



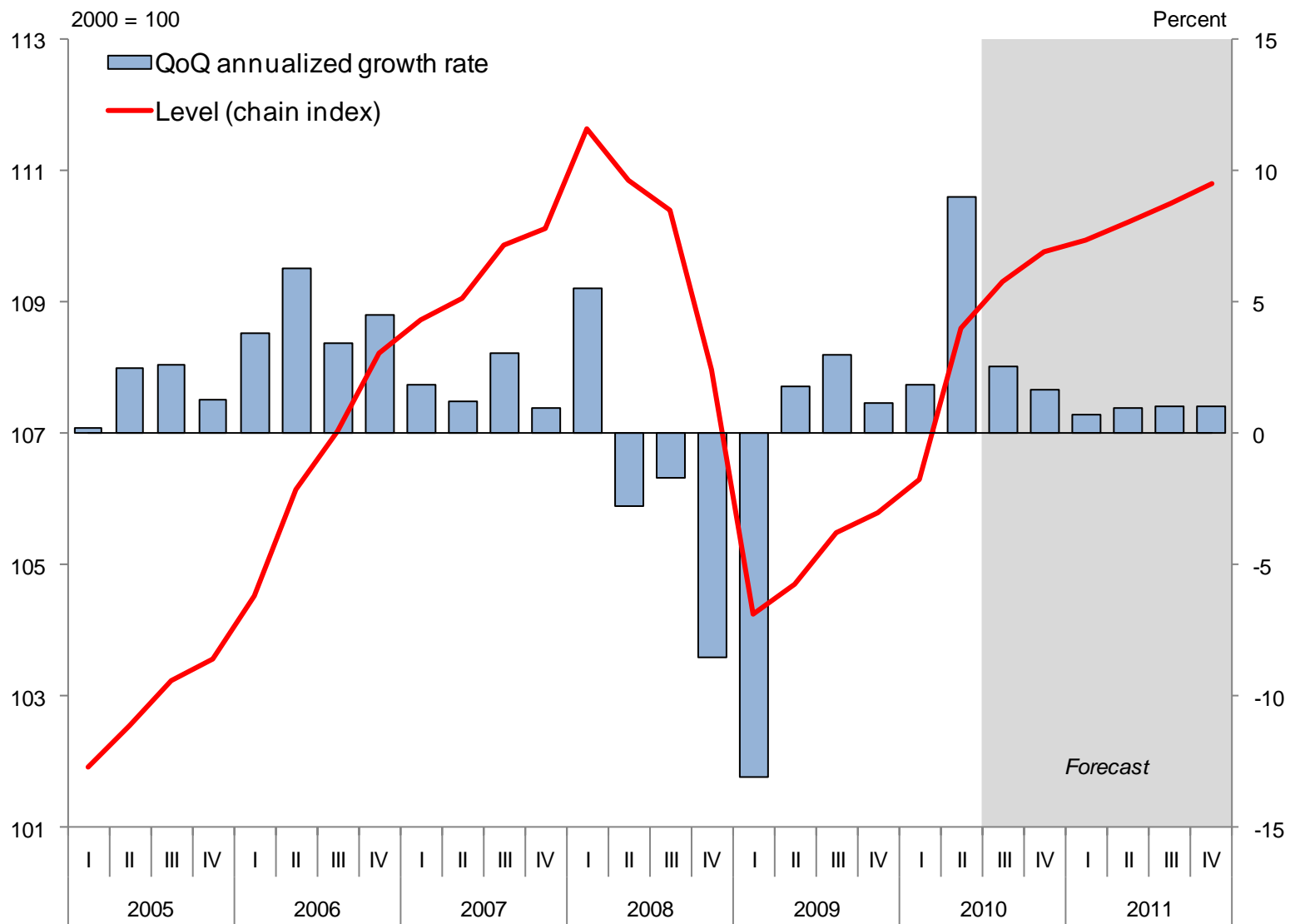
82nd Kieler Konjunkturgespräch | Berlin, 14 September 2010

The (un)surprising performance of the German economy

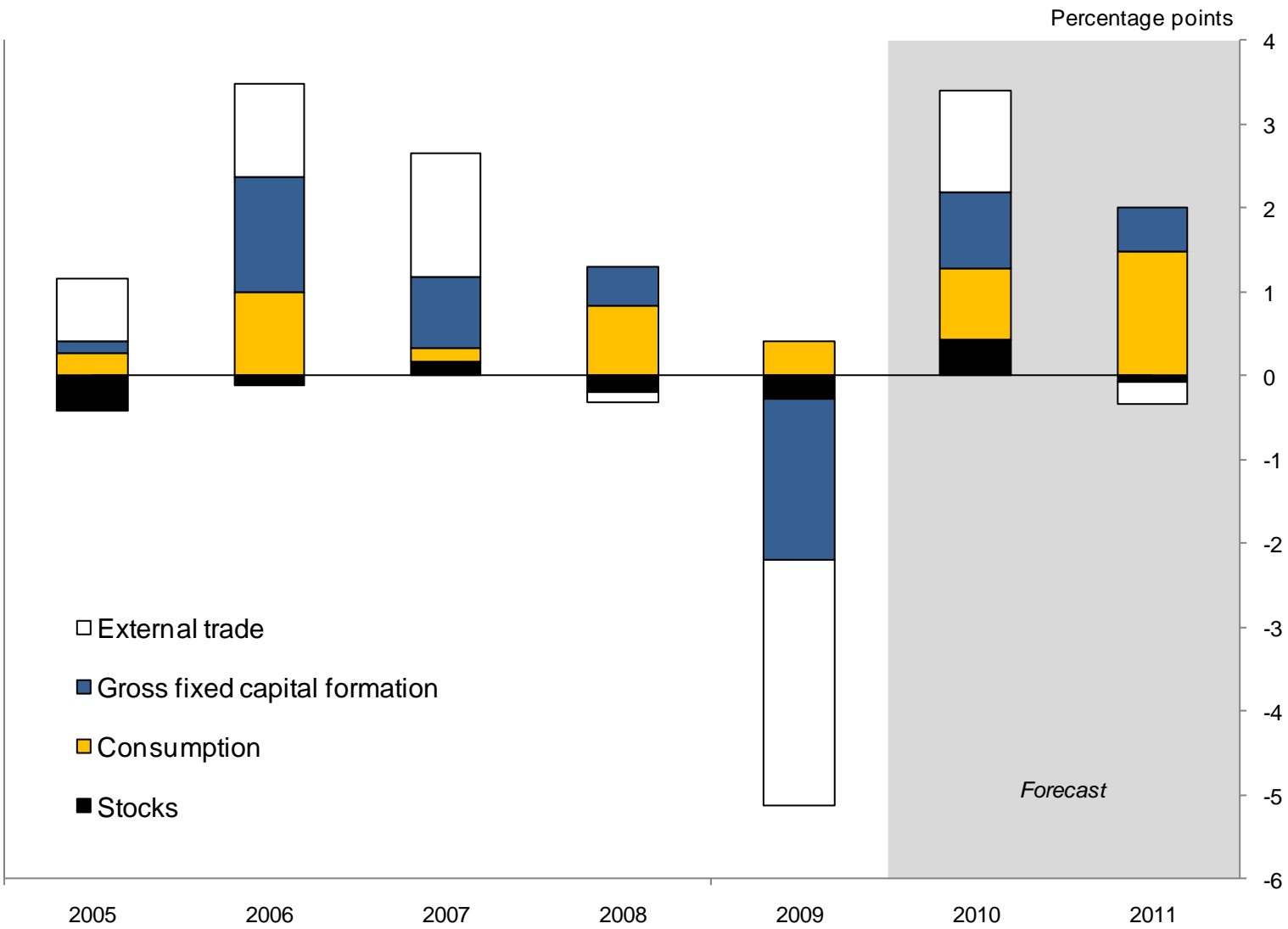
Dr. Stefan Kooths
Forecasting Center



GDP: Slower pace after the spring rally ...



... and driven by domestic demand (GDP, cont.)



Mixed evidence on capacity utilization

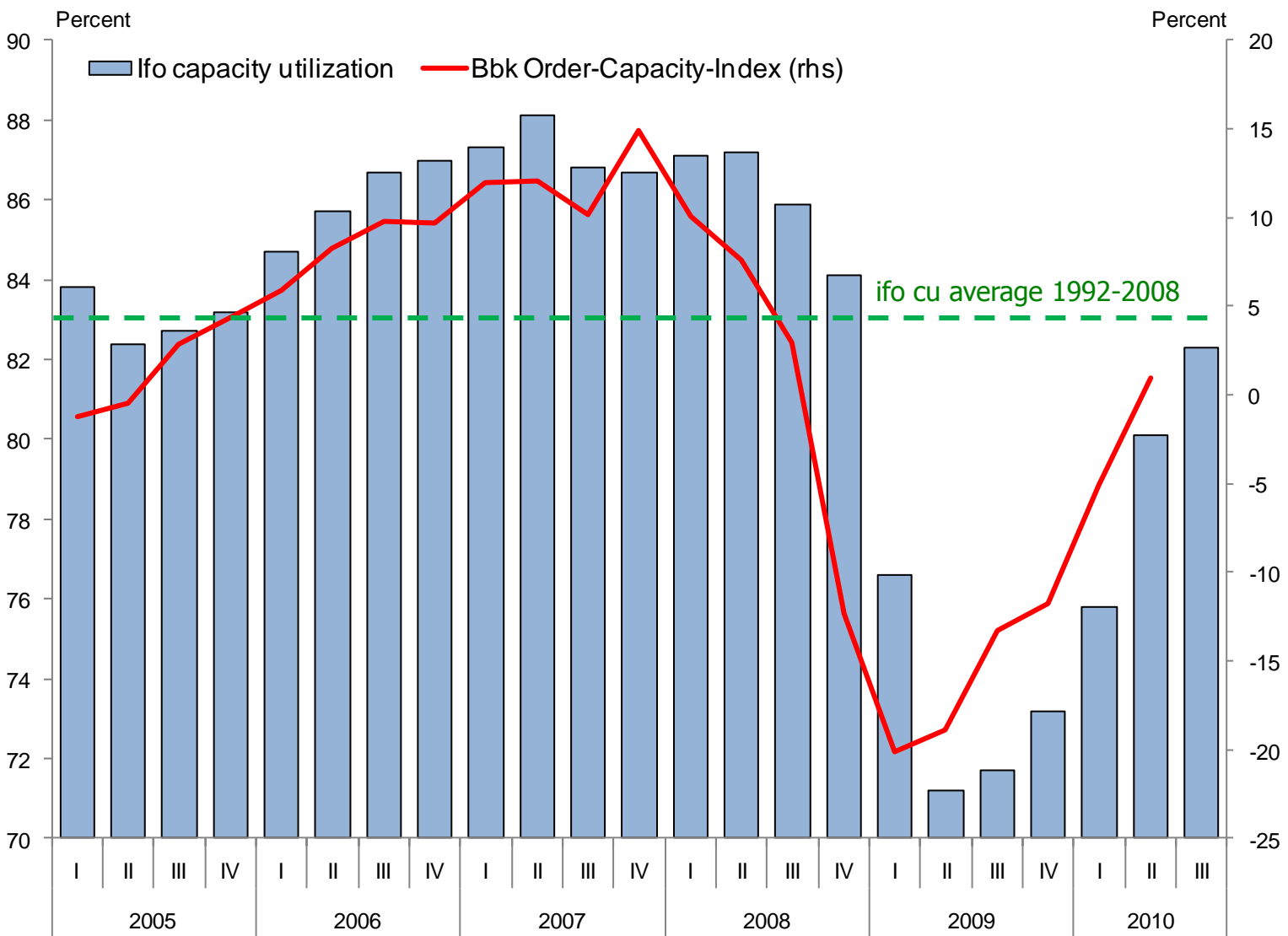
- Survey (ifo)
 - ⇒ back to normalization

- Order-Capacity-Index (Bundesbank)
 - ⇒ normalizing, ...
 - ... but coming from 6 dramatically poor quarters

- Labor productivity
 - ⇒ Still way below pre-crisis levels

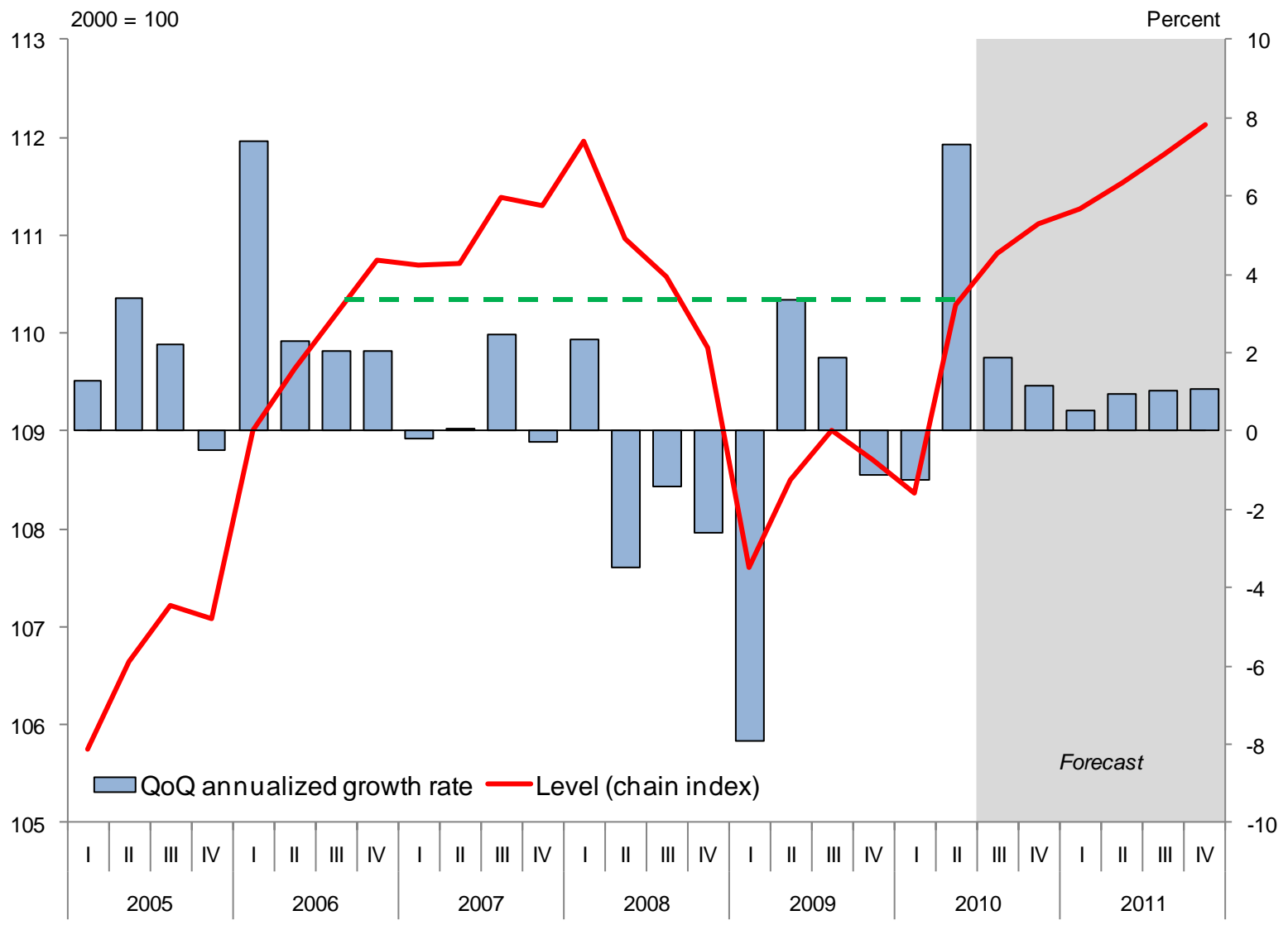
- Output gap via production function
 - ⇒ closing by end of 2011

