

**DIW** Berlin

Deutsches Institut  
für Wirtschaftsforschung

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SBAB Berlin Meeting 2006

**Germany 2006**  
**New government, new agenda?**

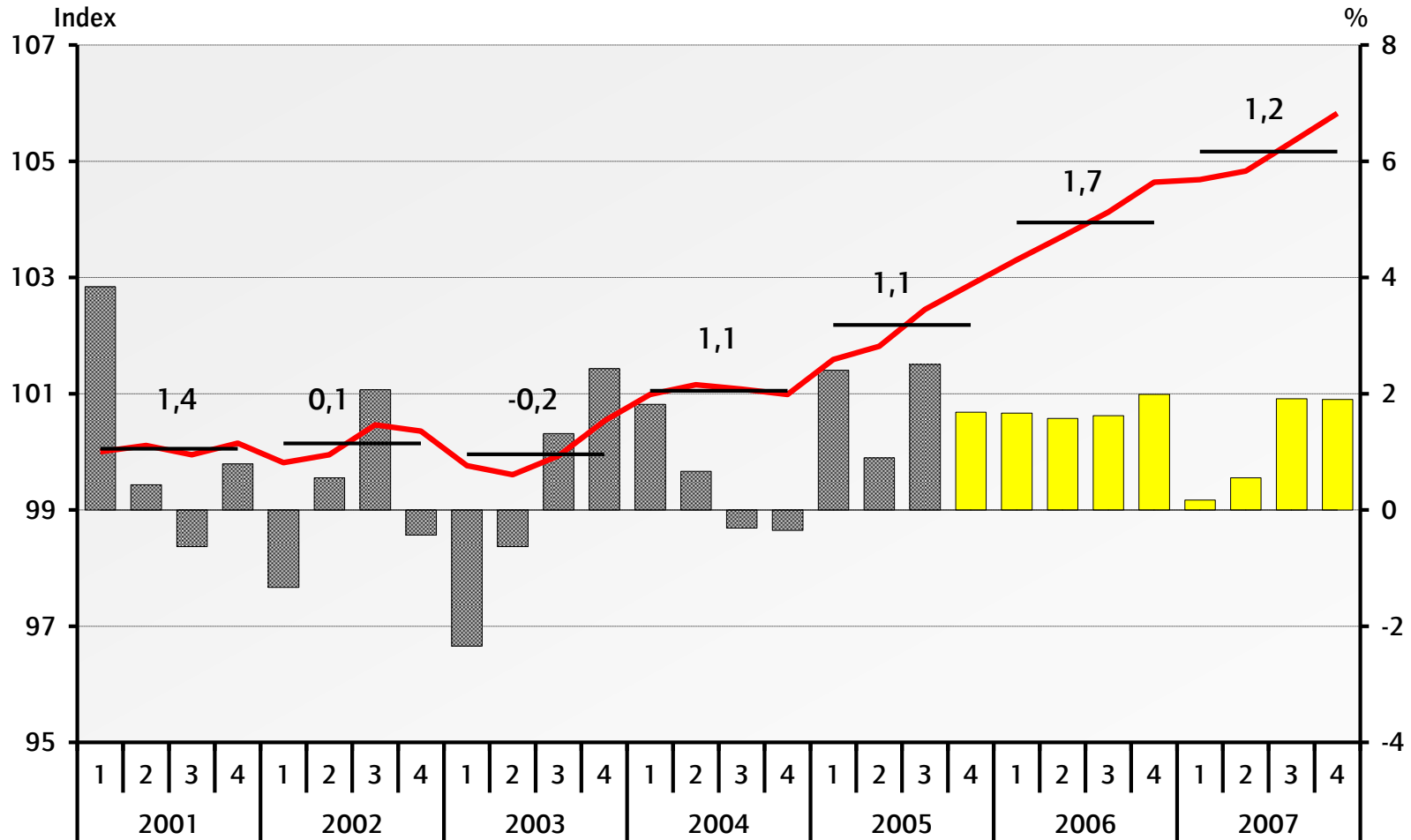
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**Dr. Stefan Kooths**

