

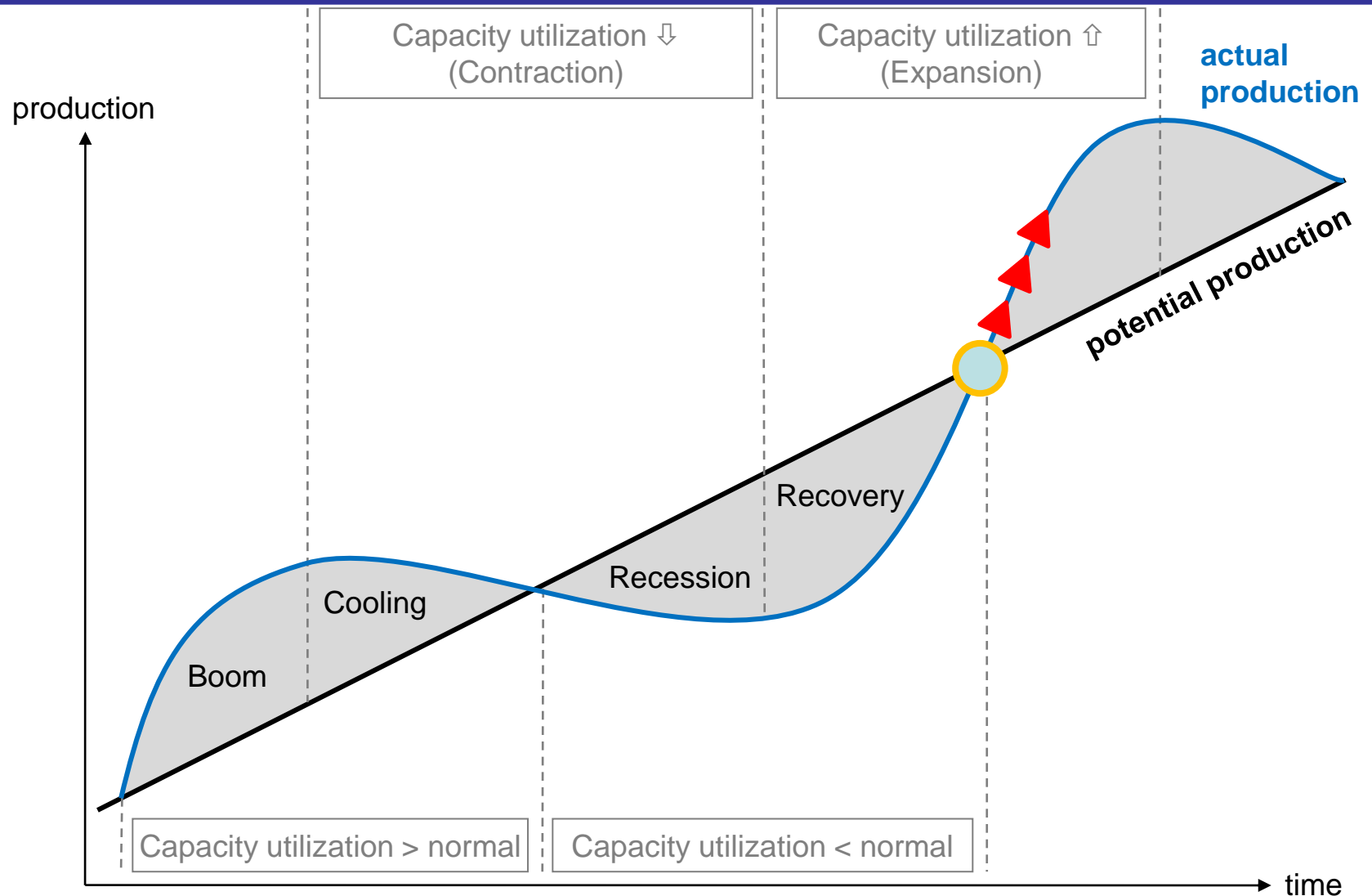
IHS New Year's Briefing 2016 | Frankfurt/M., 25 January 2016

# Germany's Economic Outlook

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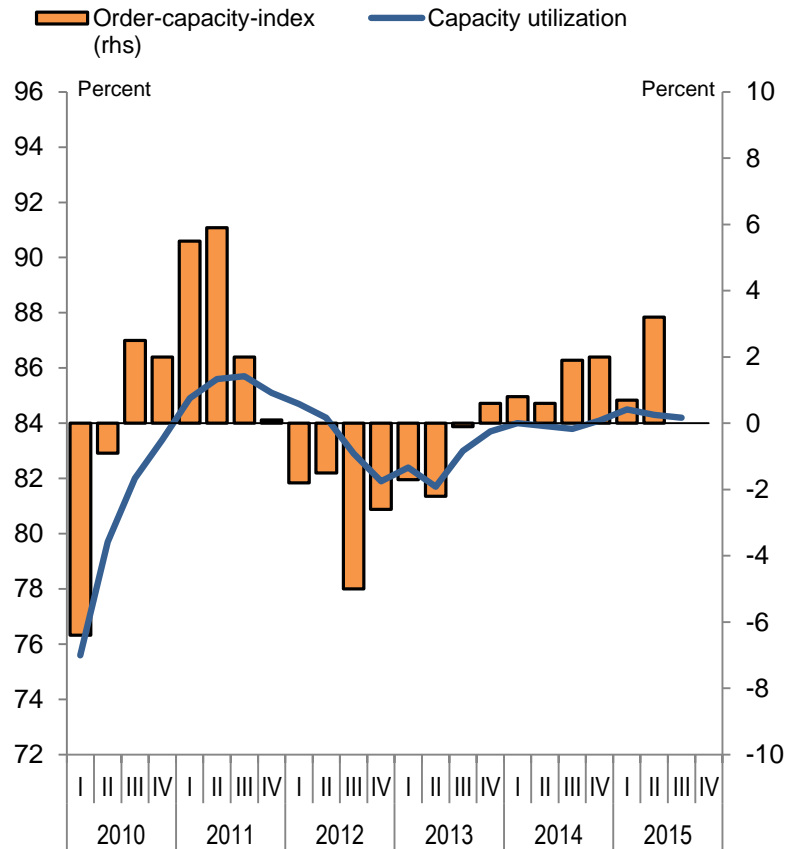
Stefan Kooths  
Forecasting Center and Office Berlin

