



Kiel Institute

for the World Economy

The world economy: Fragile expansion, policy at the limits
88th Kieler Konjunkturgespräch | Berlin, 16/17 September 2013

Germany after the elections: Business as usual or big changes to come?

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Forecasting Center



Disclaimer

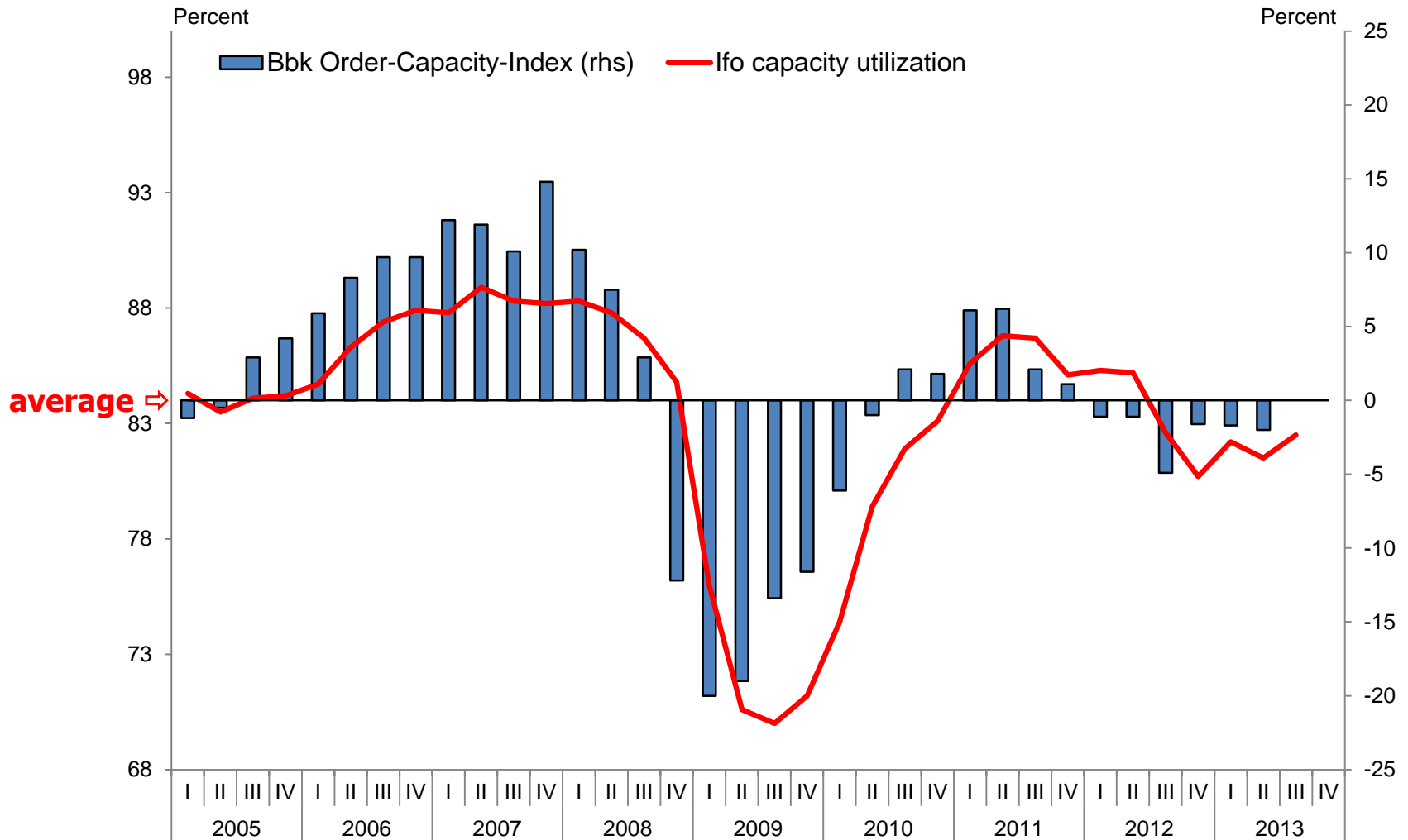
- **Post-election policy stance**

- » Assumption: Status-quo (“business-as-usual”)
- » BUT: Huge policy agenda

- **Euro area crisis**

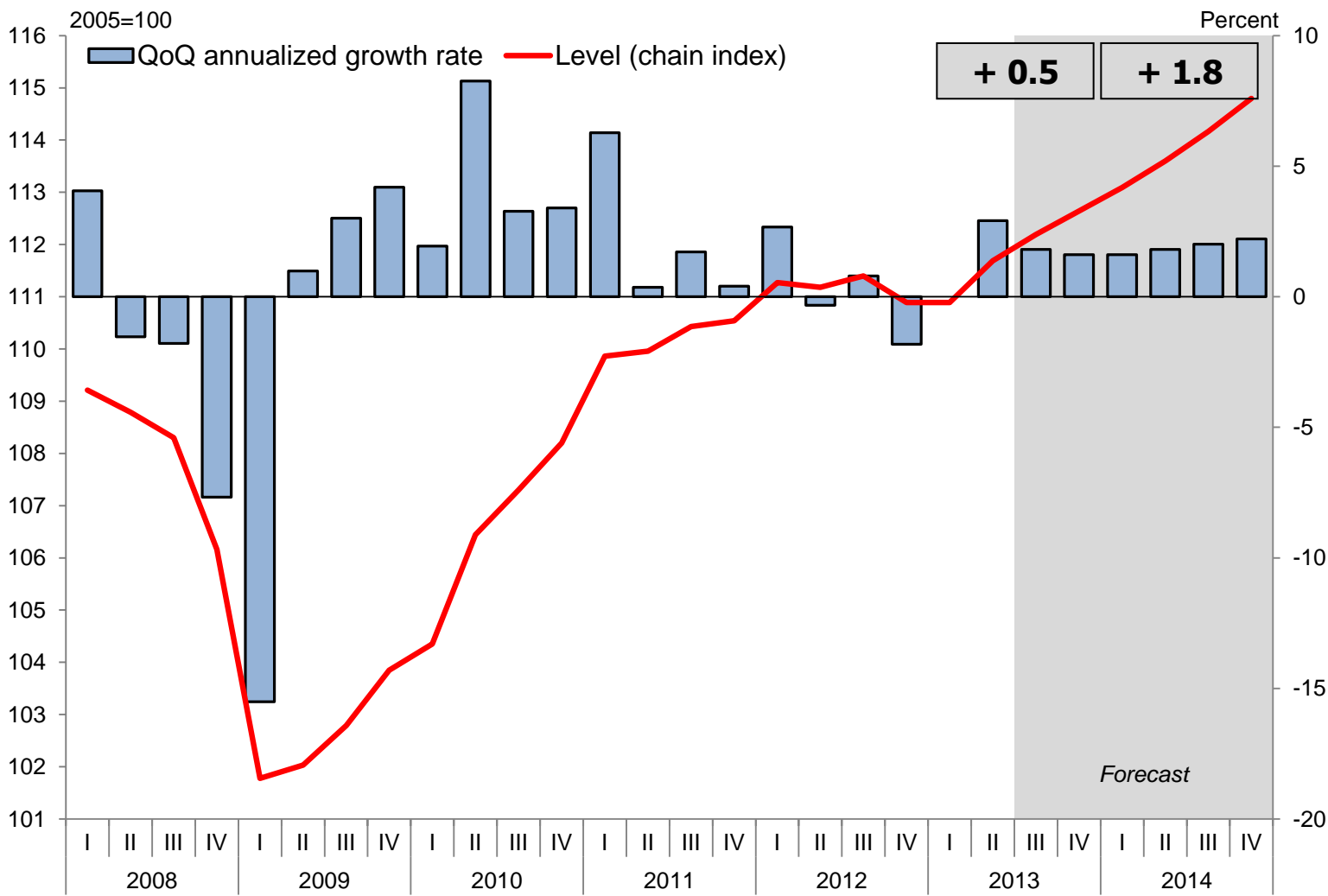
- » Assumption: Non-escalating crawling process
- » Expansionary monetary environment for Germany
- » BUT: Dramatic game changing events by no means excluded (impossible to anchor in the timeline)

