

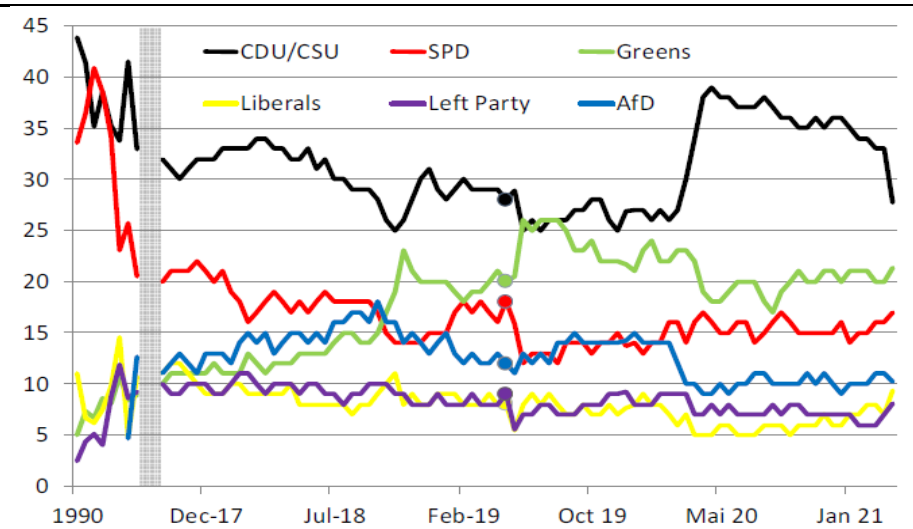


Holger Schmieding, Chief economist | holger.schmieding@berenberg.com | +44 20 3207 7889

GERMAN CONSERVATIVES: FALLING FROM GRACE

Berenberg Macro View

Back down to earth for the CDU/CSU: German opinion polls



Support for political parties, in %. Election results 1990-2017; opinion polls thereafter; dots mark European election result of 26 May 2019. Sources: Bundeswahlleiter, Al-lensbach, Emnid, Kantar, Forsa, Infratest-dimap

[Click here for full report and disclosures](#)

- **Mismanagement hurts:** Last March, a deft response to the pandemic sent support for Chancellor Angela Merkel and her CDU/CSU almost into the stratosphere. Whereas Germany handled the first wave of the pandemic better than most other developed countries, this is no longer the case. Confusing policy shifts and slow vaccination progress have now undermined public confidence in the ability of the CDU/CSU, which has led the government for most of post-war history including the past 15 years, to steer Germany through the crisis. Against this backdrop, a kickback scandal involving CDU/CSU members of parliament has resonated with the public. Polls show a fall in support for the CDU/CSU back to pre-pandemic levels – see chart. Merkel’s U-turn away from an “Easter shutdown” may add to the woes.
- **Nature abhors a vacuum at the top:** The plunge in public support adds to pressure on the CDU/CSU to nominate its candidate to succeed Merkel as chancellor quickly. A decision shortly after Easter would make sense. The problem is obvious: as the leader of the bigger CDU, Armin Laschet remains in the pole position for the job. But his rival Markus Söder from the smaller CSU still seems to have more electoral support – although the past three weeks may have hit the CSU as much as the CDU. If the ambitious Laschet does not yield to Söder – or is not asked



MACRO NEWS

behind closed doors by other party bigwigs to do so – Laschet will probably prevail. In the current circumstances, an open conflict in which Söder and his allies try to push a reluctant Laschet aside would probably hurt the CDU/CSU even more than usual.

- **Do not count out the CDU/CSU just yet:** It is still early days. A lot can happen in the six months before Germany goes to the polls on 26 September. If the CDU/CSU-led government manages to speed up the vaccinations in line with the current outlook for vaccine deliveries so that most Germans can enjoy a summer holiday, the mood may still brighten. The CDU/CSU remains the favourite to win the election. But after the recent string of mishaps, we reduce our probability that the chancellor to succeed Merkel will be from her CDU/CSU from 75% to 70%. A CDU/CSU-led coalition would likely include the Greens as the not-so-junior partner (60% probability) or – less likely - the current partner SPD (10%).
- **It takes some 47% to oust the CDU/CSU:** Parties with less than 5% of the popular vote do not make it into the Bundestag. As the minnows may receive around 6% together, a coalition needs 47% of the vote for a majority of seats. Judging by the average of the past five opinion polls, a “traffic light” alliance between the Greens, the centre-left SPD and the liberal “yellow” FDP could make it with 47.6% support, whereas a “Green-red-red” coalition of Greens, SPD and Left Party would fall narrowly short with 46.4%. We attach a 15% probability to the traffic-light coalition and 15% (up from 10%) to Green-red-red. Only the latter option would lead to a major policy shift, notably in terms of tighter labour, housing and product markets regulations that would reduce German trend growth significantly over time.
- **All bright and Green?** One way or the other, the Greens look set to be part of the next German government (probability of 90%), either as partner of the CDU/CSU (60%) or in a “traffic light” or Green-red-red alliance (30%). In a coalition without the CDU/CSU, they would likely nominate the chancellor, either the more charismatic Robert Habeck or the more policy-savvy Annalena Baerbock. [Click here](#) for our analysis of what the Greens may be up to.



BERENBERG
PARTNERSHIP SINCE 1590

MACRO NEWS

Disclaimer

This document was compiled by the above mentioned authors of the economics department of Joh. Berenberg, Gossler & Co. KG (hereinafter referred to as “the Bank”). The Bank has made any effort to carefully research and process all information. The information has been obtained from sources which we believe to be reliable such as, for example, Thomson Reuters, Bloomberg and the relevant specialised press. However, we do not assume liability for the correctness and completeness of all information given. The provided information has not been checked by a third party, especially an independent auditing firm. We explicitly point to the stated date of preparation. The information given can become incorrect due to passage of time and/or as a result of legal, political, economic or other changes. We do not assume responsibility to indicate such changes and/or to publish an updated document. The forecasts contained in this document or other statements on rates of return, capital gains or other accession are the personal opinion of the author and we do not assume liability for the realisation of these.

This document is only for information purposes. It does not constitute investment advice or recommendation to buy financial instruments. It does not replace consulting regarding legal, tax or financial matters.

Remarks regarding foreign investors

The preparation of this document is subject to regulation in the United Kingdom. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

United Kingdom

This document is meant exclusively for institutional investors and market professionals, but not for private customers. It is not for distribution to or the use of private investors or private customers.

United States of America

This document has been prepared exclusively by the Bank. Although Berenberg Capital Markets, LLC (“BCM”), an affiliate of the Bank and registered US broker-dealer, distributes this document to certain investors, BCM does not provide input into its contents, nor does this document constitute research of BCM. In addition, this document is meant exclusively for institutional investors and market professionals, but not for retail investors or private customers. It is not for distribution to or the use of retail investors or private customers. BCM accepts responsibility for this research document's contents and institutional investors receiving this research and wishing to effect any transactions in any security discussed herein should do so through BCM and not the Bank. Please contact Berenberg Capital Markets, LLC (+1 646 949 9000) if you require additional information.

Copyright

The Bank reserves all the rights in this document. No part of the document or its content may be rewritten, copied, photocopied or duplicated in any form by any means or redistributed without the Bank's prior written consent.

© 2021 Joh. Berenberg, Gossler & Co. KG