# Locating the German economy in the stylized business cycle



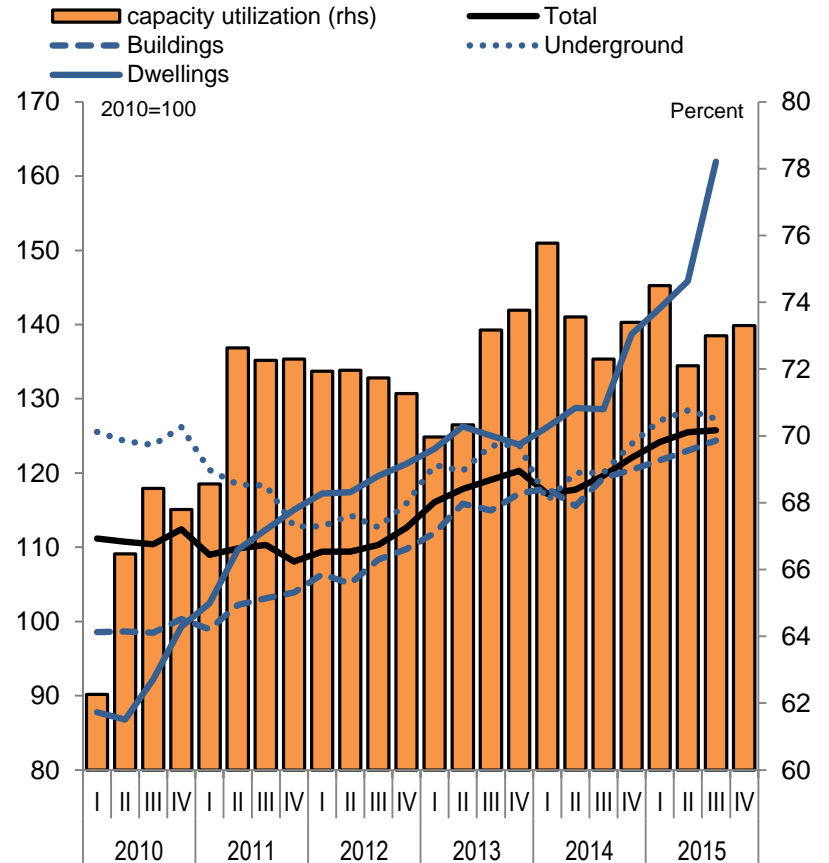
# Normal capacity utilization: Manufacturing and construction

## Capacity utilization in manufacturing



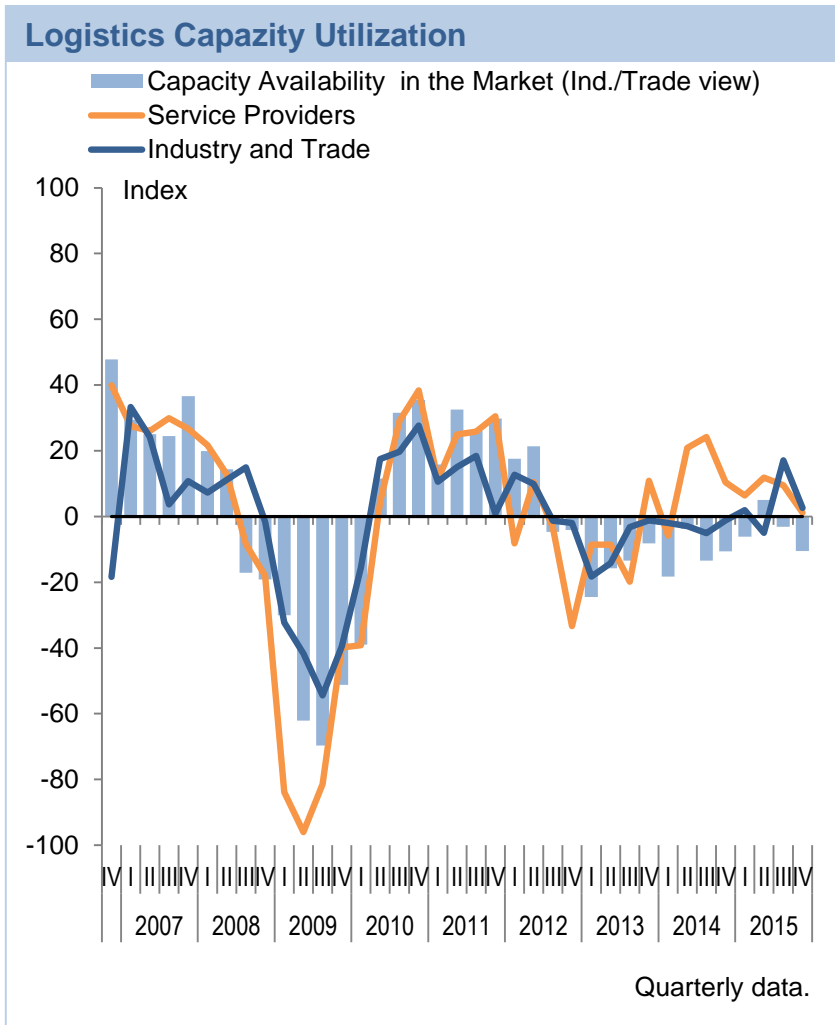
Quarterly data, seasonally adjusted;  
Capacity utilization: axes cross at normal capacity utilization level.