Capacity utilization almost back to normal levels

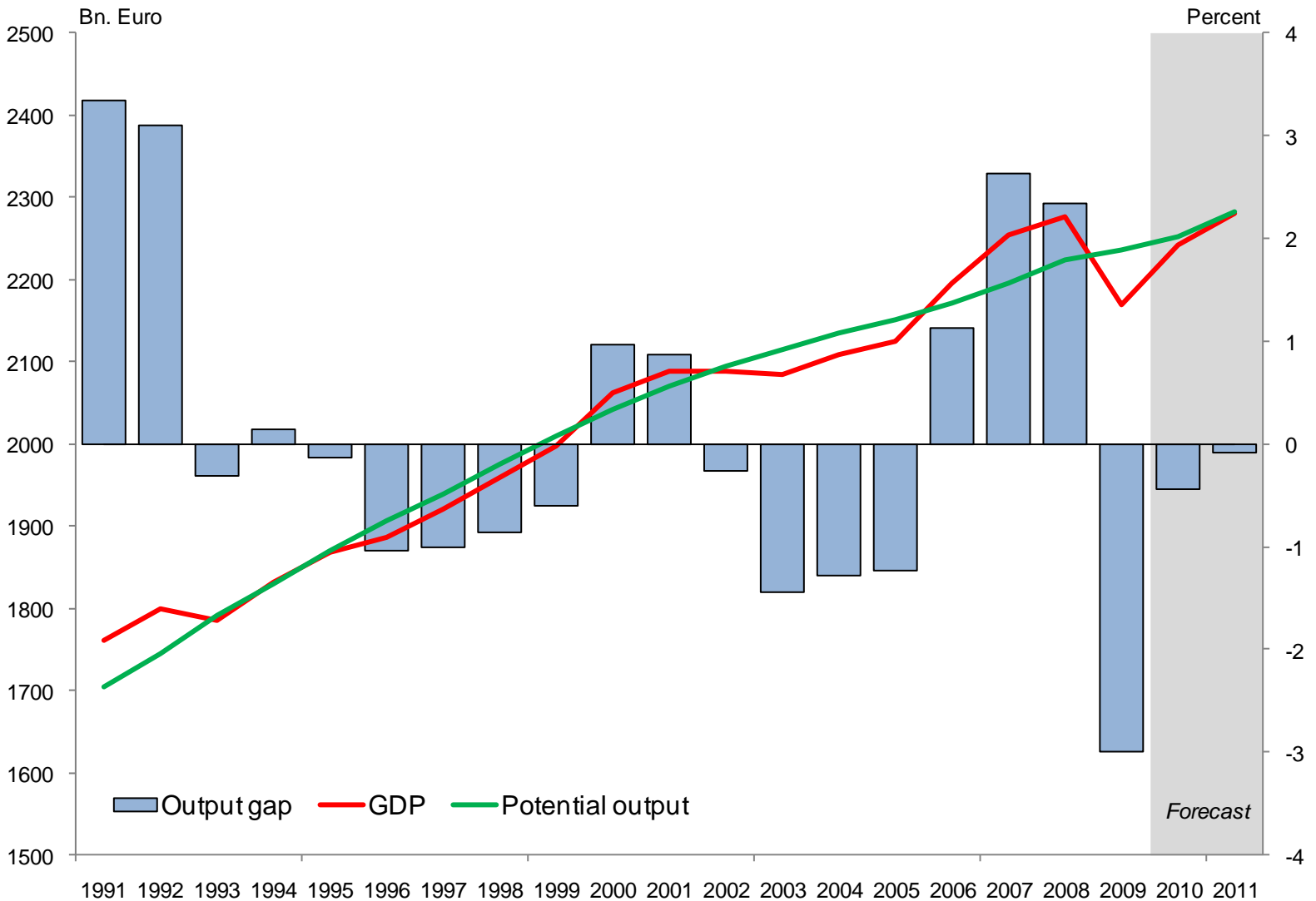




Labor productivity: 4 lost years?