Capacity utilization crawling back to normal



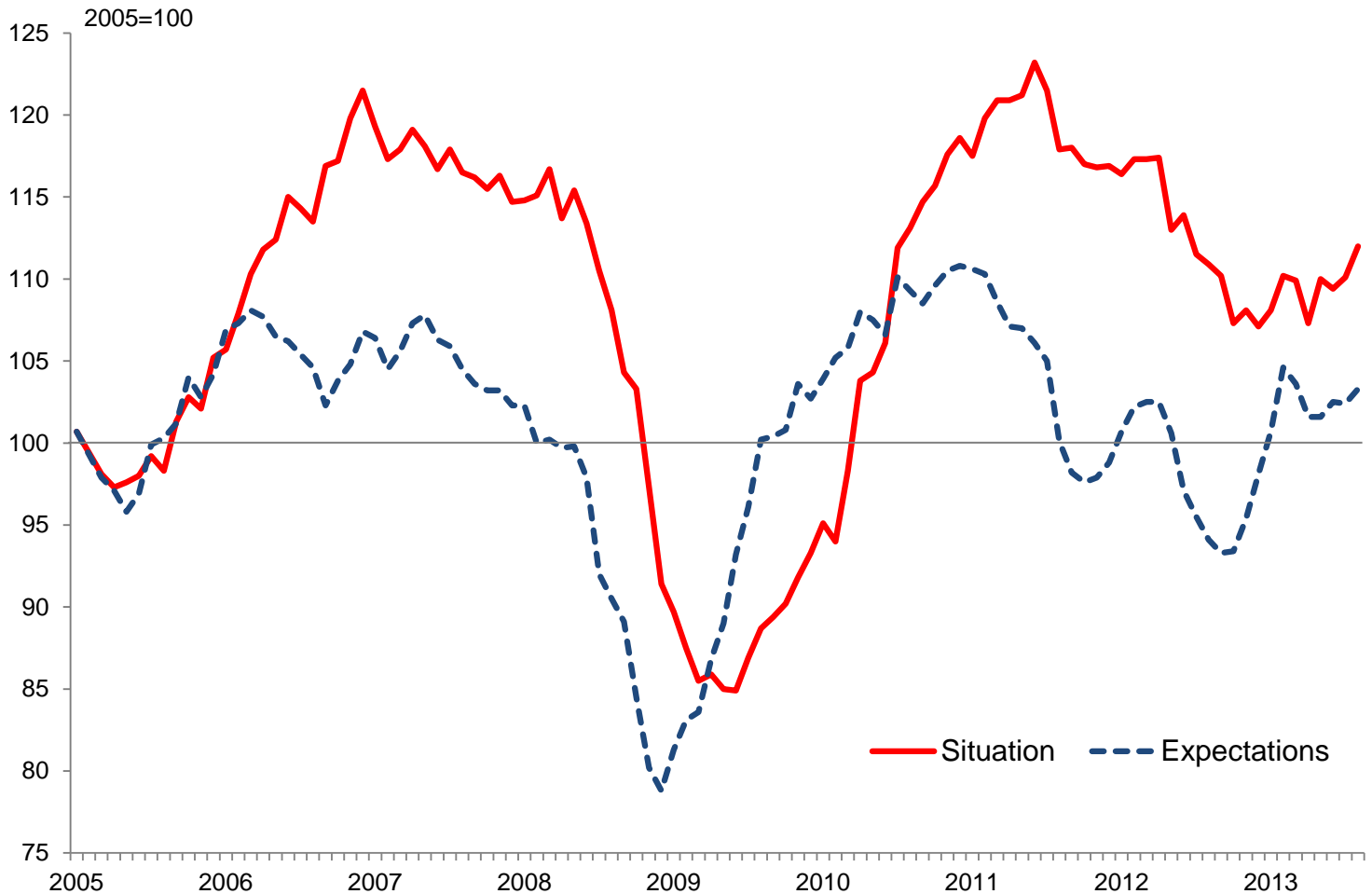


GDP: Getting ready for take-off



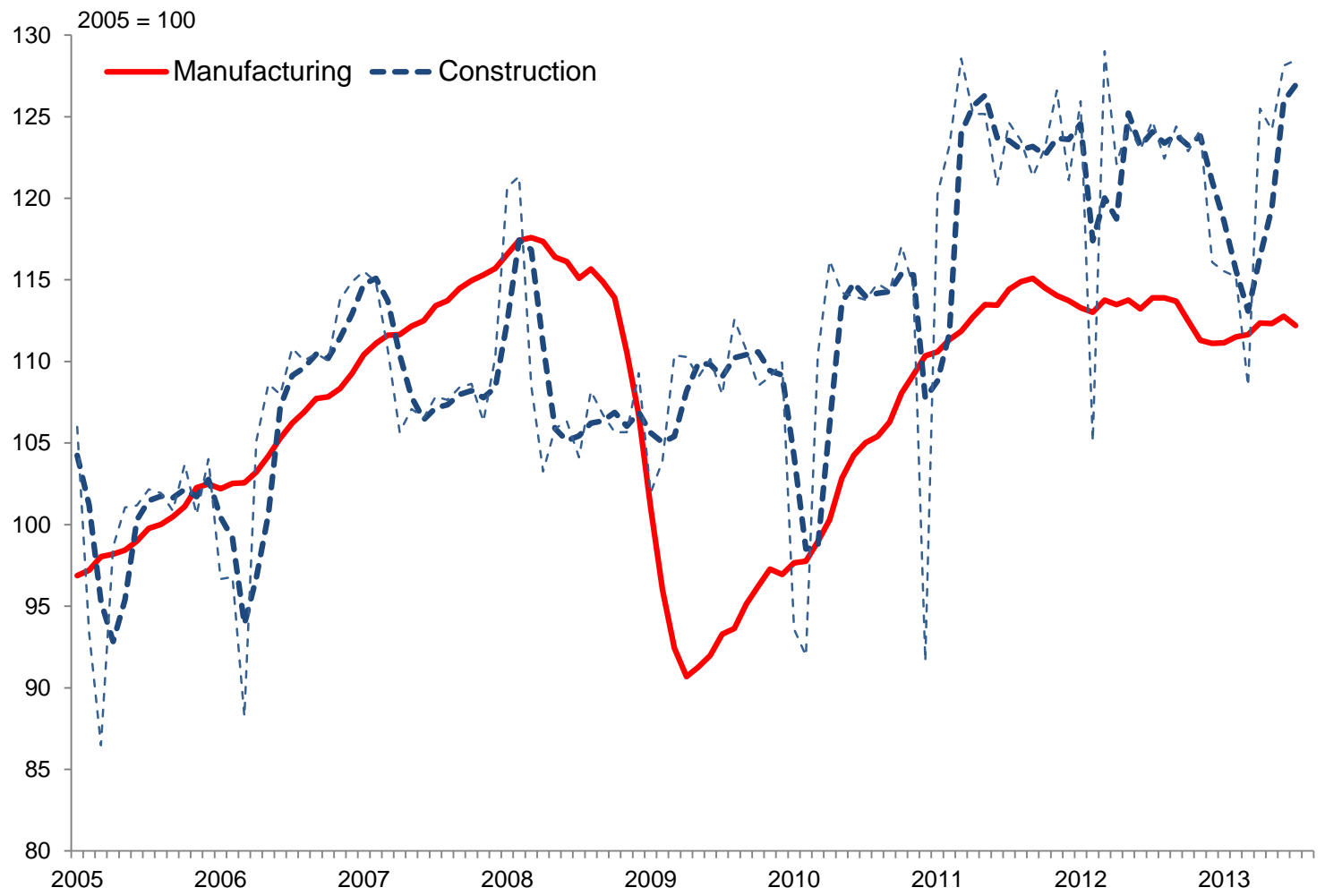
Business climate brightens up

ifo business survey for trade and industry



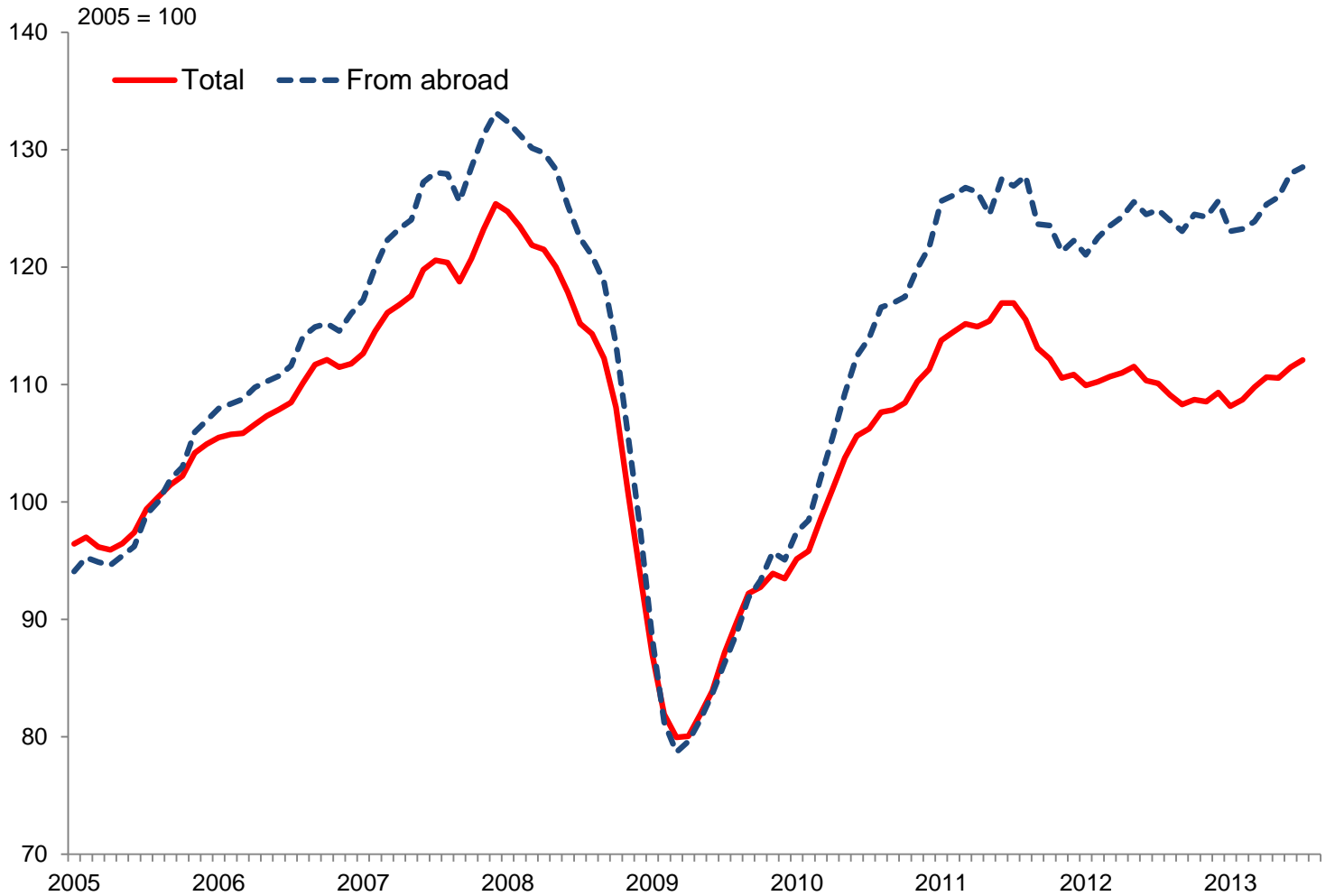


Manufacturing: Bumpy expansion



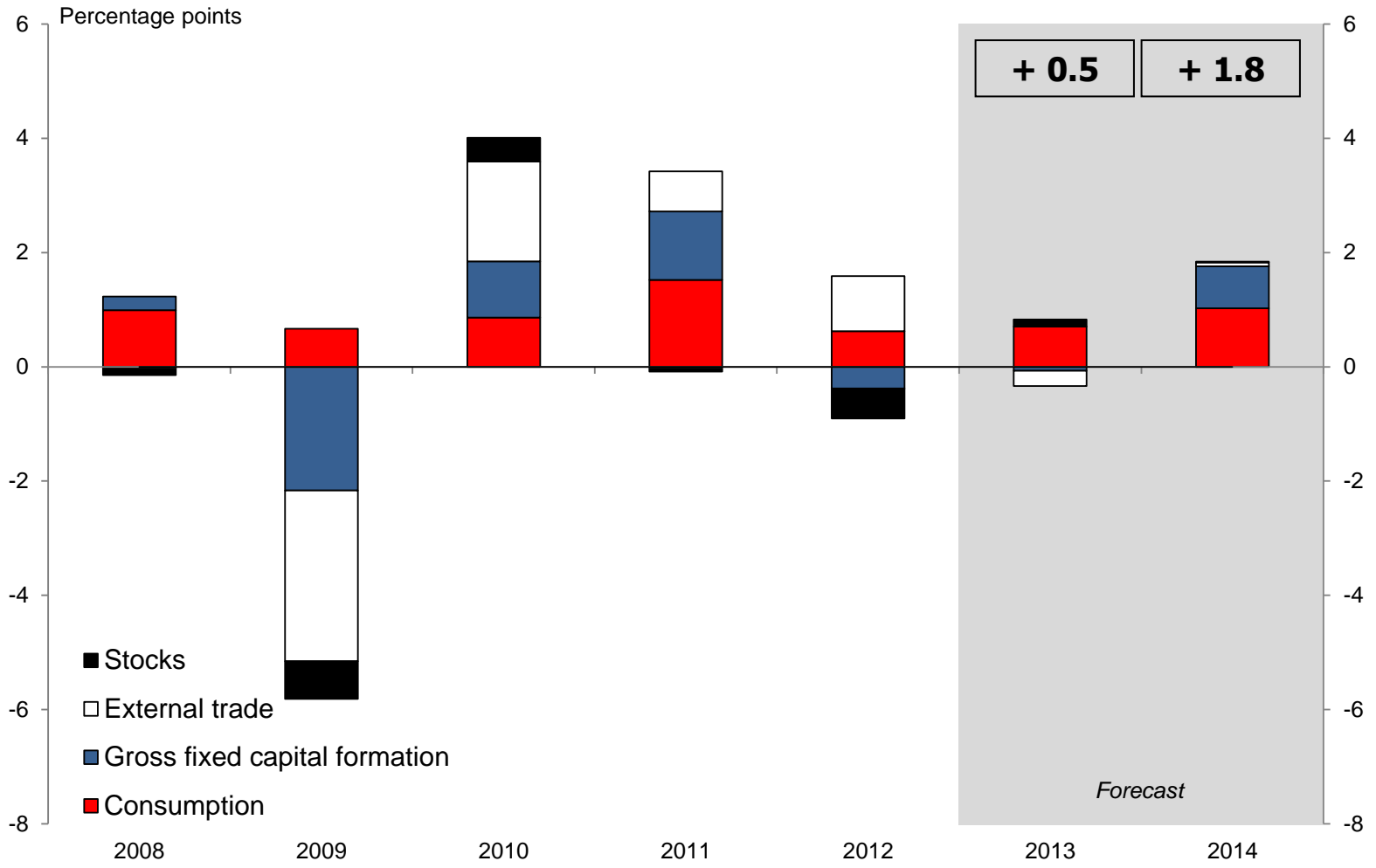


Stiffening order inflows