DIW Berlin - Macro Analysis and Forecasting

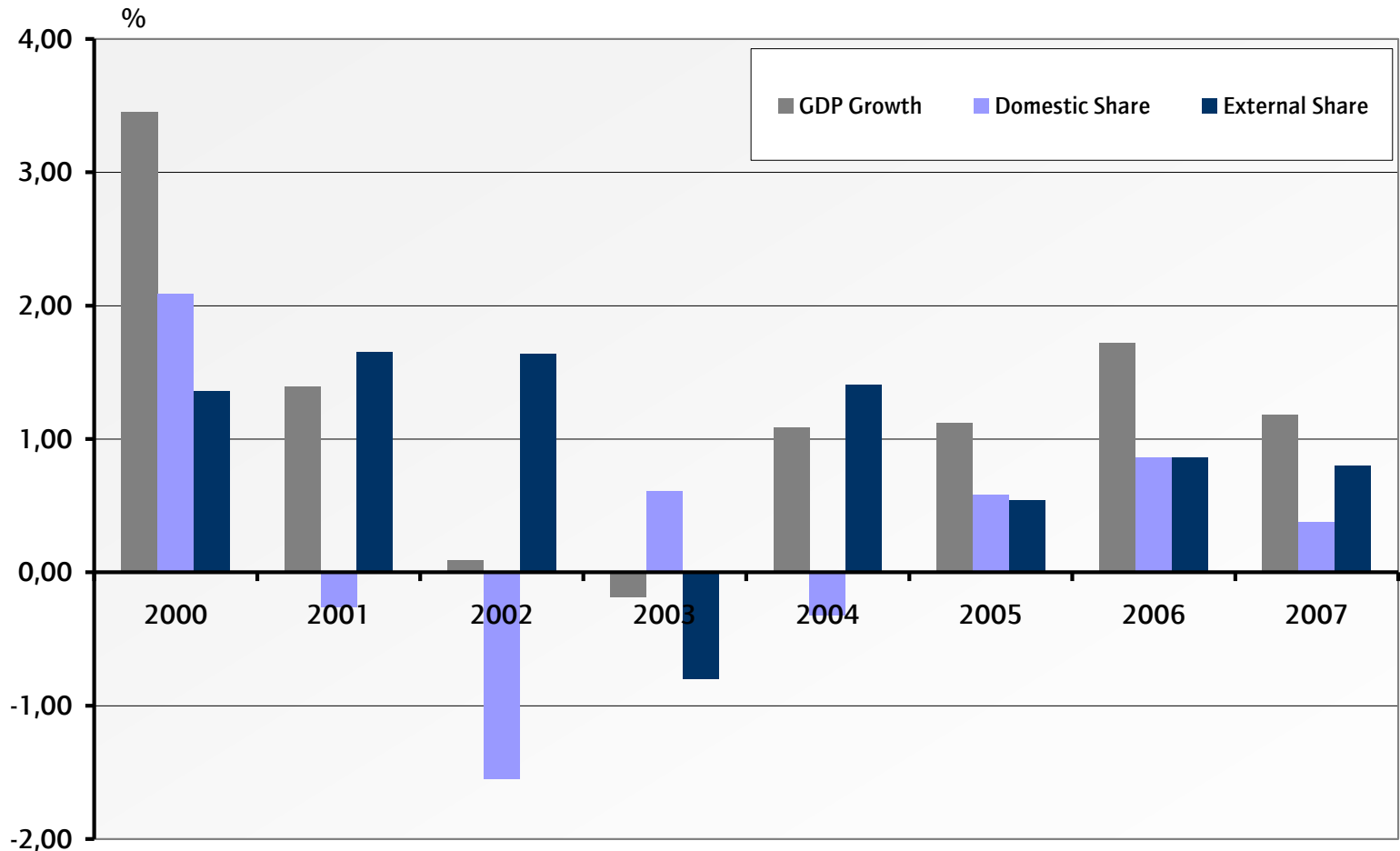
# German growth perspective 2006-2007

