



Business Bulletin for the Free State of Saxony

November 2010



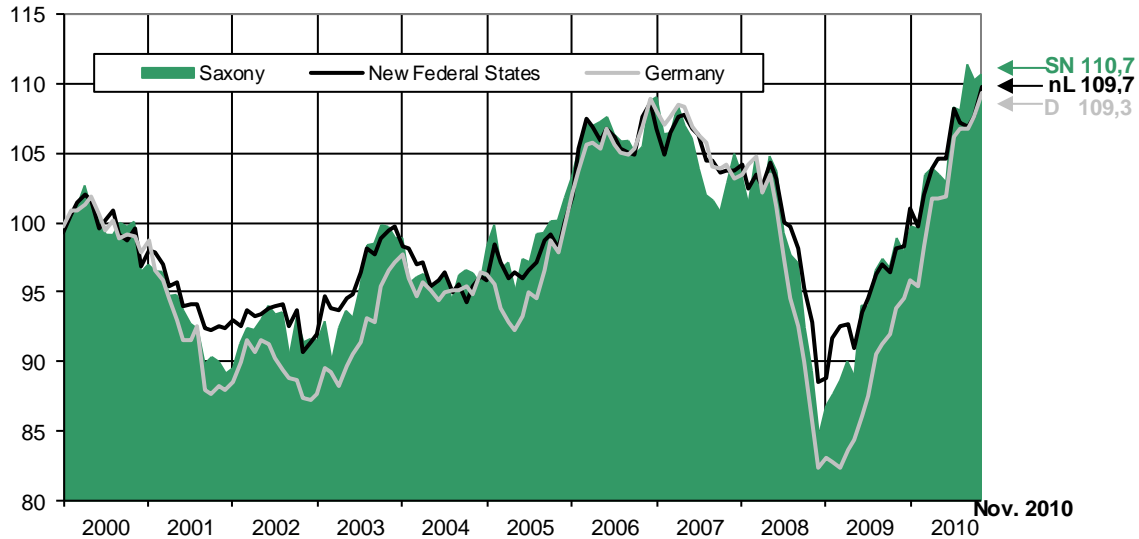
Please note:

Due to necessary consolidation efforts, this shall be the final issue of the Business Bulletin for the Free State of Saxony.

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Economic Trend

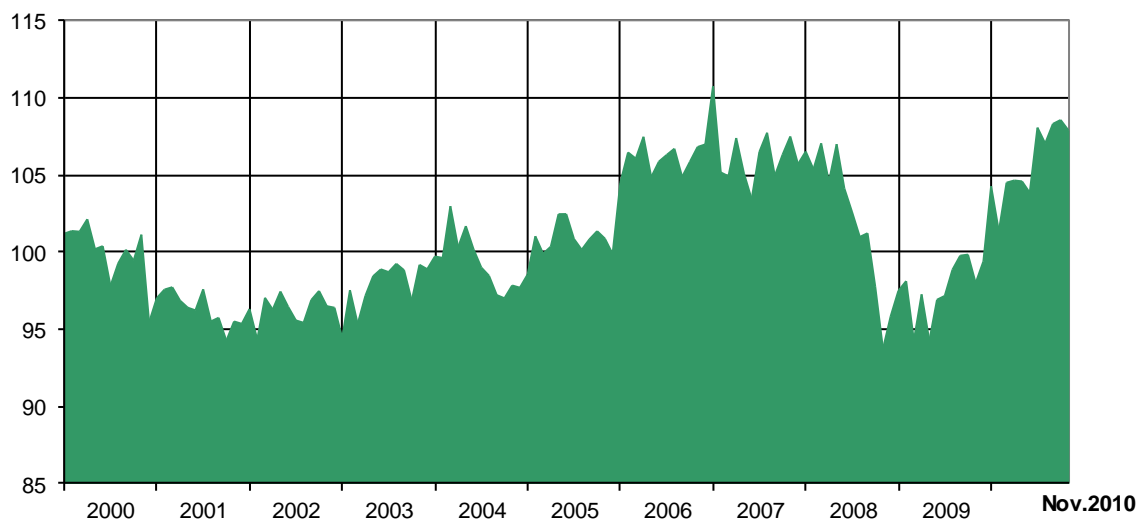
Business Climate in Saxony in a Comparison



ifo Business Climate Index for industry and trade in Saxony, the new federal states, and Germany; index values, year 2000 = 100; seasonally adjusted. Comments: Since the commencement of the surveys in Saxony (January 1994), the ifo Business Climate Index for industry and trade in Saxony reached a minimum value of 84.7 (December 2008) and a maximum value of 111.4 (September 2010). Source: ifo Institute for Economic Research