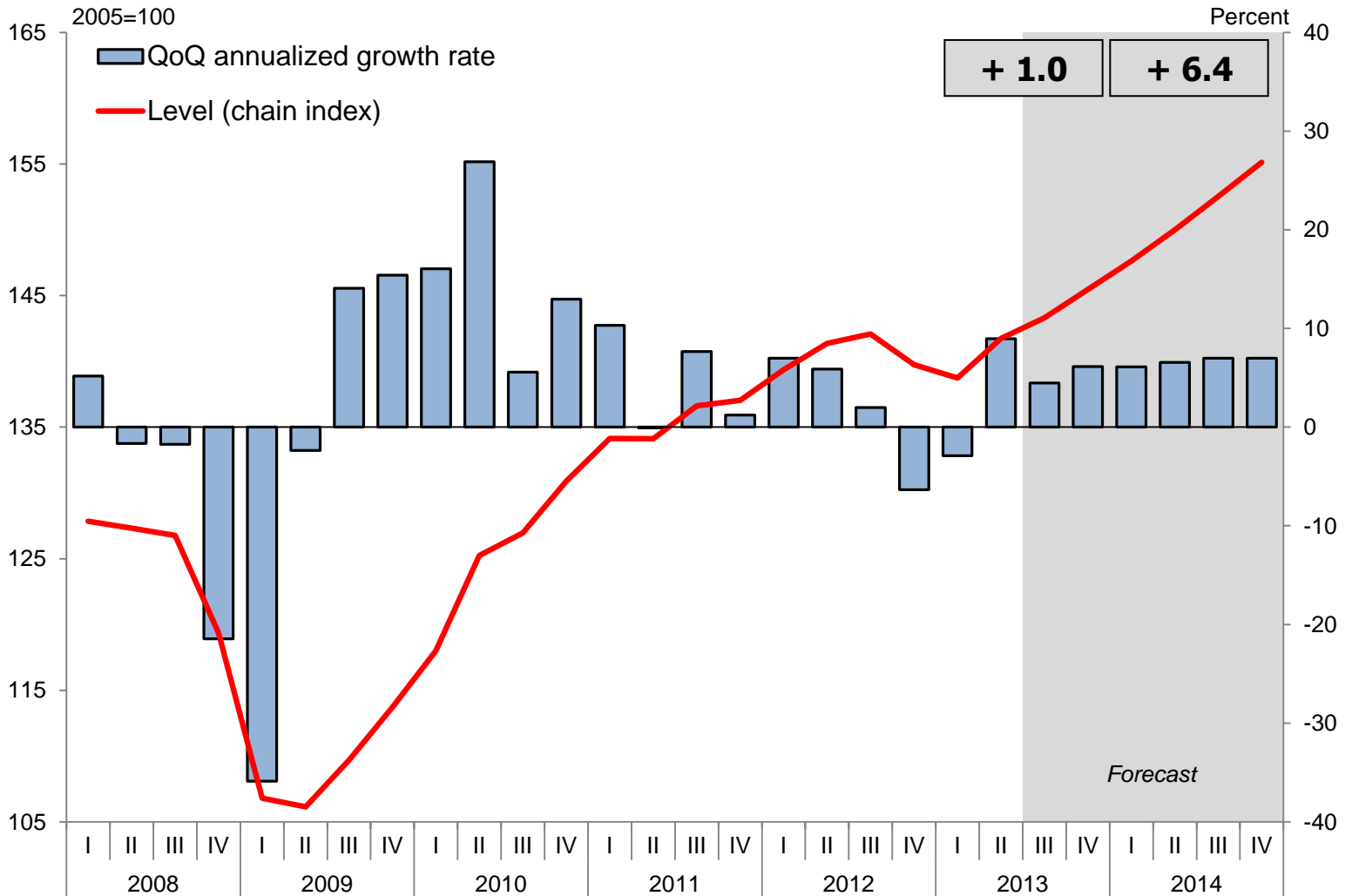




Domestic use absorbs additional production

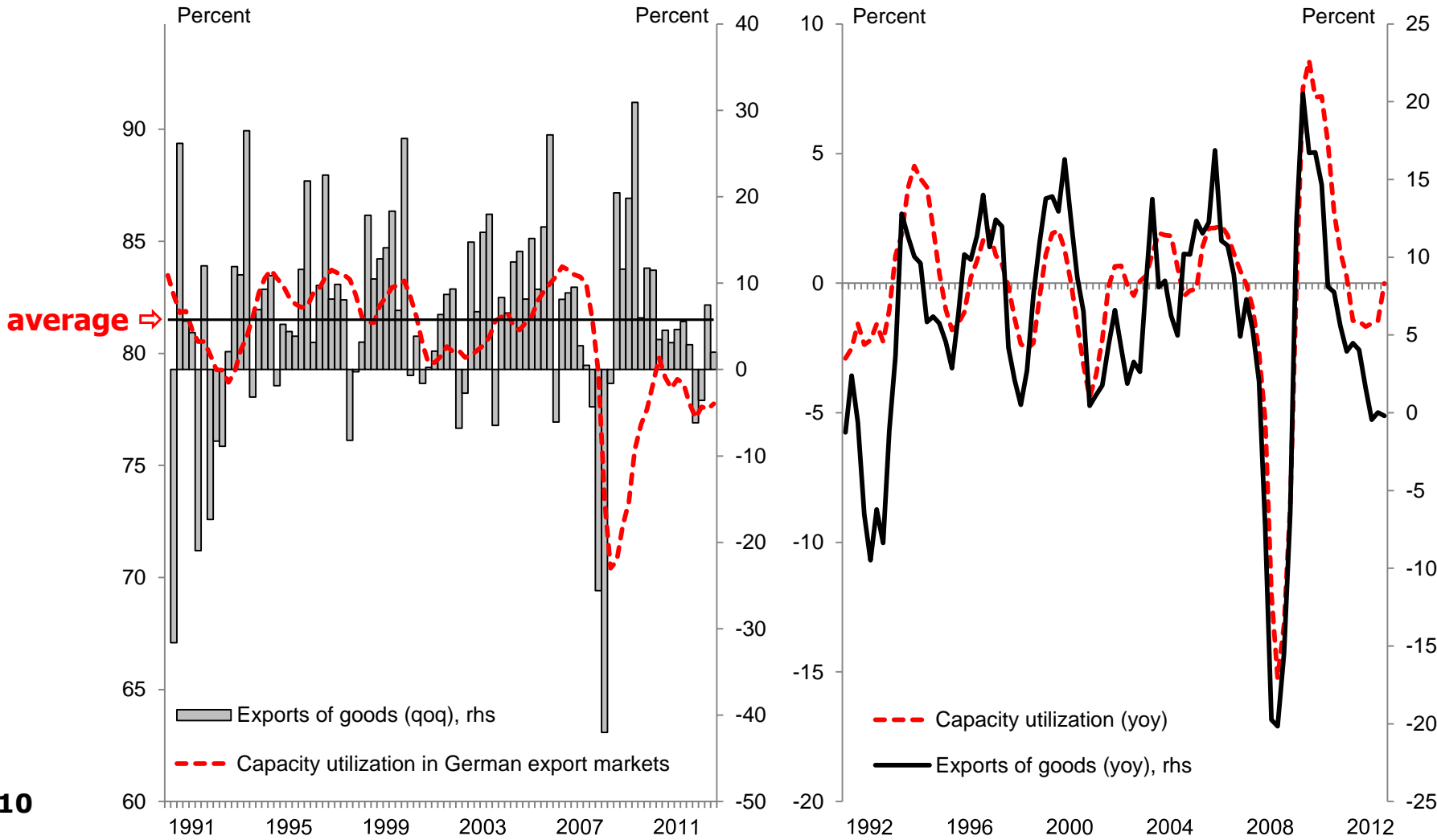


Exports: Moderate recovery ahead





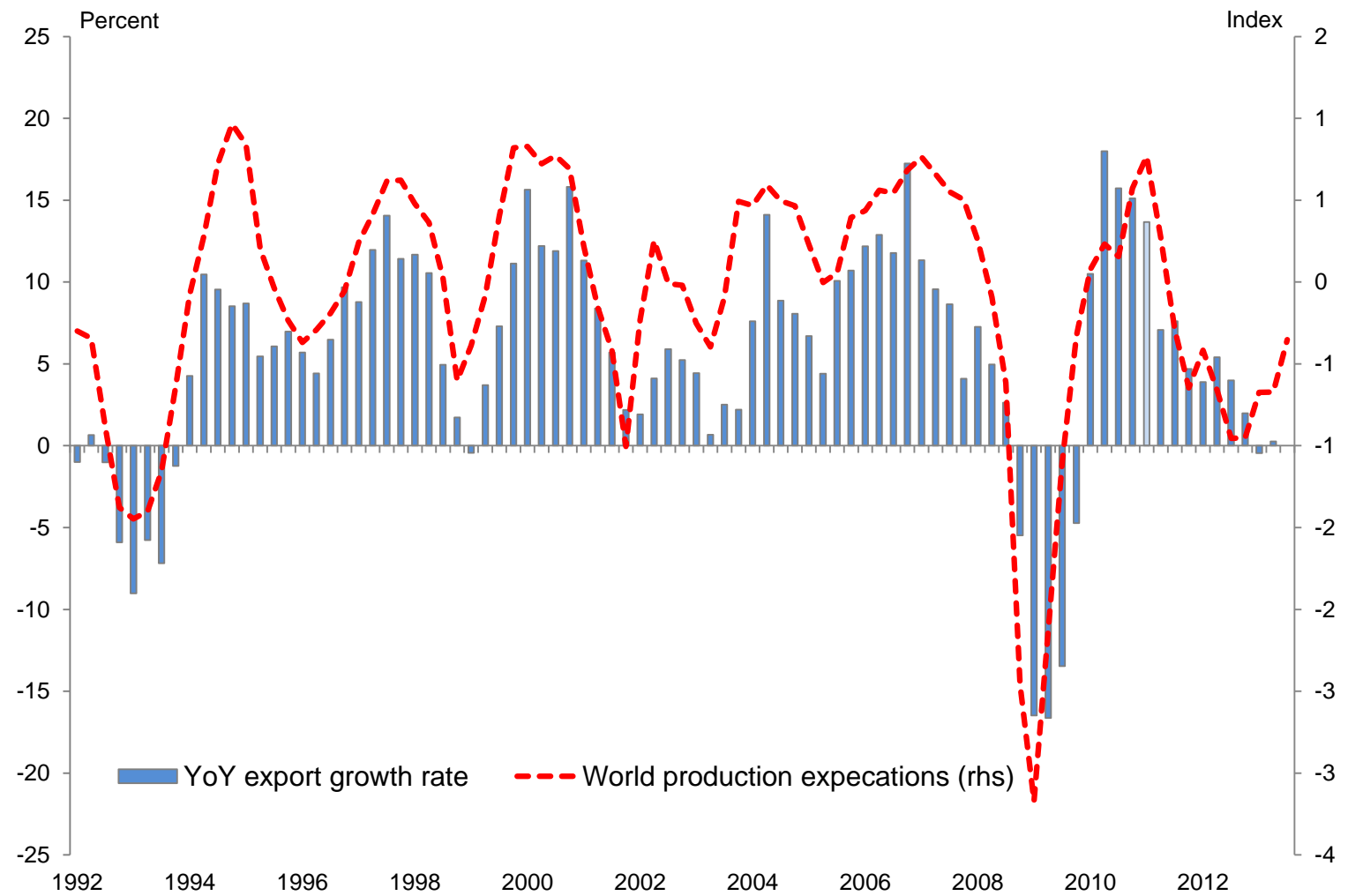
Low but rising capacity utilization in Germany's export markets



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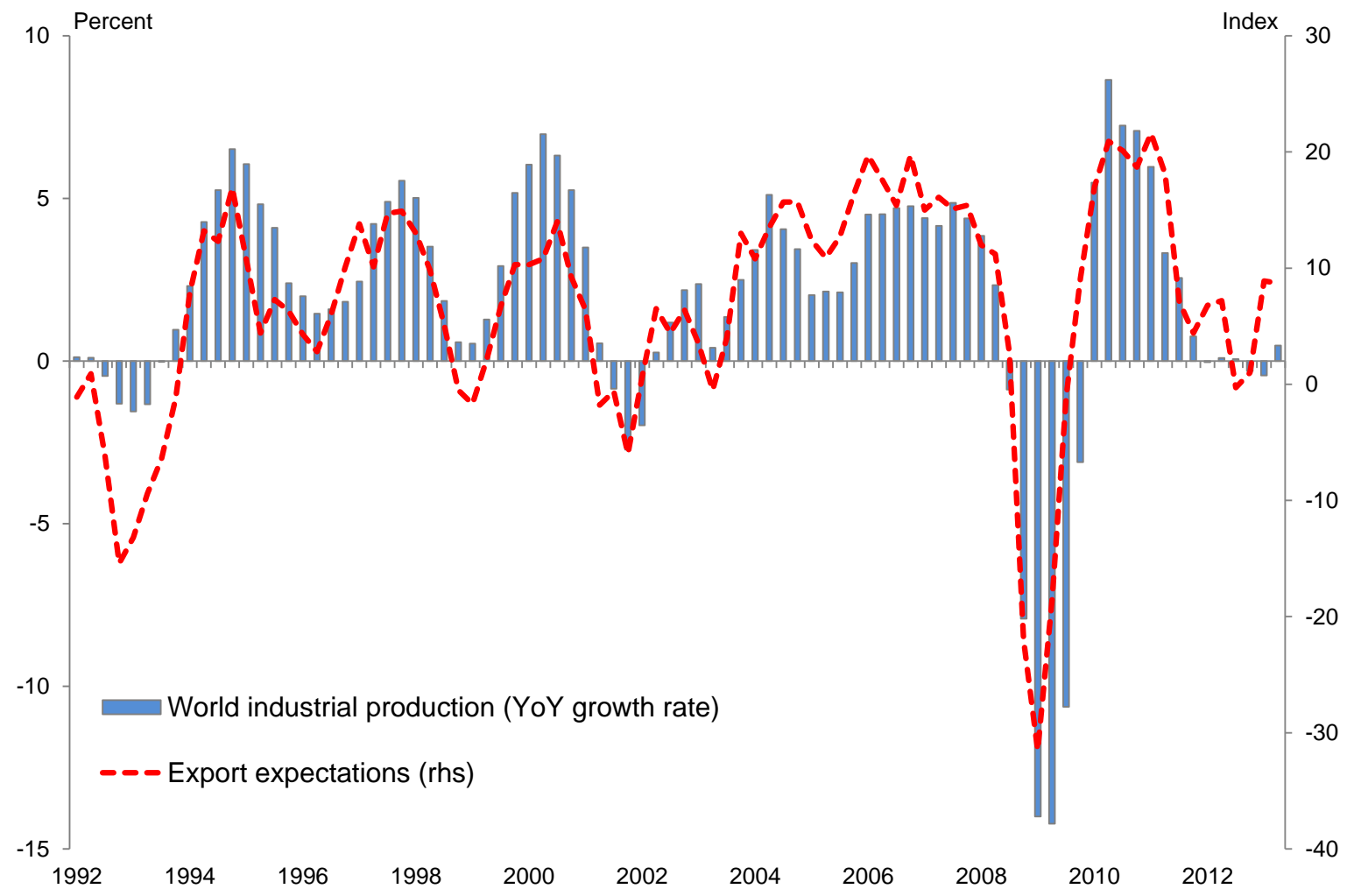


Improving global business sentiment (German perspective)



