banks experts do not expect any improvement in the economic environment as a result of a new federal government. In contrast, a clear majority of 68% believe that the debt ratio in Germany will rise in the future.
- There is broad agreement among the top managers of the S-Finance Group that monetary policy is too restrictive for the economic outlook and that they expect it to be eased in the coming months.

Finanzgruppe
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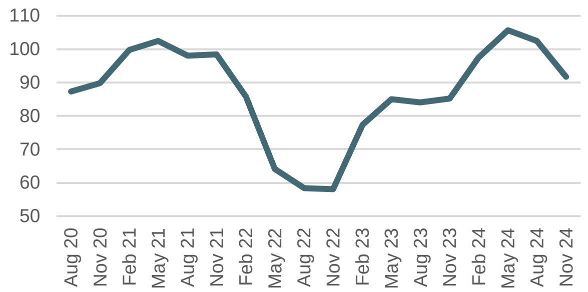
### S-Financial climate has fallen noticeably: politics is taking its toll

Under the impact of Donald Trump's election victory in the USA and the abrupt end of the German traffic light coalition, sentiment among savings banks has deteriorated. The Deka-S -Financial climate fell significantly in the fourth quarter of 2024 for the second time in a row, from 102.4 to 91.7 points (Fig. 1).

**Fig. 1 Deka-S-Financial climate, Q4 2024**



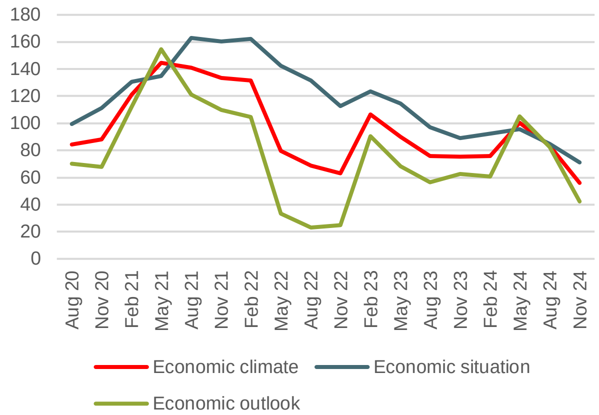

Source: DekaBank, Research Center for Savings Bank Development, DSGV

### The economic picture continues to deteriorate

The German economy is not finding a quick way out of stagnation. Although German gross domestic product surprisingly rose 0.1% in the third quarter compared to the previous quarter, the outlook for the final quarter of 2024 is already darkening again. It remains a mixture of economic and structural factors. The lack of demand at home and abroad has caused inventories of unsold finished goods to rise further, giving companies no reason to invest in expanding their capacities. Although private household consumption has recovered somewhat thanks to gains in purchasing power, consumer confidence looks different. Reports of site closures and layoffs are causing growing concern about jobs. The result is consumer restraint. Under the impression of this, the assessment of the savings banks board members regarding the economic situation fell to 71.1 points, the lowest value in the history of the S-Financial Climate.

The structural challenges primarily determine future expectations, which the savings banks boards do not consider to be particularly promising. The economic outlook has fallen significantly to a very low level (Fig. 2).

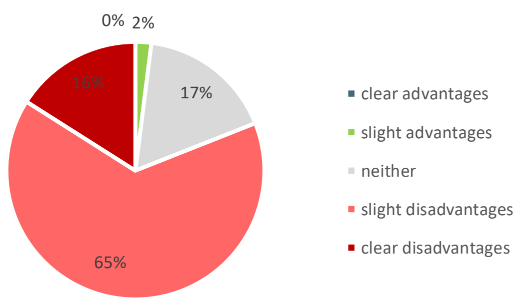
**Fig. 2 Economic situation at a low point with falling economic expectations**




Source: DekaBank, Research Center for Savings Bank Development, DSGV

Overall, the economic climate fell to 56 points, also the worst value in history. This should come as no surprise. The well-known location deficits are becoming increasingly apparent, as the recent developments in the automotive industry and energy-intensive sectors have made clear. But not everything that is going badly has its roots at home. China is not only weakening as a sales market, but is also increasingly becoming a tough competitor on the global markets. Most recently, the return of Donald Trump and his protectionist economic policy has added another potential negative factor for the German business model. 81% of savings banks board members expect slight or even significant disadvantages for their region (Fig. 3).