The ifo Business Climate Index for industry and trade in Germany continues to be on an upswing also in November. In Saxony and the new federal states, the overall business climate further brightened as well. The increase was due to the reports of Saxon enterprises on their overall business perspectives for the next six months which they considered to be more favorable. With their current overall business situation, however, the Saxon firms are slightly less satisfied than this was still the case in October. The climate indicator for Saxony's industry and trade seems to stabilize at this high level for the time being.

Employment Barometer for Saxony

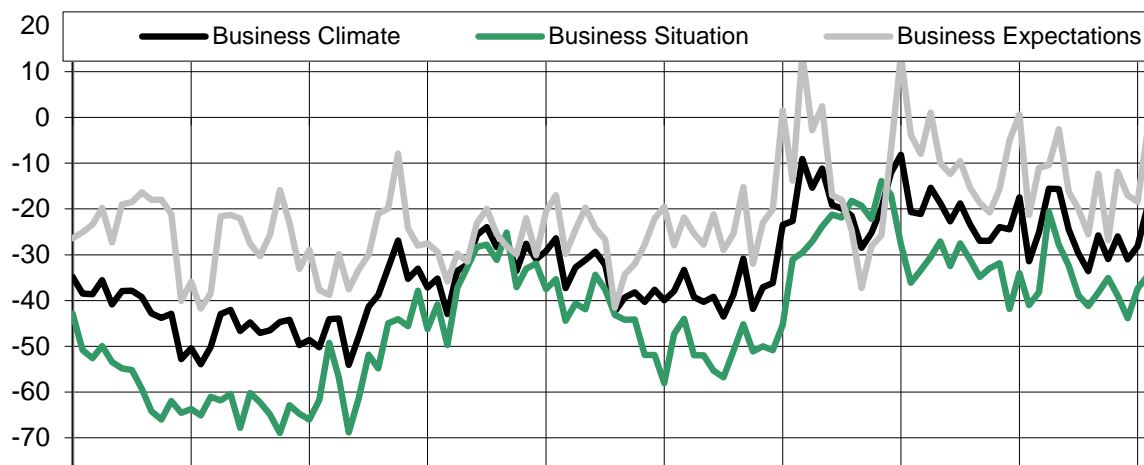


ifo Employment Barometer for industry and trade in Saxony; index values, year 2000 = 100; seasonally adjusted Source: ifo Institute for Economic Research

After the ifo Employment Barometer increased twice during the months of September and October, the employment perspectives have declined again just recently. While the employment expectations in Saxony's manufacturing industry improved once again, the tendency to lay off personnel in wholesale and retail trade has significantly decreased among the majority of enterprises. Nevertheless, it can still be assumed that the employment situation in Saxony's industry and trade will continue to be positive.

Business Climate in Select Sectors of the Saxon Economy

Focus: Development in Saxony's Main Construction Industry



Seasonally adjusted balances
Source: ifo Institute for Economic Research

The business climate in Saxony's main construction industry has slightly declined just recently. The climate indicator, however, is at a higher level than at the same time last year. In the individual construction sectors, though, different trends can be observed. While the business climate improved in building construction, it worsened considerably in civil engineering. In November, the enterprises of Saxony's main construction industry which were surveyed by the ifo Institute were slightly less dissatisfied with their overall business situation than in the previous month. Approximately every tenth company participating in the survey assessed its business situation as being "bad." Regarding their overall business expectations for the next six months, the construction firms were considerably more skeptical. Adjusted for seasonal effects, the average equipment utilization amounted to 72.8 % which was almost as high as in October (72.3 %). Compared to the previous year, however, the degree of utilization has significantly increased by almost 5 percent. The average range of orders received also shows a positive development. When compared to the previous month, this figure increased from 2.1 months to 2.3 months. It remains to be seen how the mood in Saxony's main construction industry is going to develop in the near future. Not only the increasing impediments of construction activities due to weather, but also the expiring Economic Stimulus Package II ought to have a substantial impact primarily on public construction.