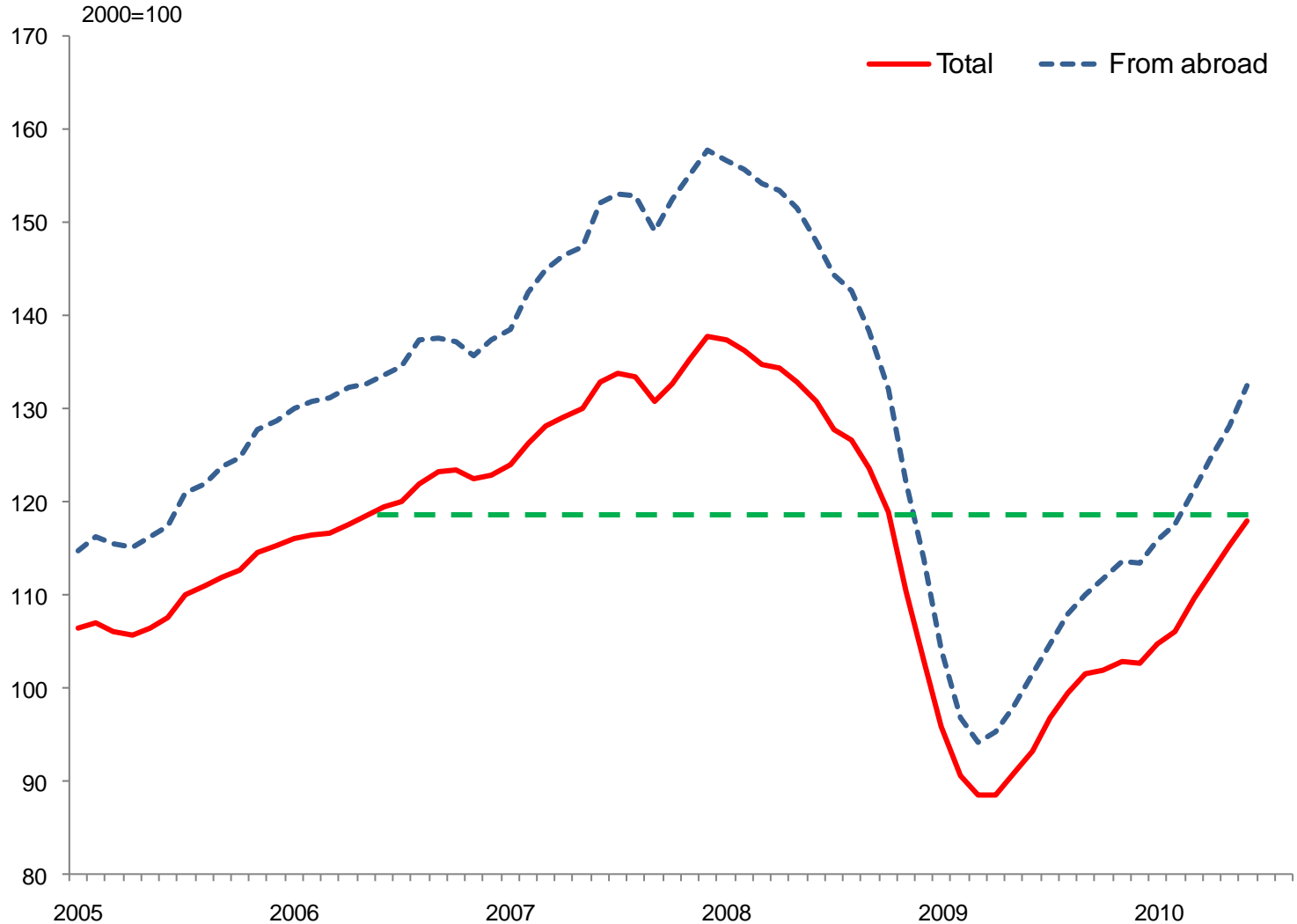


Output gap closed by end of 2011

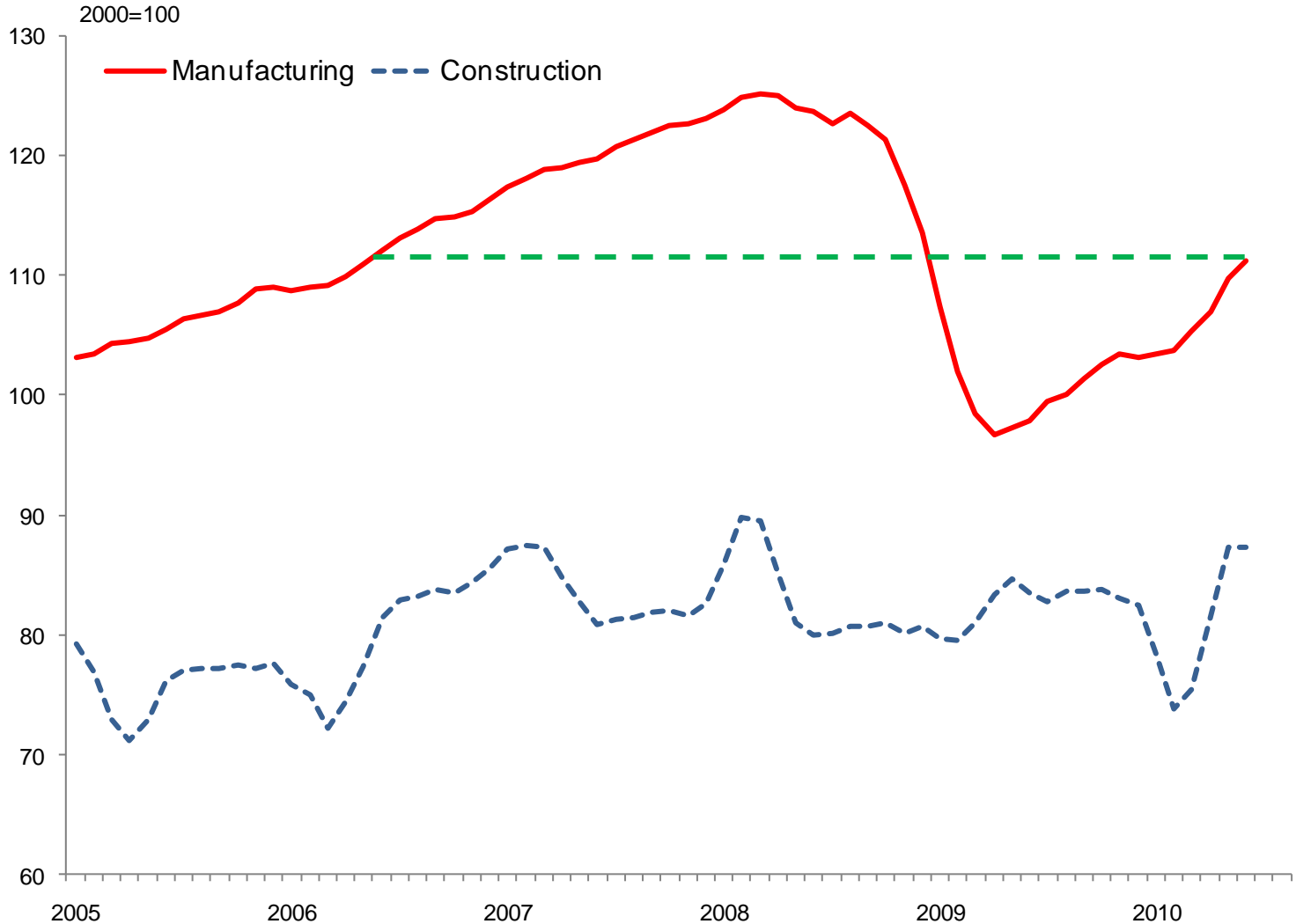




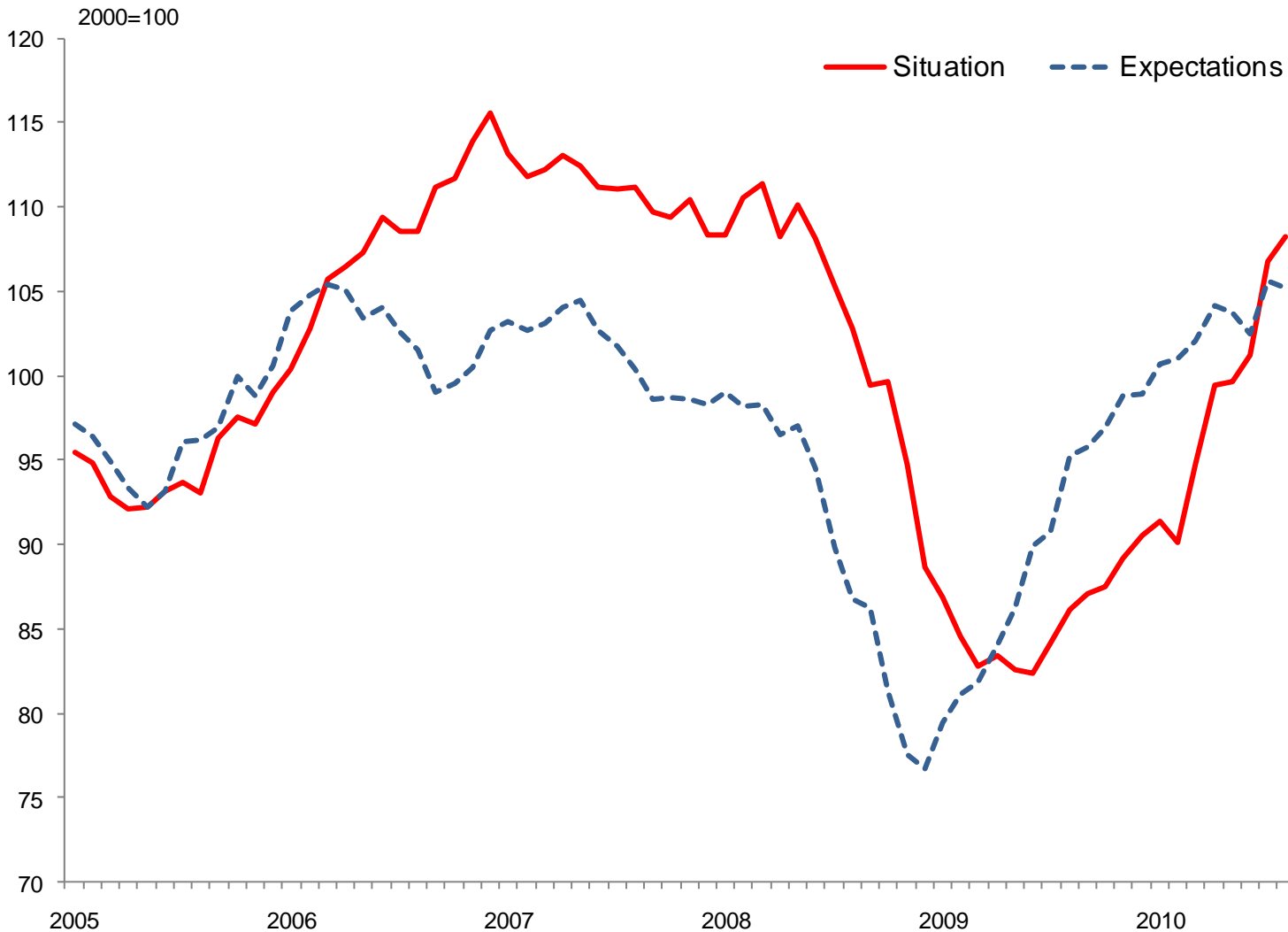
Order inflow (industry): Robust upward trend



Production: Catching-up or ignoring the crisis?

