

DIW Berlin

Deutsches Institut
für Wirtschaftsforschung

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AMF Pension Berlin Meetings 2006

Germany 2006 New government, new agenda?

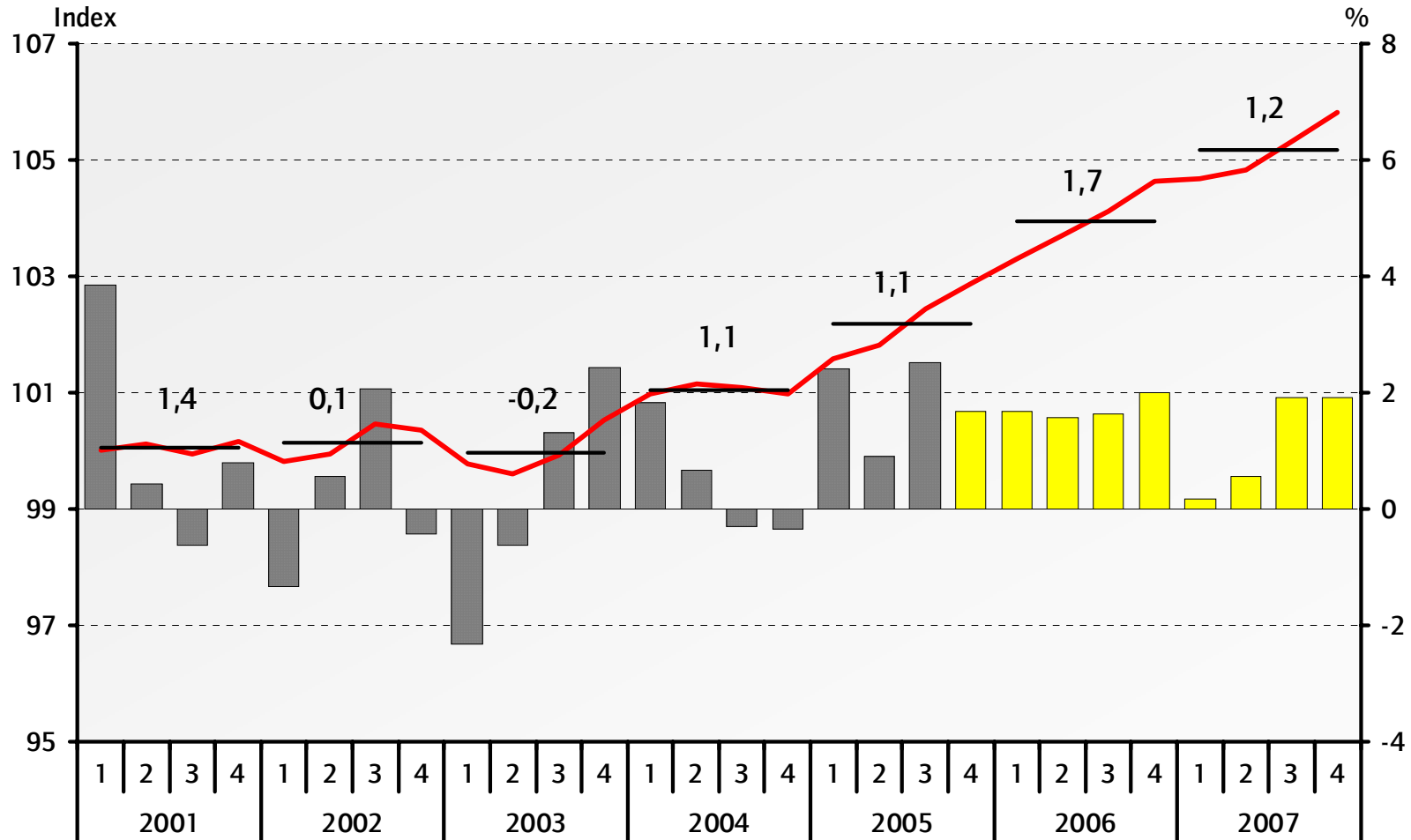
Prof. Dr. Alfred Steinherr

Dr. Stefan Kooths