Manufacturing Industry:

- The business climate in Saxony's manufacturing industry has brightened for the sixth time in a row now.
- Most of the surveyed industrial enterprises anticipate the impulses coming from the export trade to be less strong during the next three months.

Wholesale and Retail Trade:

- After a significant downswing in October, the climate indicator in both trade sectors has improved again just recently.
- The surveyed companies from Saxony's retail trade reported that their overall turnover has decreased when compared to the same period last year.

Development of Select Business Climate Indicators in the Manufacturing Industry, Construction Industry as well as in the Wholesale and Retail Trade in Saxony^{a)}

Indicator	Saxony		In Comparison:		
	November 2010	October 2010	Saxony November 2009	New Federal States ^{c)} November 2010	Germany November 2010
Manufacturing Industry					
Actual Demand ^{b)}	25.5	22.0	8.6	21.5	18.5
Production Plans ^{b)}	9.1	8.6	6.2	13.3	14.8
Anticipated					
Number of Employees ^{b)}	5.1	4.1	-16.8	0.9	4.5
Anticipated					
Sales Prices ^{b)}	0.9	-0.4	-15.1	11.0	13.7
Main Construction Industry					
Volume of Orders in Months	2.3	2.1	2.2	2.3	2.5
Equipment Utilization in %	72.8	72.3	67.9	74.0	70.8
Anticipated					
Number of Employees ^{b)}	-10.2	-7.8	-25.9	-9.0	-3.6
Anticipated					
Construction Prices ^{b)}	-12.8	-12.5	-13.7	-18.0	-15.6
Wholesale					
Turnover Compared to Previous Year ^{b)}	19.0	43.0	1.0	22.0	35.0
Planned Purchase Orders ^{b)}	24.1	24.1	-8.9	10.8	17.5
Anticipated					
Sales Prices ^{b)}	34.7	36.4	34.9	33.9	33.0
Retail					
Turnover Compared to Previous Year ^{b)}	-3.0	4.0	-29.0	6.0	-3.0
Planned Purchase Orders ^{b)}	-0.7	-2.2	-34.5	-11.3	-3.7
Anticipated					
Sales Prices ^{b)}	17.7	15.8	-8.2	28.1	13.2

a) Seasonally adjusted values (exception: Indicated turnover compared to previous year)

b) Balance of positive and negative percentages reported by enterprises

c) New federal states including East Berlin

Source: ifo Institute for Economic Research

Business Registry

- In **August 2010**, **3,389 businesses** were **registered** in the Free State of Saxony which included 2,871 start-ups; compared to August 2009, the number of business registrations increased by 101.
- **2,703 businesses** were **deregistered**; 2,205 of which gave up their business; compared to the same month last year, the number of deregistrations increased by 114.

(Please see also the table in Appendix 1)

Price Trend

- Compared to the previous month, the **consumer price index** in the Free State of Saxony remained unchanged at **109.6** (basis 2005 = 100) in **November 2010**.
- The **annual inflation rate** amounted to **1.5 %** in November (previous month: 1.4 %).