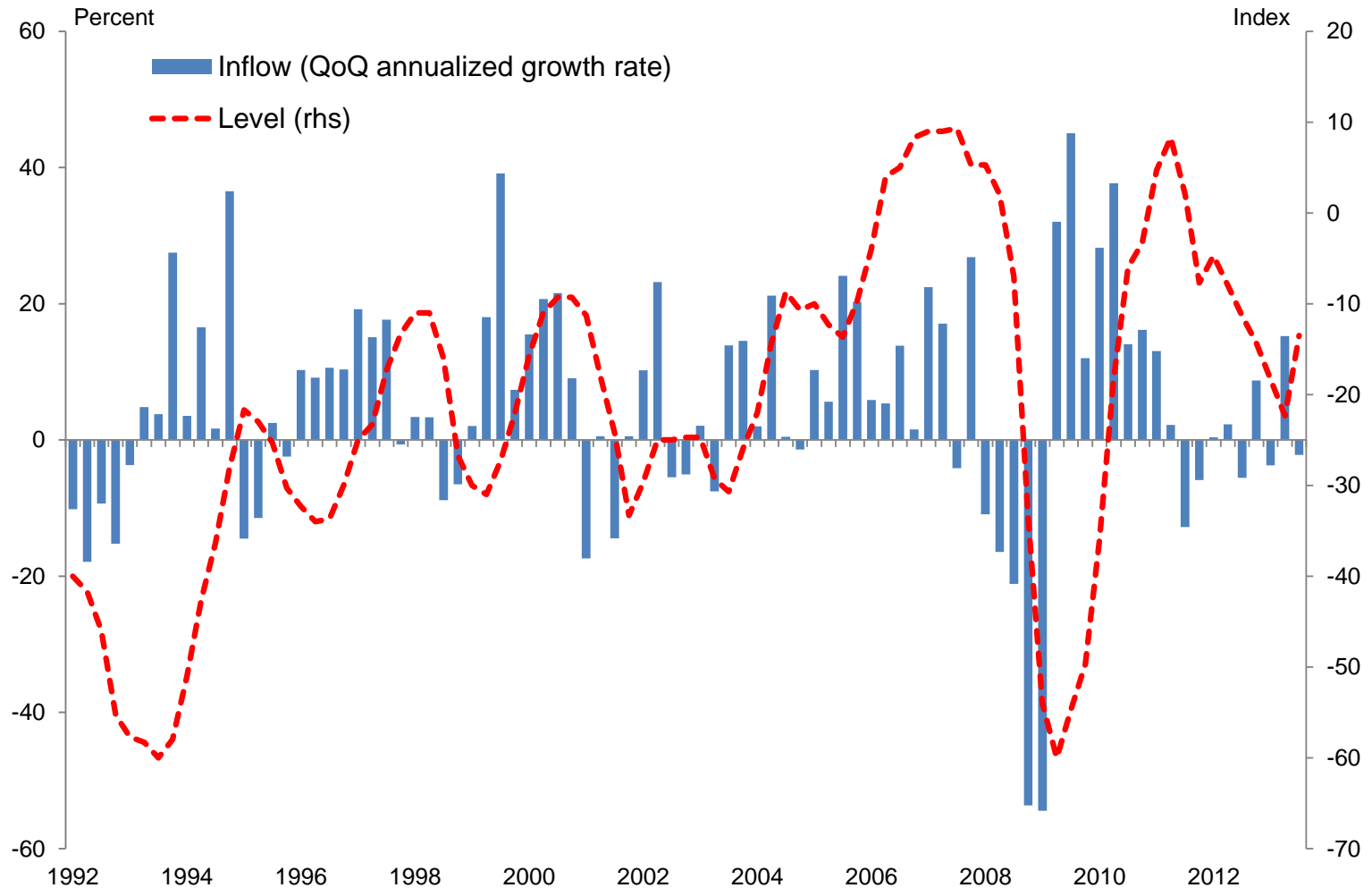


Export expectations ahead of global industrial production

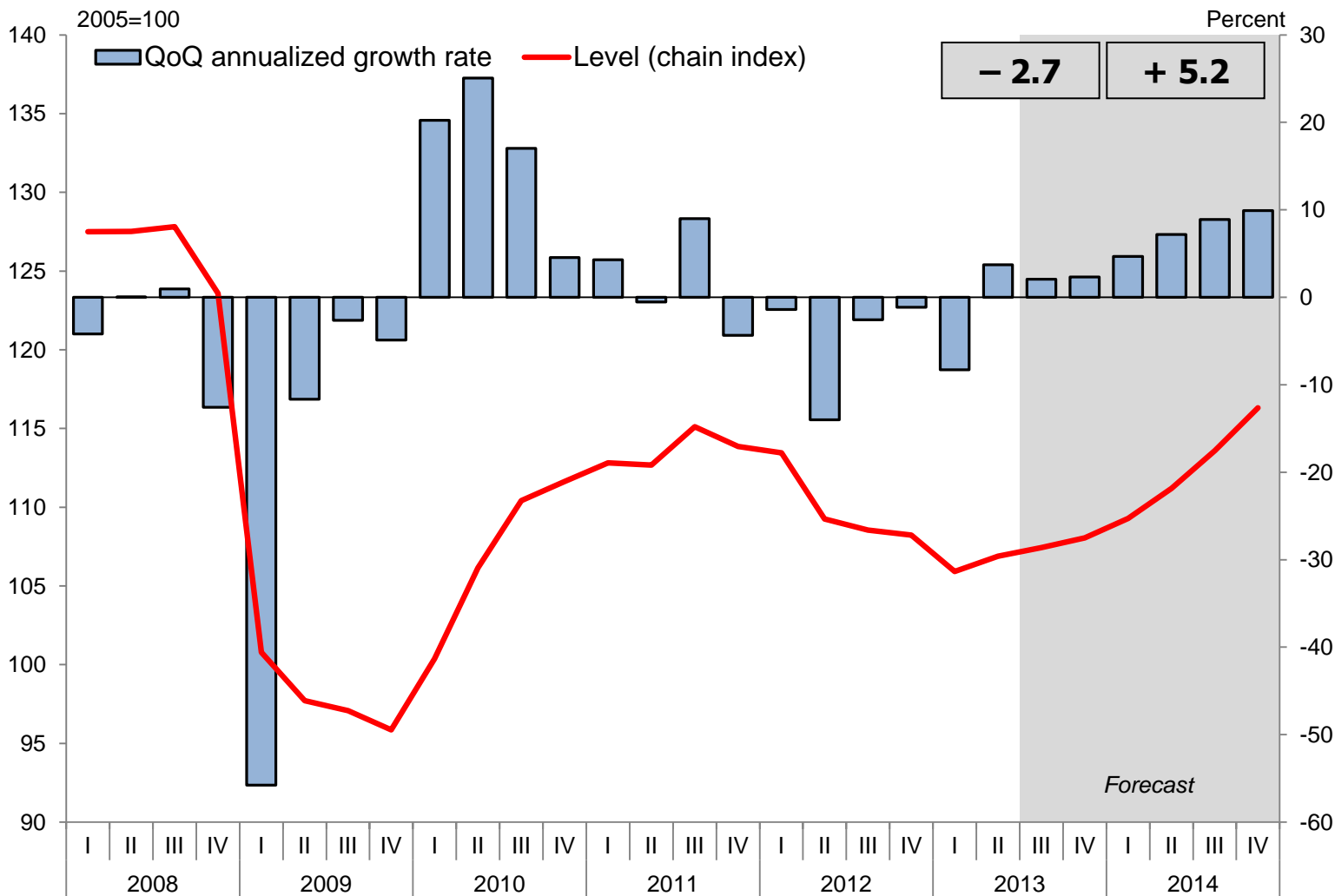




Orders from abroad (manufacturing): Sluggish upward trend

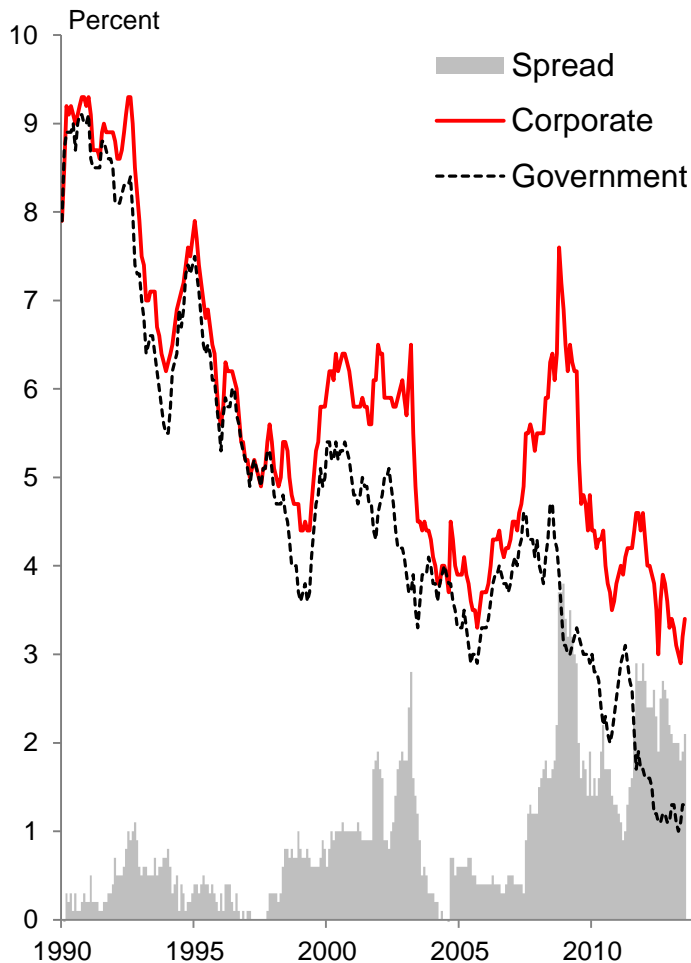


M&E investment gradually overcoming two-year downswing



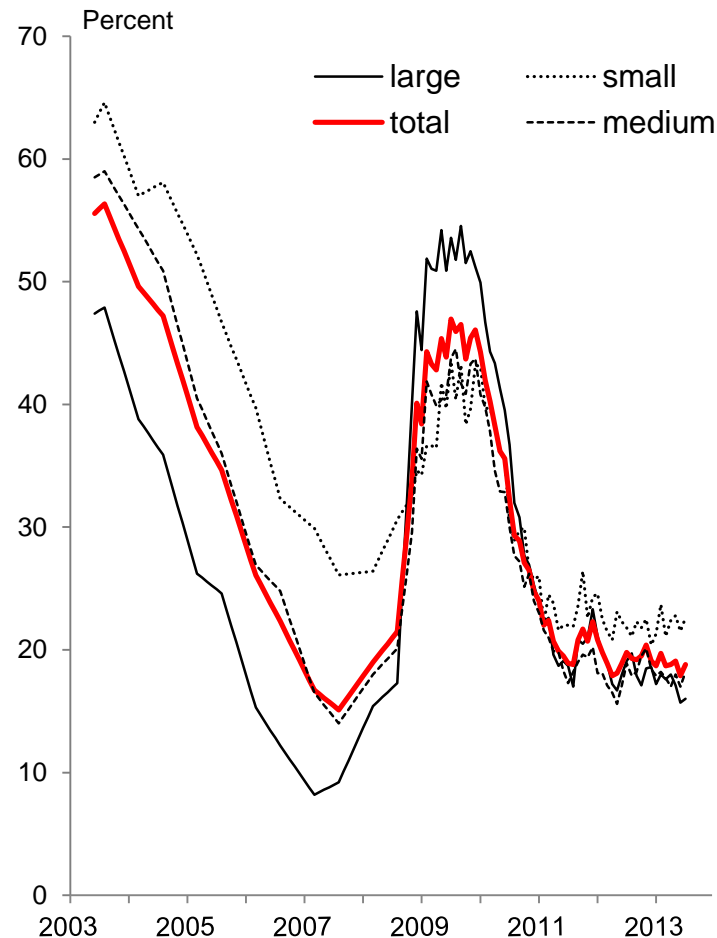
Financing conditions historically favorable