## Order stocks and capacity utilization in construction industry



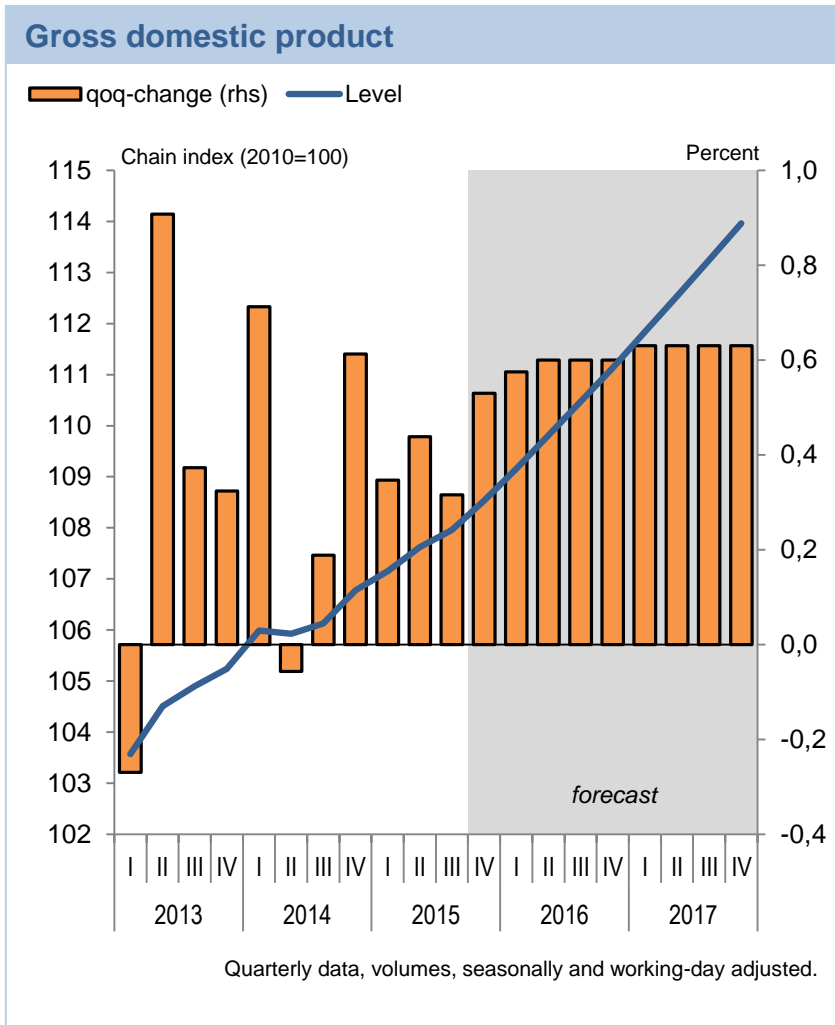
Quarterly data.  
Capacity utilization: seasonally adjusted (2015-Q4: Oct/Nov);  
Order stocks: price, seasonally and working-day adjusted.

# Normal capacity utilization: Logistics



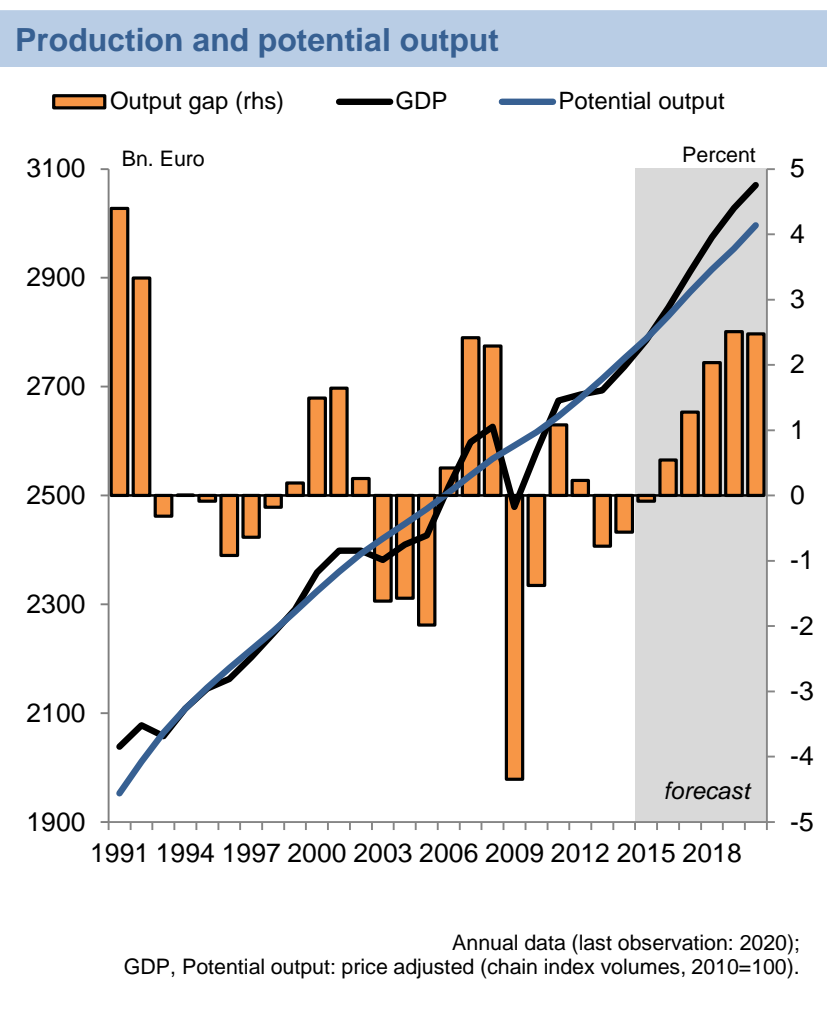
- BVL Logistics Indicator
  - » Logistics service providers
  - » Logistics customers in industry and trade