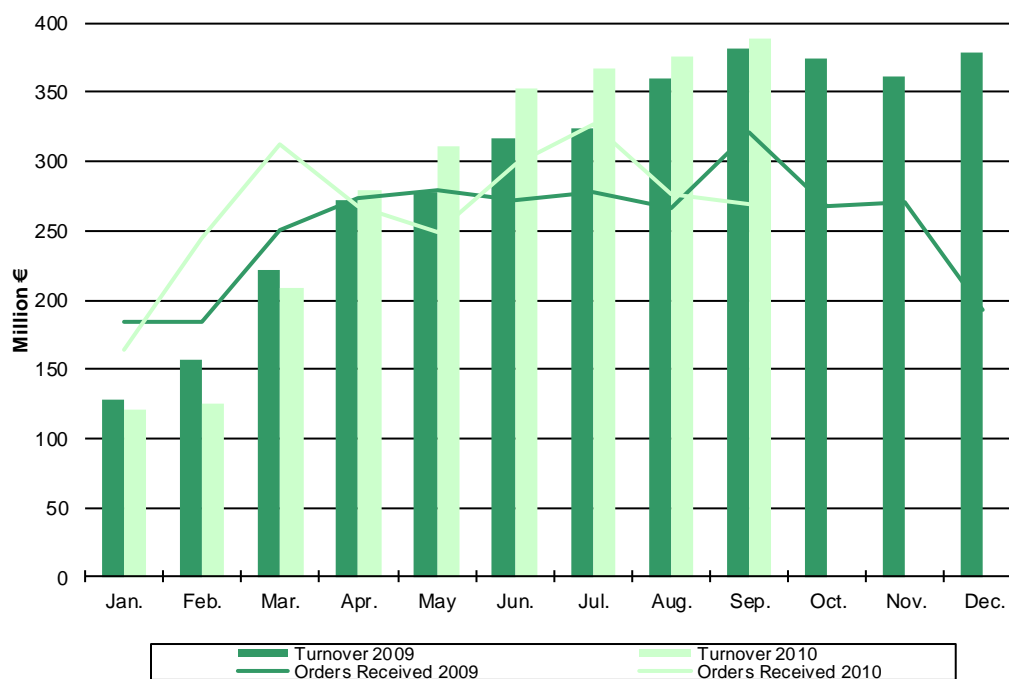
(Please see also the table in Appendix 1)

Construction Industry

The following information applies to enterprises with 20 or more employees.

- Compared to the previous month, the **turnover** in Saxony's main construction industry increased by 3.4 % to **€388.2 million** in **September 2010**; compared to September 2009, the turnover increased by 1.9 %.
- Compared to August, the **value of orders received** decreased by 2.6 % to **€269.4 million** in September; this was 16.0 % below last year's value for the same month.

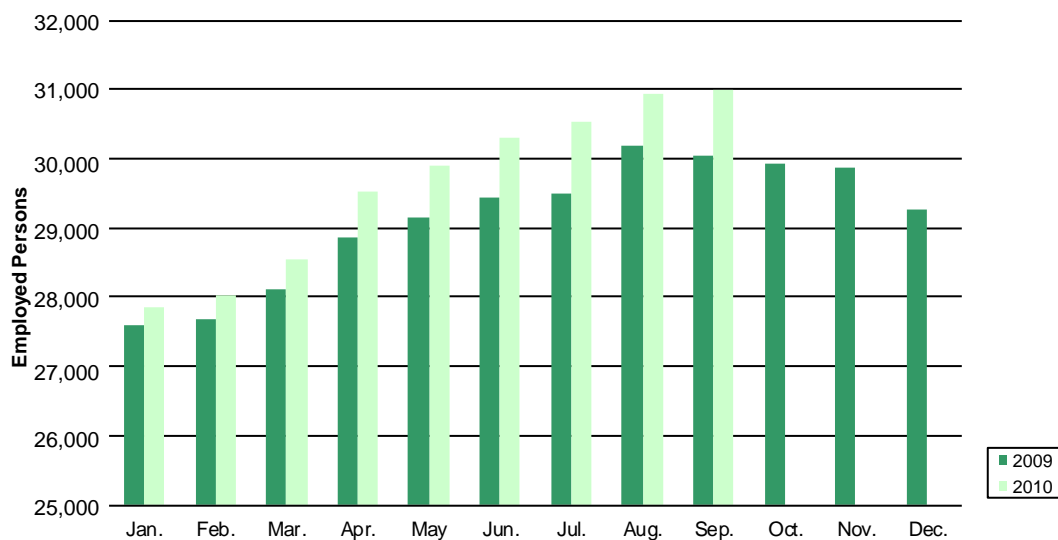
Turnover and Orders Received in Saxony's Main Construction Industry



Enterprises with 20 or more employees
Source: Statistical Office of the Free State of Saxony

- Compared to the previous month, **employment** increased by 0.2 % to **31,000 persons** in September; compared to September 2009, employment increased by 3.2 %, i.e. 969 persons.

Employed Persons in Saxony's Main Construction Industry



Enterprises with 20 or more employees
Source: Statistical Office of the Free State of Saxony

During the **first nine months of 2010**, **employment** in Saxony's main construction industry (enterprises with 20 or more employees) increased by **2.4 %** while the **total turnover** increased by **3.7 %** when compared to the respective period last year. The value of **orders received** increased by **4.3 %** (please see the following table).