DIW Berlin - Macro Analysis and Forecasting

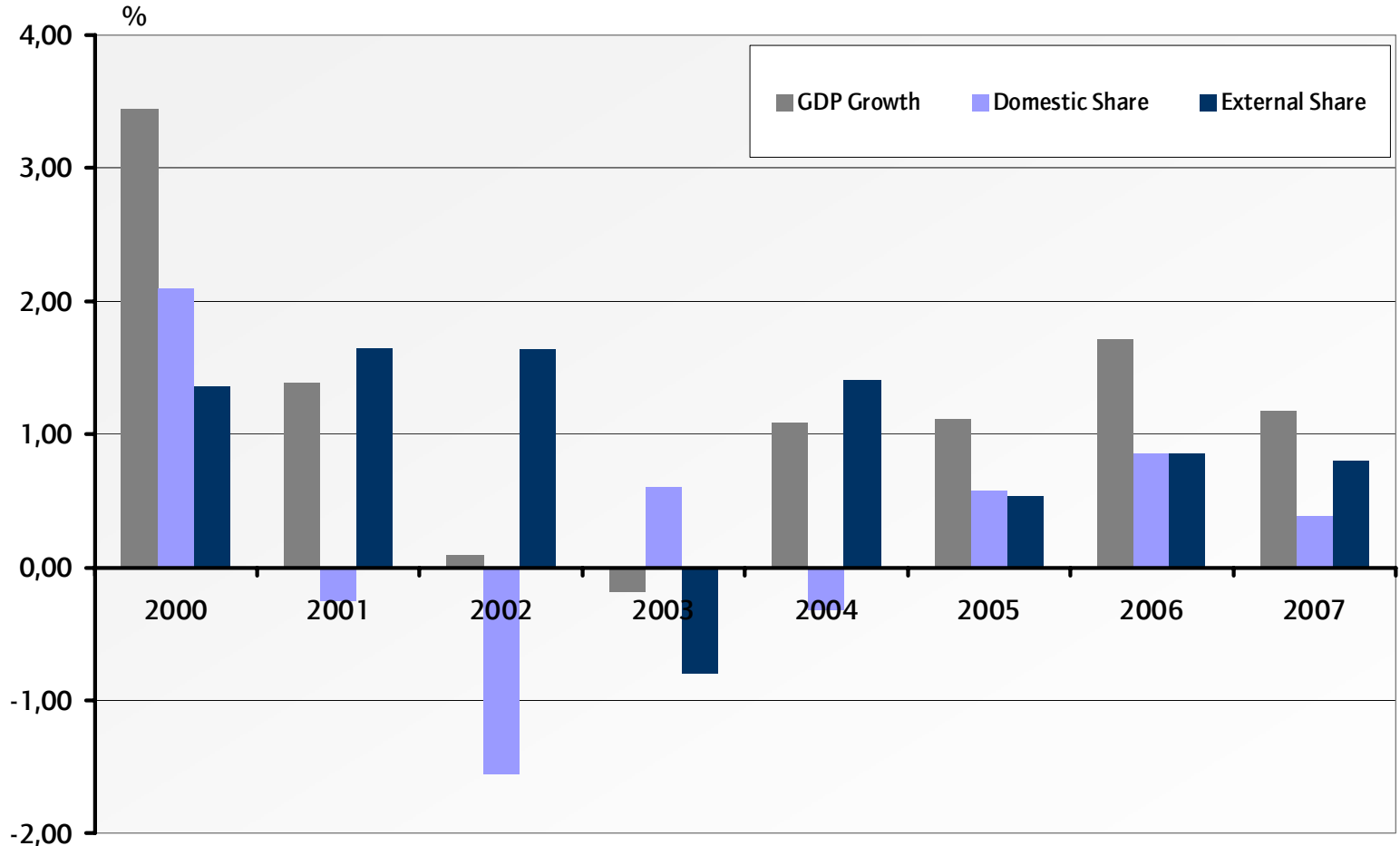
German growth perspective 2006-2007

(annualized) GDP growth rate in %, working-day adjusted



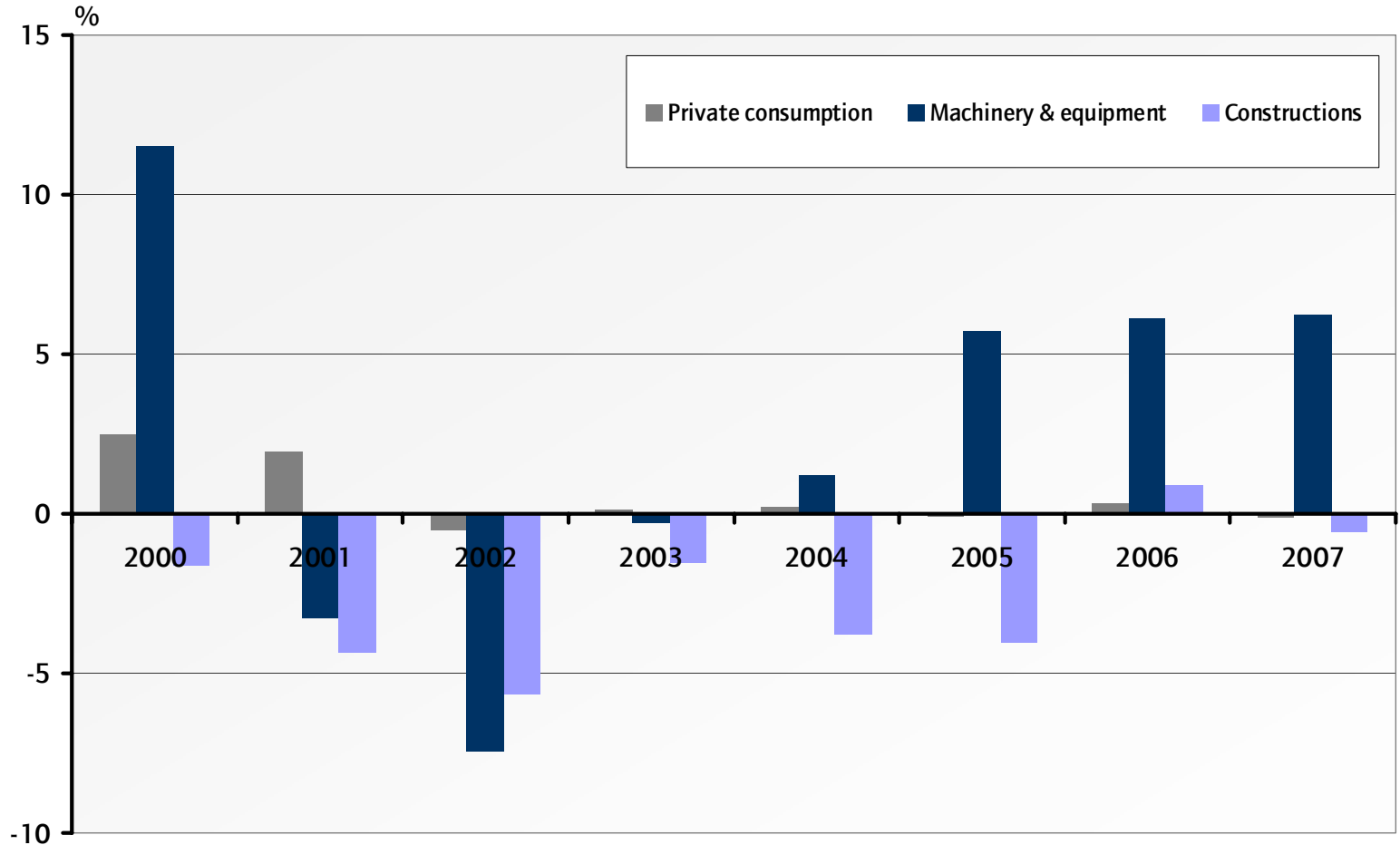
Domestic upturn in 2006, but export surplus still important