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



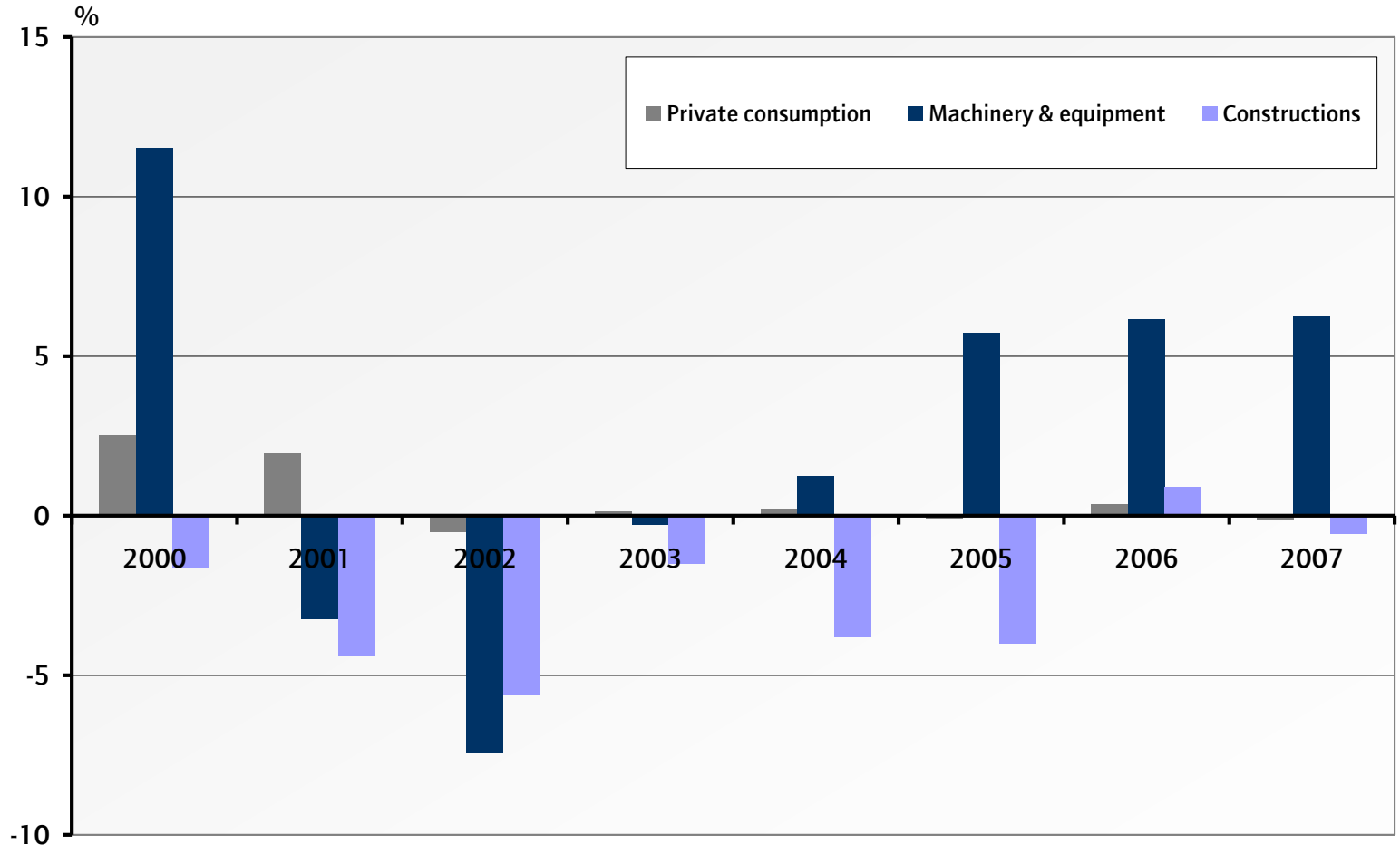
# Domestic upturn in 2006, but export surplus still important