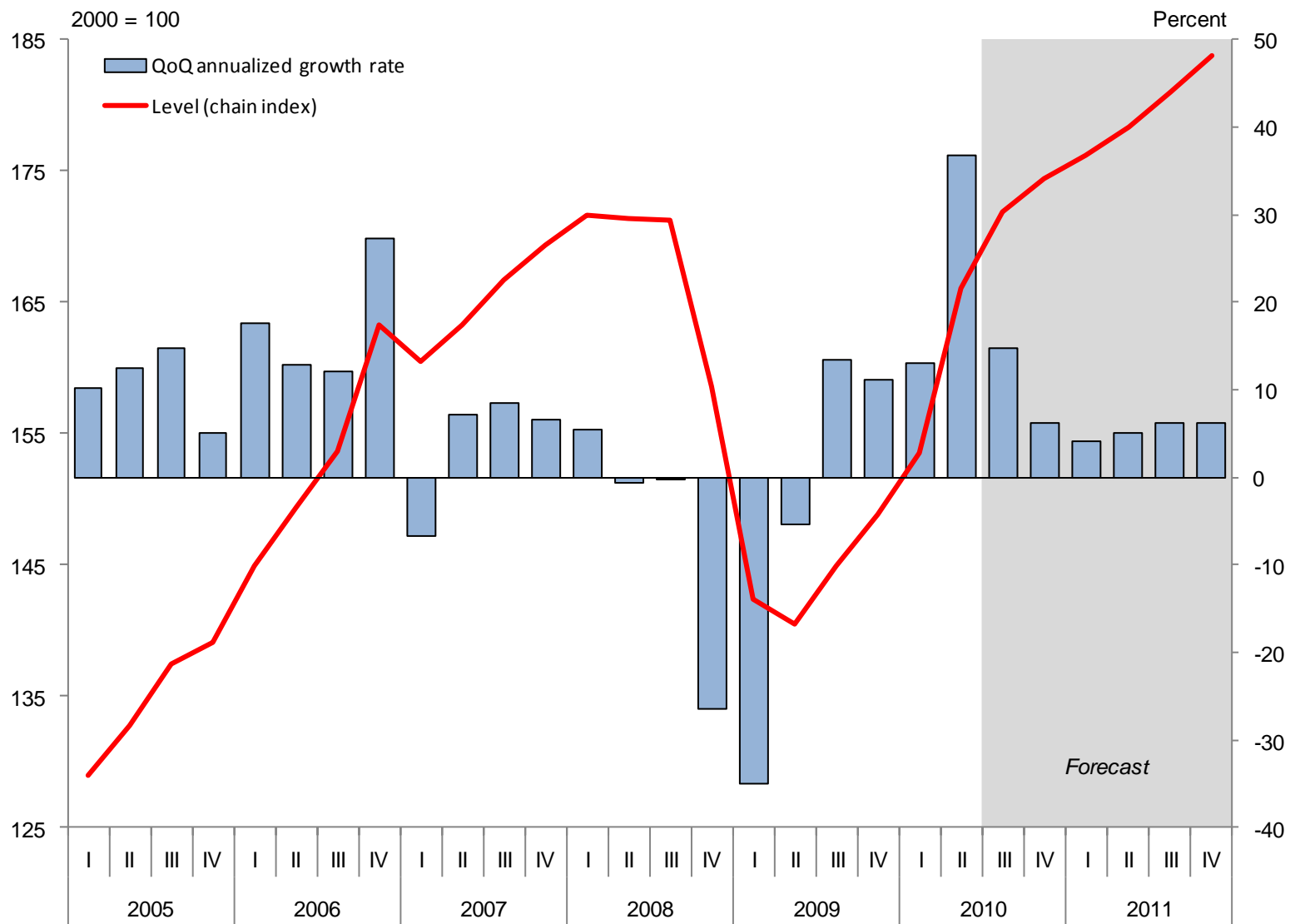


Business climate: Situation near pre-crisis levels



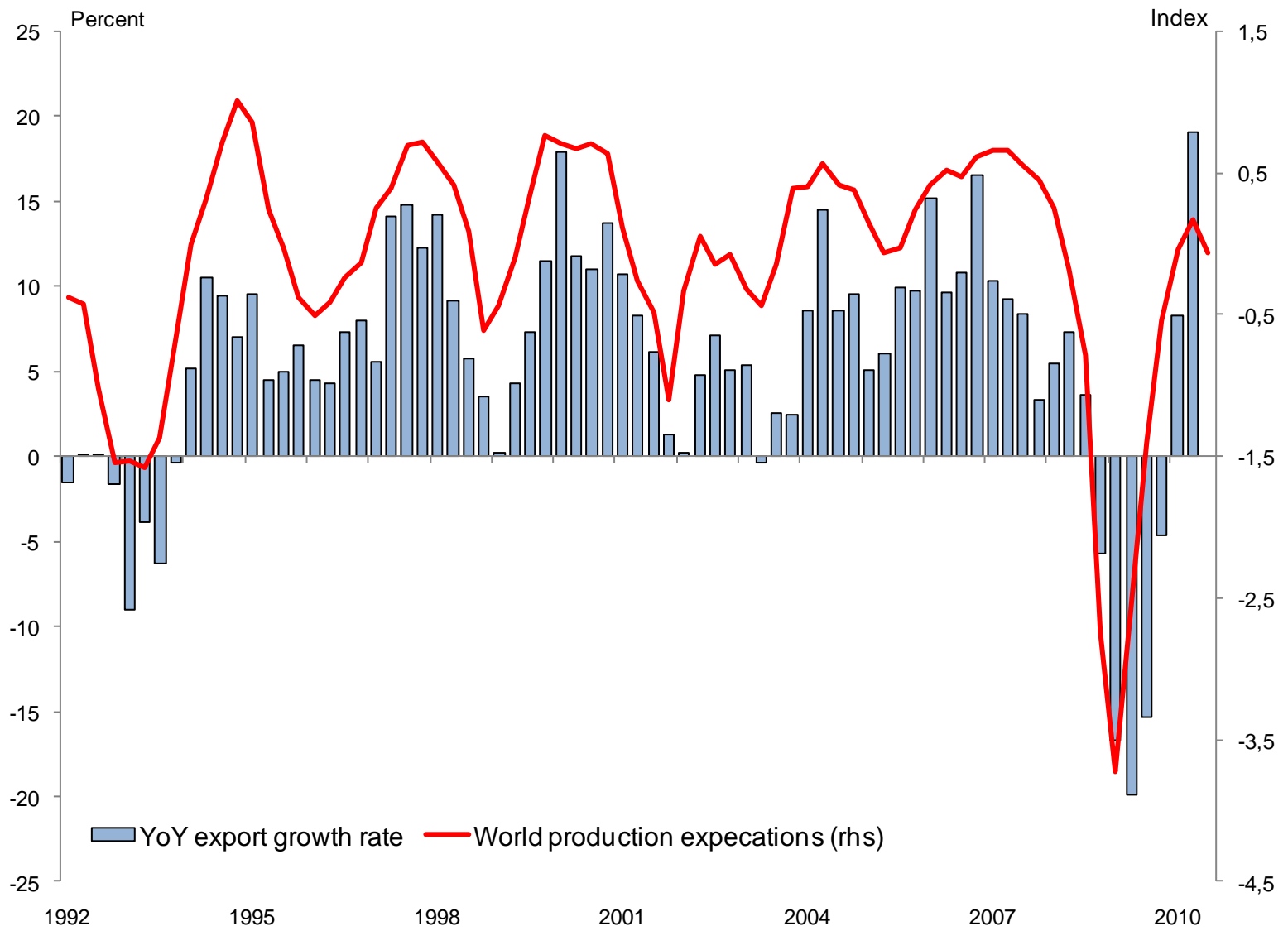


Exports are back on track



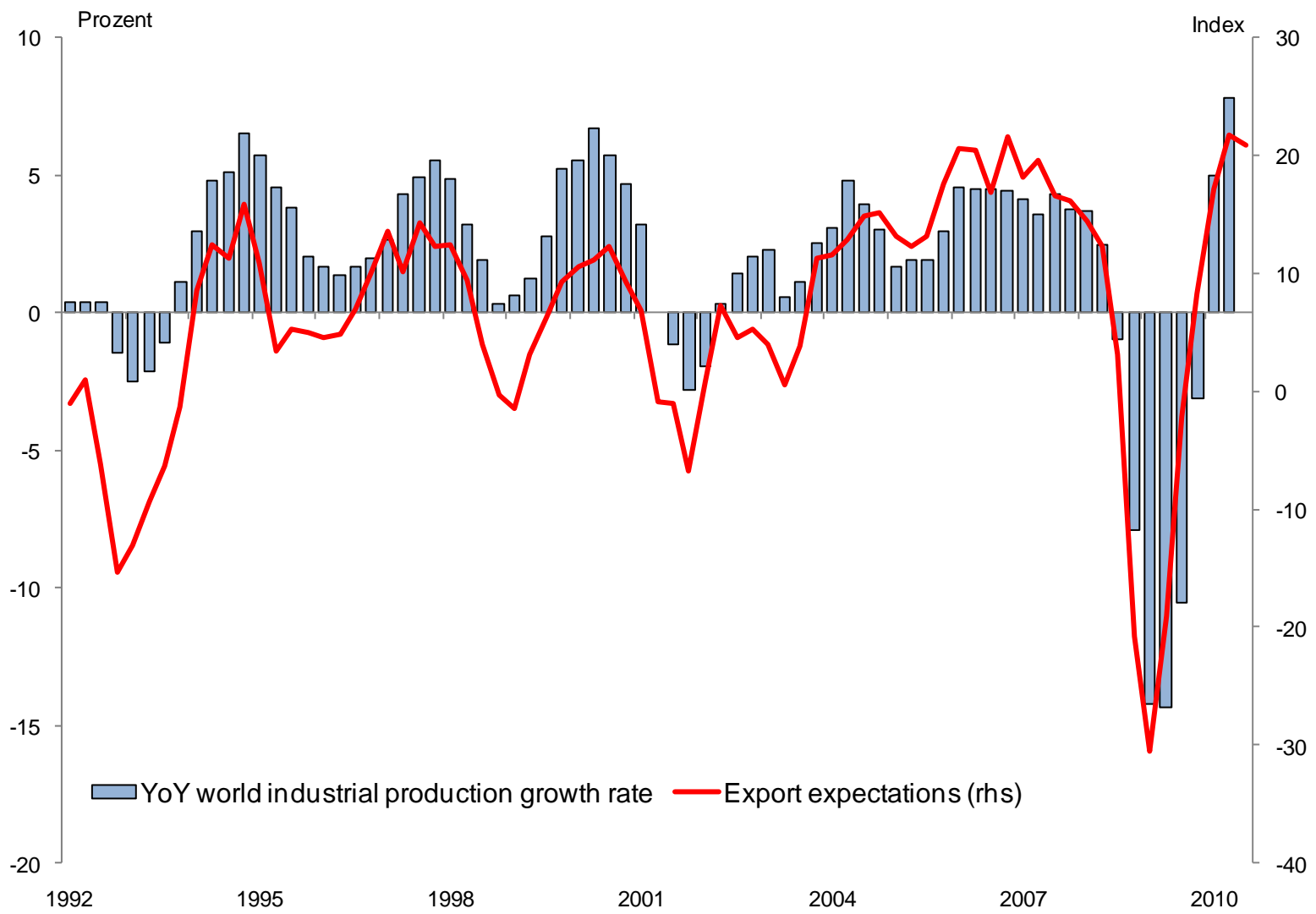


Exports and world production expectations



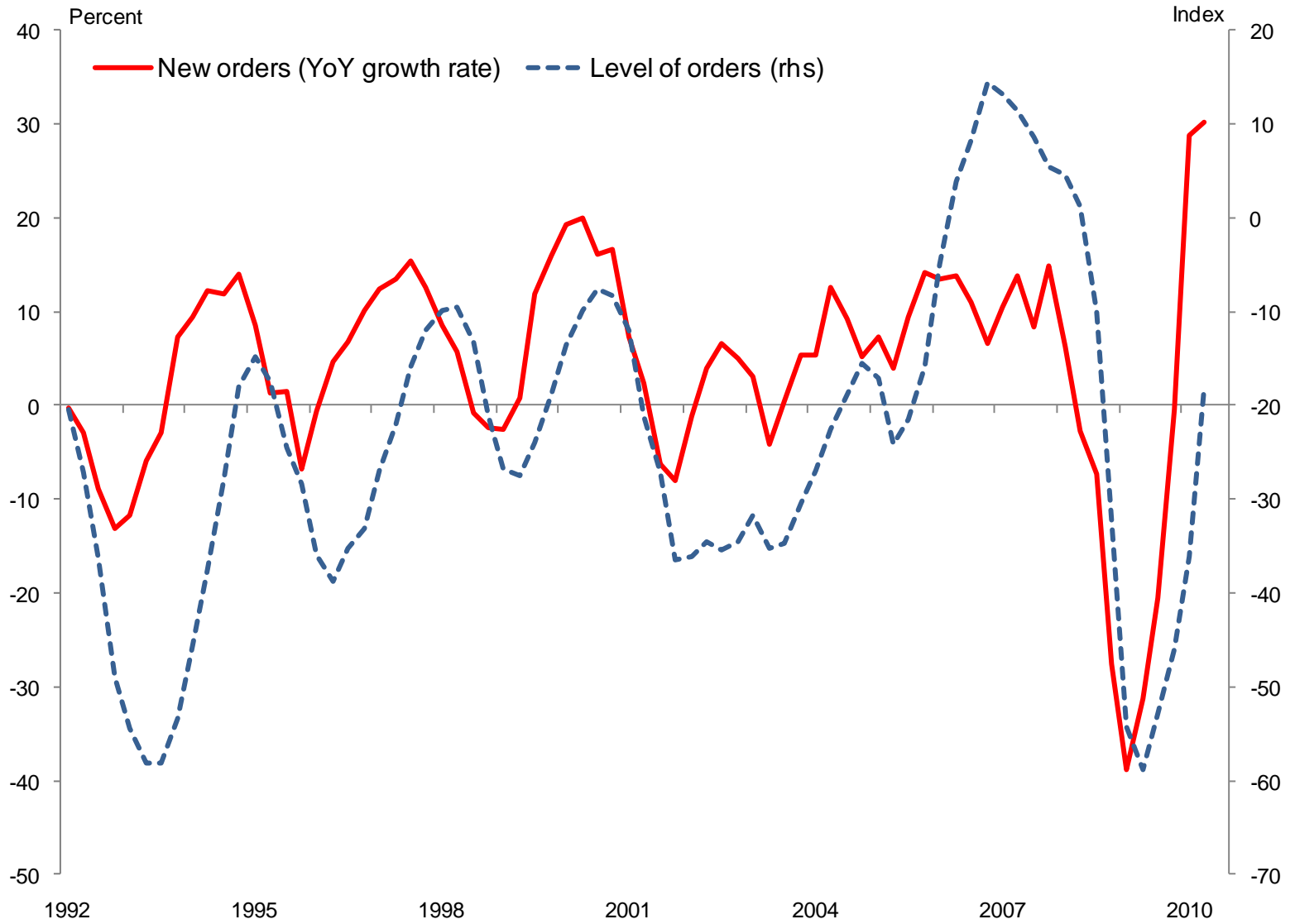


World industrial production and export expectations

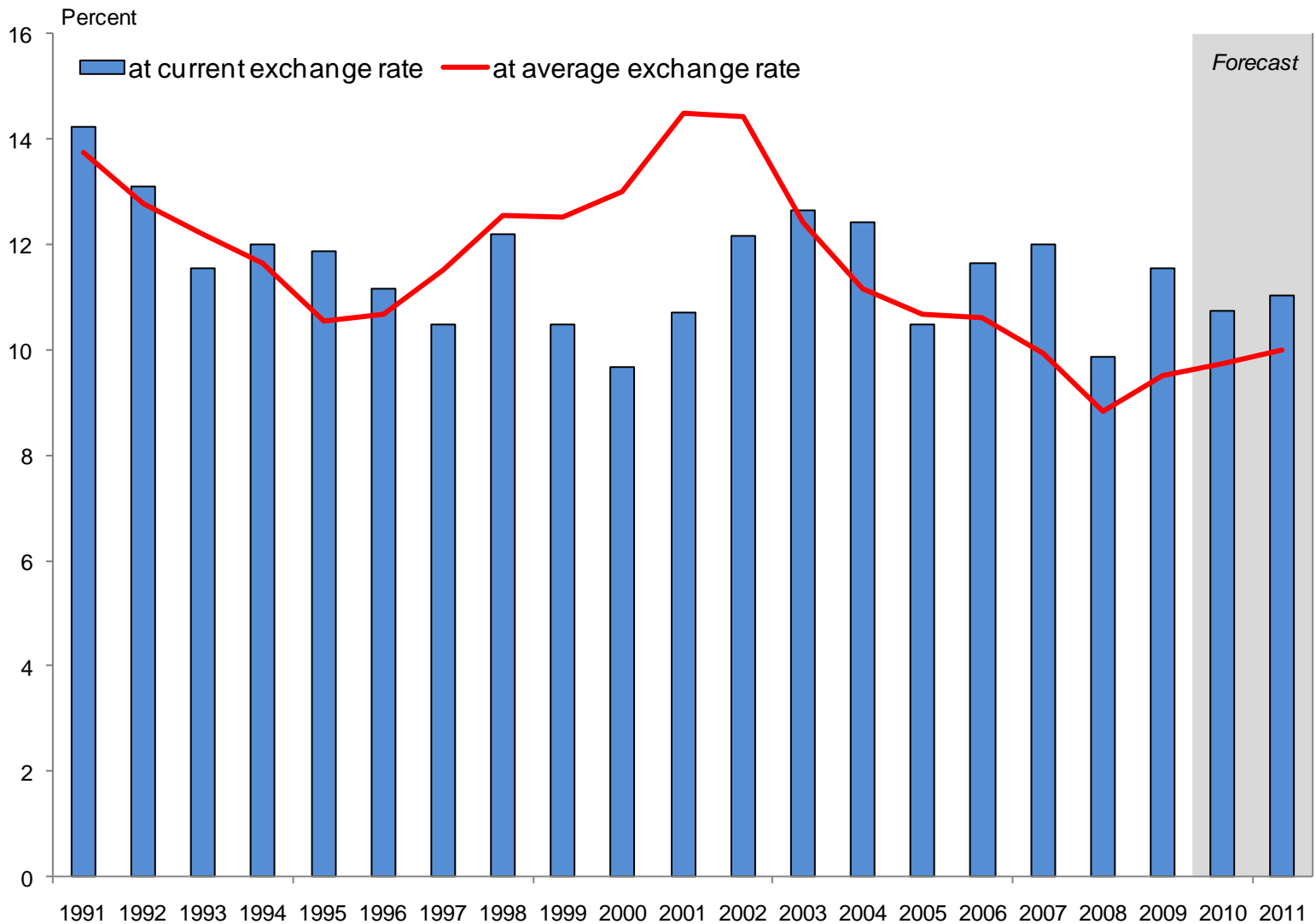




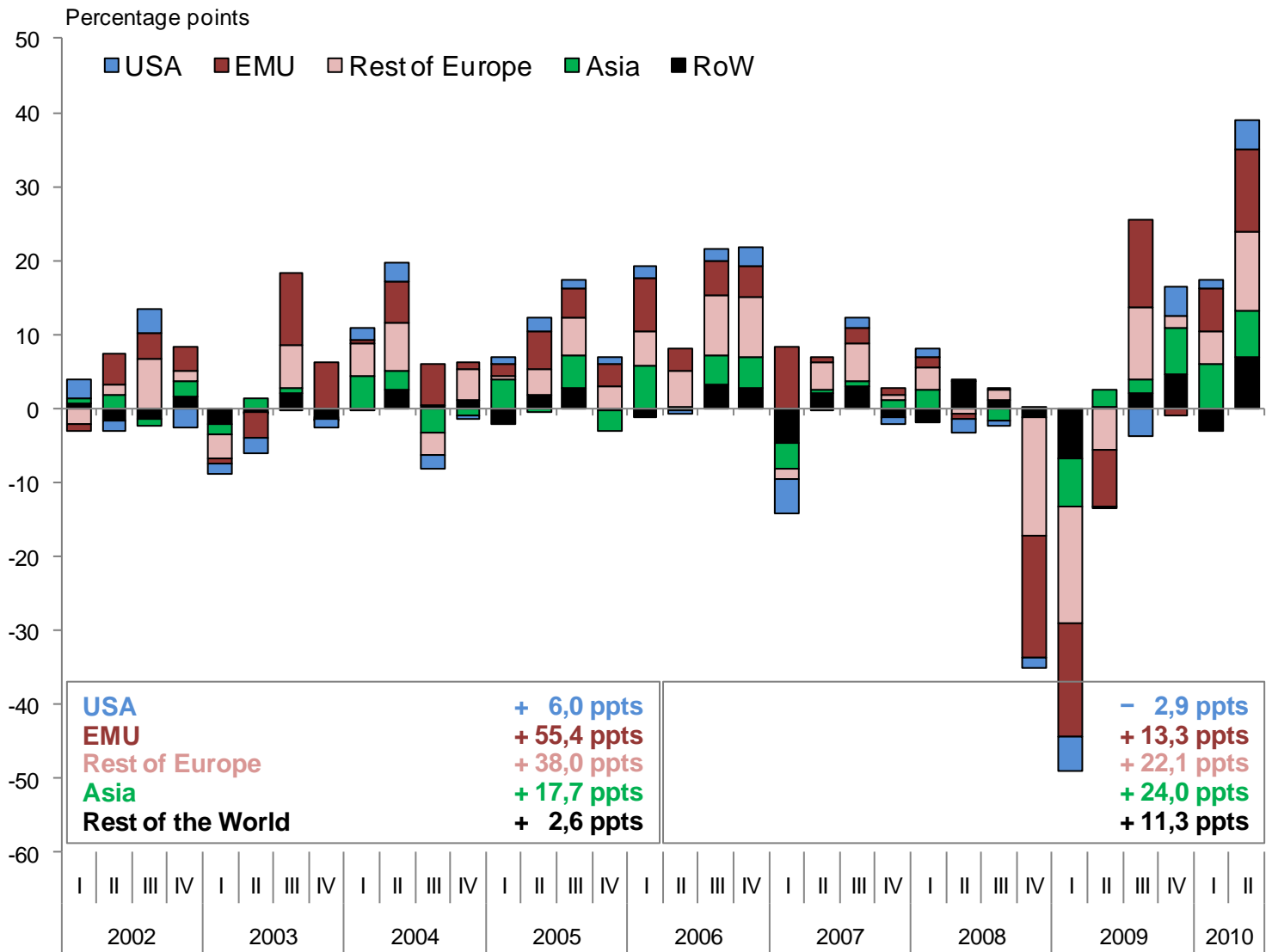
Orders from abroad



Global market shares of German exporters