GDP growth rate and components growth shares in %, working-day adjusted



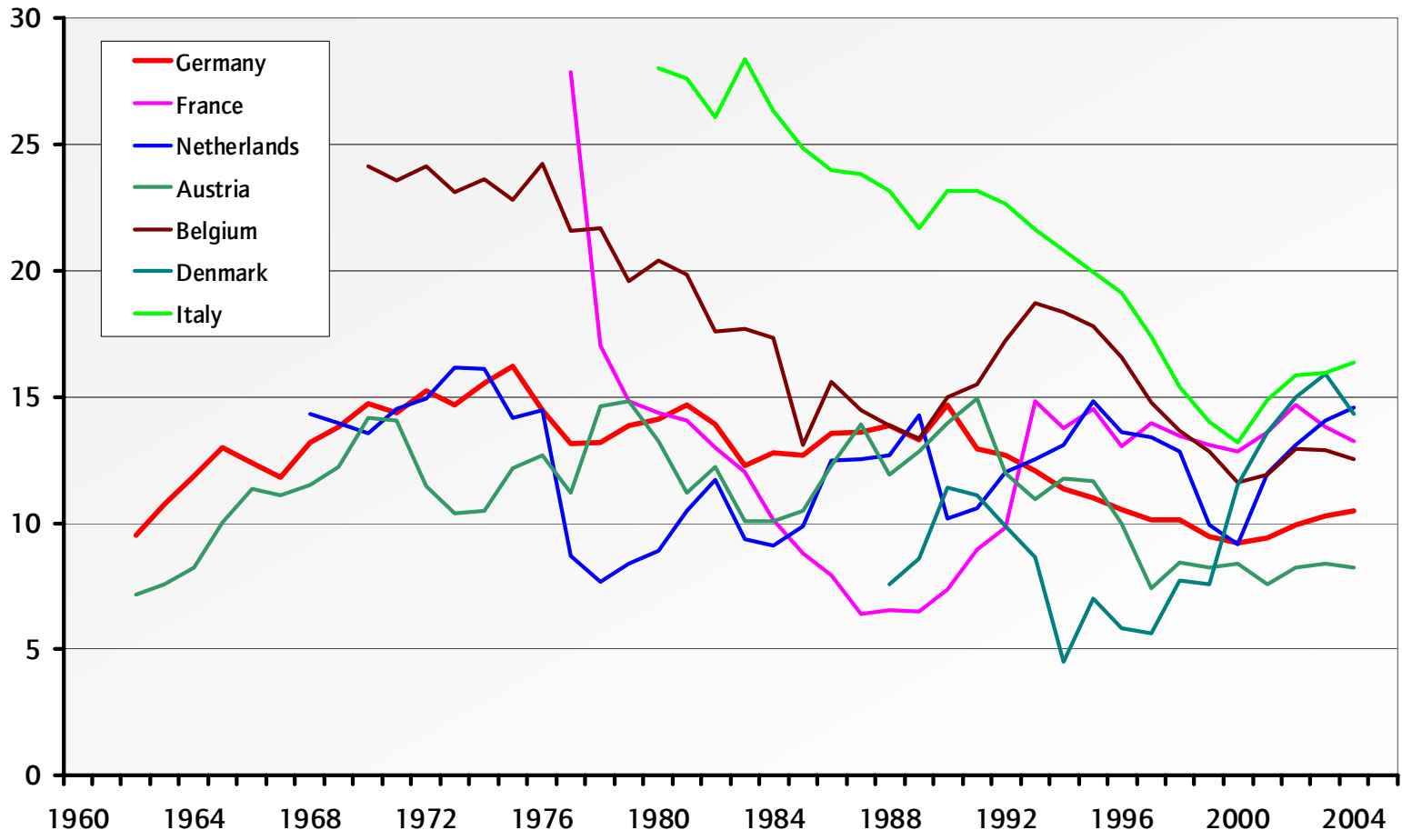
Domestic demand fueled by M&E investment