Period	Employees ¹⁾	Total Turnover	Orders Received
	Persons	€ 1,000	
2009			
January-September	28,946	2,438,213	2,309,247
2010			
January-September	29,630	2,527,266	2,408,280
Change			
2010/2009 in %	2.4	3.7	4.3

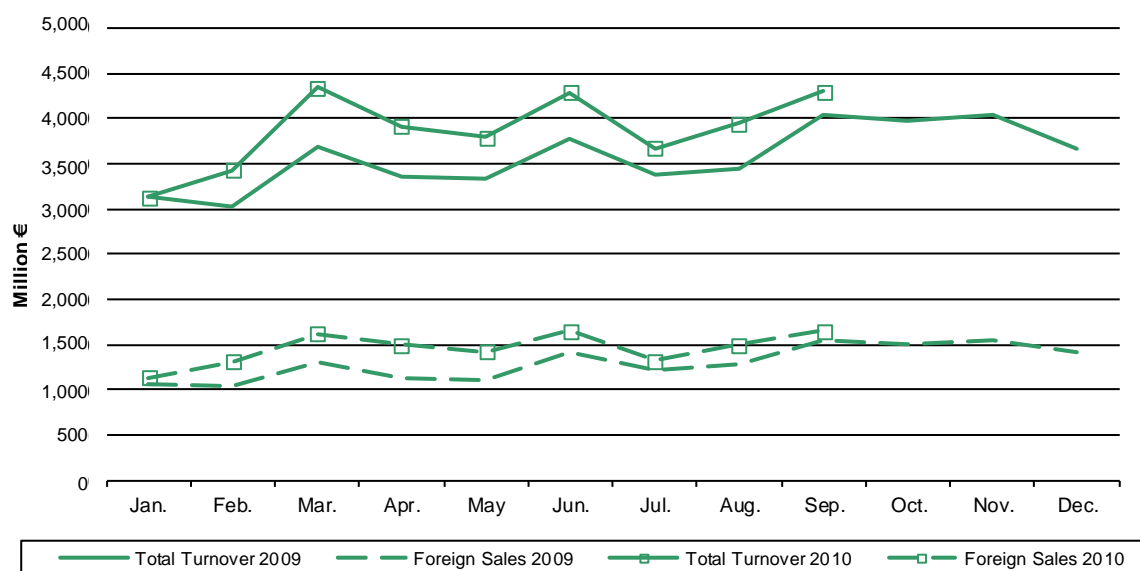
1) Average for the months January – September
Source: Statistical Office of the Free State of Saxony

Industry (Mining and Extraction of Rocks and Stones; Manufacturing Industry)

The following information applies to enterprises with 50 or more employees.

- In **September 2010**, the **total turnover** in Saxony's industry increased by 8.8 % to **€4,300.0 million** compared to the previous month; this exceeded the result of the respective month last year by 5.9 %.

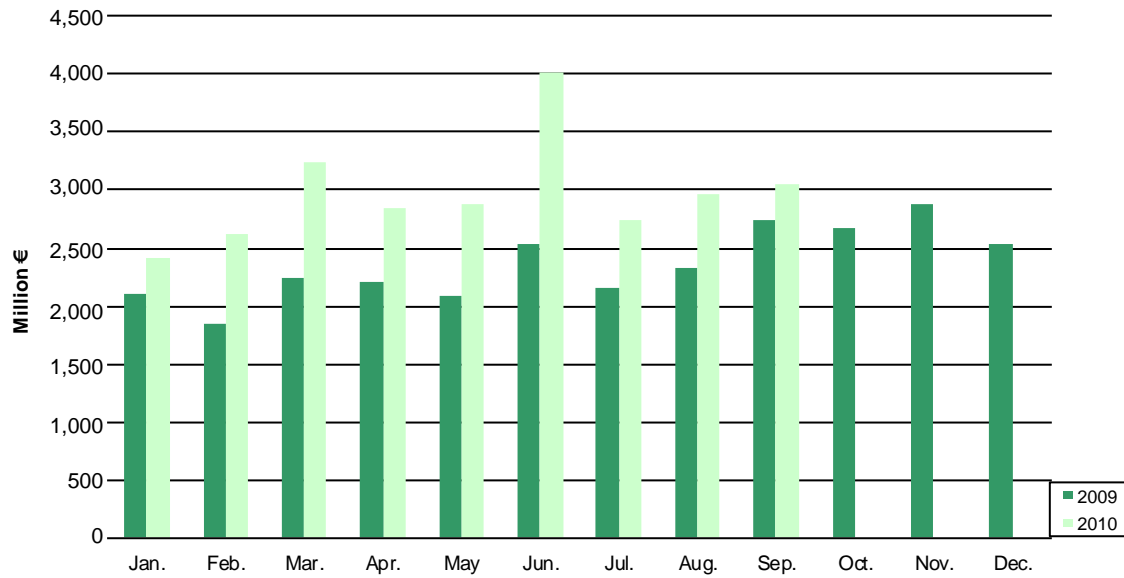
Monthly Development of Total Turnover and Foreign Sales