# Short-run: Economy dives into tightening of capacity utilization



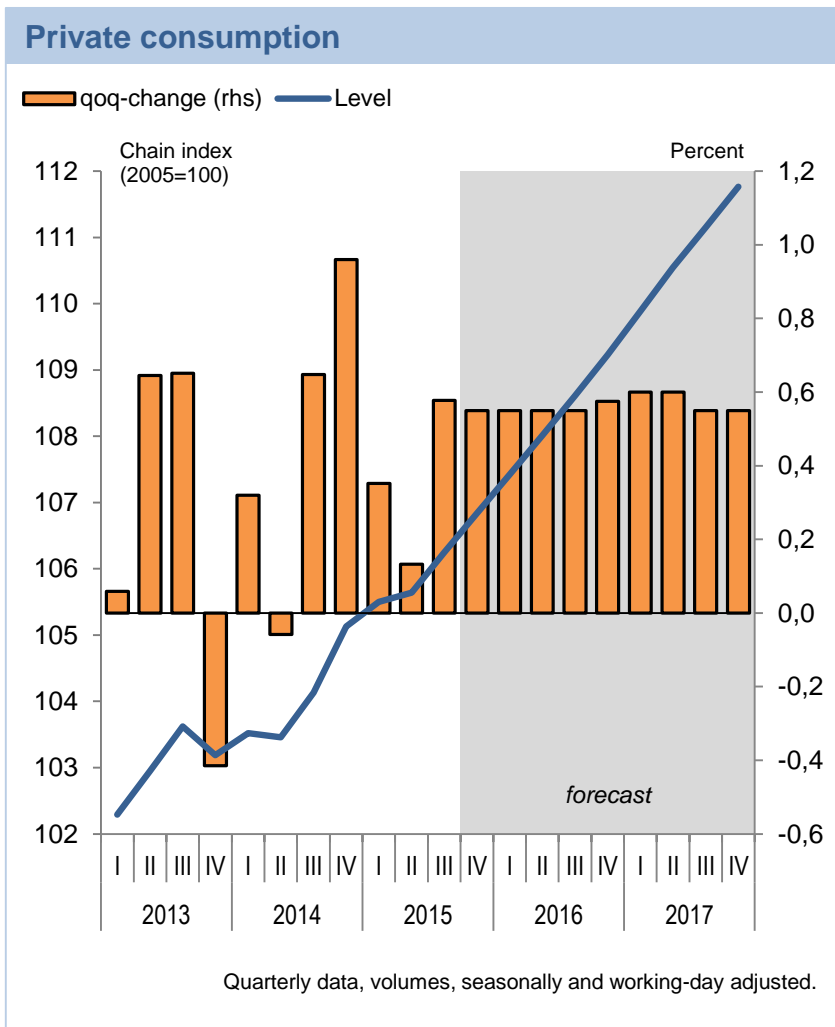
- **GDP**
    - » **2016: + 2.2 percent**
    - » **2017: + 2.3 percent**
  - Strong consumption growth
  - Investment gaining momentum
  - Refugee stimulus
  - Fiscal policy lacks ambitious consolidation stance
    - » Burning surpluses
    - » Federal elections in 2017
- ⇒ **Not an optimistic outlook!**

# Medium-run: Risk of overheating on the horizon



- Potential output growth below 1.5 percent
- Ultra-expansionary monetary environment
  - » investment spending
  - » net exports (exchange rate)
- Refugees
  - » Stimulating in the short-run ...
  - » ... labor force effects take time
- European policy framework (European Semester, MIP) prone to work pro-cyclically