Growth rates in %, working-day adjusted



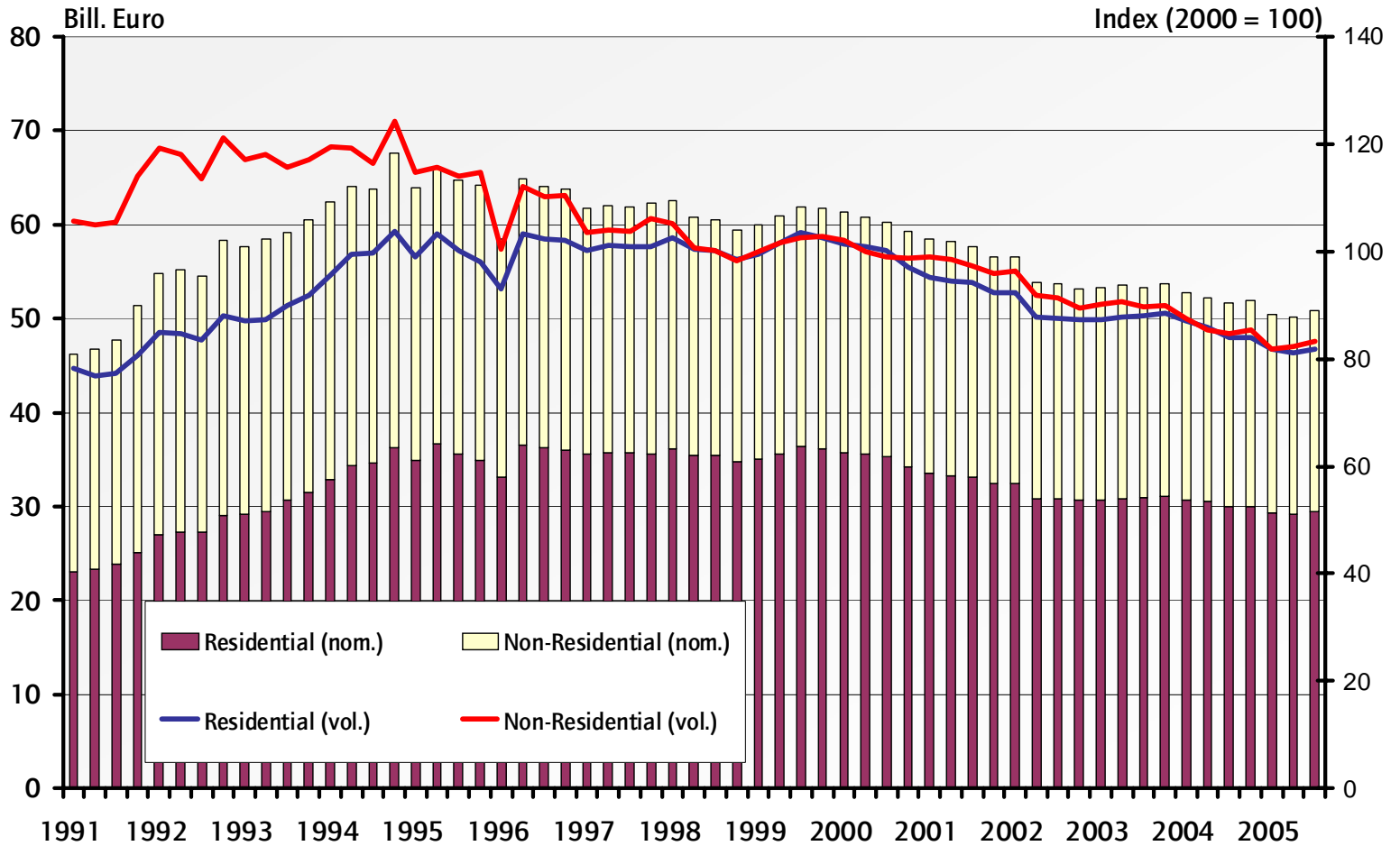
Historic and cross-country view: German saving rate not that high at last

Household saving rates in %



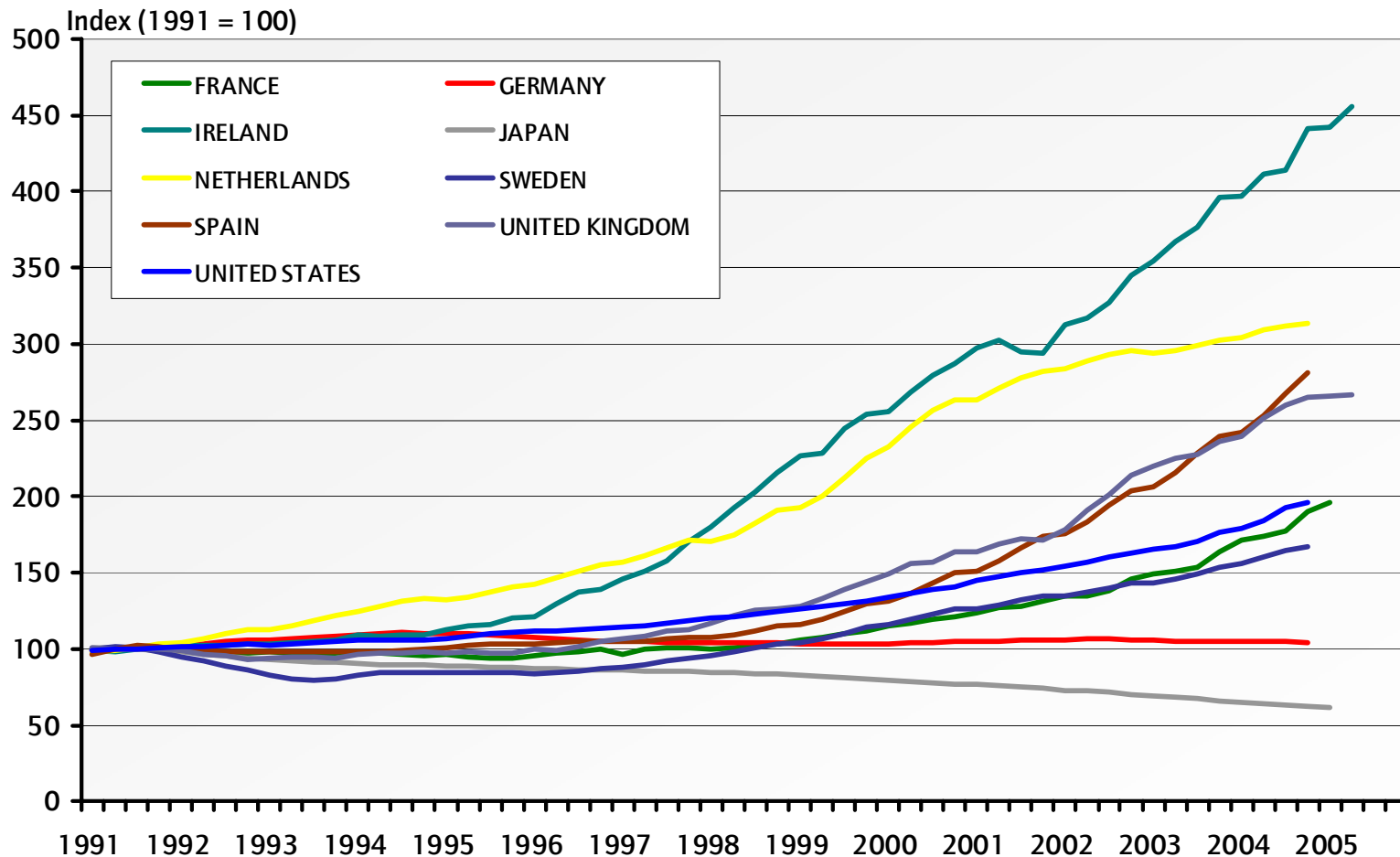
German housing market Decline for more than 10 years