Enterprises with 50 or more employees
Source: Statistical Office of the Free State of Saxony

- Compared to August, **foreign sales** went up by 10.1 % to **€1,655.7 million** in September; compared to September 2009, this was an increase of 6.0 %.
- In September, the **export rate** (foreign sales proportion of the total turnover) in Saxony's industry increased by 0.4 % to **38.5 %** when compared to the previous month; this was 0.1 % higher than the rate of the same month last year (38.4 %).
- In September, the **value of orders received** increased by 3.3 % to **€3,057.5 million** when compared to August; this was 11.8 % higher than in September 2009.
- Compared to the previous month, the **number of employees** increased by 0.6 % to **192,100 persons** in September 2010; this was 0.8 % higher than the number of persons employed in September 2009.

Monthly Development of Orders Received in Saxony's Industry



Enterprises with 50 or more employees
Source: Statistical Office of the Free State of Saxony

During the **first nine months of 2010**, **employment** in Saxony's industry decreased by **2.0 %** when compared to the respective period last year; the **total turnover** increased by **11.5 %**; and **foreign sales** increased by **18.3 %**. The **export rate** (foreign sales proportion of the total turnover) increased from 35.5 % to **37.7 %** (please see the following table).

Period	Employees ¹⁾	Total Turnover	Foreign Sales	Export Rate ²⁾
	Persons	€ 1,000		%
2009				
January-September	192,455	31,248,846	11,107,586	35.5
2010				
January-September	188,640	34,827,837	13,143,955	37.7
Change				
2010/2009 in %	-2.0	11.5	18.3	2.2 ³⁾

1) Average for the months January – September

2) Foreign sales proportion of total turnover

3) Percentage points

Preliminary results for 2010

Source: Statistical Office of the Free State of Saxony

This Month

Report of the German Council of Economic Experts (SVR) 2010/2011

On November 10, 2010, the German Council of Economic Experts (SVR) presented its Annual Report 2010/2011 entitled “Opportunities for a Stable Economic Upswing” (only available in German at: www.sachverstaendigenrat.org). The relevant contents of select topics taken from this year’s report are briefly outlined as follows:

I. Overall Economic Development in Germany

The SVR assumes the following key economic data:

Indicators	2009	2010 ¹⁾	2011 ¹⁾
Gross Domestic Product (change compared to previous year in %)	-4.7	3.7	2.2
Consumption (change compared to previous year in %)	0.5	0.9	1.5
Investments in Machinery and Equipment (change compared to previous year in %)	-22.6	9.2	6.0
Building Investments (change compared to previous year in %)	-1.5	4.2	1.8
Other Investments (change compared to previous year in %)	5.6	6.7	6.5
Exports (change compared to previous year in %)	-14.3	15.5	6.7
Imports (change compared to previous year in %)	-9.4	13.3	6.8
Persons Employed (in 1,000)	40,271	40,467	40,762
Registered Unemployed Persons (in 1,000)	3,423	3,245	2,968
Unemployment Rate (in %)	8.2	7.7	7.0
Development of Consumer Prices (in %)	0.4	1.1	1.4
General Governmental Balance ²⁾ (in %)	-3.0	-3.7	-2.4

1) Forecast for 2010 and 2011

2) 2010: Without considering the revenue from frequency auctions for wireless network access -3.8 %

With an above average, quick recovery, the German economy has successfully mastered the crisis and is exhibiting one of the strongest growth rates in the entire euro region.