# Private consumption to grow at highest rates since 2000



## ■ Private consumption

- » 2015: +2.0 %
- » 2016: +2.3 %
- » 2017: +2.2 %

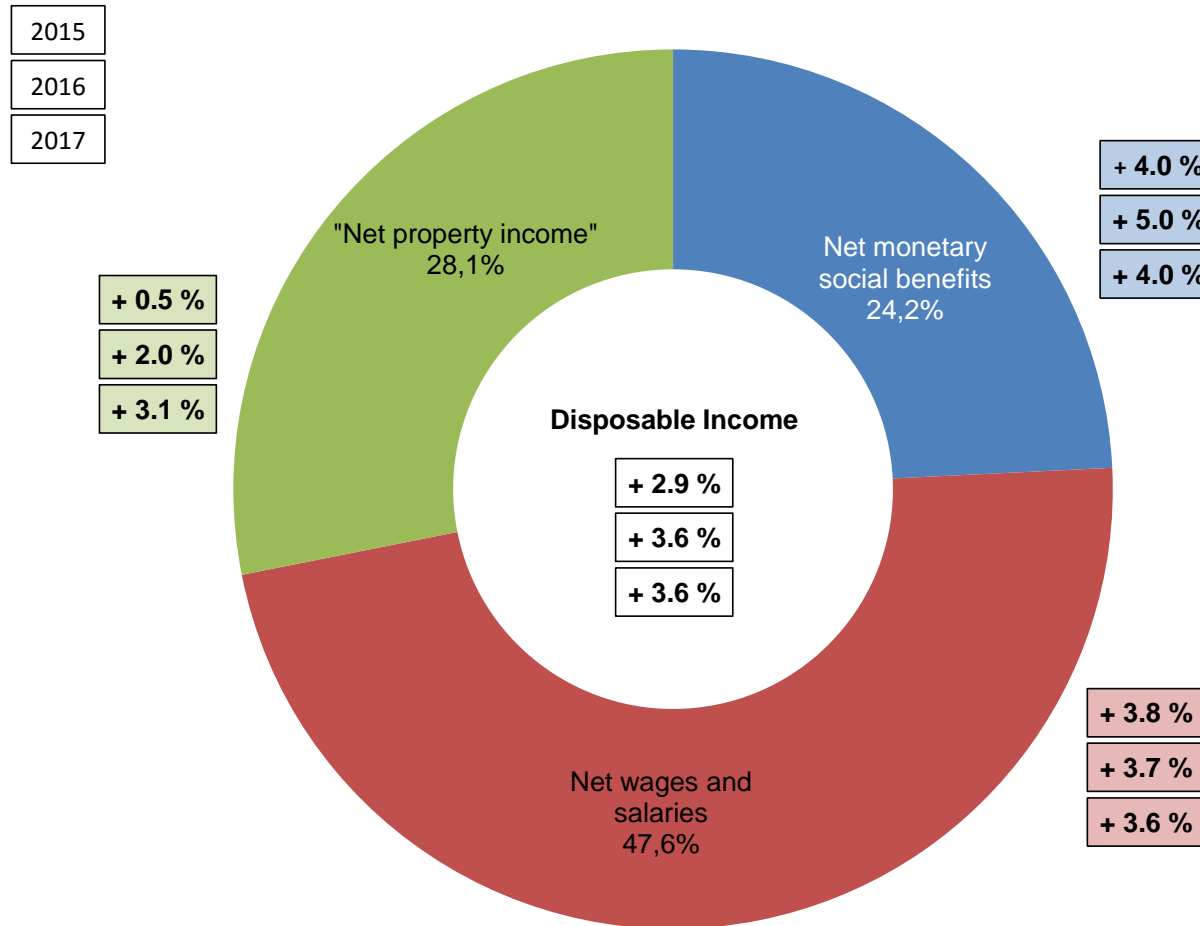
## ■ Real disposable income

- » 2015: +2.2 %
- » 2016: +2.4 %
- » 2017: +2.0 %

## ■ Savings rate

- » 2015: 9.7 %
- » 2016: 9.8 %
- » 2017: 9.5 %

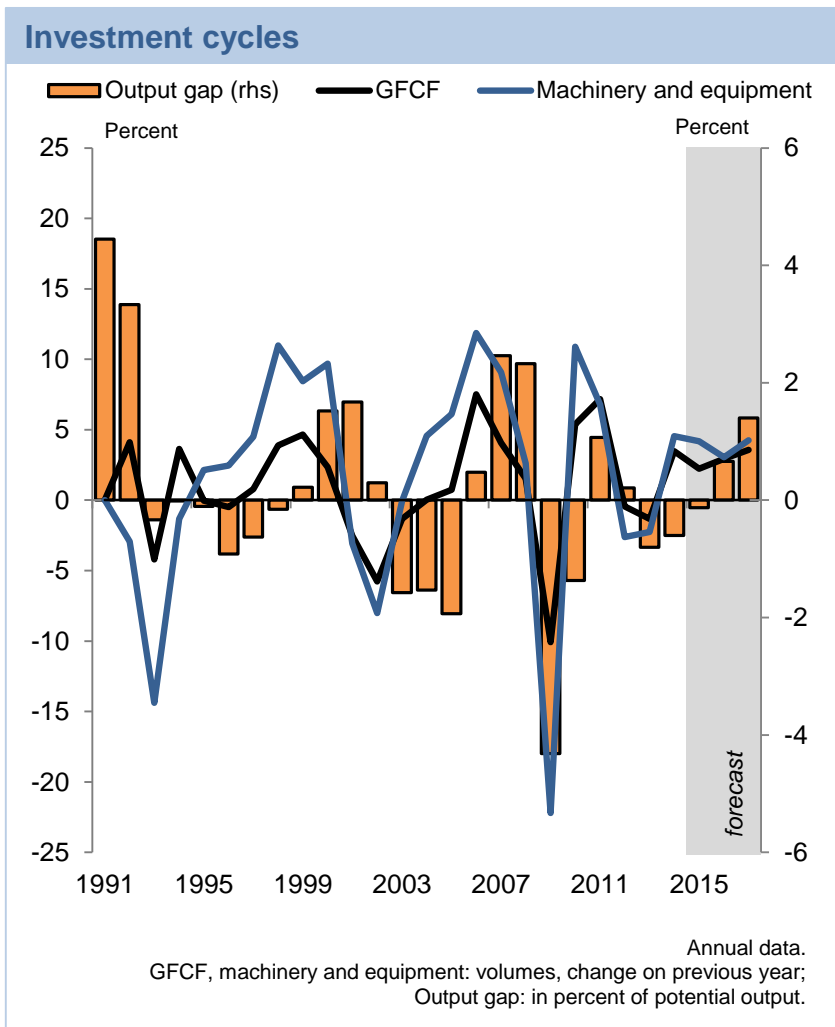
# Private households: Sources of nominal disposable income



2015 shares (segments), current prices, change over previous year (boxes).



# Gross Fixed Capital Formation and output gap



## ■ GFCF

» 2015: +2.2 %

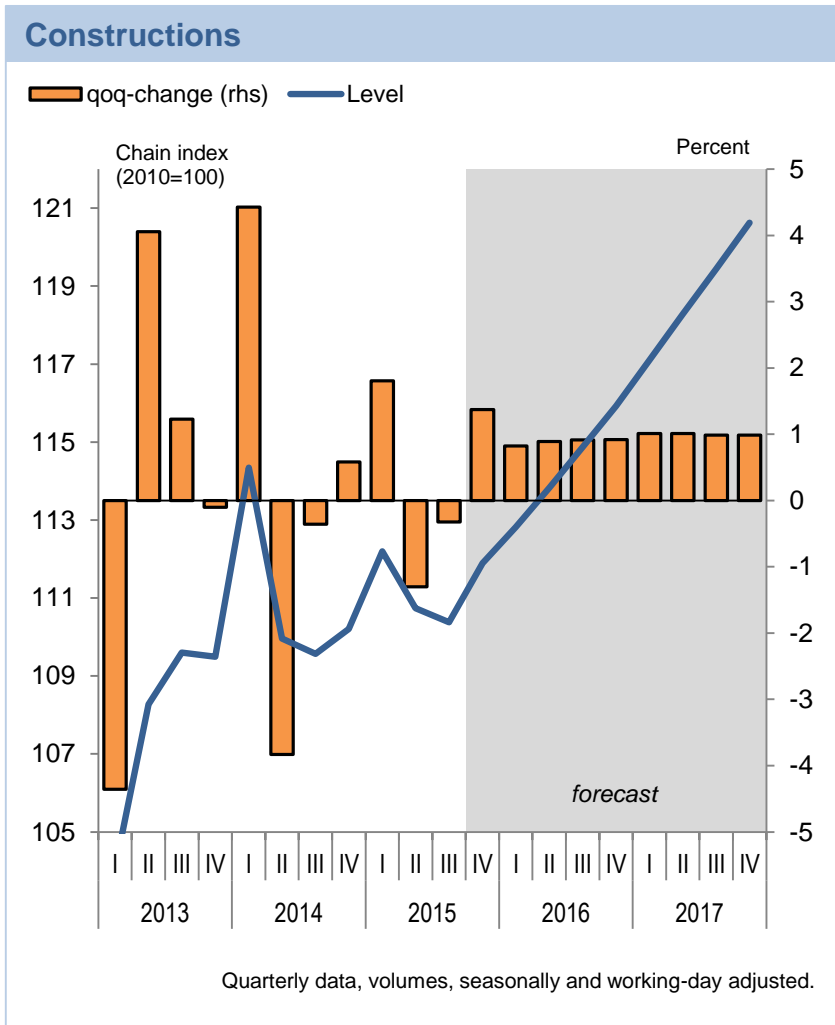
» 2016: +2.9 %

» 2017: +3.6 %

- Dwellings regain momentum
- Accelerator less pronounced than in previous cycles