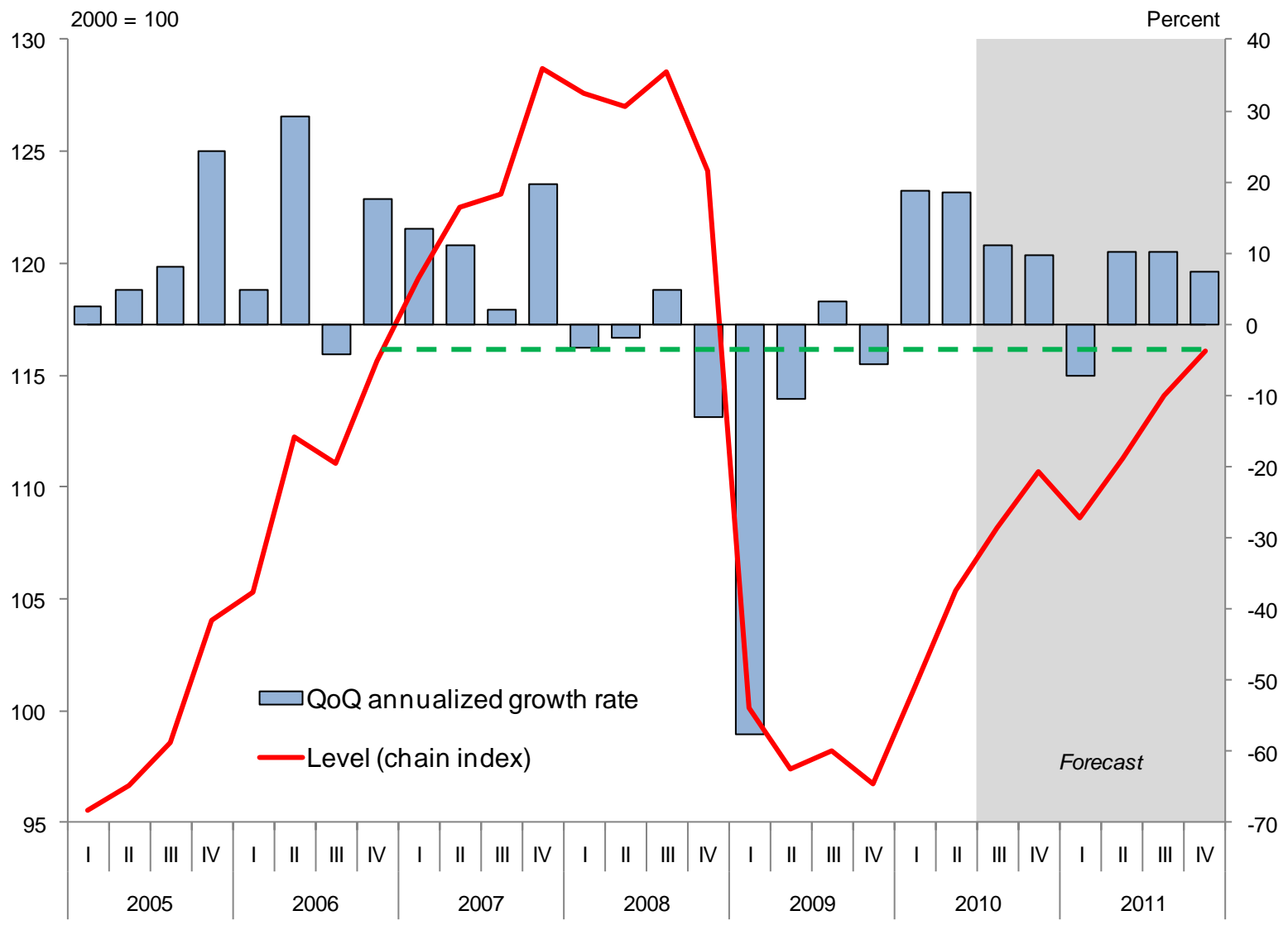


Export dynamics go East



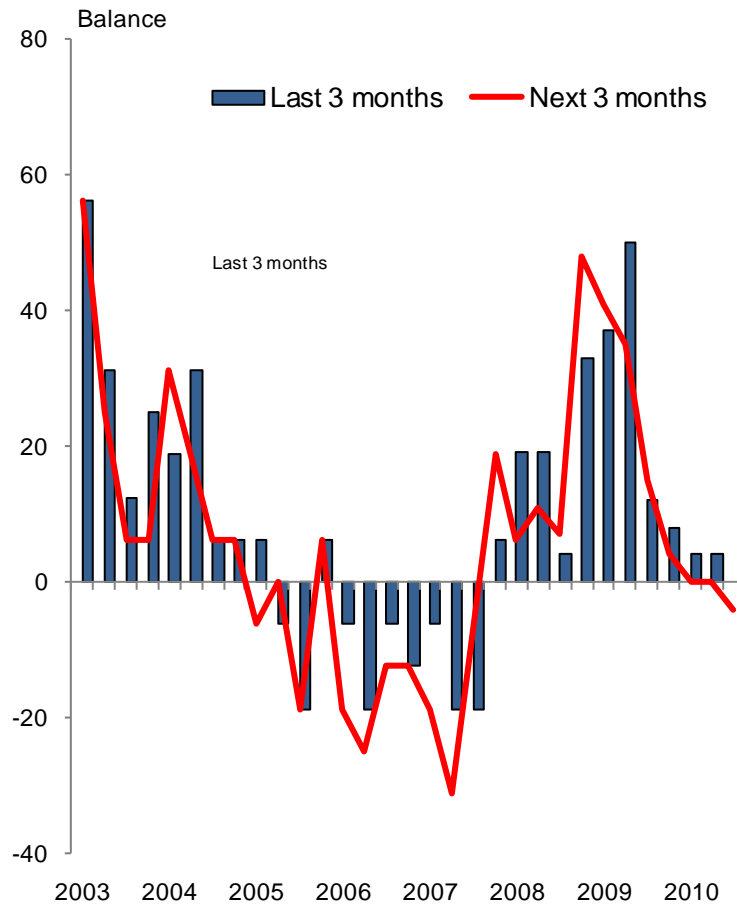


M&E investment: Augmenting the net capital stock again



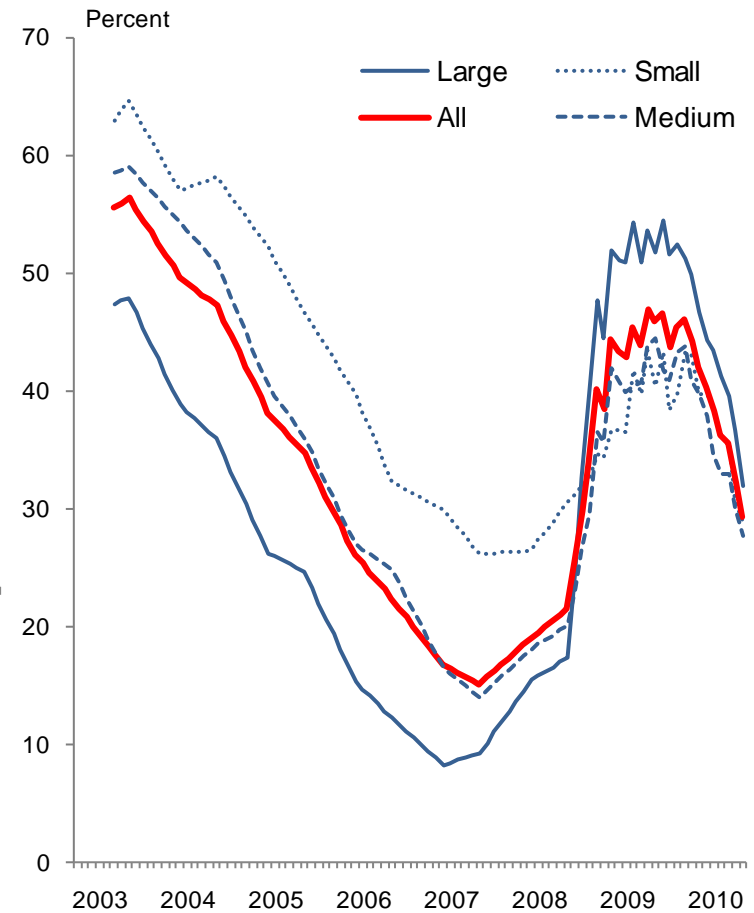
Credit loosening continues

Banking sector view



Quarterly data
Balance of banks reporting tighter vs. weaker credit standards

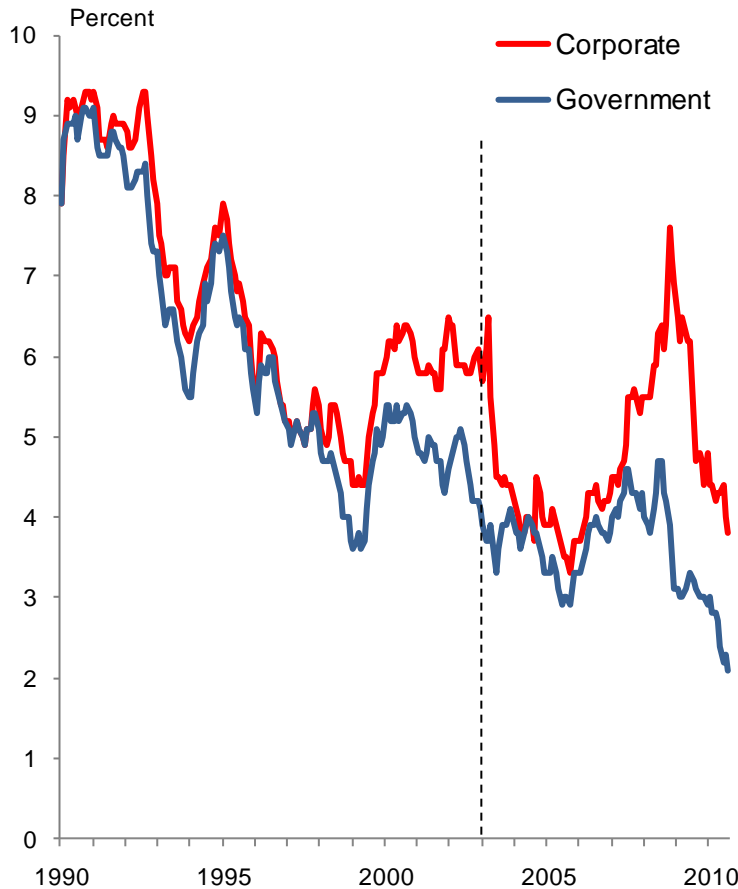
Business sector view



Monthly data (starting Nov. 2008)
Share of businesses reporting tight credit conditions