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



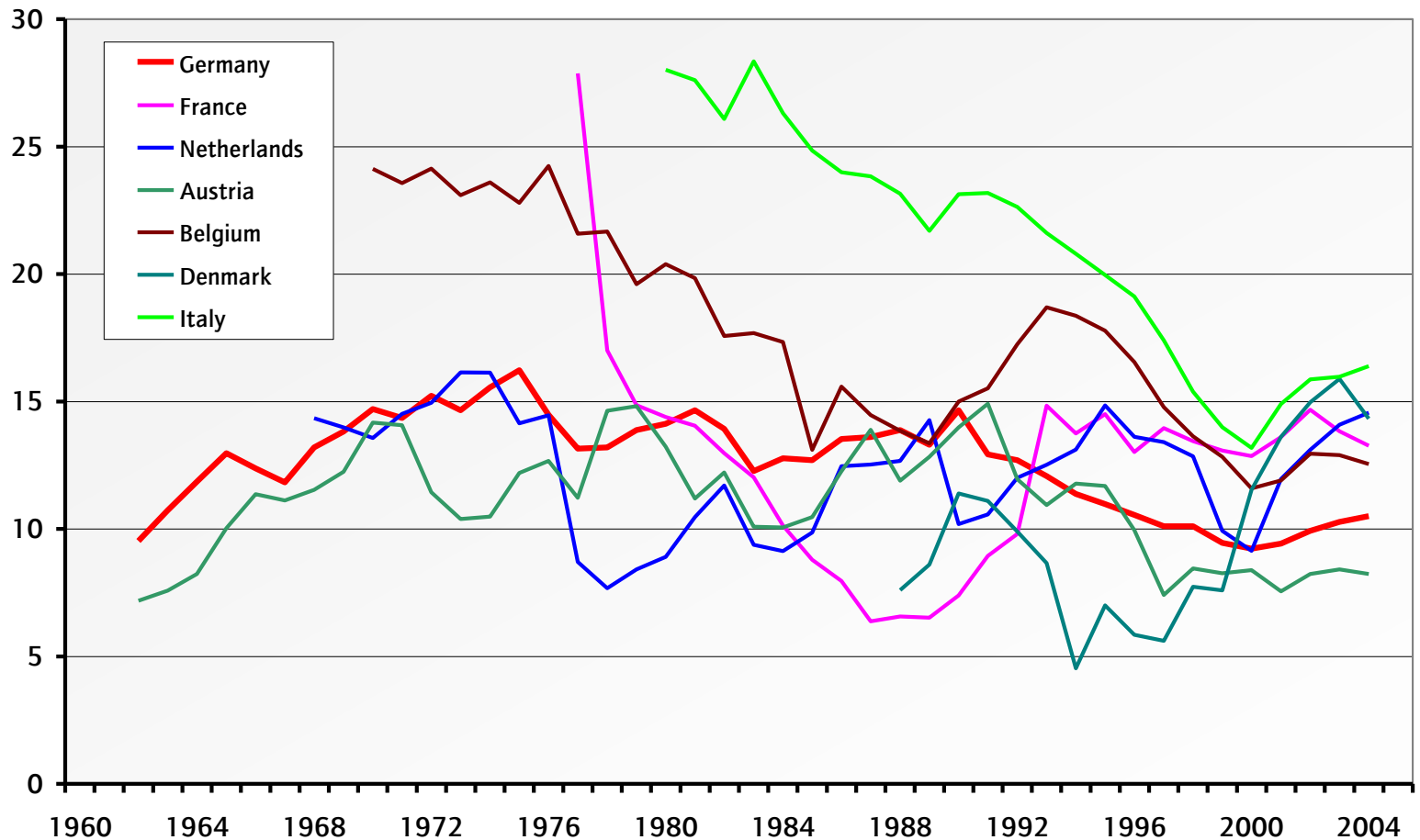
# Domestic demand fueled by M&E investment