⇒ **GFCF becomes second growth pillar**

# Very stimulating environment for construction activity



## ■ Constructions

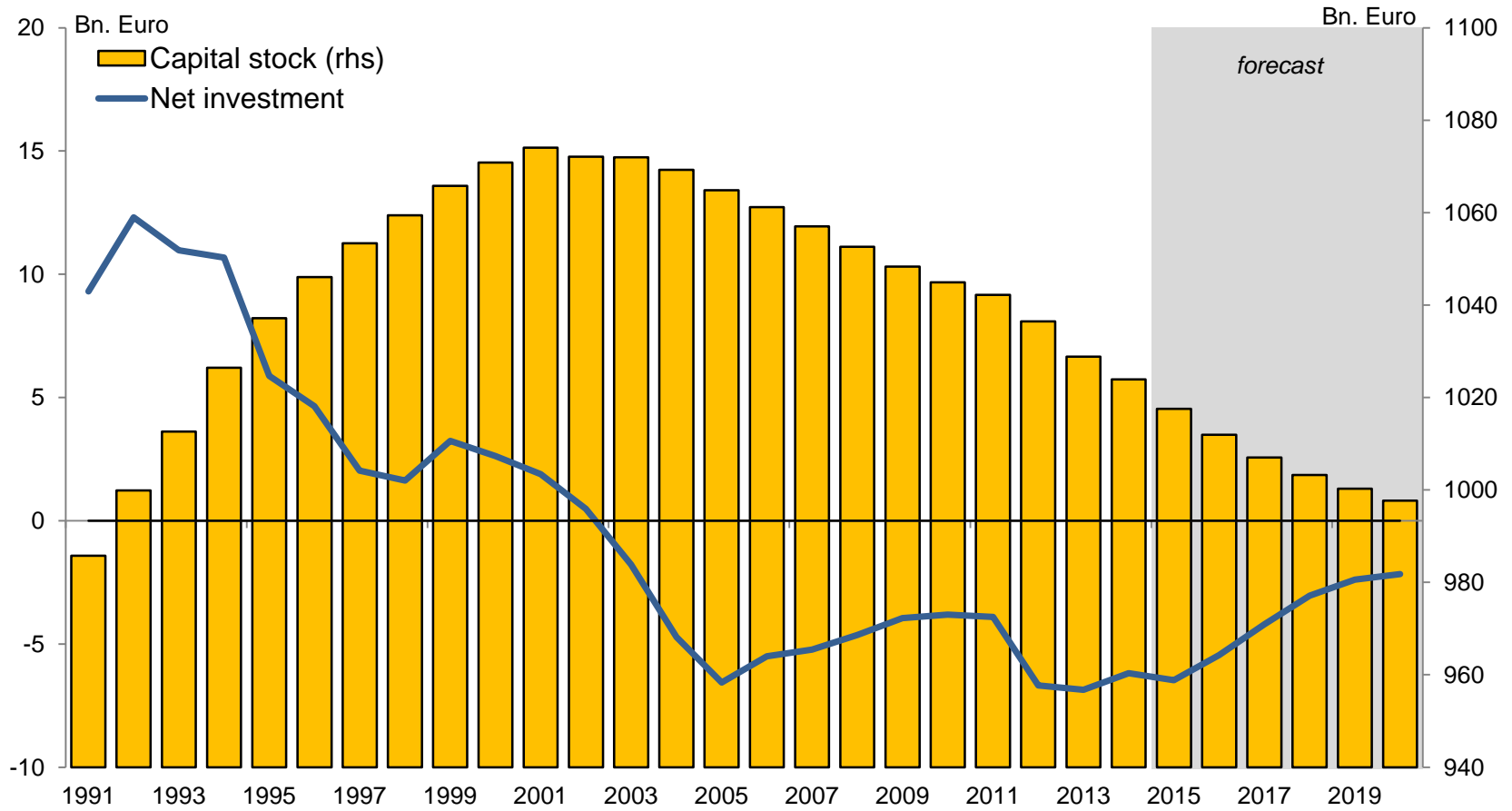
» **2015: +0.8 %**

» **2016: +3.0 %**

» **2017: +3.3 %**

- Low interest rates
- Strong income growth
- High government revenues
- Increasing capacity utilization

# Capital stock of public infrastructure

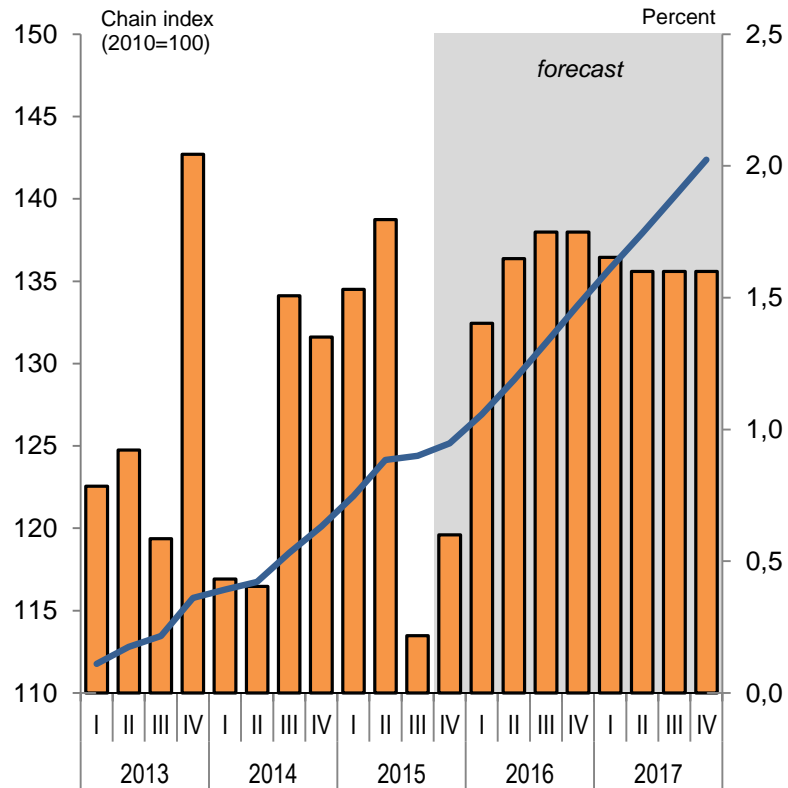


Annual data.  
 Capital stock: Net stock of fixed assets, buildings and structures except for dwellings; price-adjusted (chain linked, reference year 2010).  
 Net investment: Current prices.

# Moderate export growth

## Exports

■ qoq-change (rhs) — Level



Quarterly data, volumes, seasonally and working-day adjusted.