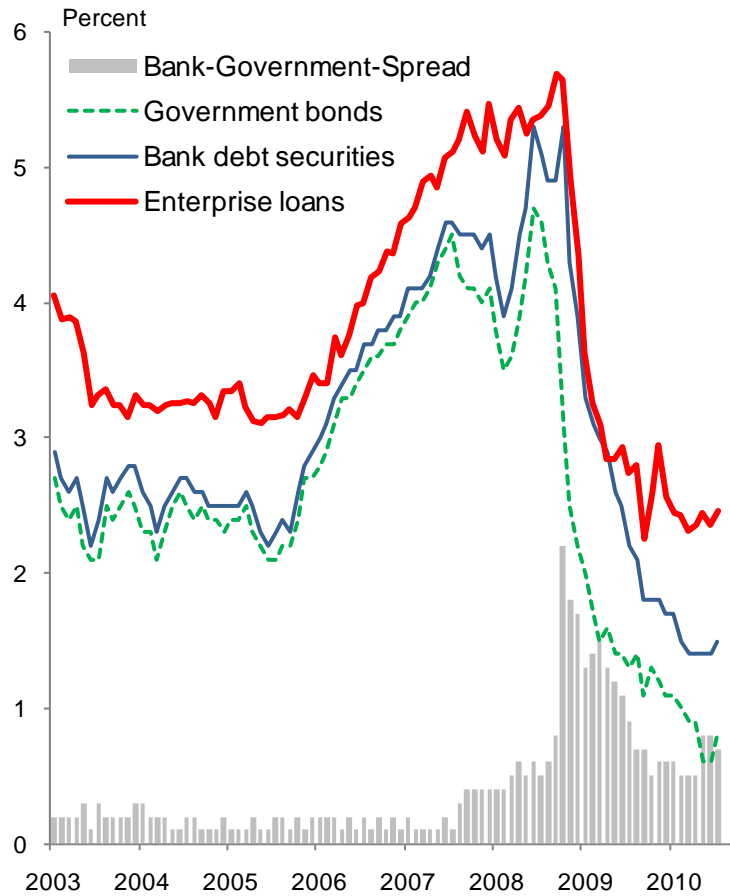
Lower financing costs for non-fin. enterprises

Corporate vs. government bond yields



Monthly data
 Corporate bonds: mean residual maturity of 3 and more years
 Government bonds: mean residual maturity of 5 years

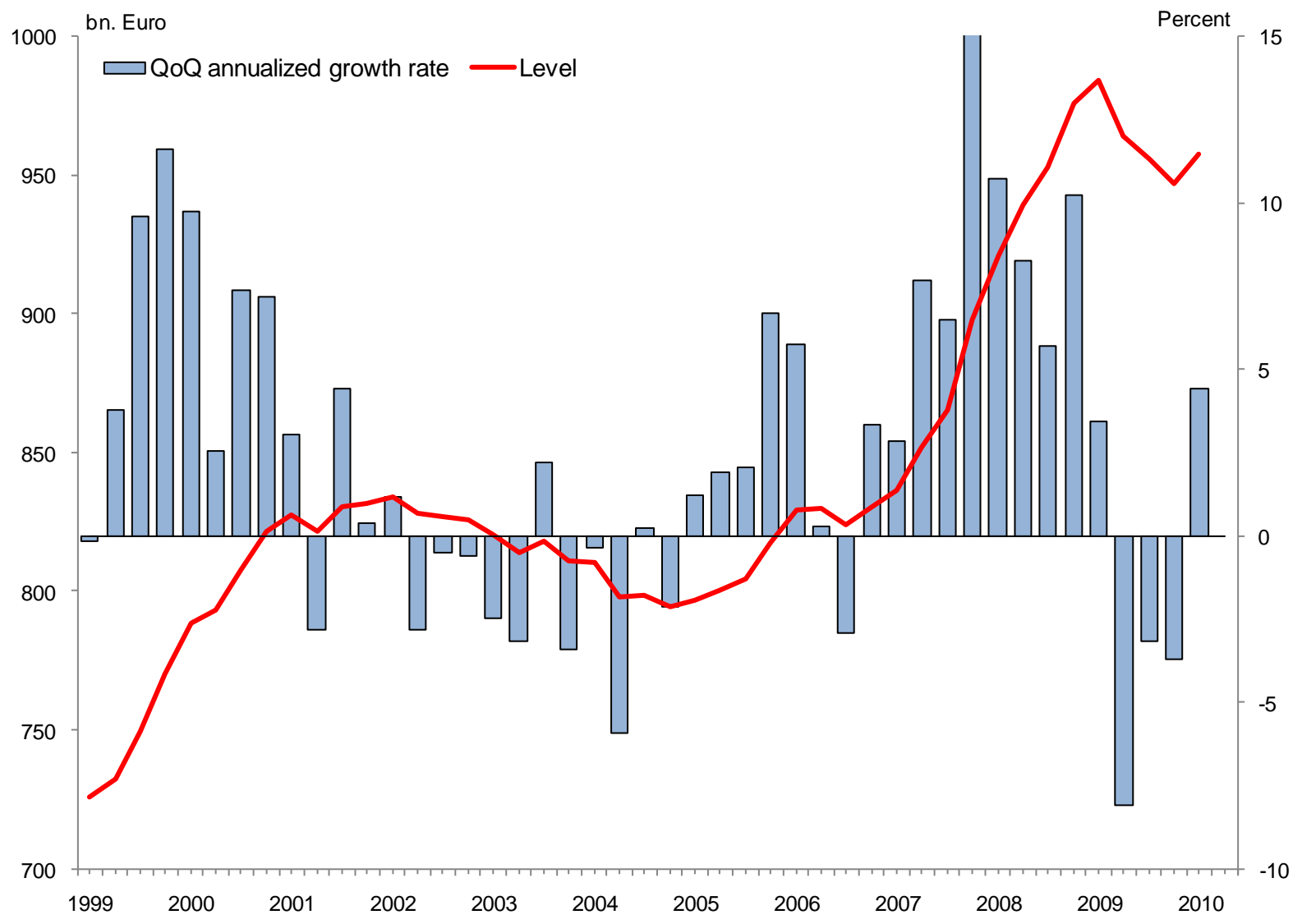
Lending rates vs. bond yields



Monthly data; loans to non-fin. corporations over 1 bn Euro with an initial rate fixation of up to 1 year; government bonds and bank debt securities with mean residual maturity of 1 to 2 years