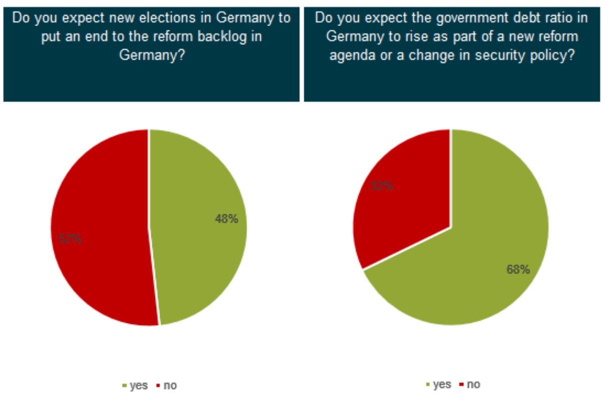
**Fig. 3 Advantages or disadvantages of the new US president?**




Source: DekaBank, Research Center for Savings Bank Development, DSGV

The end of the German traffic light coalition is less clear-cut. Has it created more uncertainty or just shortened an unnecessarily long hanging game? Both are conceivable. In the end, it will depend on the new government's ability to consistently tackle the location deficits with a major reform plan and thus give rise to new confidence. So far, the savings banks board members, like most citizens, are not yet aware of this: 48% expect the new elections to bring an end to the reform backlog, 52% do not expect this. However, it seems clear from the savings banks' perspective that they will not be able to do without debt: 68% expect the debt ratio to rise (Fig. 4).

### *Fig. 4 Reform and debt prospects*

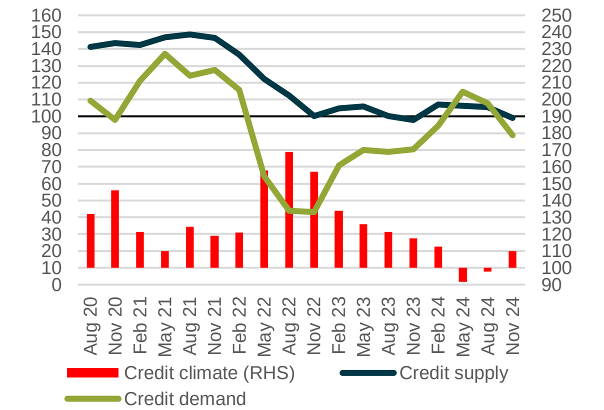



Source: DekaBank, Research Center for Savings Bank Development, DSGV

### *Slightly improved credit climate*

The weak economy is also reflected in companies' demand for credit, which has fallen for the second time in a row. At the same time, savings banks are also becoming somewhat more cautious when granting loans. However, as companies curbed their demand more strongly, the credit climate - the balance of the savings banks' willingness to lend and the expected demand for credit plus 100 - actually improved again in the fourth quarter (Fig. 5).

### *Fig. 5 Credit climate*



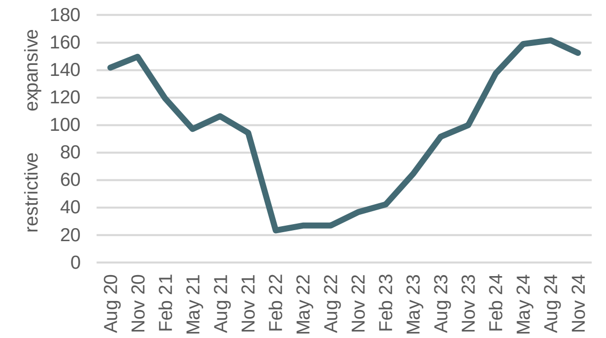

Source: DekaBank, Research Center for Savings Bank Development, DSGV

In contrast, demand for real estate loans increased during the survey period. Lower real estate prices and falling mortgage interest rates are likely to be responsible for this.