Interest rates



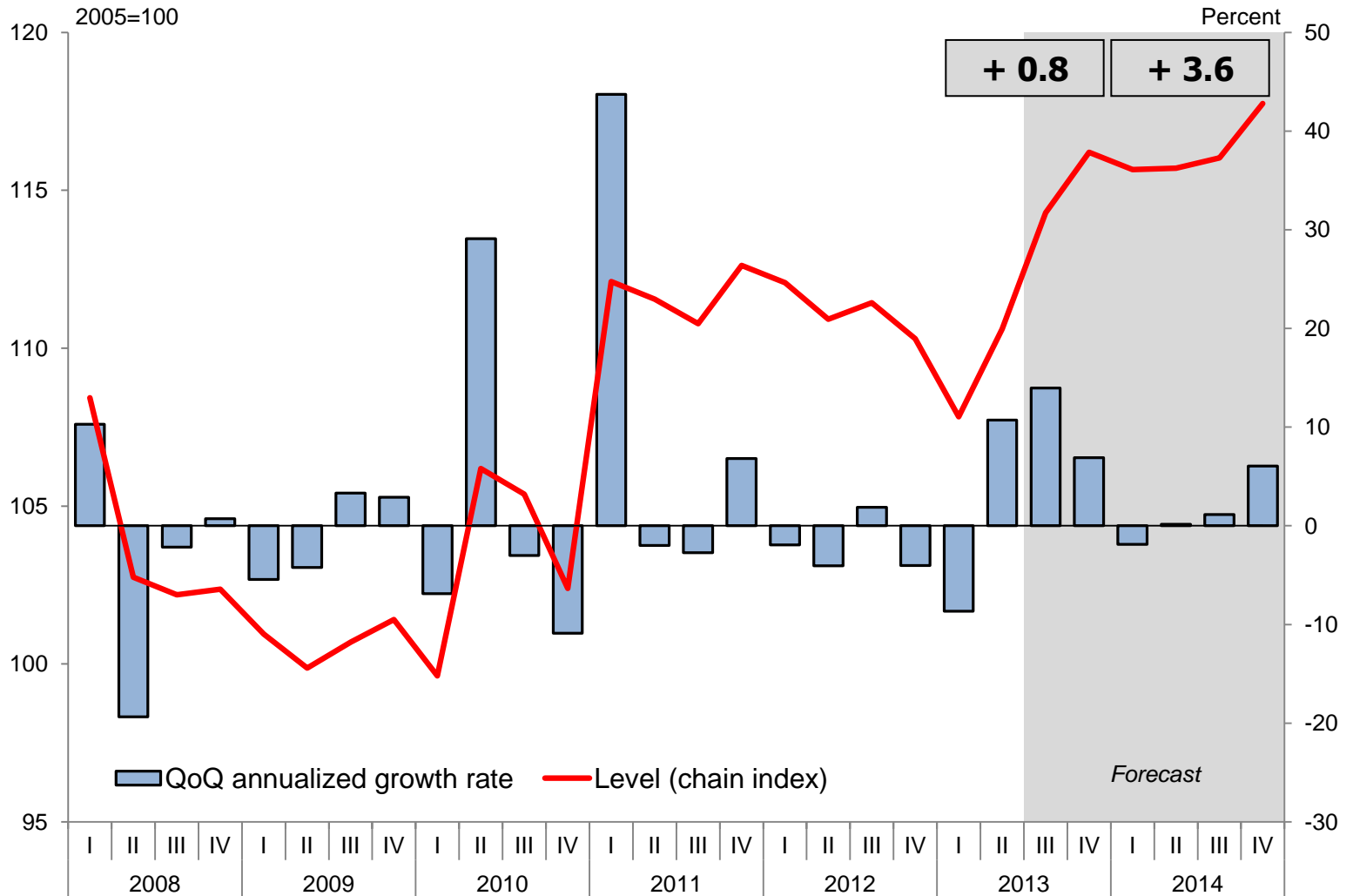
Monthly data.
Corporate bonds: maturing within 3 years; Government bonds: maturing within 5 years.

Credit hurdle

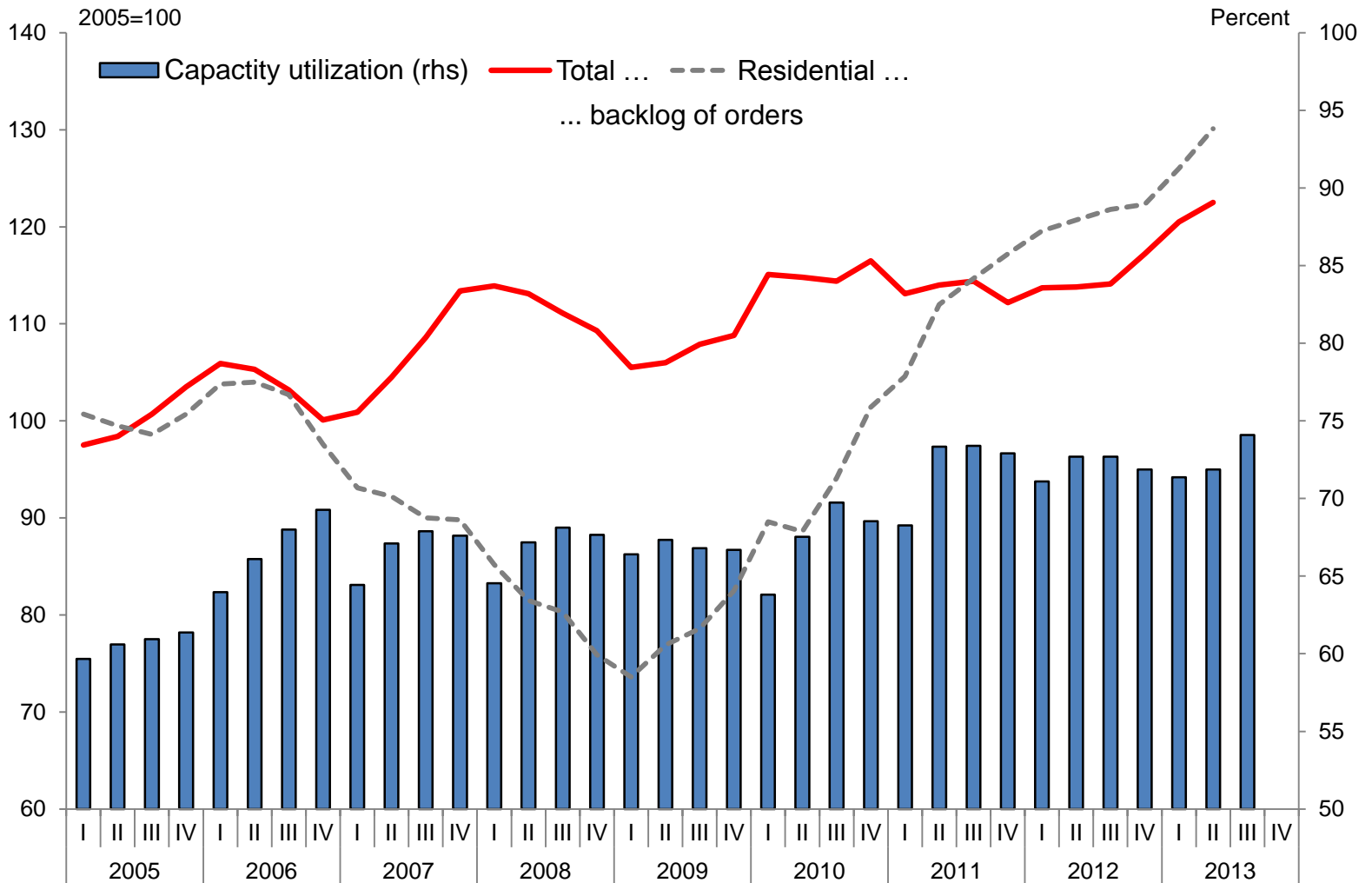


Monthly data.
Ifo credit hurdle by firm size (percentage of firms assessing banks' lending as restrictive).