According to current economic indicators, the economic recovery in Germany, which exhibited its most dynamic growth in the spring, ought to continue even further, even though it will weaken slightly. The experts assume that this is due to the development of the overall global economy which is no longer as strong as it was before. The impulse from foreign trade will weaken for Germany. The SVR anticipates that production losses resulting from the crisis ought to be balanced by the end of 2011.

Positive impulses for stable economic growth could probably result above all from domestic demand. In so doing, the further decline in unemployment and the associated increase in wages and salaries ought to strengthen private consumption while private investment activities are also backed by low nominal interest rates and relatively low real interest rates in an international comparison.

The positive trend observed on the labor market along with a (seasonally adjusted) continuous increase of gainful employment since February 2010 is divided in almost equal shares between West and East Germany.

The SVR actually sees specific risks for a setback of the economic recovery, primarily when it comes to exports, which is due to the partially harsh consolidation policy in some European countries; for example, in the United Kingdom as well as Greece, Ireland, Portugal, and Spain. The experts also expressed their worries that this might lead to an “unexpected shock” on the financial markets once again, or that increased tension might occur in the international monetary structure (threat of a “battle of currencies”).

II. Economic Assessments

Economic policy should support the upswing. In addition to the development of exit strategies in the monetary and fiscal policy sectors as well as the support measures in the financial sector, this includes, above all, a growth strategy with a medium-term and long-term perspective. This primarily requires investments into the future in form of educational efforts and innovations.

An educational campaign should commence “as early as possible within the educational cycle” (e.g. mandatory pre-school year, a dense network of day schools, more flexible transitions between individual educational phases). A successful innovation policy should encompass the implementation of tax incentives for entrepreneurial research and development in addition to further strengthening the requisite infrastructures and limiting the time period of any financial support.

Five key areas for political action are mentioned for the short term and the medium term:

- Overcoming the crisis in the euro region (stability of public finances and the private financial system, European crisis mechanism)
- Reforming the national and international financial market structures
- Consolidating public budgets and tax system reforms (municipal finances, sales tax)
- Implementing the reforms introduced for the social security system (health care and pension insurance)
- Future-oriented general conditions for the labor market (work incentives with regard to Unemployment Benefits II, collective bargaining law, free movement regulations)

III. Assessment of the Fiscal and Tax Policy

As a result of the comprehensive reform of corporate taxation, Germany has lost its “inglorious top position” in a global comparison of tax burdens incurred by companies; the achieved position “in the medium range” was considered to be acceptable. The SVR sees the tax policy heading in the right direction because it has “shelved for now” plans for tax reliefs without any solid counter-financing measures. What continues to be important, though, are the announced reorganization of municipal finances and the necessary reform of the sales tax.

The necessary reorganization of municipal finances along with the implementation of the so-called “test model” (replacing the commercial tax with an increased share of the sales tax for municipalities and a municipal surcharge for income and corporate taxes with the authority to collect them) would be a “milestone in tax policy.”

When it comes to sales tax, a fundamental reform in the sales tax would be a real “revolution.” A uniform sales tax rate would make things much easier and, at the same time, result in moderate gains in efficiency without any significant redistribution effects at the cost of lower income groups which many fear.

In addition, the Federal Government’s efforts to simplify the tax law is also very sensible.

In the public budget sector, it is expected that the overall financial deficit ought to decrease by approx. 30 billion euros to about 62 billion euros in 2011. This would reduce the negative balance to a – “still high” – level of 2.4 %. The total debt, which increased significantly in 2009 (from 66 % to more than 73 %), remains constant at almost 74 % (in proportion to the GDP).

Against this backdrop, the “debt brake” and the associated consolidation path is considered to be an important financial achievement which will unfold its full effect starting in 2011. It will, thus, not really act as a brake as the economy moves out of the recession. The increasing credibility which is associated with the systematic and steady implementation of the consolidation efforts cannot be rated high enough. In an international comparison, the relatively sound situation of public budgets and the “debt brake” as guarantors for the great attractiveness of German government bonds are considered to be a “safe haven.” This makes a valuable contribution towards maintaining long-term interest rates at a very low level.

IV. Statements on Labor Market and Social Insurance

The SVR refers to its earlier demand for the introduction of a “per capita premium” to finance statutory health insurance and calls for an implementation of income-independent financing without any ifs and buts. On the service side, measures should be introduced to strengthen competition in order to raise existing reserves in efficiency.