Growth rates in %, working-day adjusted



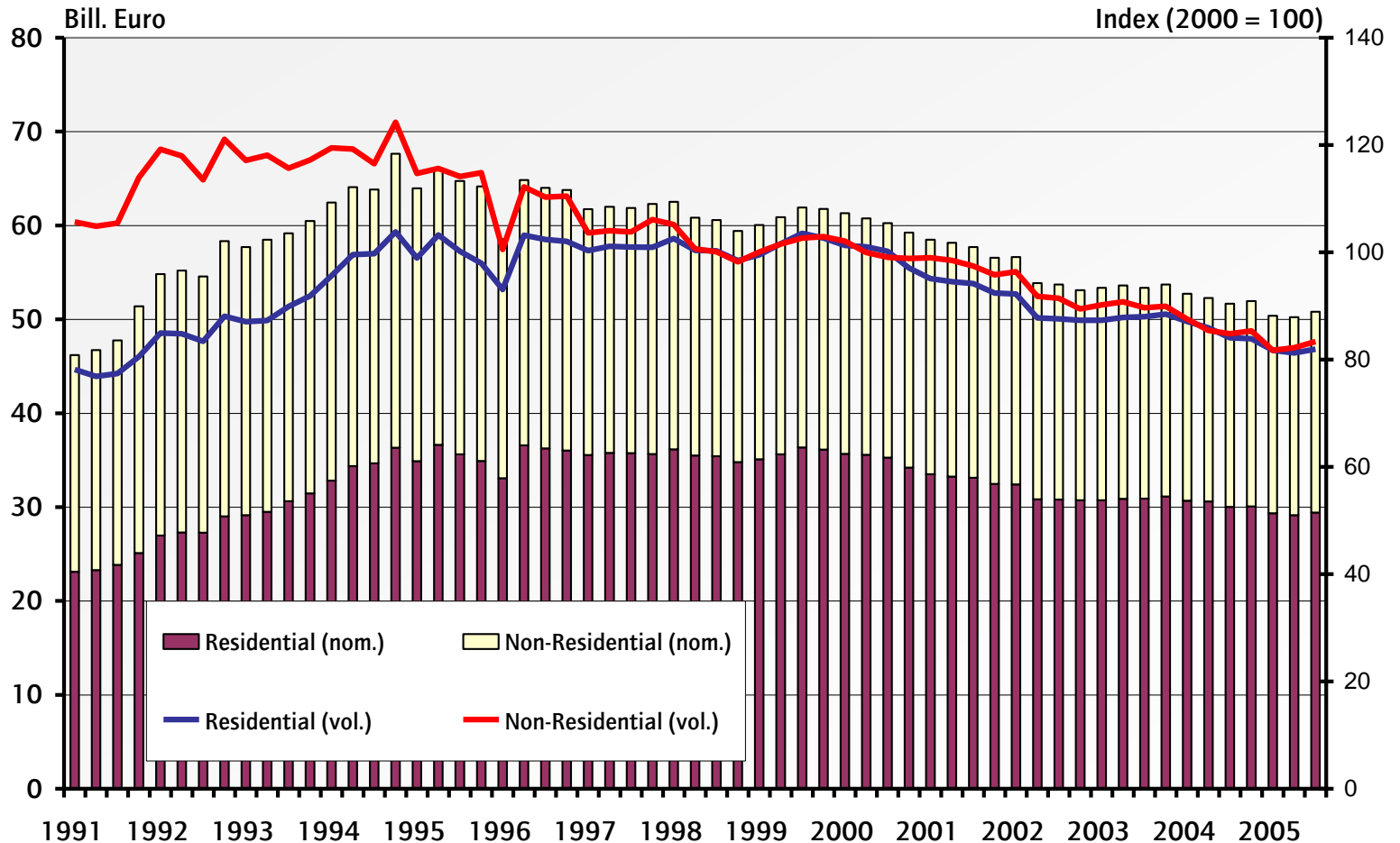
# Historic and cross-country view: German saving rate not that high at last