### *Expectations of a more expansionary monetary policy*

Overall, the savings banks survived the interest rate shock of 2022 with one of the fastest and strongest monetary policy tightening courses in recent decades unscathed. The vast majority of savings bank board members now believe that inflation has been contained to such an extent that monetary policy can reduce its degree of restriction. The savings banks anticipate significant key interest rate cuts for the euro area (Fig. 6).

### *Fig. 6 Orientation of monetary policy*




Source: DekaBank, Research Center for Savings Bank Development, DSGV

### *Conclusion*

Economic optimism looks different. The fragile recovery in the Deka-S-Financial climate from the first half of the year has collapsed again. With the sole exception of demand for real estate loans, the top regional managers of the S-Finance Group assess the overall real economic and monetary environment as worse than in the previous quarter and at the lower end of historical experience with the index. The latest sentiment survey, which took place after the US presidential elections and the break-up of the German traffic light coalition, does not see any positive aspects for Germany as a business location in any of these decisions. The tariff measures announced by the new US president tend to be viewed negatively for the local economy. And only half of the savings banks board members expect the notorious economic malaise in Germany to improve after the Bundestag elections next February. Germany remains on the defensive as a business location.

### *Summary: Deka-S Financial Climate Q4 2024*

| | 2024 Q4 | 2024 Q3 | |
|---|---|---|---|
| S-Financial Climate | 91.7 | 102.4 | ↓ |
| S-Economic Climate | 56.0 | 83.5 | ↓ |
| S-Credit Climate | 110.0 | 97.9 | ↑ |
| Economic situation | 71.1 | 84.6 | ↓ |
| Economic outlook | 42.2 | 82.4 | ↓ |
| Willingness to lend | 98.9 | 105.6 | ↓ |
| Demand for credit (commercial) | 88.9 | 107.7 | ↓ |
| Demand for real loans | 142.2 | 140.0 | ↑ |
| Regulatory framework conditions | 12.2 | 25.3 | ↓ |
| Cost of capital | 73.6 | 89.0 | ↓ |
| Profitability | 124.7 | 118.7 | ↑ |
| Personnel planning | 110.0 | 109.9 | ↑ |
| Expectations of monetary policy | 152.2 | 161.5 | ↓ |

Interpretation aid: the indicators can have values between 0 and 200. First, the balances are calculated from the proportions of positive and negative responses. These can be between -100 (only negative responses) and +100 (only positive responses). The value 100 is then added. The financial climate of 58.4 therefore means that the balance was -41.6, i.e. there were more negative responses.

For the additional question, the proportion of those expecting a later interest rate turnaround was subtracted from the proportion expecting an earlier one. Neutral was nominated at 100.

Source: DekaBank, Research Center for Savings Bank Development, DSGV

### *Deka-S Financial Climate Index: Construction*

The Deka-S-Finanzklimaindex was developed in cooperation between the Research Center for Savings Bank Development at the University of Magdeburg, headed by Prof. Horst Gischer, and DekaBank with the involvement of the German Savings Banks Association (DSGV). The index is calculated from the results of a quarterly survey of 353 savings banks. It consists of ten subject areas, each of which can be divided into a perspective on the current situation and future expectations. In addition, there are changing special questions relating to the current economic or monetary situation.

The evaluation algorithm is based on the balance of positive and negative answers to each question. A completely neutral result gives an index value of 100. A completely positive assessment in all questions by all participants means an index value of 200 points, with the opposite negative variant the index value is zero.

# Makro Research
# ***Economy Update***

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