Construction investment (seasonal and working-day adjusted)



Cross-country view on housing prices

Housing price index (Src: NiGEM)



Effects of fiscal restraint measures

	2007	2008	2009
Domestic demand (bill. Euro)	-23,6	-26,1	-31,3
GDP (bill. Euro)	-11,3	-14,5	-16,0
Inflation (percentage points)	+0,9	+0,8	+0,6
Fiscal deficit (bill. Euro)	-21,8	-22,1	-23,4

Major assumptions

- ECB main financing rate: 2,5 %
- Oil price: 60 USD
- Exchange rate: 1,20 USD/Euro
- World trade: +6,5 % (2006) +5,5 % (2007)
- Standard wage rate: +1,1 % (= +0,5 % effectively)

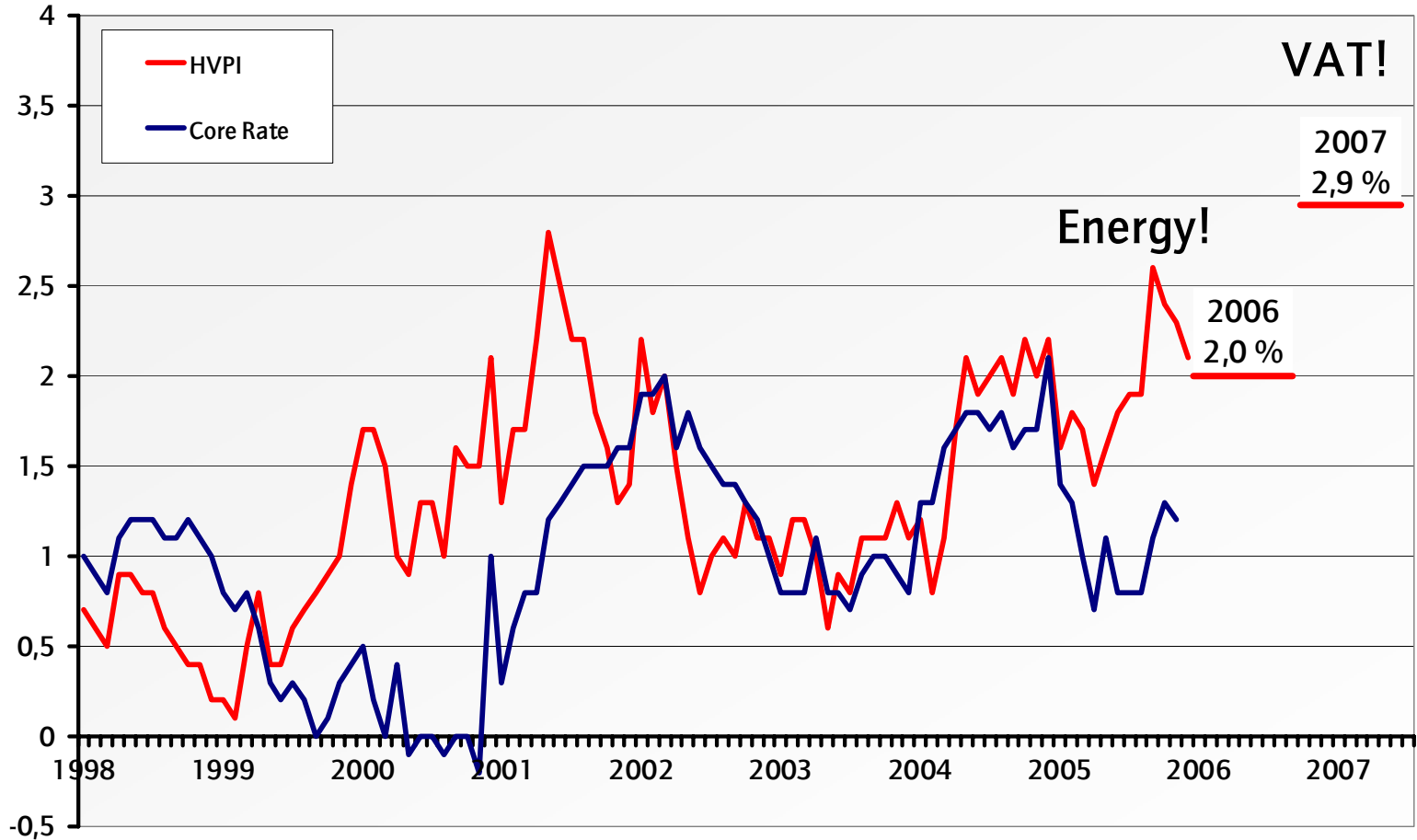
Risk Scenarios

in percentage points

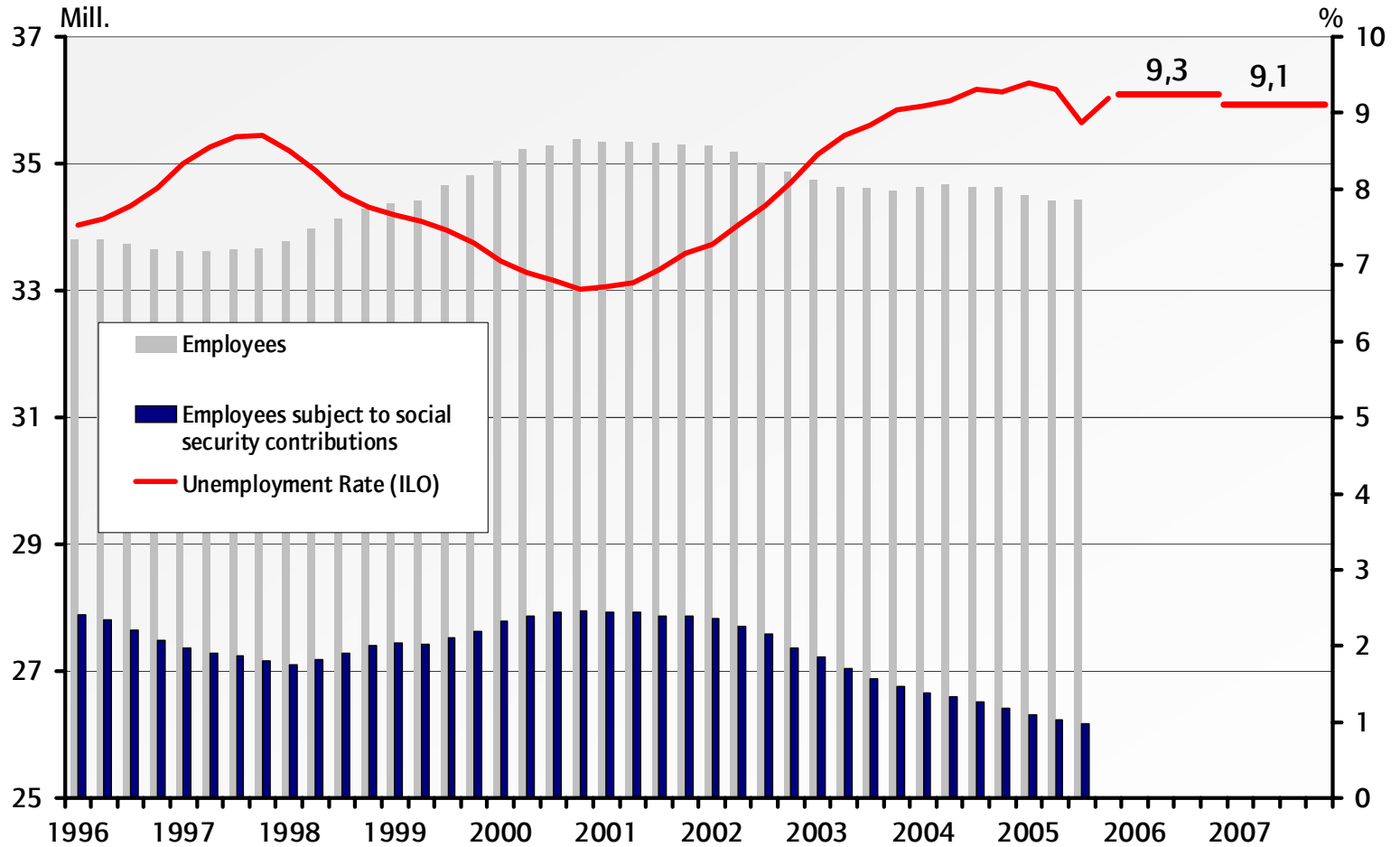
	2006	2007	2008	2006-2008
Oil price increase (+ 30 USD/barrel)				
GDP	-0,4	-0,4	-0,5	-1,3
Inflation	0,6	0,3	0,0	0,8
Euro revaluation (1,50 USD/Euro)				
GDP	-0,5	-0,5	0,0	-1,0
Inflation	-0,3	-0,2	-0,1	-0,6
ECB monetary tightening (+100 basis points)				
GDP	-0,7	-0,6	-0,5	-1,8
Inflation	-0,1	-0,1	-0,3	-0,5
Nominal wealth loss (- 20 %)				
GDP	-0,3	-0,3	-0,2	-0,8
Inflation	0,0	-0,1	-0,2	-0,3