## ■ Exports

» 2015: +5.6 %

» 2016: +6.2 %

» 2017: +6.4 %

## ■ German export markets

» 2015: 2.1 %

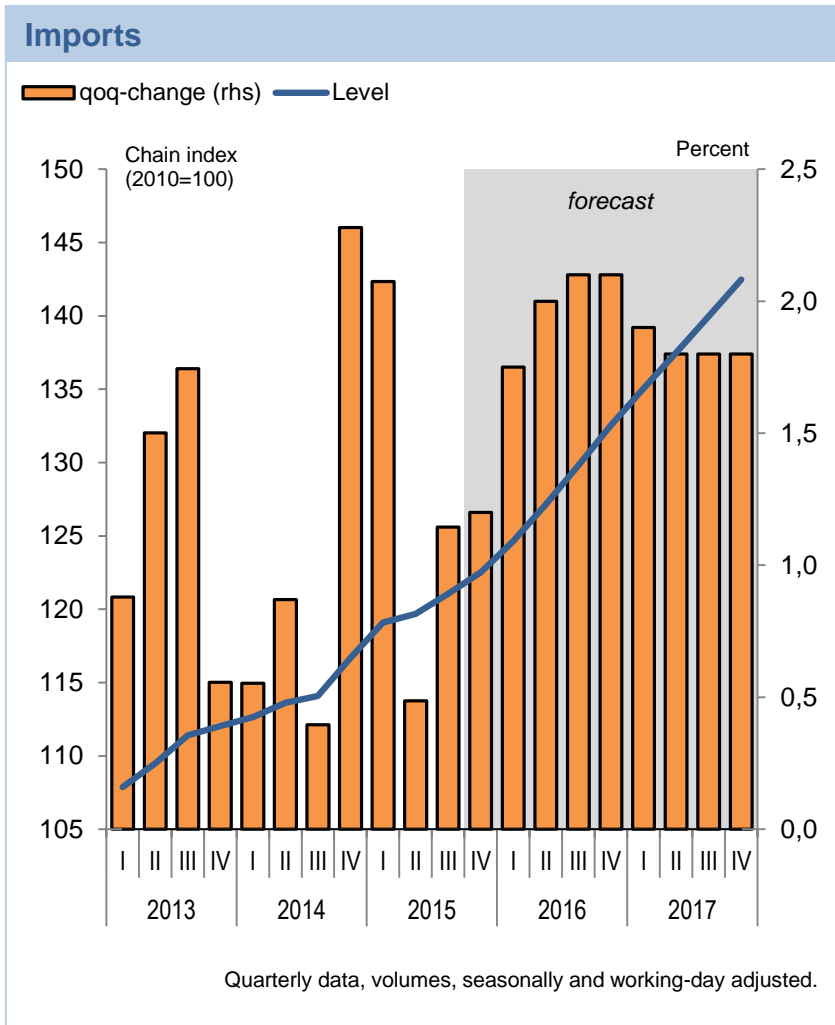
» 2016: 2.3 %

» 2017: 2.8 %

## ■ Stable price competitiveness

## ■ Recovery in euro area compensates for lower growth in emerging markets

# Imports are growing faster than exports



## ■ Imports

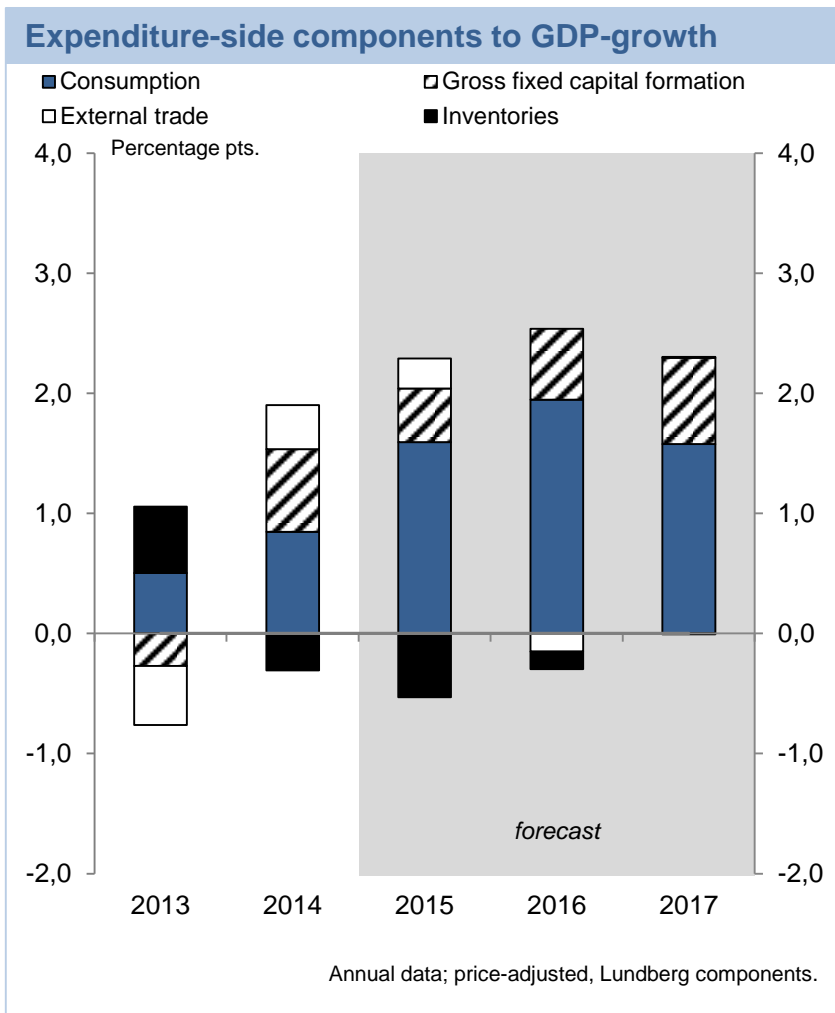
- » **2015: +6.0 %**
- » **2016: +6.7 %**
- » **2017: +7.6 %**