Household saving rates in %



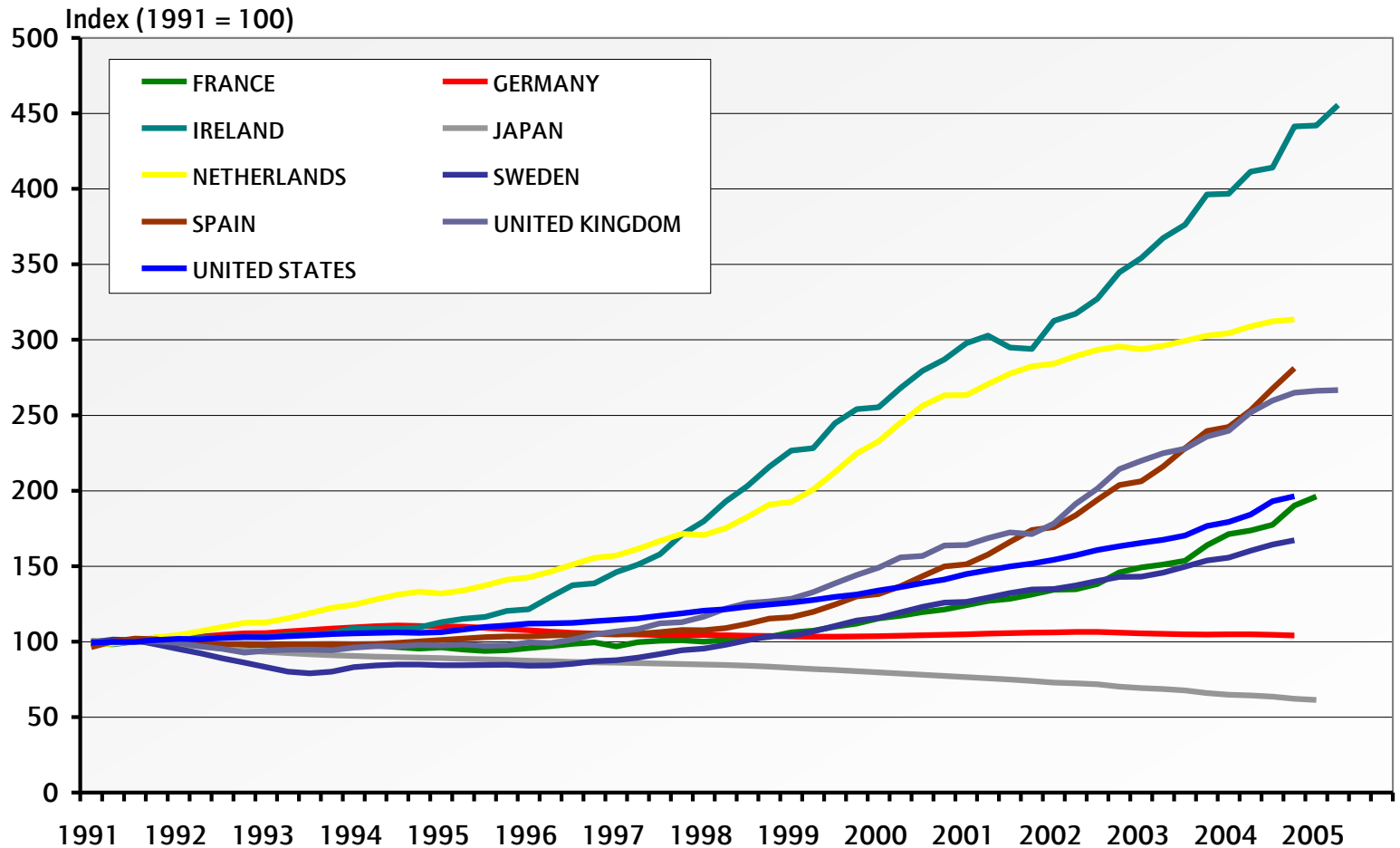
# German housing market Decline for more than 10 years

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
<b>Domestic demand (bill. Euro)</b>	-23,6	-26,1	-31,3
<b>GDP (bill. Euro)</b>	-11,3	-14,5	-16,0
<b>Inflation (percentage points)</b>	+0,9	+0,8	+0,6
<b>Fiscal deficit (bill. Euro)</b>	-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)