Inflation driven by exogenous factors

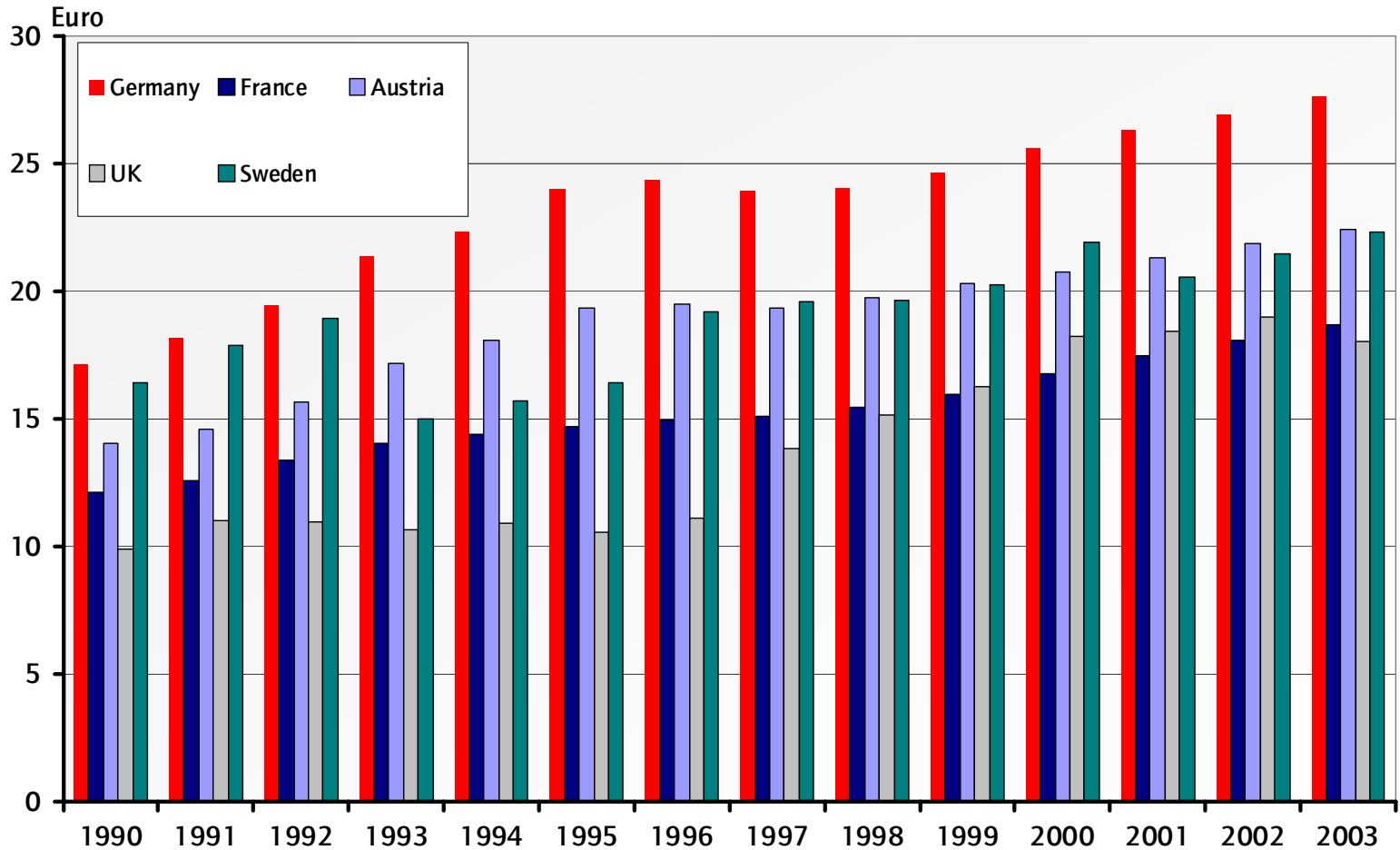
German HVPI and core inflation rate in %