## ■ Terms of Trade

- » 2015: +2.6 %
- » 2016: +1.3 %
- » 2017: +0.2 %

- Imports „outperform“ exports due to domestic factors

# Expenditure-side growth contributions

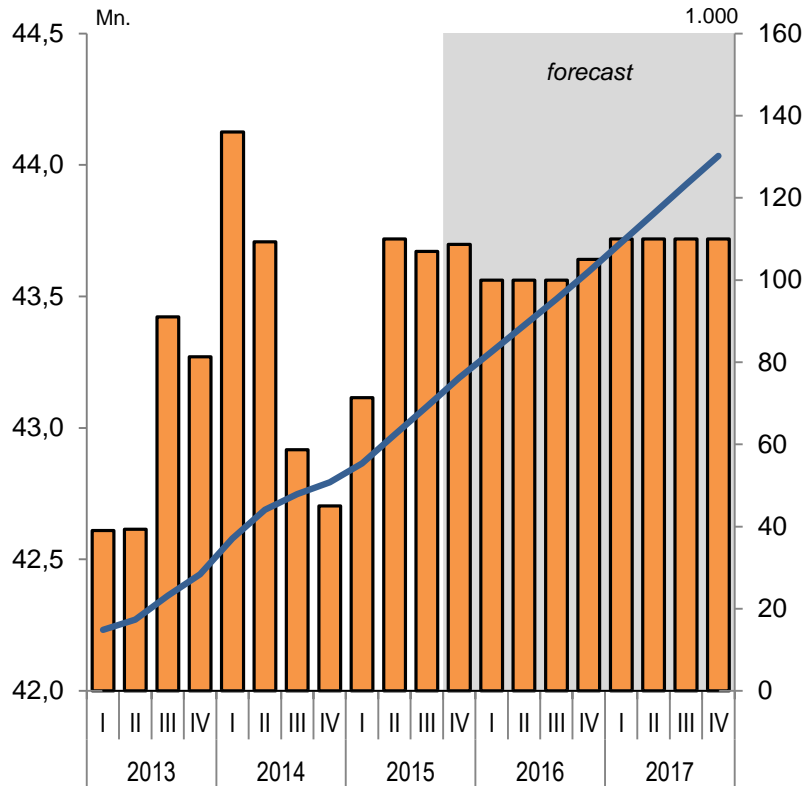


- 2015-2017: GDP growth is driven by private consumption
- 2016: GFCF to become second growth pillar
- External trade almost neutral in terms of stimulus

# Labor market remains in good shape, but net immigration stops further decrease of unemployment

## Employment

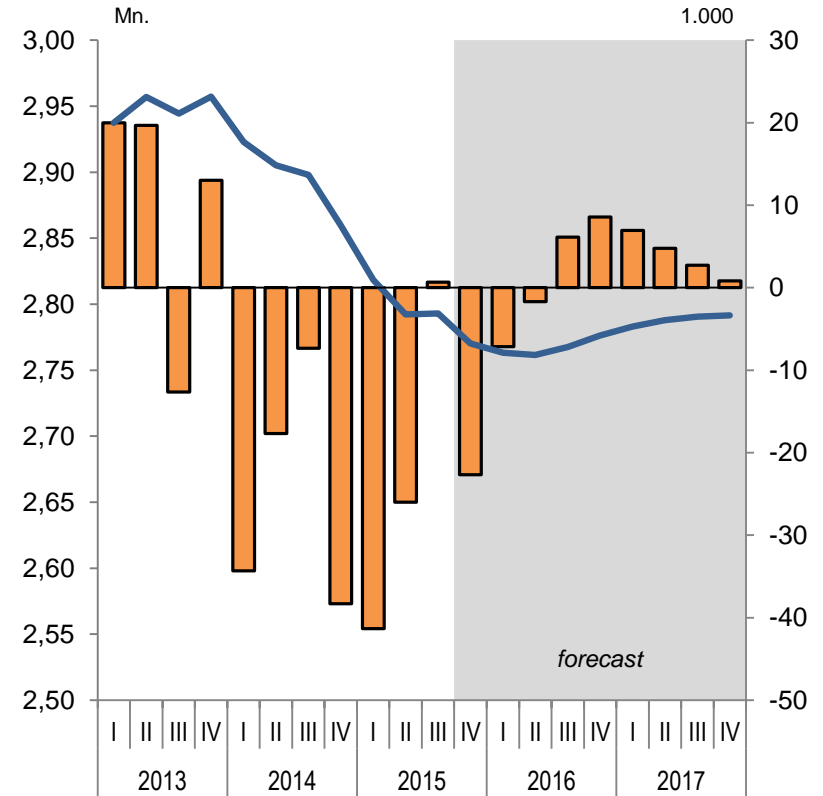
qoq-change (rhs) Level



Quarterly data, seasonally adjusted.

## Unemployment

qoq-change (rhs) Level



Quarterly data, seasonally adjusted..

## Refugee scenario

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### ■ Inflow

» 2015:	1.138.000
» 2016:	1.000.000
» 2017:	600.000

### ■ Work force

» 2015:	68.000
» 2016:	236.000
» 2017:	266.000

### ■ Employment\*

» 2015:	9.000
» 2016:	39.000
» 2017:	87.000

\*labor market integration rate: 2 percent/month

### ■ Fiscal cost (bn. Euro)

» 2015:	6
» 2016:	24
» 2017:	28

### ■ Non-Employment

» 2015:	59.000
» 2016:	197.000
» 2017:	180.000



# Overview

## Key indicators 2014–2017

	2014	2015	2016	2017
Gross domestic product (GDP), price-adjusted	1,6	1,8	2,2	2,3
Gross domestic product, deflator	1,7	2,0	1,8	1,8
Consumer prices	0,9	0,2	1,2	1,8
Labor productivity (per hour worked)	0,4	0,6	1,2	1,4
Employment (1000 persons)	42.703	43.028	43.441	43.870
Unemployment rate (percent)	6,7	6,4	6,3	6,3
<i>in relation to nominal GDP</i>				
Public sector net lending	0,3	0,9	0,1	0,2
Gross public debt	74,9	70,9	68,2	64,7
Current account balance	7,4	8,5	8,7	8,5

GDP, consumer prices, labor productivity: percentage change on previous year; unemployment rate: as defined by the Federal Employment Agency.

Source: Federal Statistical Office, *Fachserie 18, Series 1.2*; Federal Employment Agency, *Monthly Bulletin*; Federal Employment Agency, *Employment Statistics*; shaded: IfW forecast.

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