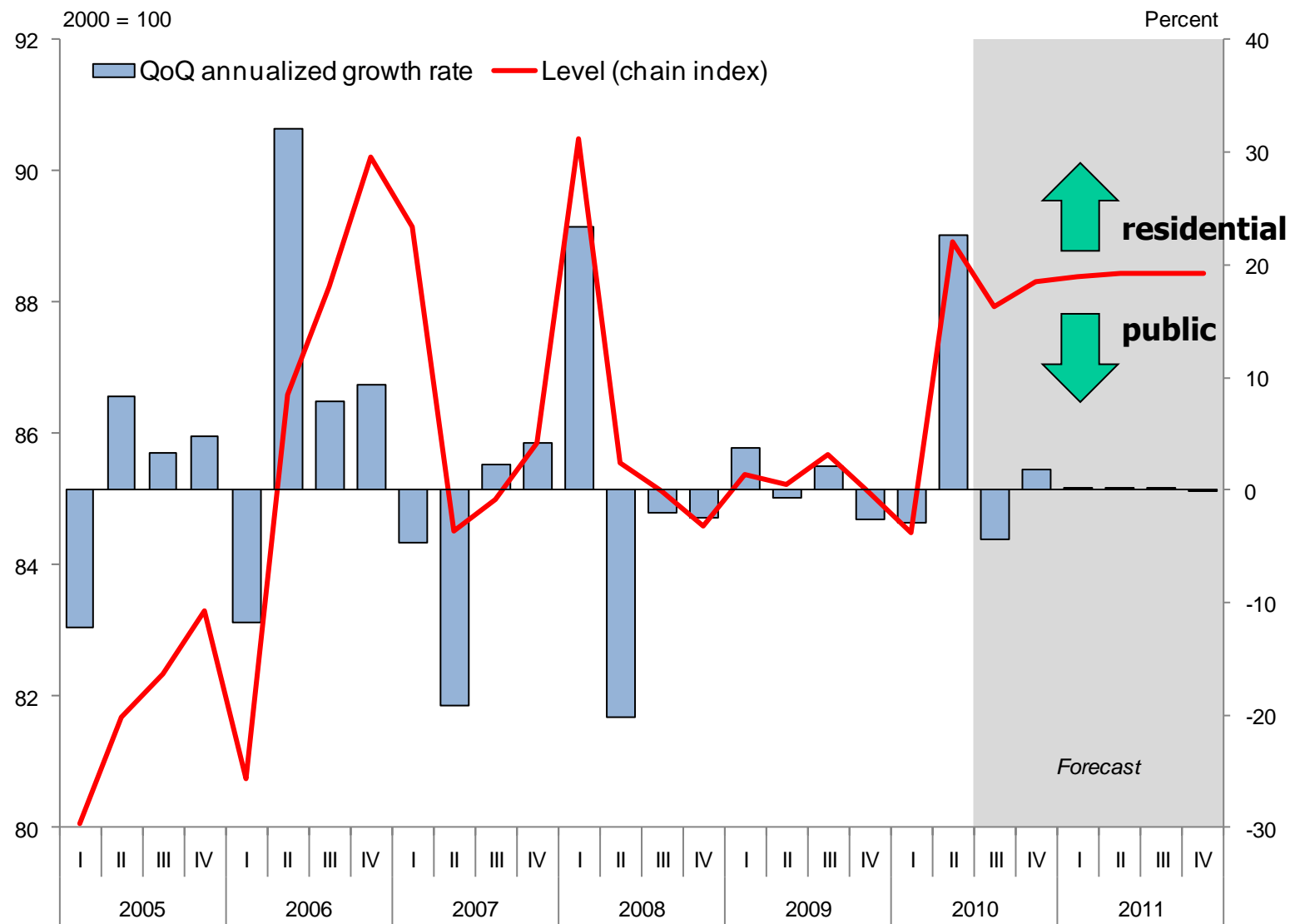


Lending to non-financial enterprises



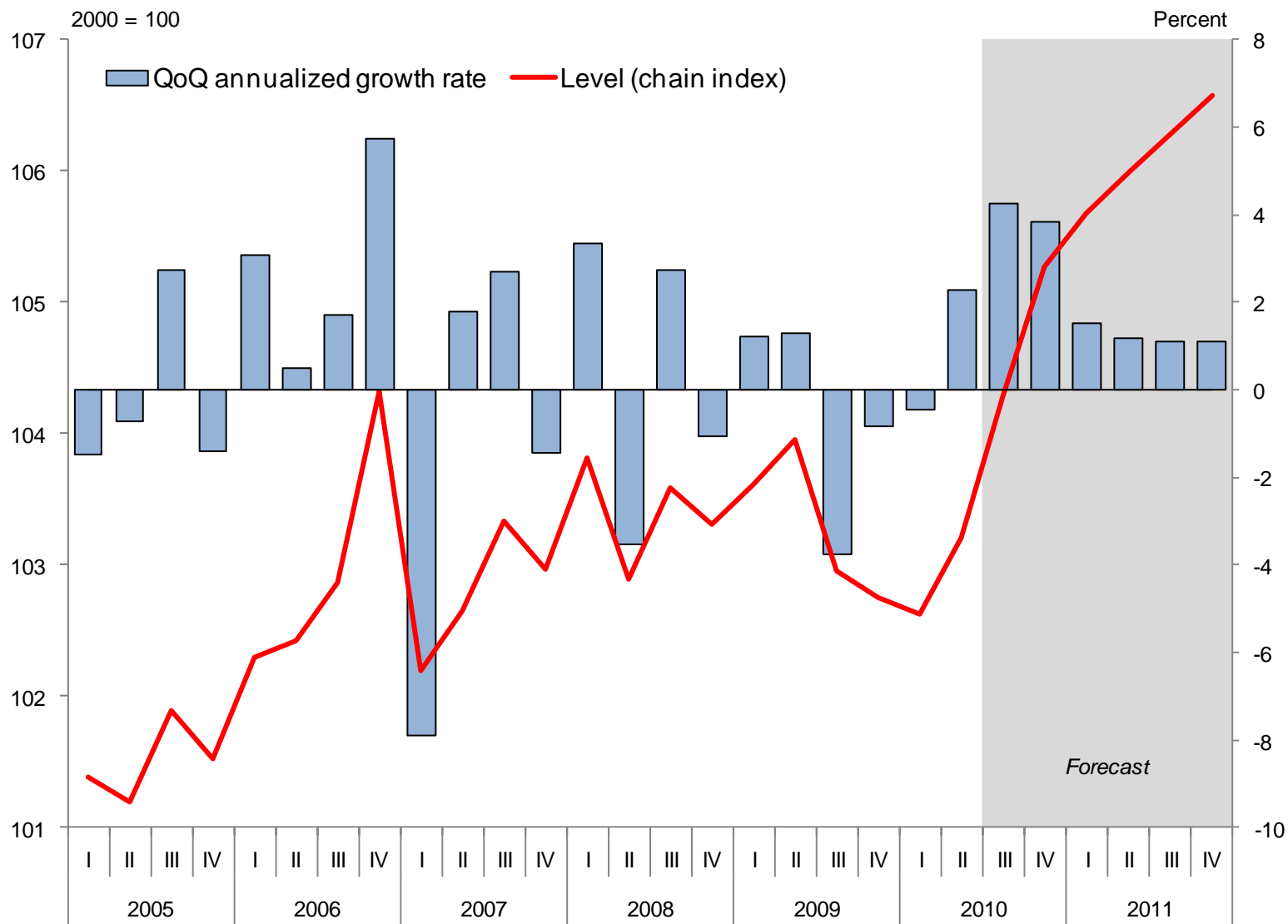


Constructions: Flattened by shrinking public investment



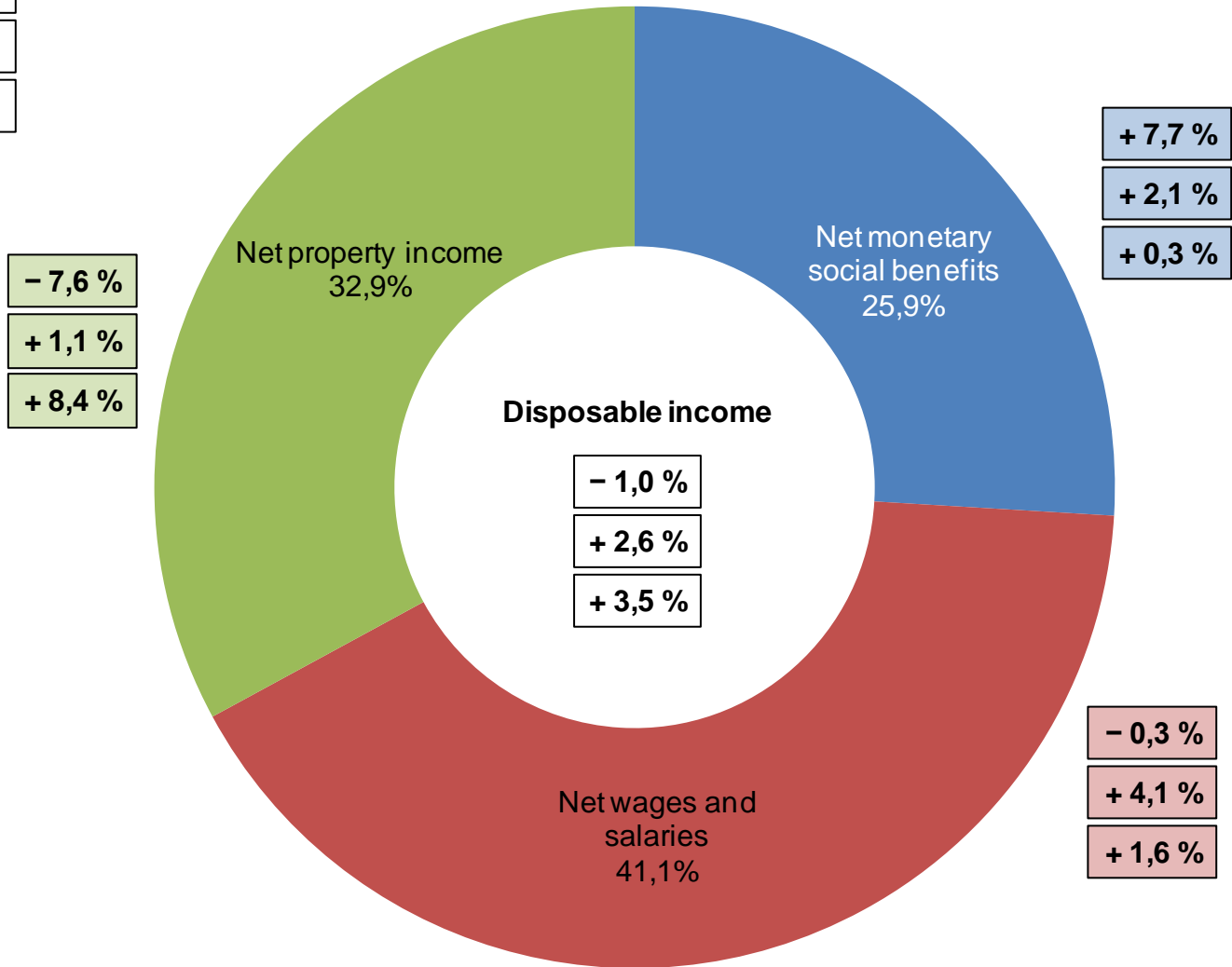


Consumer spending: Recovery after 5 years



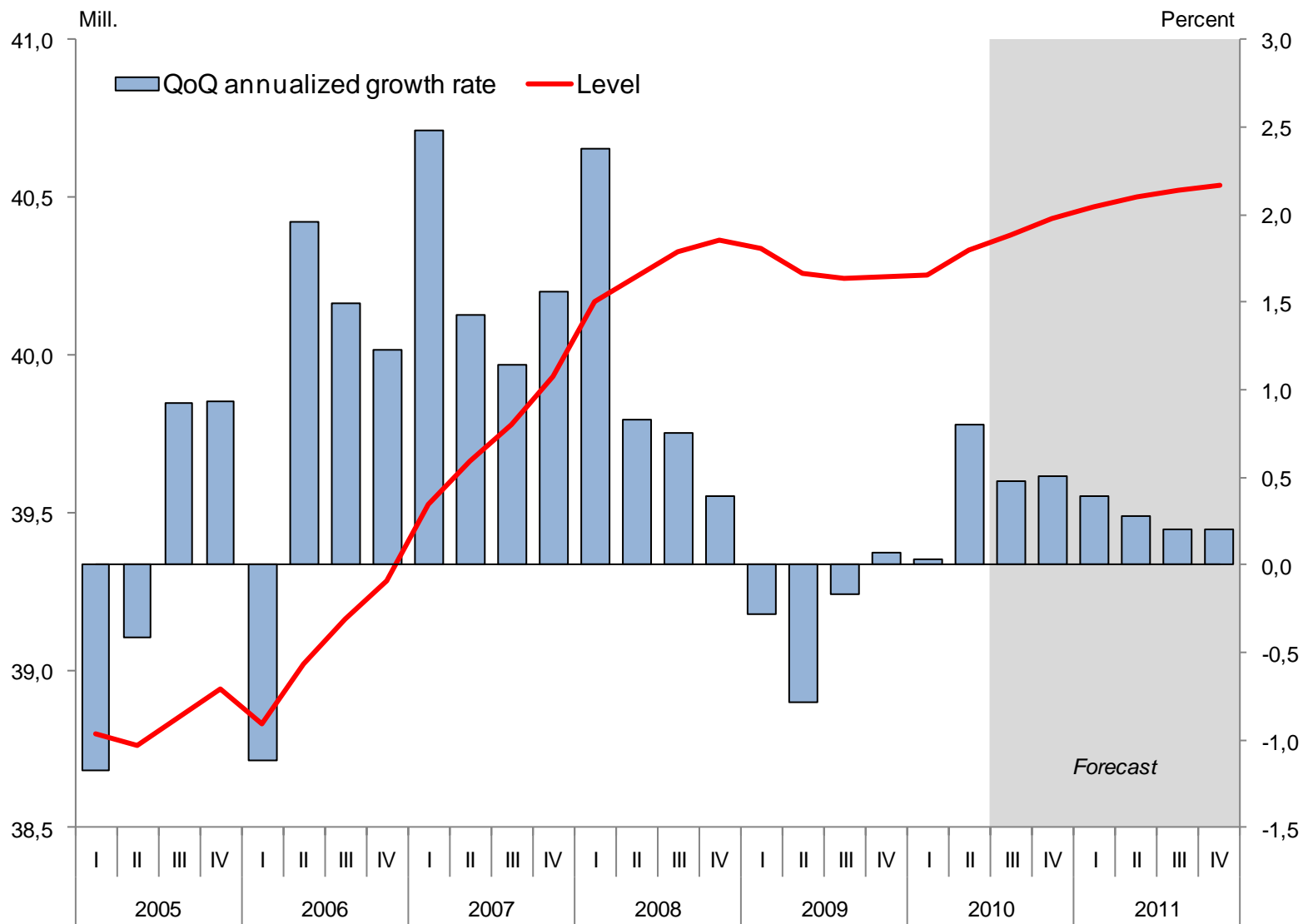
Disposable income of private households

2009
2010
2011



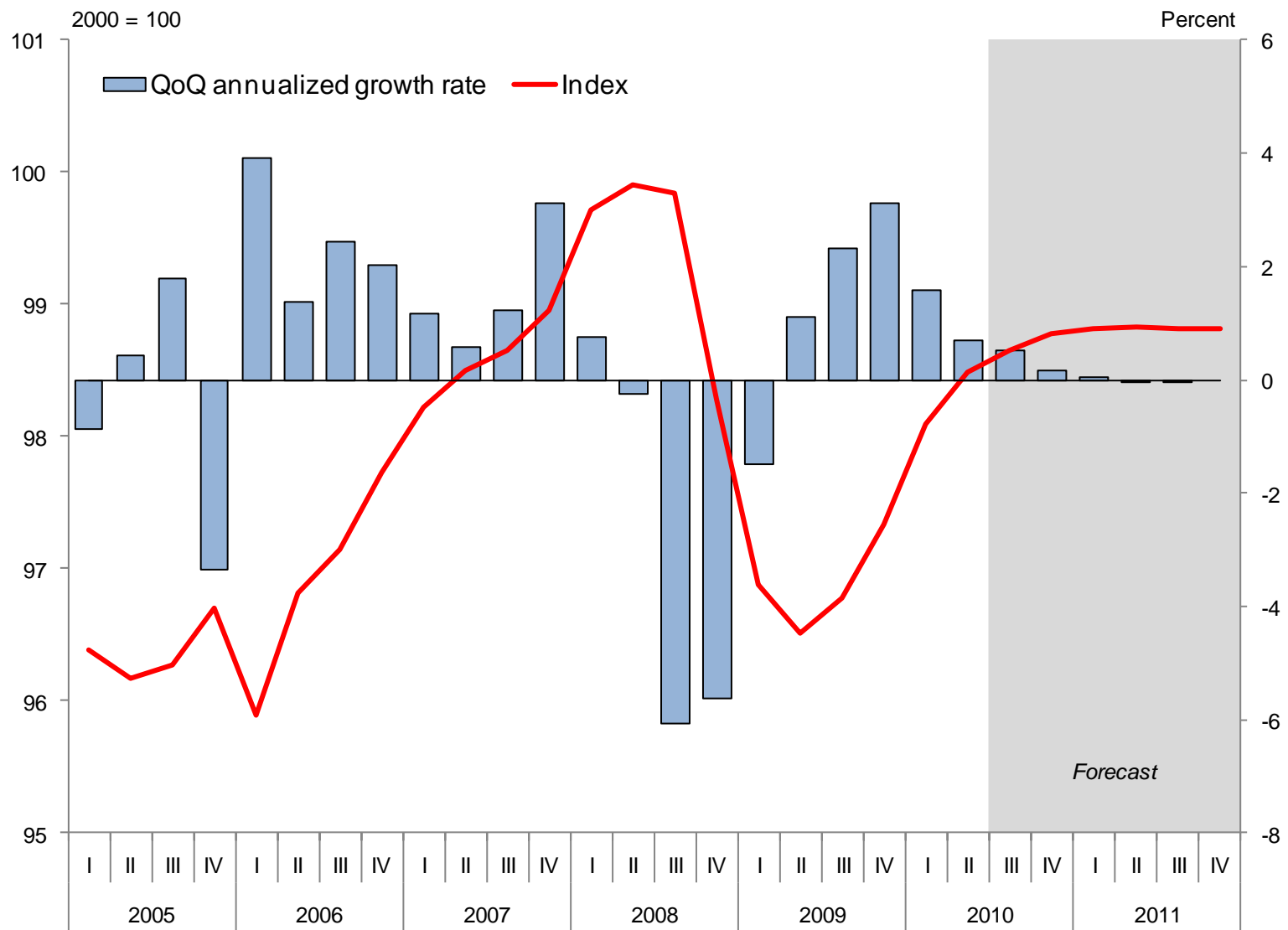


Employment at an all-time high ...

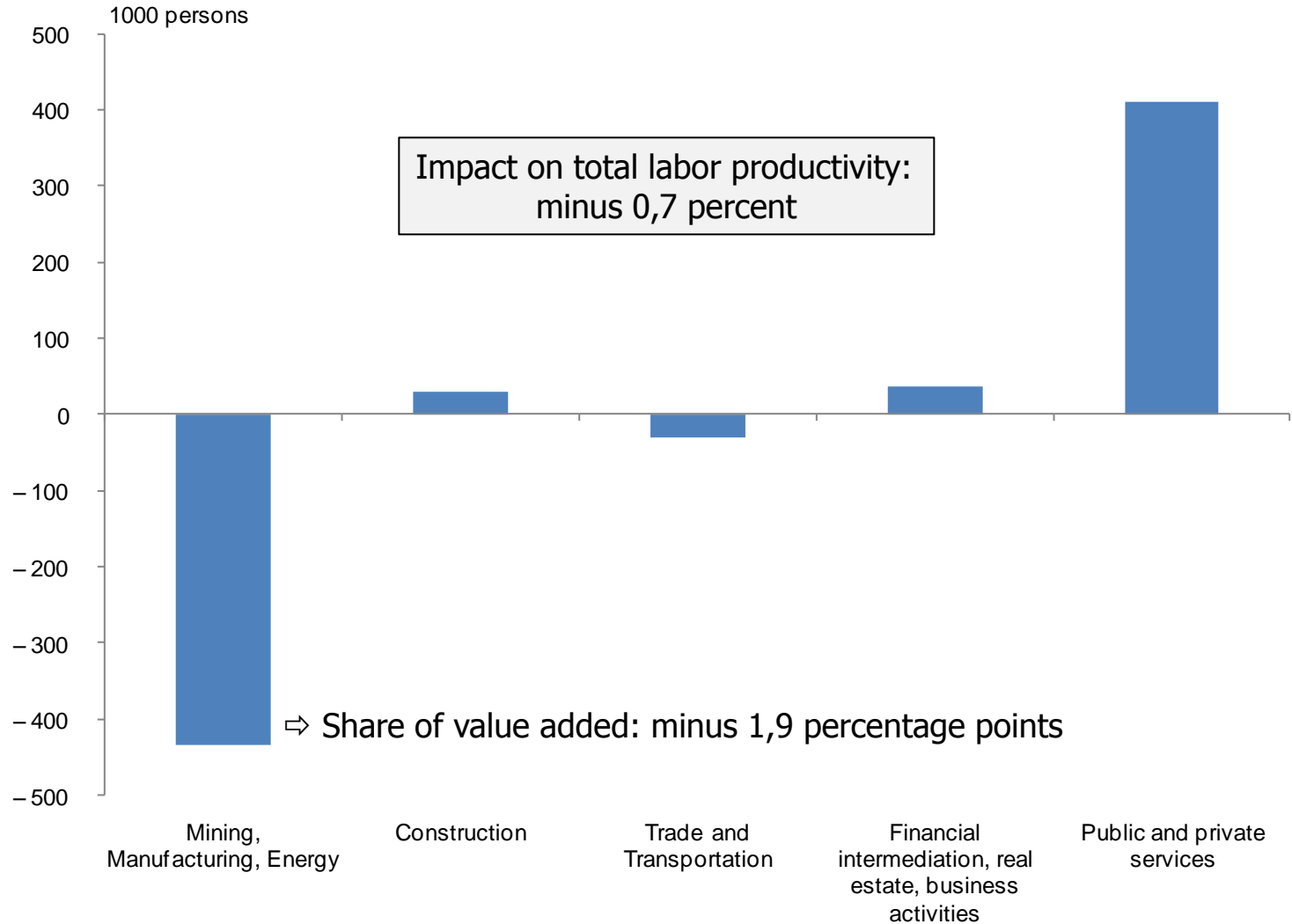




... but total hours worked stagnating ...