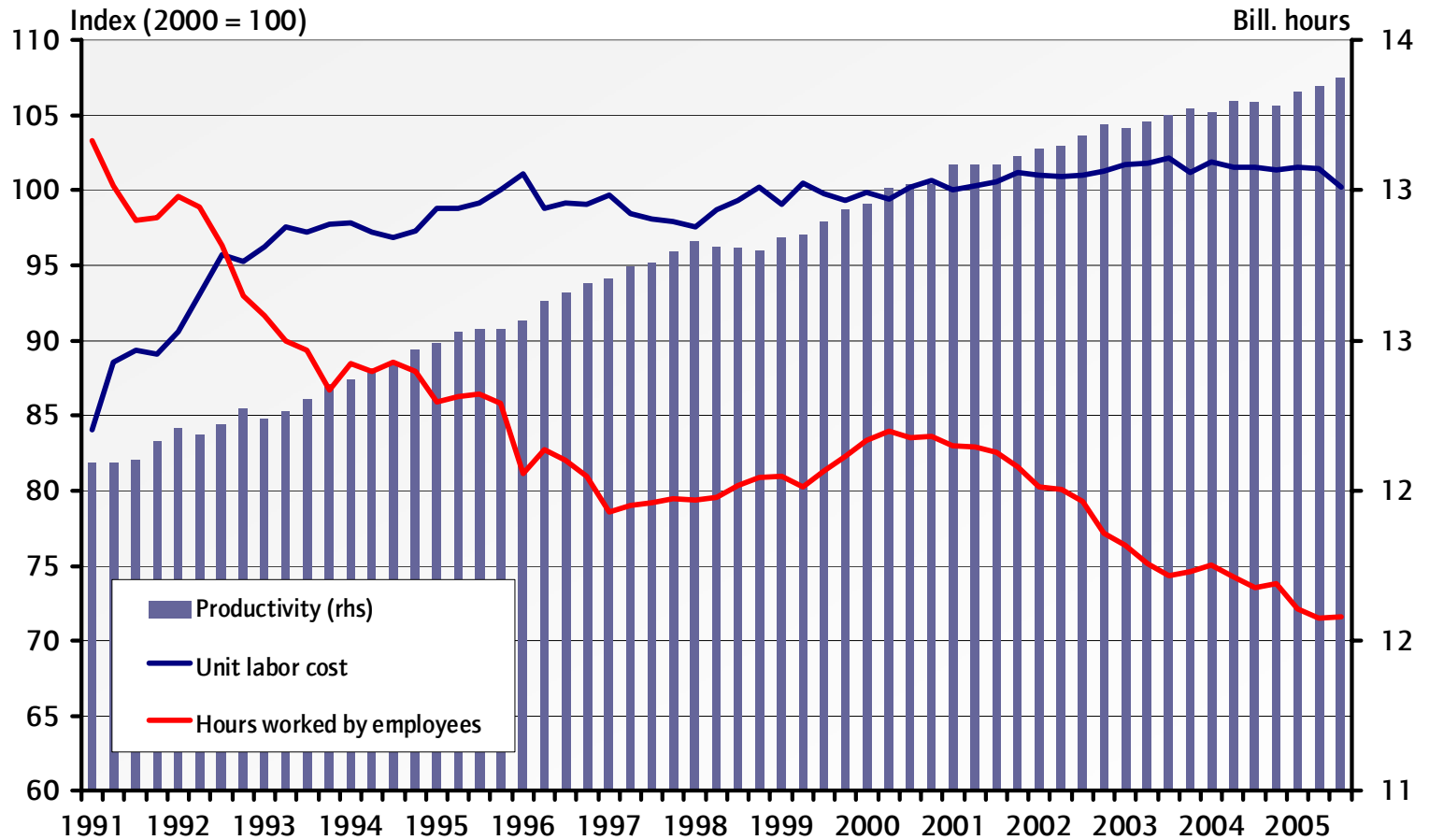
Labor market calls for action



Hourly labor costs: Germany beats them all



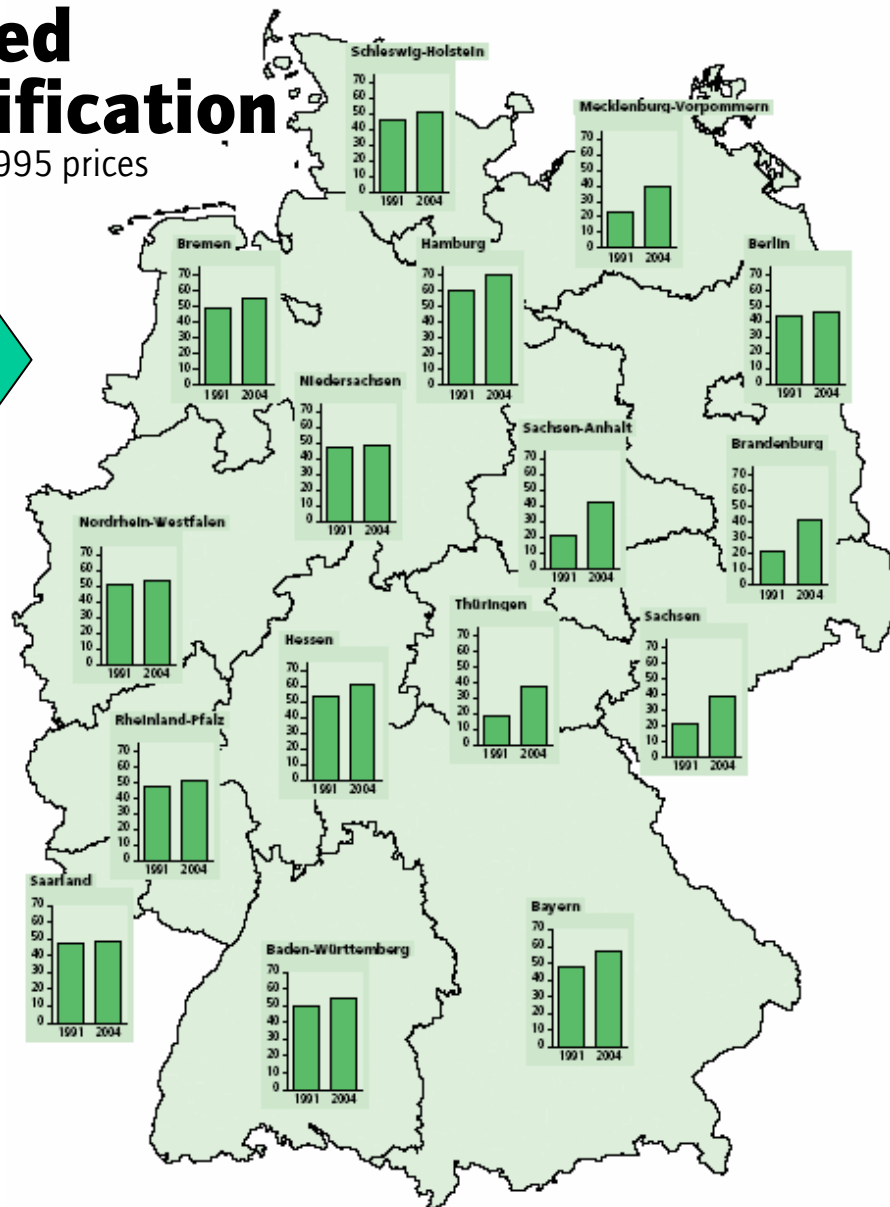
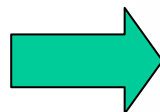
Productivity whip at work



Germany still devided 15 years after reunification

GDP per total employment in TSD Euros at 1995 prices

- **Labor productivity**
 - West: 55.110 €
 - East: 39.486 €
- **Employment**
1991 ⇨ 2004
 - West: + 4 %
 - East: – 16 %
- **Gross fixed assets**
1991 ⇨ 2002
 - West: + 25 %
 - East: + 108 %
- **Capital productivity**
1991 ⇨ 2002
 - West: 211 ⇨ 192
 - East: 231 ⇨ 171



Erosion of the Eastern cost disadvantage – finally, but at a productivity distance

West Germany = 100