Statutory pension insurance requires political steadfastness in order to commence with the gradual increase of the pensionable age as scheduled.

The labor market exhibits a very good development; this is, on the one hand, due to the surprisingly strong economic recovery and, on the other hand, also due to a statistical impact. The robust development is based essentially on a massive reduction of working hours and the large-scale utilization of reduced working hours. The tariff wage policy, which focuses on safeguarding jobs, had a positive impact as well. It is recommended that the available scope of income distribution not be fully abused also in the future so as not to endanger the achievements. It would be better to use, for example, company-specific voluntary non-tariff remunerations in form of one time payments.

The restrictions on the free movement of labor for the acceding countries which expires on May 1, 2011, do not call for any immediate action; instead, the positive welfare effects ought to prevail.

Current Economic Data for the Free State of Saxony

- Business Registry -

Year/Month	Business Registrations	Business Deregistrations	Balance of Registrations and Deregistrations
1990	77,668	7,578	70,090
1991	91,992	30,788	61,204
1992	63,457	36,496	26,961
1993	54,209	34,038	20,171
1994	51,315	35,082	16,233
1995	51,067	38,718	12,349
1996*	45,337	36,167	9,170
1997	45,484	36,995	8,489
1998	45,582	38,819	6,763
1999	43,714	37,968	5,746
2000	39,433	36,981	2,452
2001	37,926	36,090	1,836
2002	35,681	34,931	750
2003**	41,952	32,600	9,352
2004	49,171	32,630	16,541
2005	45,386	35,776	9,610
2006	43,736	35,256	8,480
2007	39,038	34,965	4,073
2008	39,526	36,696	2,830
2009	38,630	35,094	3,536
2010			
January	3,248	3,577	-329
February	3,049	3,019	30
March	3,727	2,871	856
April	3,307	2,790	517
May	3,253	2,574	679
June	3,513	2,902	611
July	2,689	2,224	465
August	3,389	2,703	686
Total	1,006,479	706,328	300,151

* As of 1996, data collection has been put on a new legal basis (without vending machine service and travel business); a comparison with the previous years is, thus, only possible up to a limited extent.

** As of 2003, amendment of the trade law; a comparison with the previous years is, thus, only possible up to a limited extent.

Source: Statistical Office of the Free State of Saxony

- Price Trend in the Free State of Saxony -

Year/Month	Price Index ¹⁾ 2005=100	Change in % Compared to	
		Previous Month	Previous Year and/or Same Month of Previous Year
2006 Ø	102.1	*	2.1
2007 Ø	104.8	*	2.6
2008 Ø	107.7	*	2.8
2009 Ø	108.1		
2010			
January	108.2	-0.6	0.7
February	108.5	0.3	0.5
March	109.2	0.6	1.3
April	109.1	-0.1	1.1
May	109.2	0.1	1.1
June	109.3	0.1	1.0
July	109.5	0.2	1.2
August	109.5	0.0	1.1
September	109.6	0.1	1.5
October	109.6	0.0	1.4
November	109.6	0.0	1.5

1) Standard of living for all private households in Saxony; Ø = annual average; Source: Statistical Office of the Free State of Saxony

Current Economic Data for the Free State of Saxony

- Manufacturing Industry¹⁾ -

	Unit	September 2009	August 2010	September 2010
Mining and Manufacturing Industry²⁾				
Employees	Persons	190,572	190,991	192,100
Total Turnover	€ 1,000	4,061,558	3,951,385	4,299,966
Foreign Sales	€ 1,000	1,561,447	1,503,913	1,655,670
Export Rate ³⁾	%	38.4	38.1	38.5
Orders Received	€ 1,000	2,734,055	2,960,693	3,057,453
Main Construction Industry⁴⁾				
Employees	Persons	30,031	30,950	31,000
Total Turnover	€ 1,000	381,048	375,326	388,206
Orders Received	€ 1,000	320,578	276,539	269,361

1) No current data are available for the sectors services (e.g. trade, banks, government) and agriculture.

2) Enterprises with 50 or more employees

3) Foreign sales proportion of the total turnover

4) Enterprises with 20 or more employees

Source: Statistical Office of the Free State of Saxony

Updated: December 2010