Construction activity boosted by housing investment

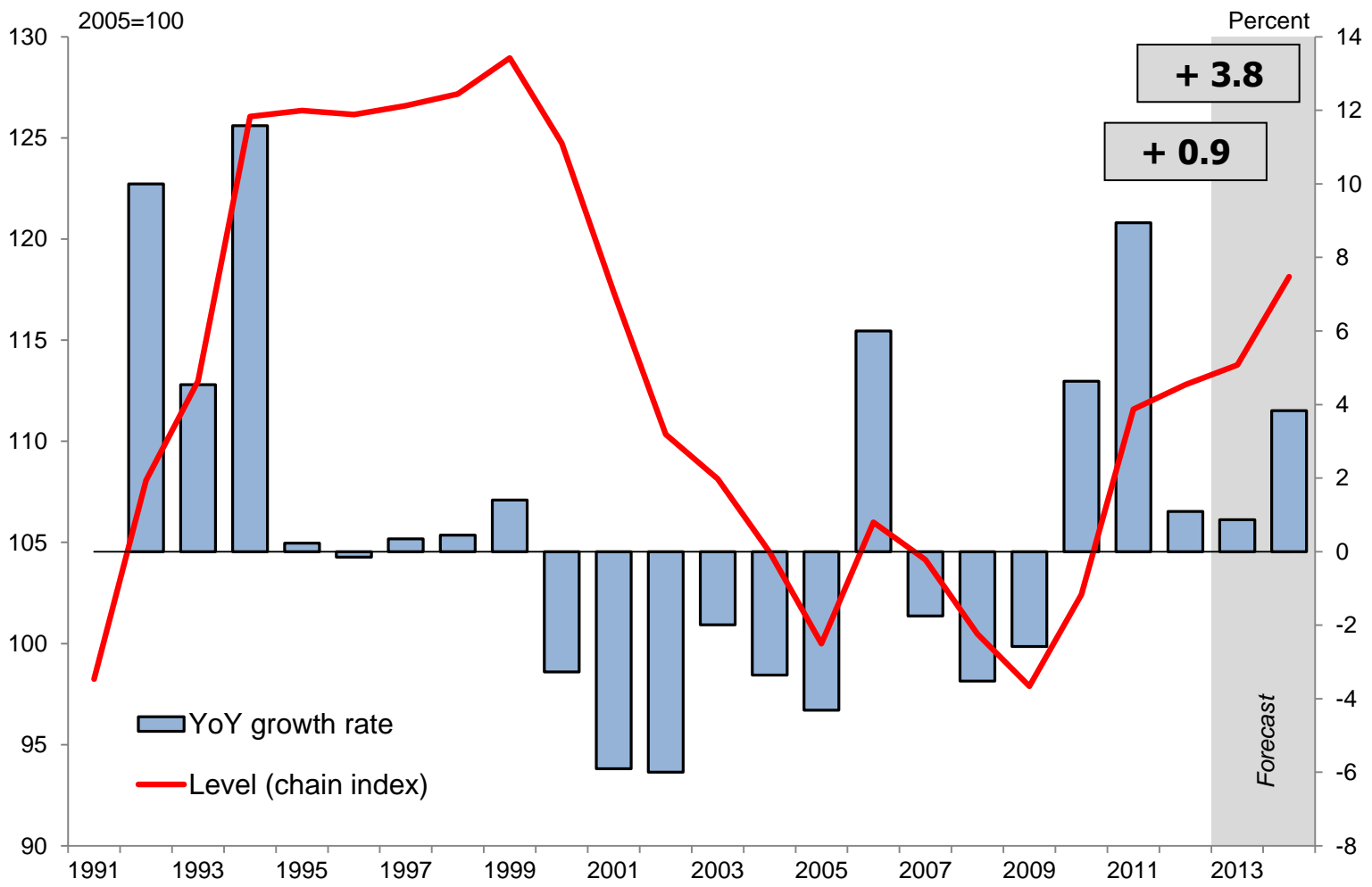


Construction industry at full speed

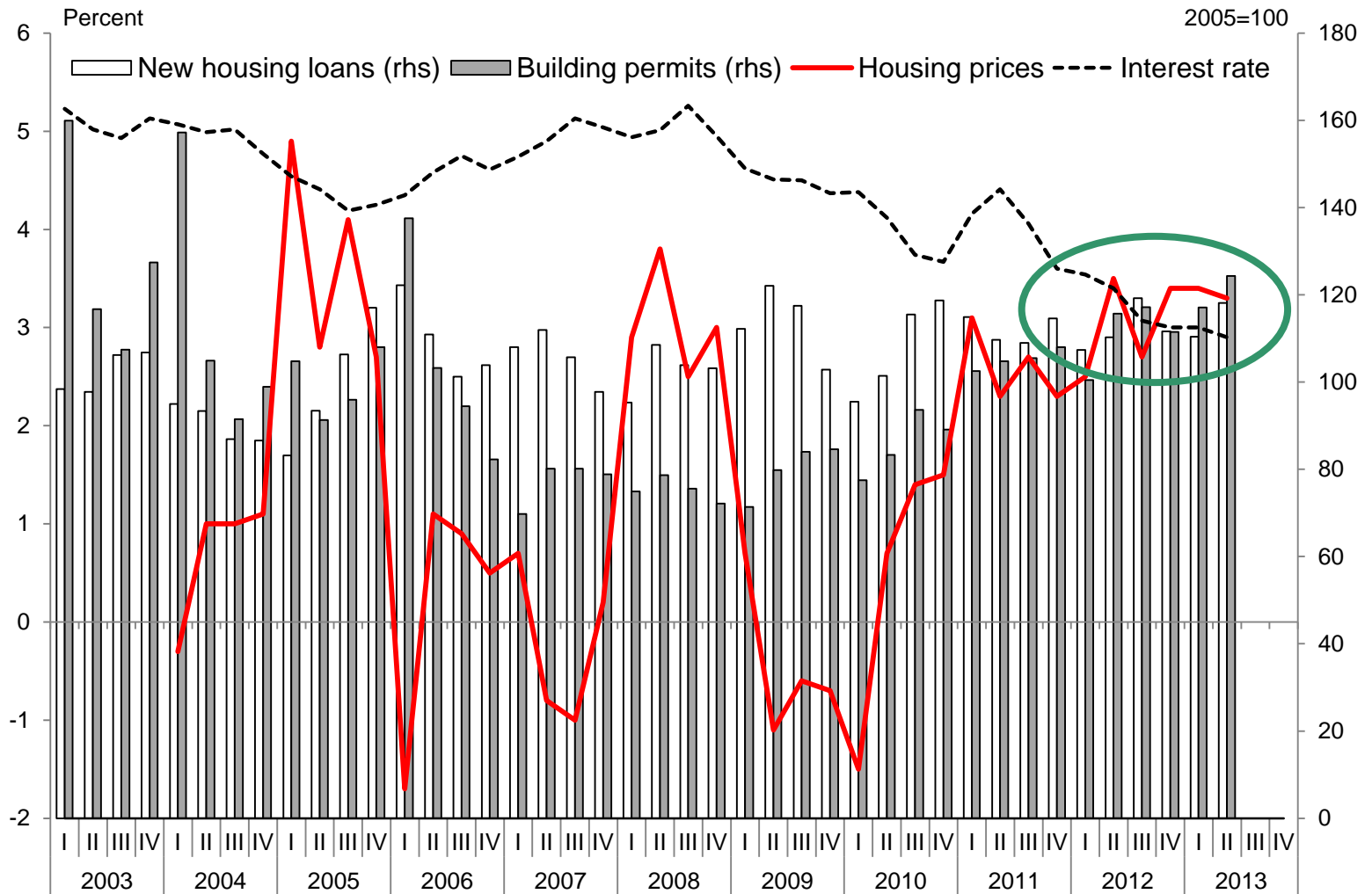




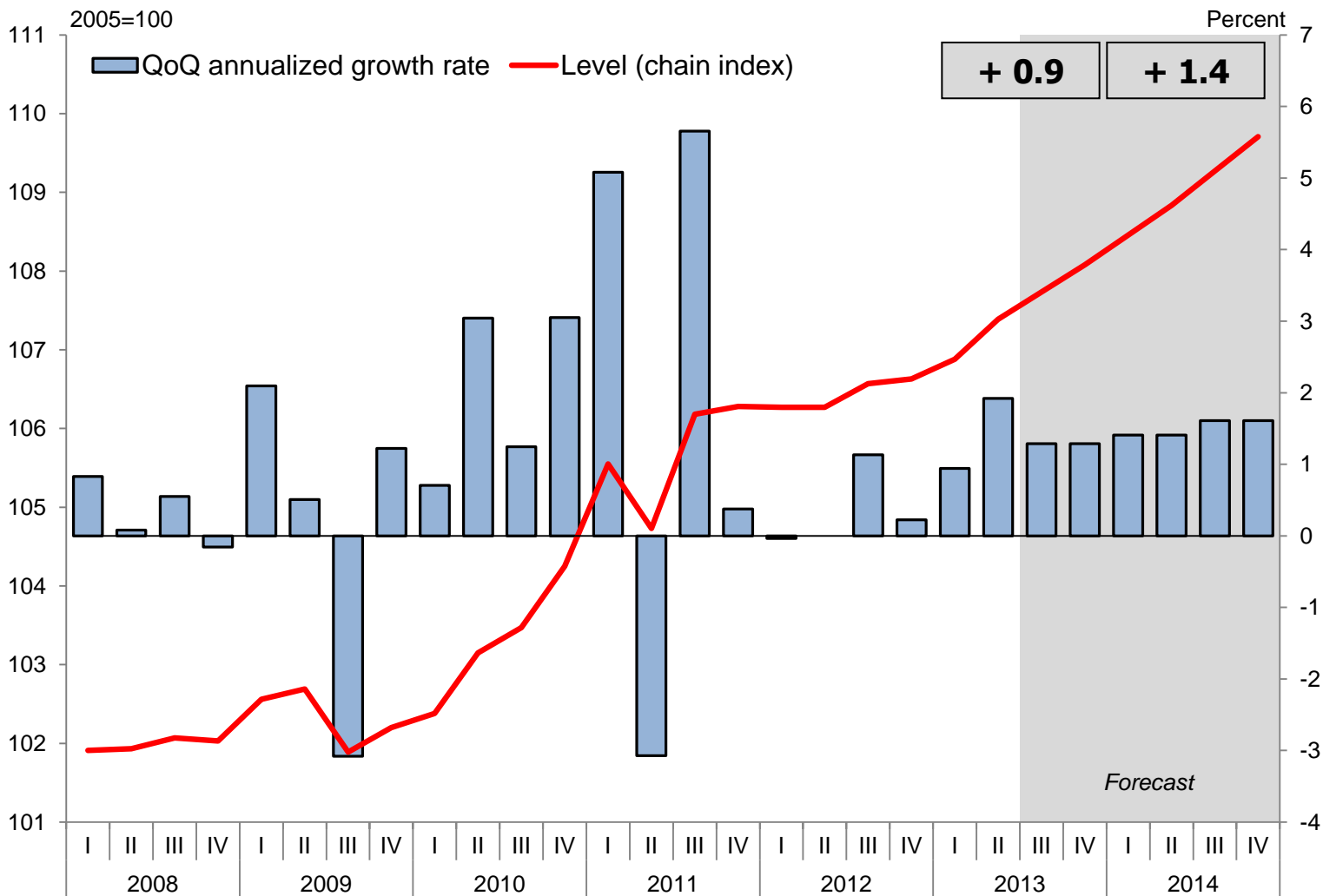
Residential construction speeding up



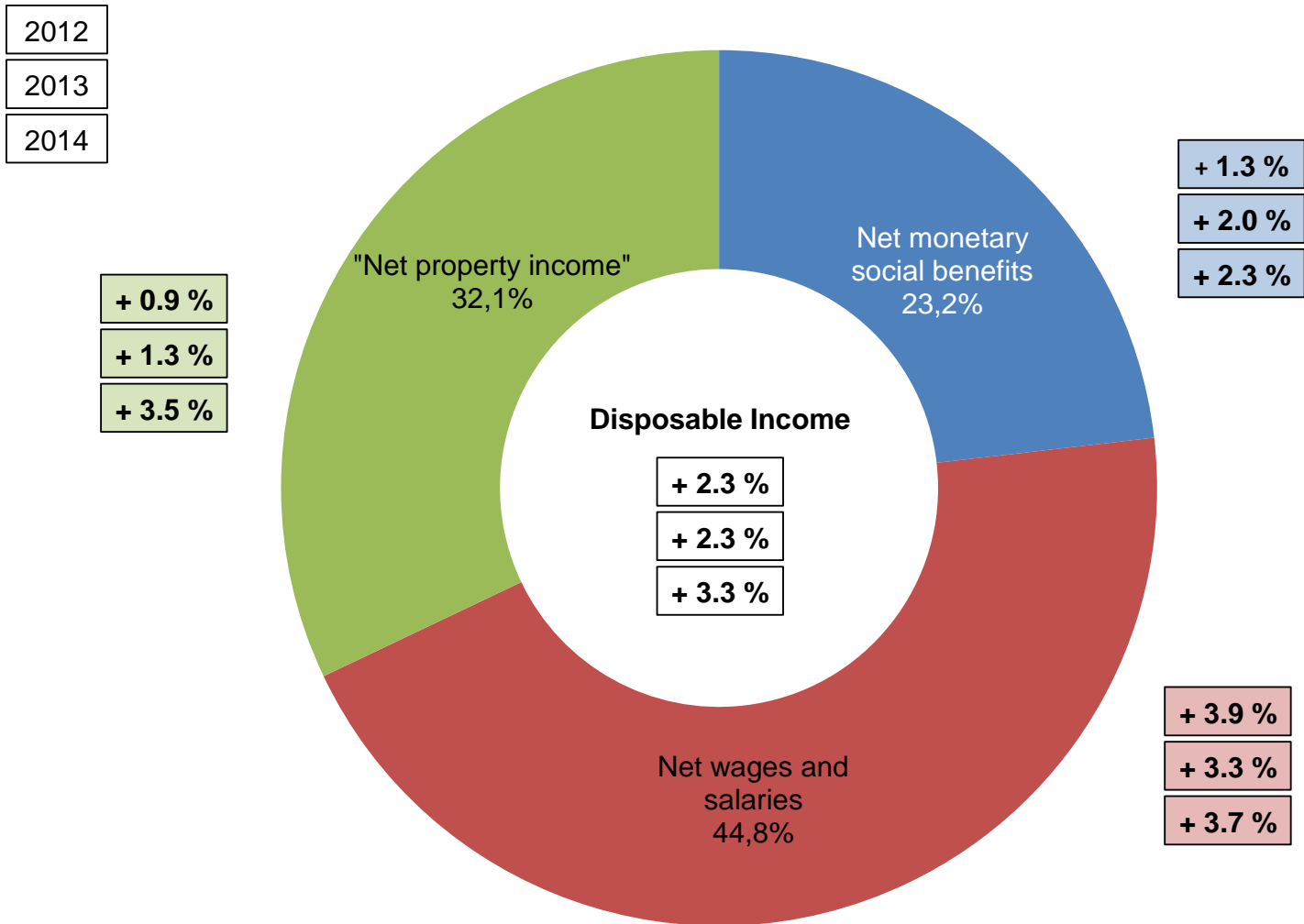
Negative real interest rates on housing loans



Private consumption spending rides pillion



Disposable income of private households



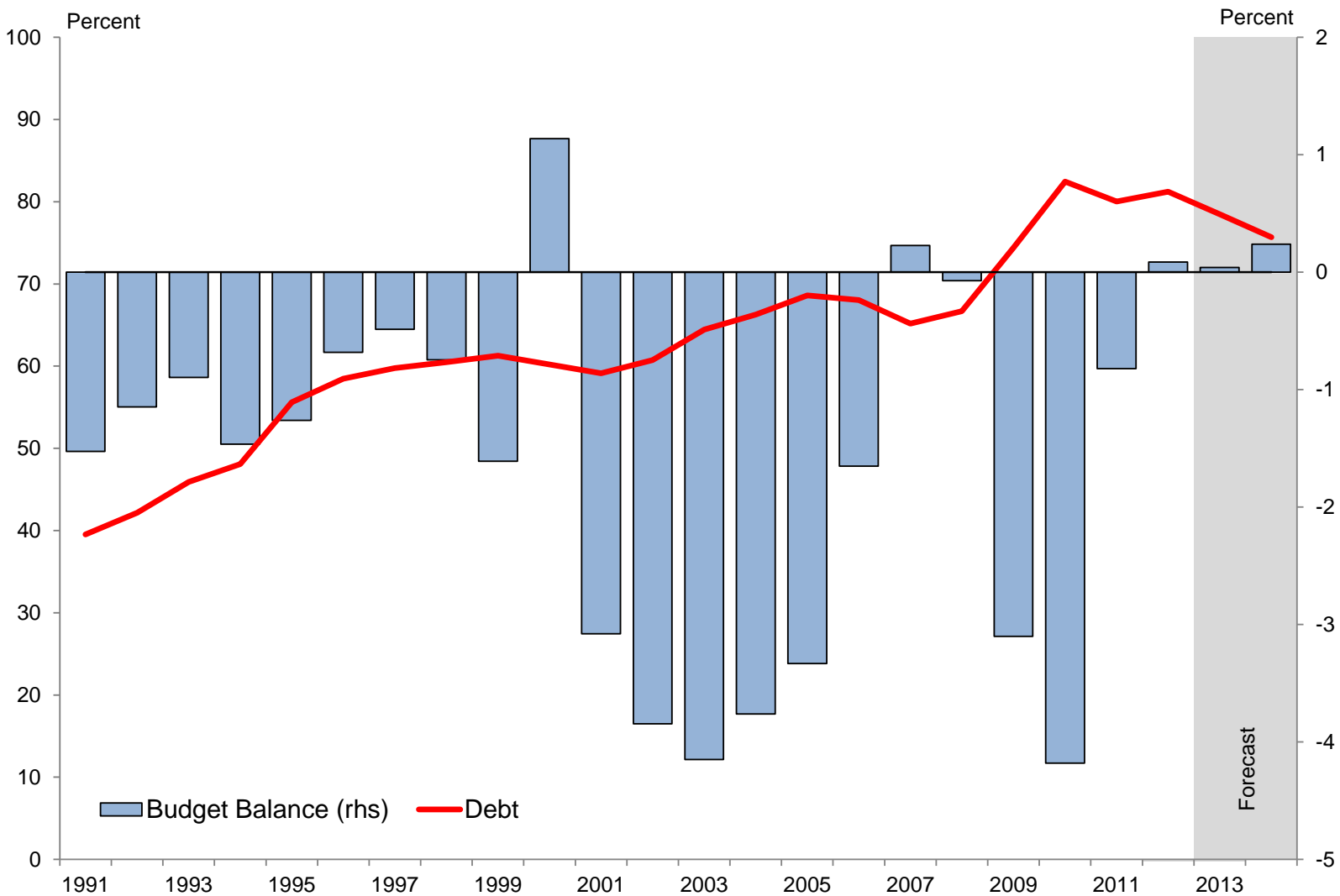
GDP and key components

Volumes, change over previous year in percent

	2012	2013	2014
GDP	0.7	0.5	1.8
Private consumption	0.8	0.9	1.4
Public consumption	1.0	1.0	1.2
M&E investment	-4.0	-2.7	5.2
Construction	-1.4	0.8	3.6
Exports	3.2	1.0	6.4
Imports	1.4	1.8	7.1