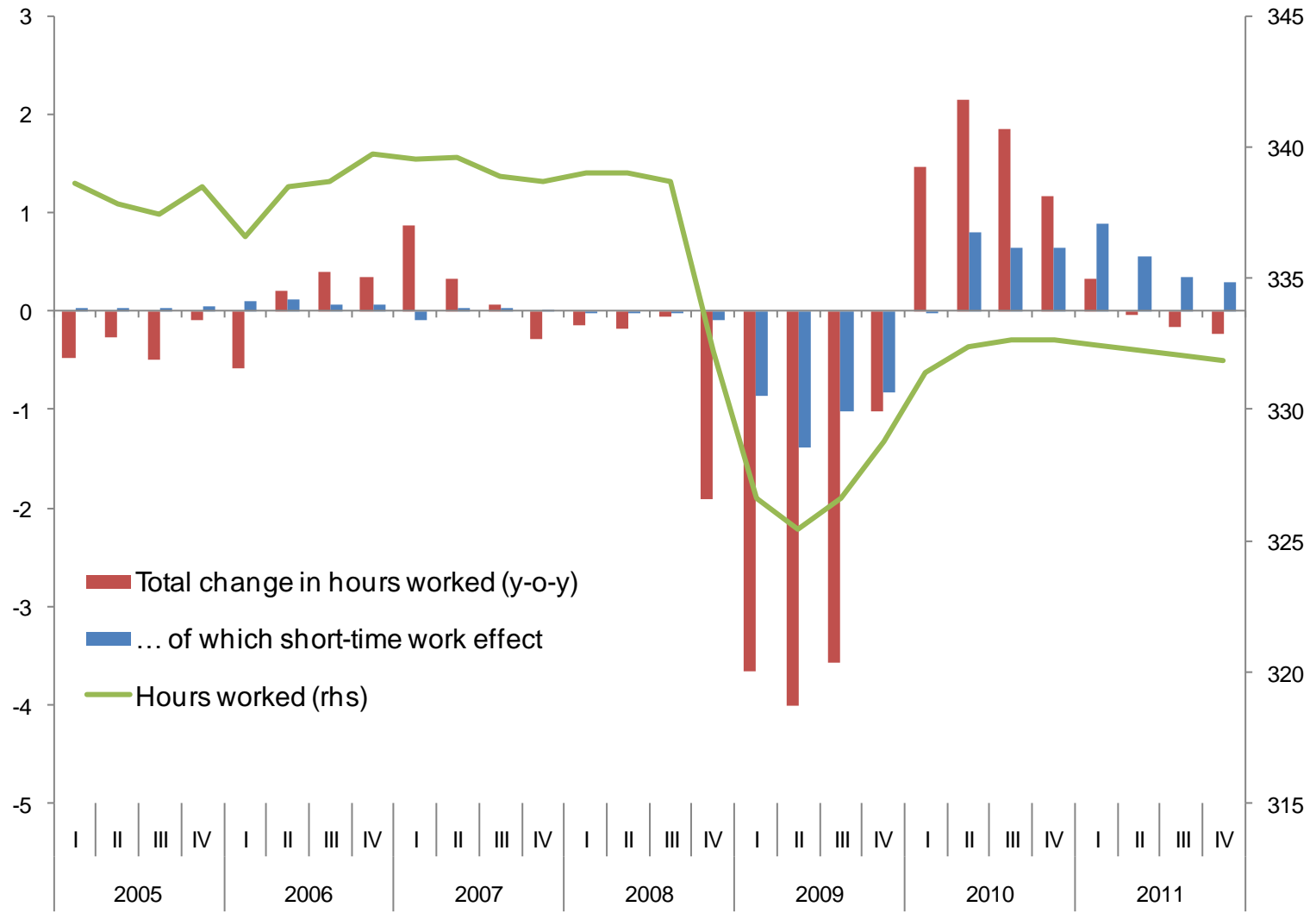


... and significant structural change going on

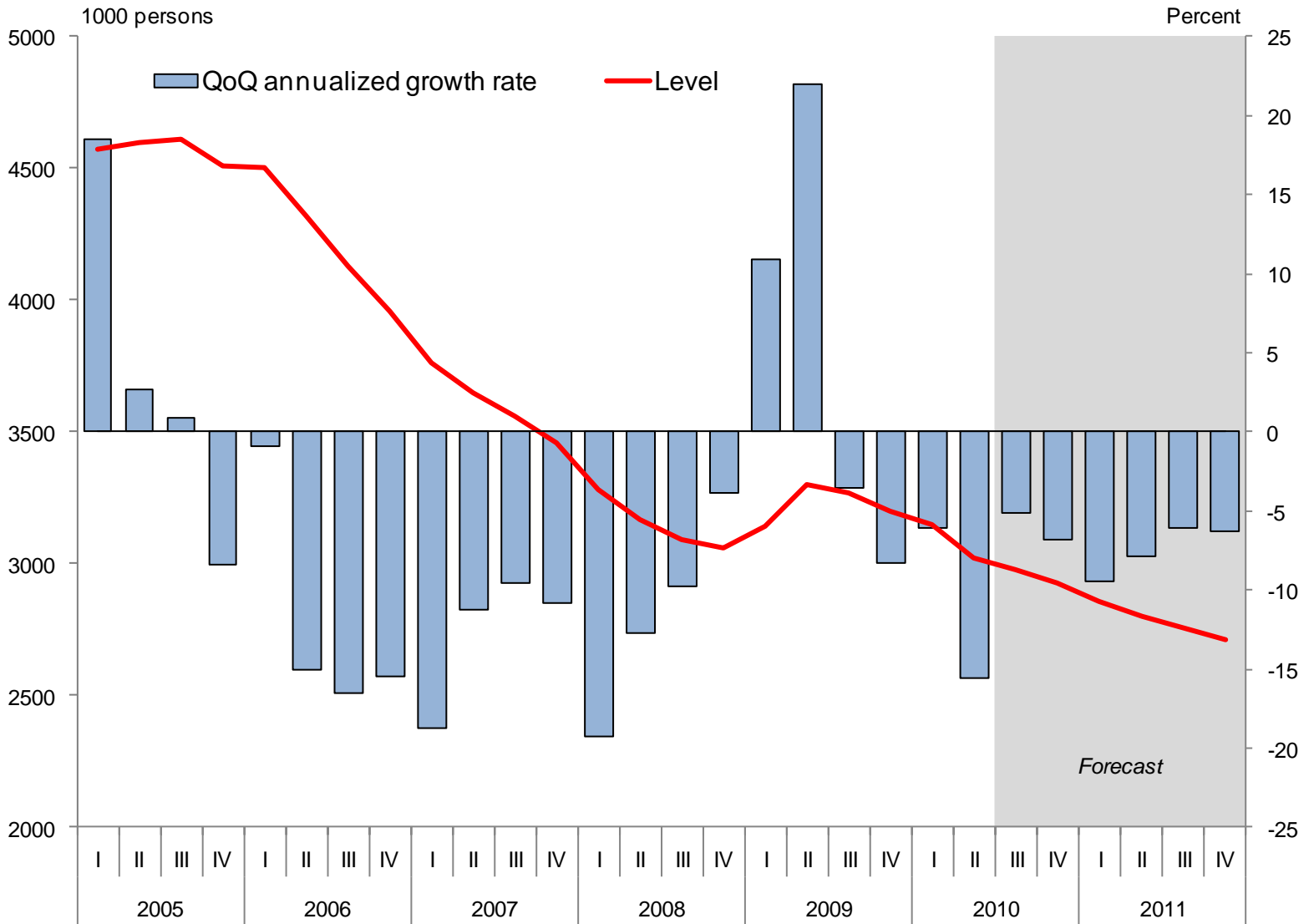




Short-time work effect supportive, not dominant

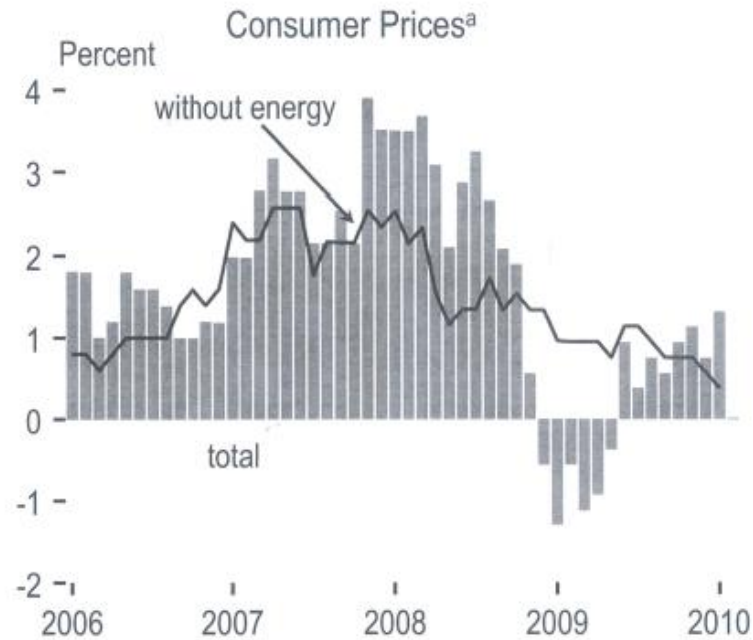


Unemployment below 3 million in 2011



Open question from KKG March 2010

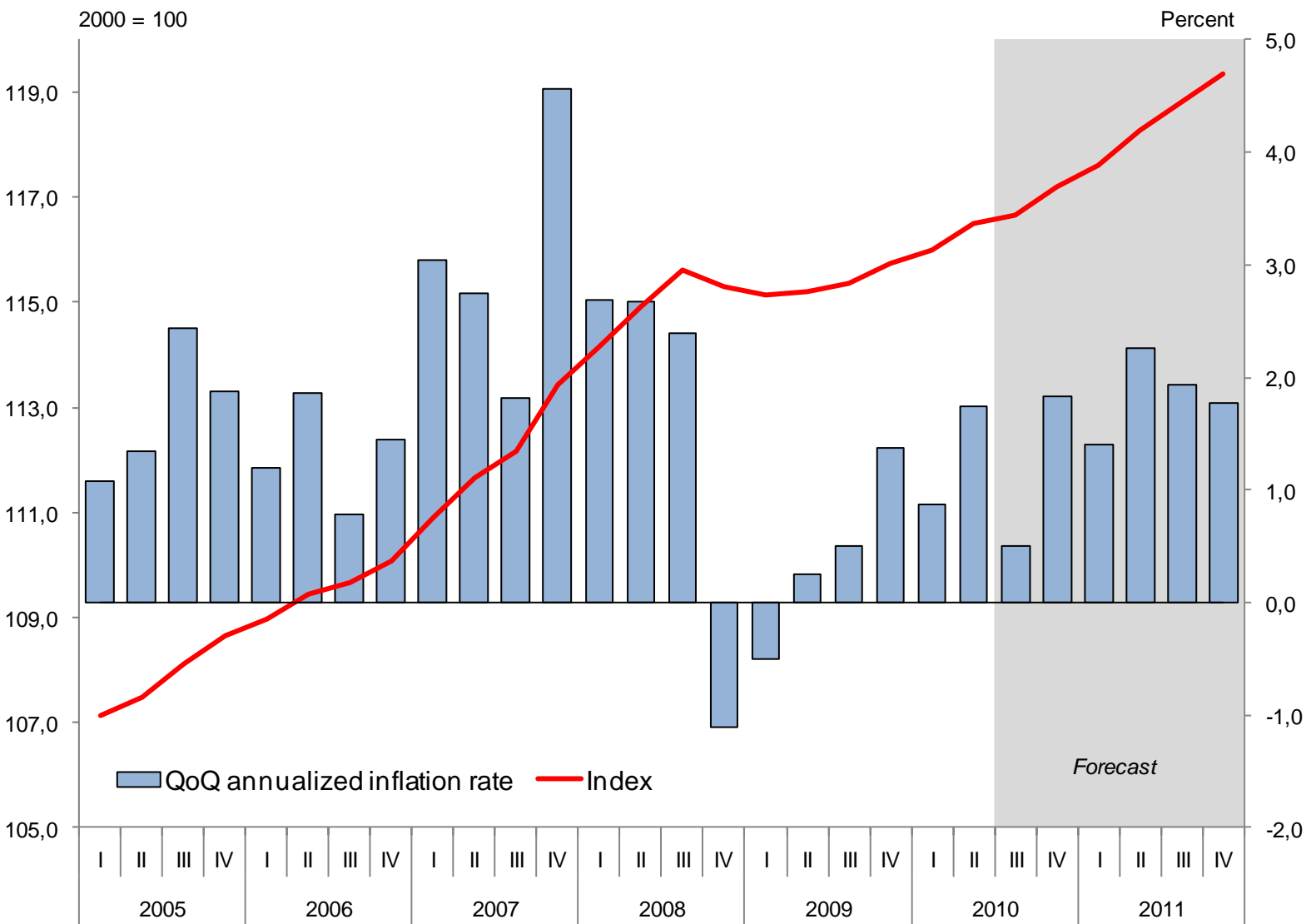
When is Inflation picking up?



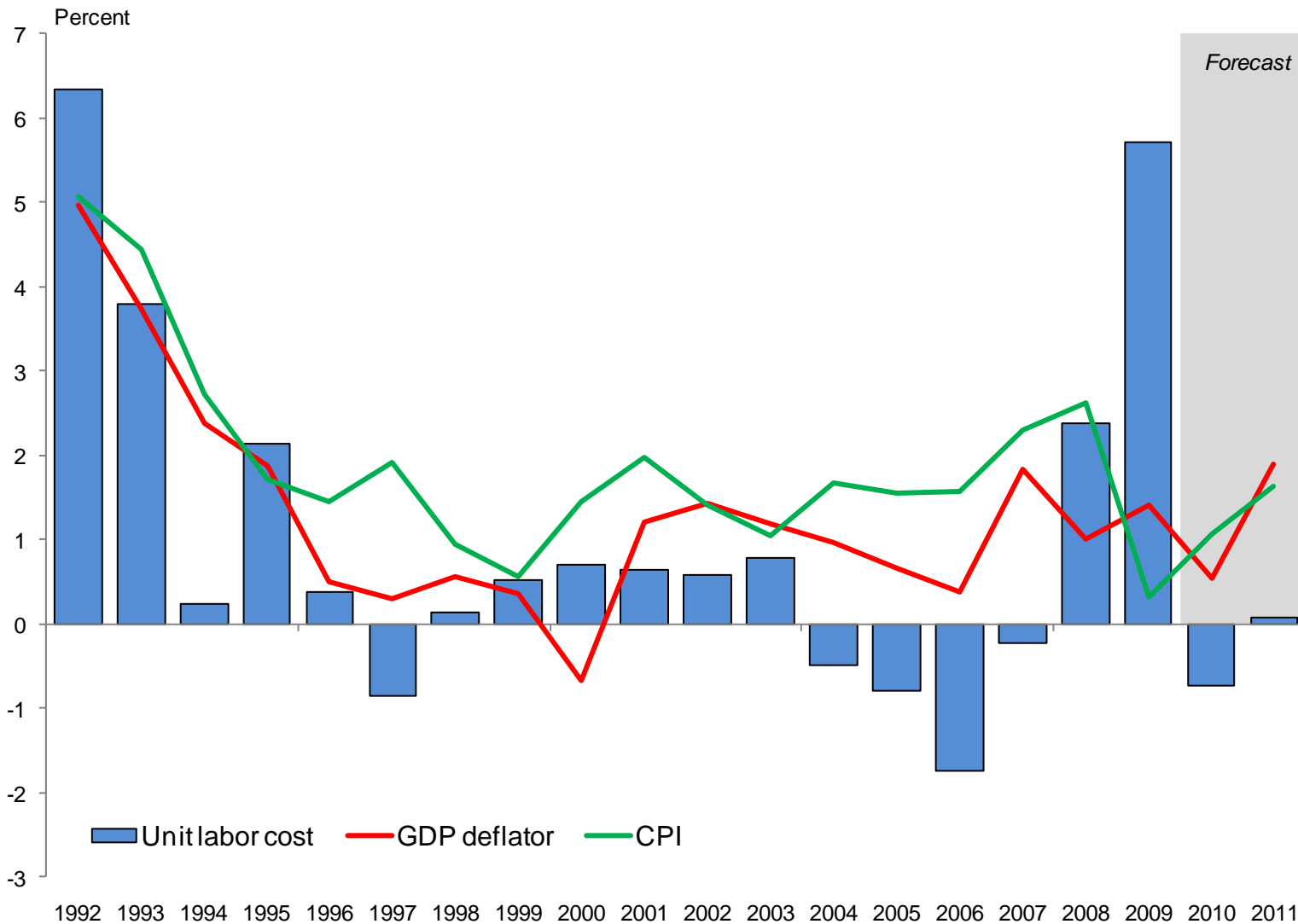
^aSeasonally adjusted. Change over previous 6 month at annual rate.



Consumer prices: Inflation is picking up in 2011



Unit labor cost: 2009 peak still to be swallowed



Conclusion

- Speed of catching-up process (2010-Q2) was surprising, the process itself is not
 - Strong export base
 - Focus on capital goods
- Germany – a “growth engine” for Europe?
 - Ignores the more pronounced slump in the first place, so far mainly back to 2006 levels only (manufacturing)
 - Poor overall investment activity slows down potential growth perspectives
 - Very moderate growth (in the course of) next year
- Labor market miracle?
 - Higher (than expected) flexibility in terms of keeping people in their jobs (preserving human capital)
 - Heavy impact of structural change (in the background) and re-distribution of labor (rather than more absorption of labor)