Public finance: Consolidation efforts stop



Labor market, productivity and prices

Volumes, change over previous year in percent

	2012	2013	2014
Employment Thousand persons	41 607	41 847	42 073
Unemployment BA, Thousand persons	2 897	2 936	2 929
Unemployment rate BA, Percent	6.8	6.8	6.7
Labor productivity Change in percent	0.4	0.3	1.4
Effective wages Per hour (capita) change in percent	3.5 (2.9)	2.9 (2.5)	3.1 (3.0)
Unit labor cost Per hour (capita) change in percent	2.8 (3.1)	2.3 (2.3)	1.5 (1.4)
Consumer prices Change in percent	2.0	1.6	2.1

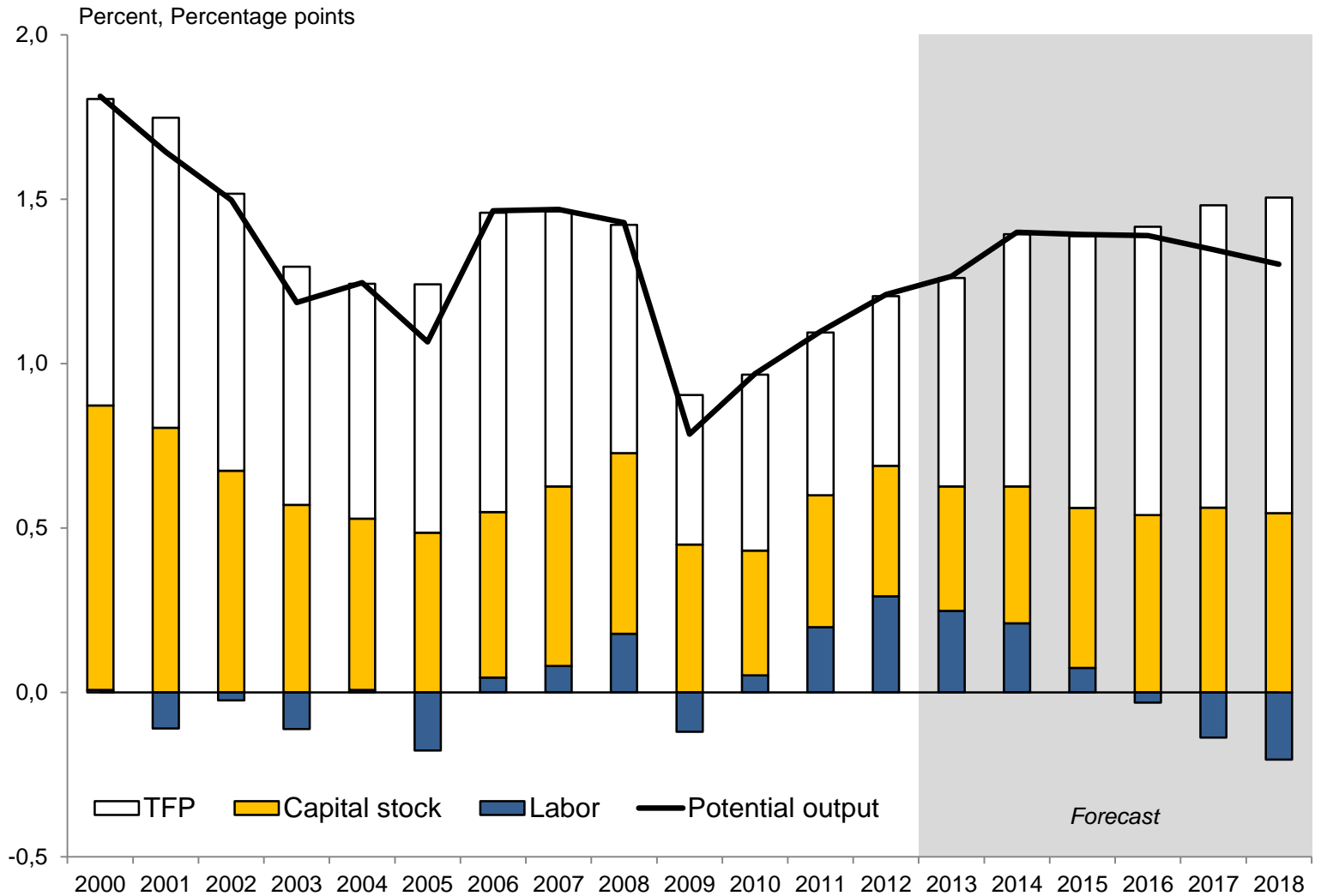


IfW/ZEW medium-term outlook

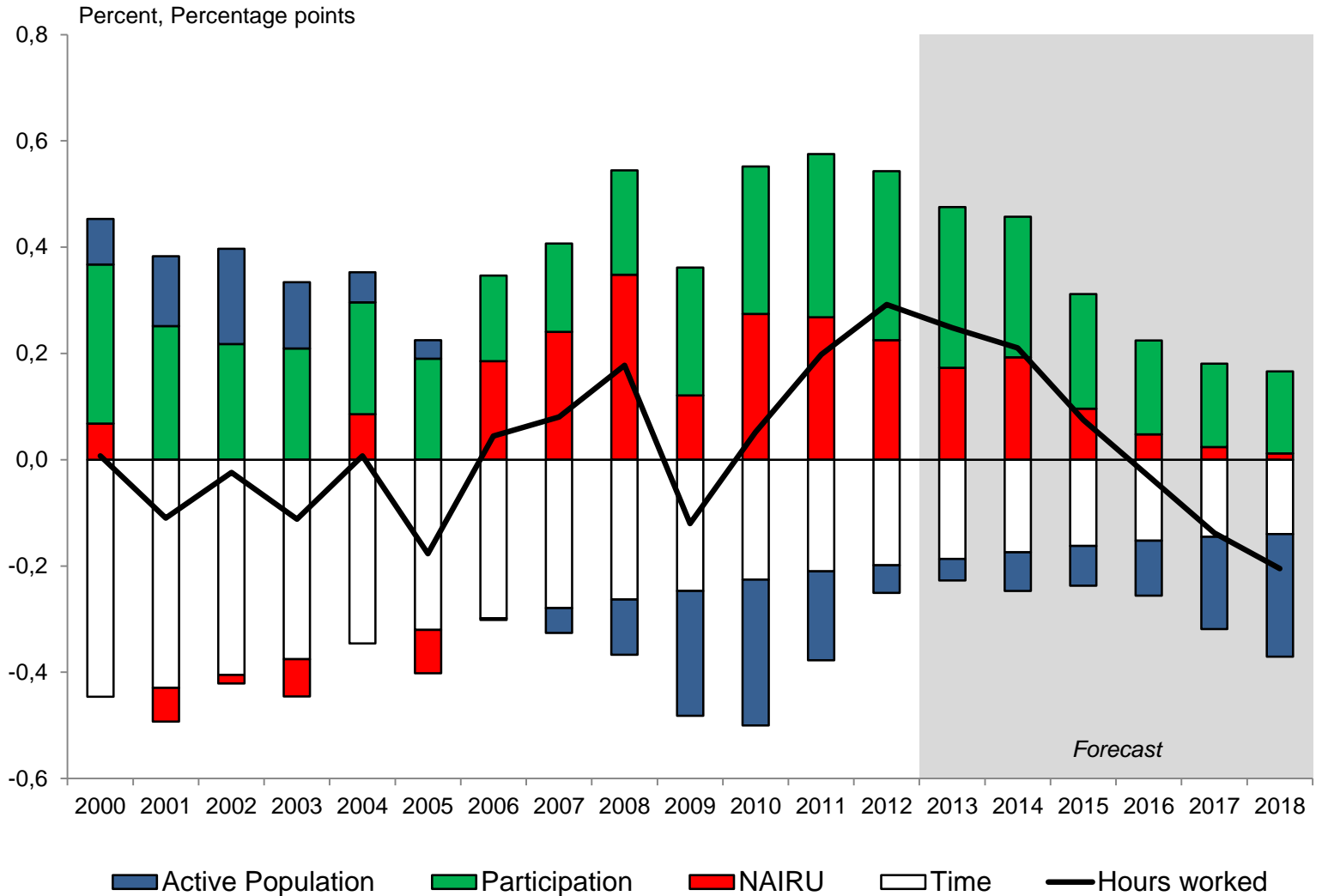
2013 to 2018

25

Facing potential growth peak in 2014

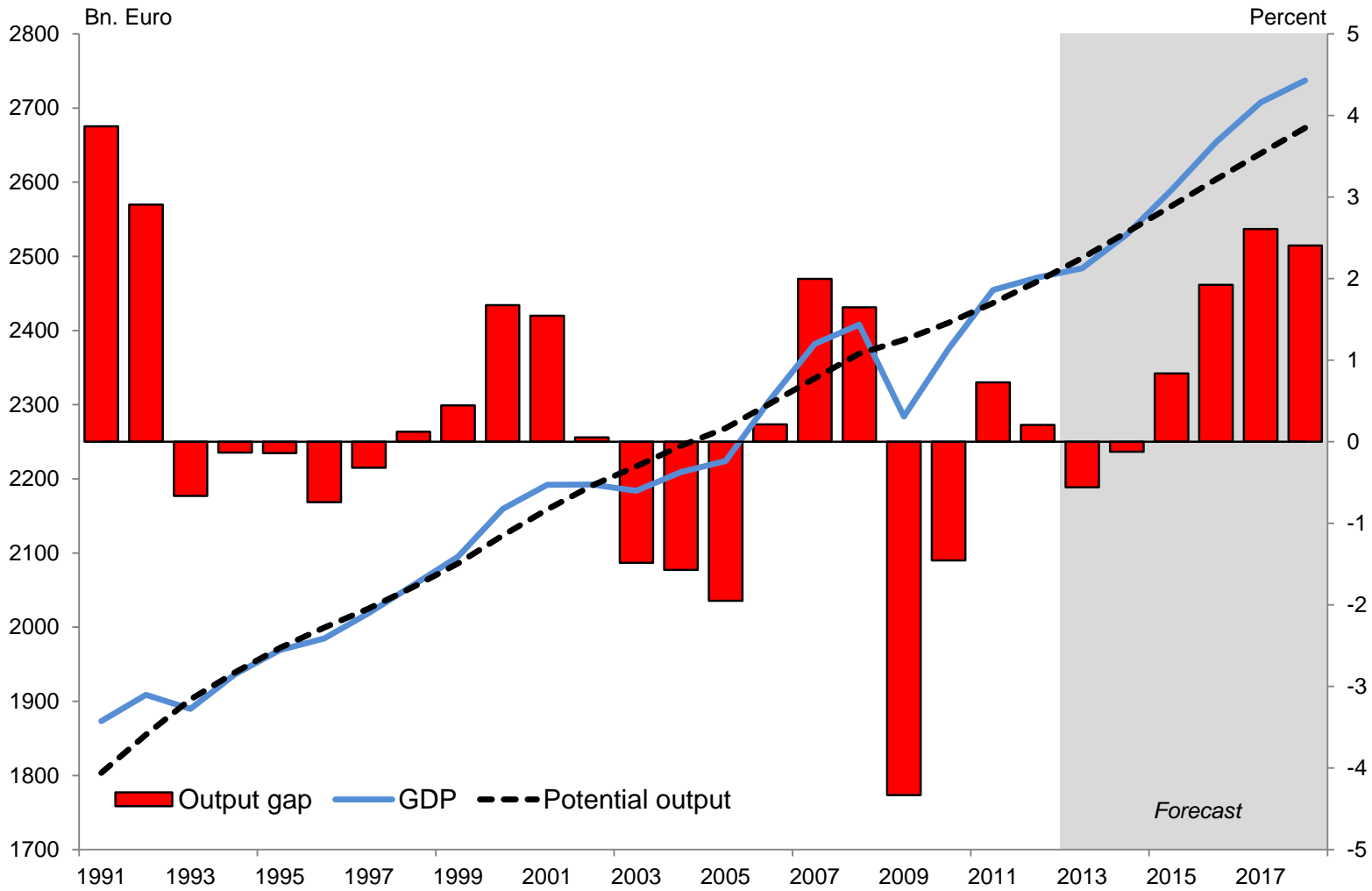


Net immigration no game changer, but delays labor force shrinking

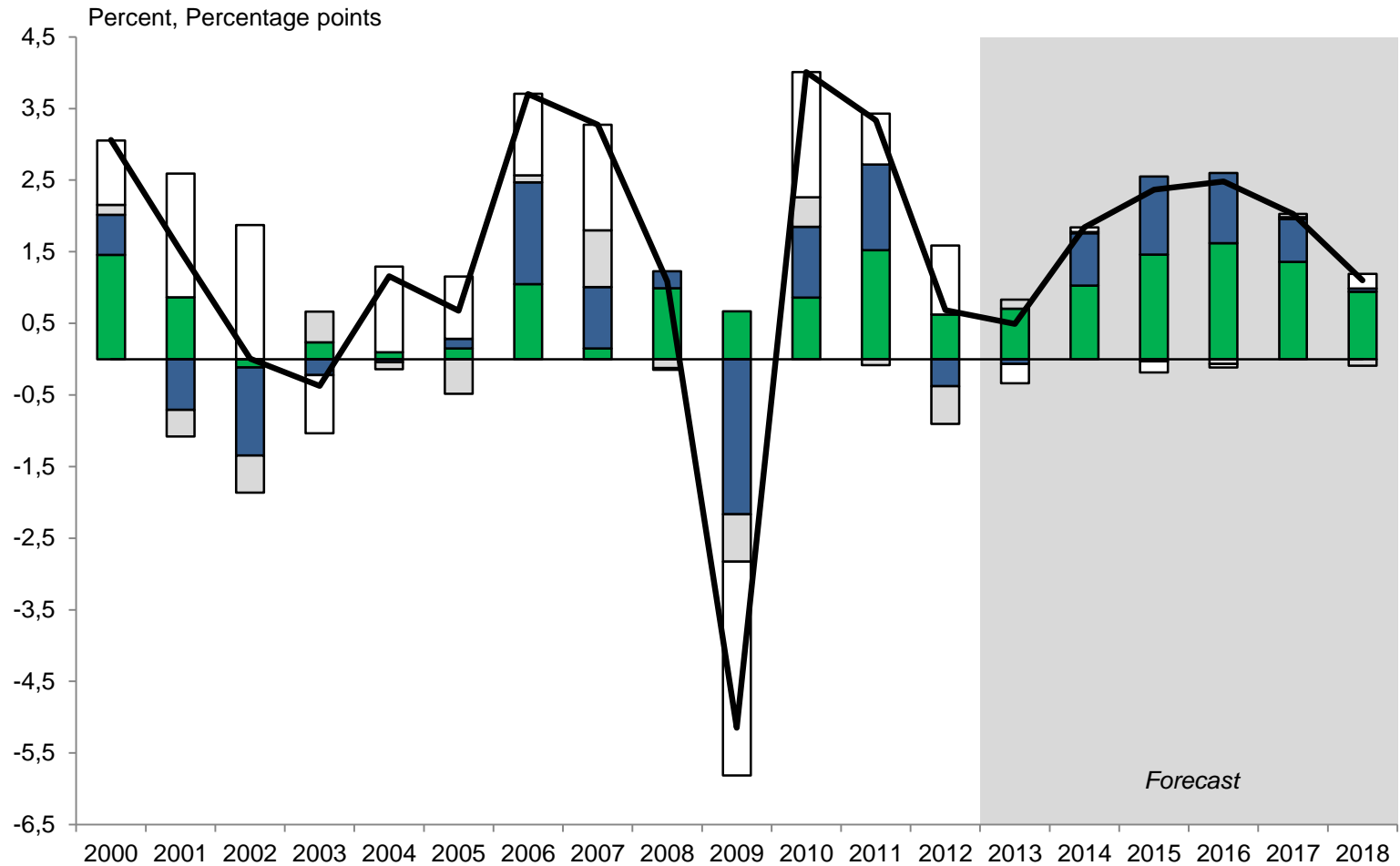




Strong expansion, moderate growth: Germany on the eve of severe overheating

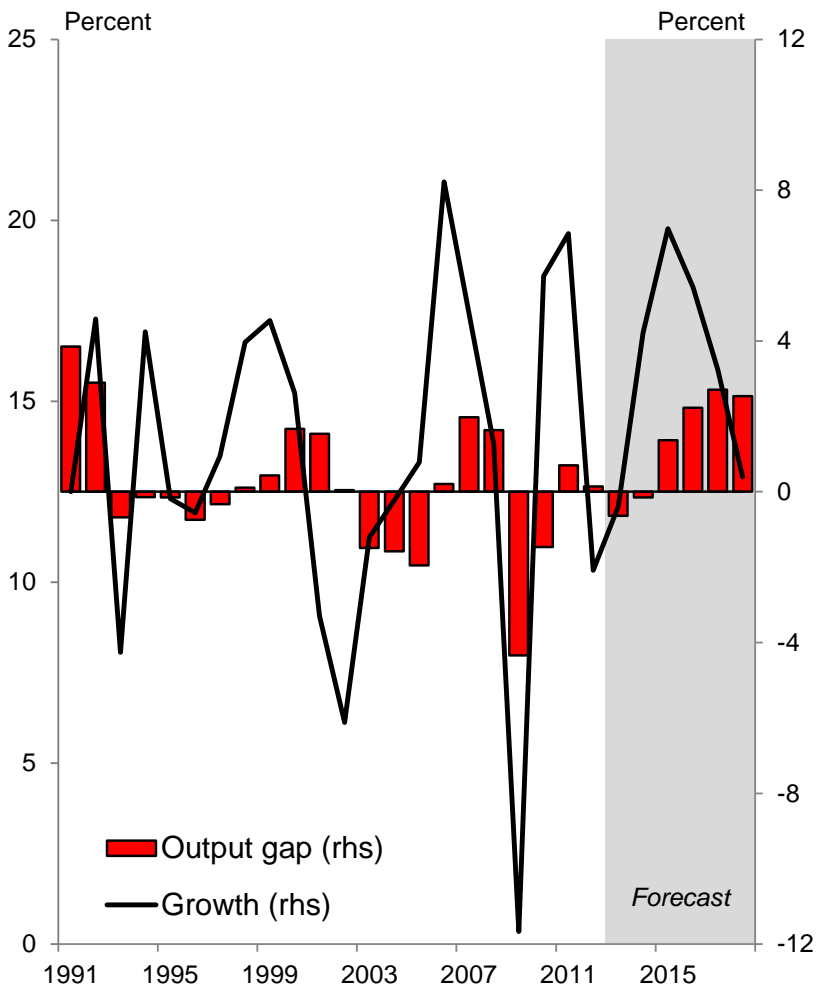


Full net domestic absorption of boom production

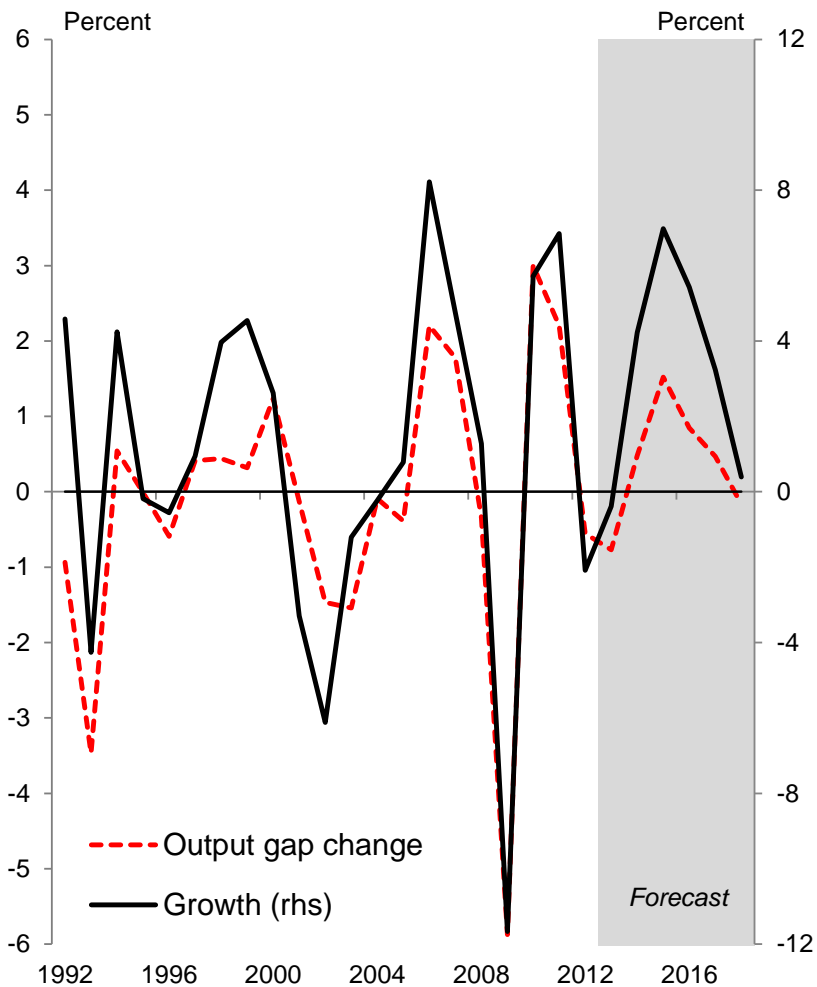




Cyclical investment peak pumped up by low financing cost

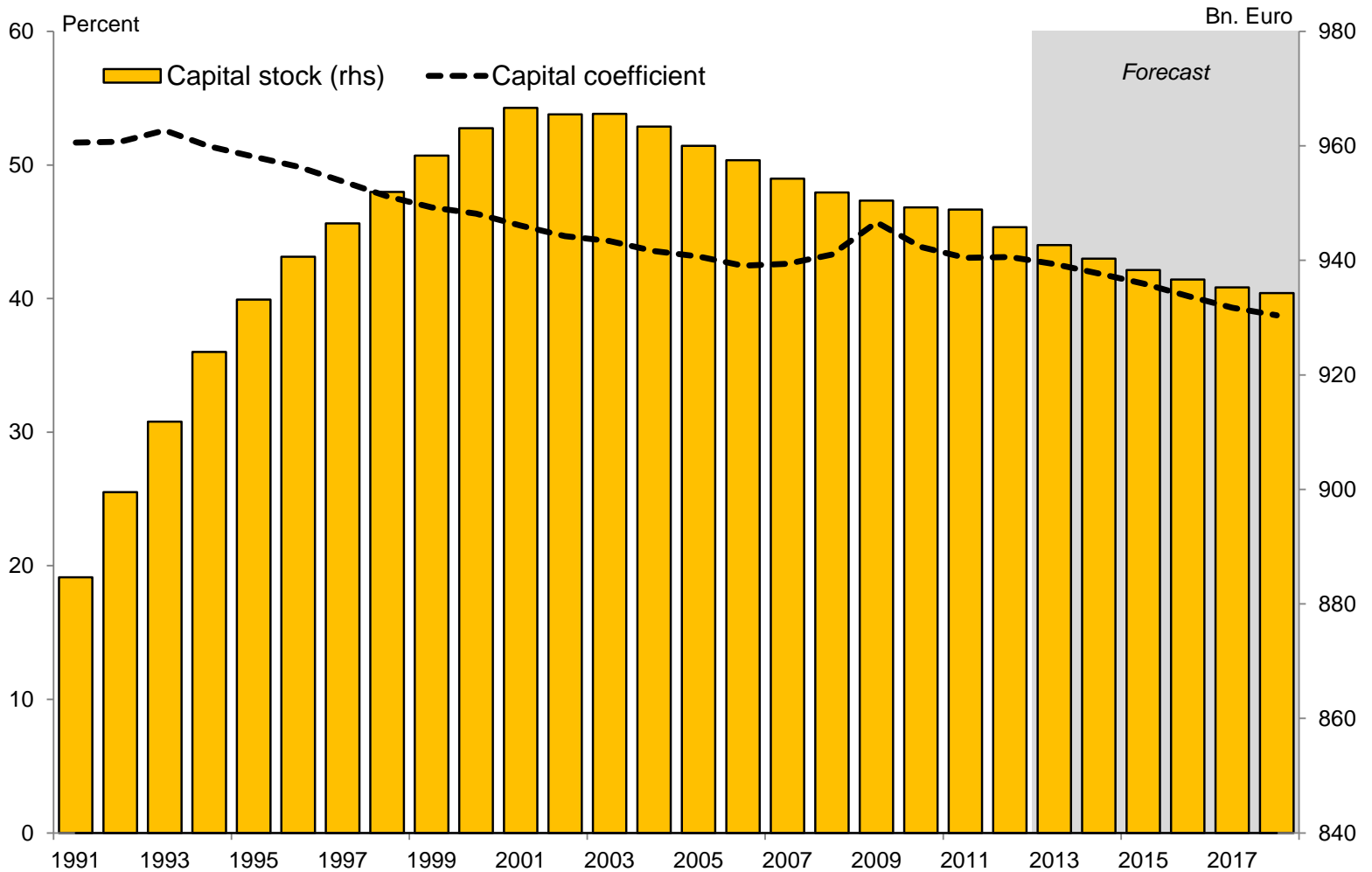


Annual data, volumes (1991 to 2018).
Output gap in percent of potential output.



Annual data, volumes (1992 to 2018).
Output gap in percent of potential output.

Erosion of public capital stock continues



Lessons from the election campaign

- Leadership: Merkel vs. Non-Merkel
(not: Merkel vs. Steinbrück)

- General policy debate:
Extent of turning back the mid-2000 reform agenda
 - » Minimum wages
 - » Maximum rent increases
 - » Lowering the retirement age
 - » ...

- Lack of market-oriented reform programs

- Euro area crisis not addressed by Bundestag parties

⇒ **Overestimation of German economic strength**

Post-election Germany

- Domestically oriented policies: Huge agenda
 - » Resuming fiscal consolidation efforts?
(making public budgets more weatherproof)
 - » Energy supply:
Dampening cost explosion of renewables (EEG reform)?
 - » Infrastructure: Pay-as-you-use systems?
 - » Tax system reform?
 - » New wave of labor market reforms for more flexibility?

- Euro area crisis: Another 4 years of muddling through?
 - » Crawling process may finally erode “crisis manager” image
 - » Little evidence for front-loaded game changing decisions
 - » Power politics: Tougher or softer German stance on “fiscal union” and debt sharing depends on politicizing the issue (role of AfD?)

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