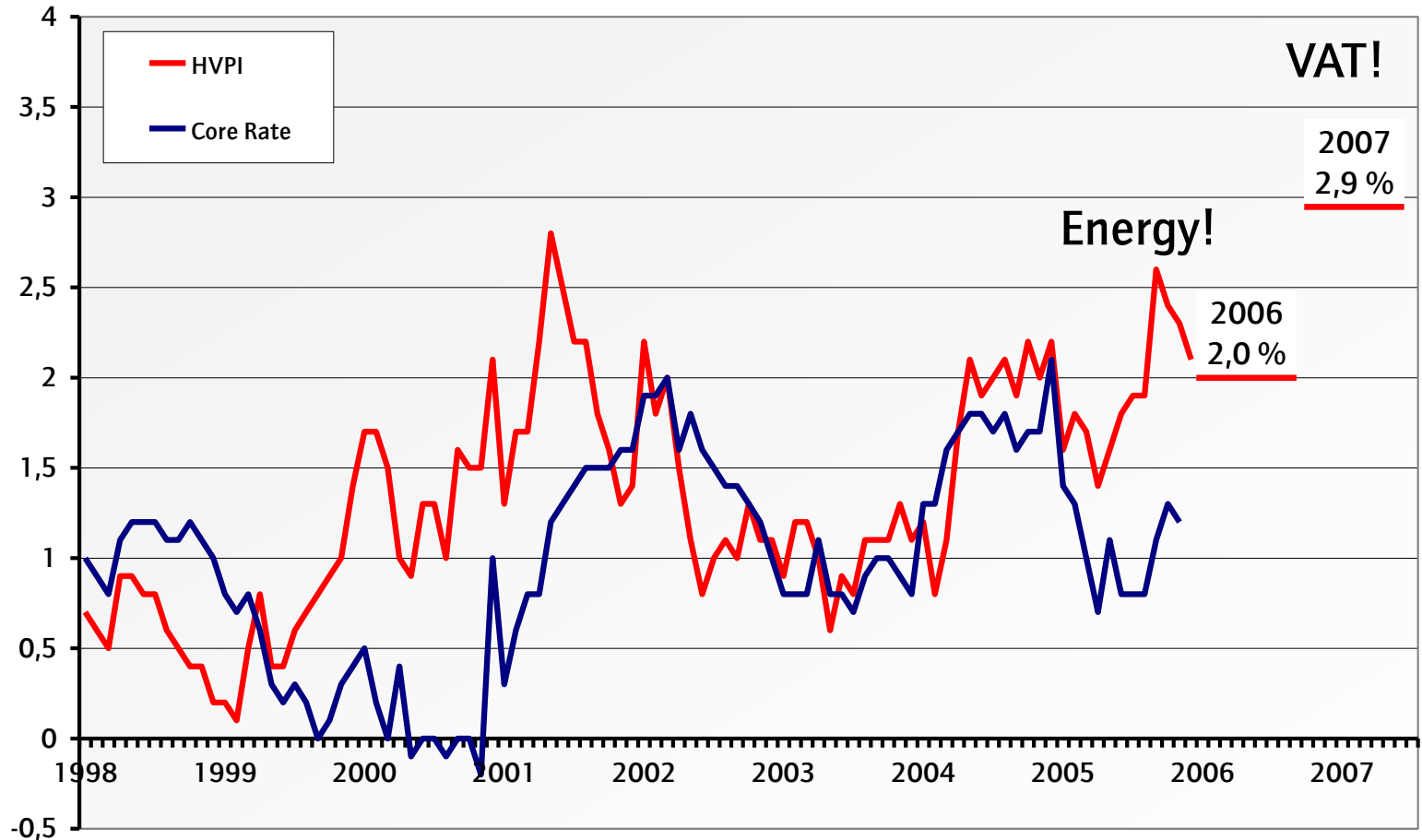
# Risk Scenarios

in percentage points

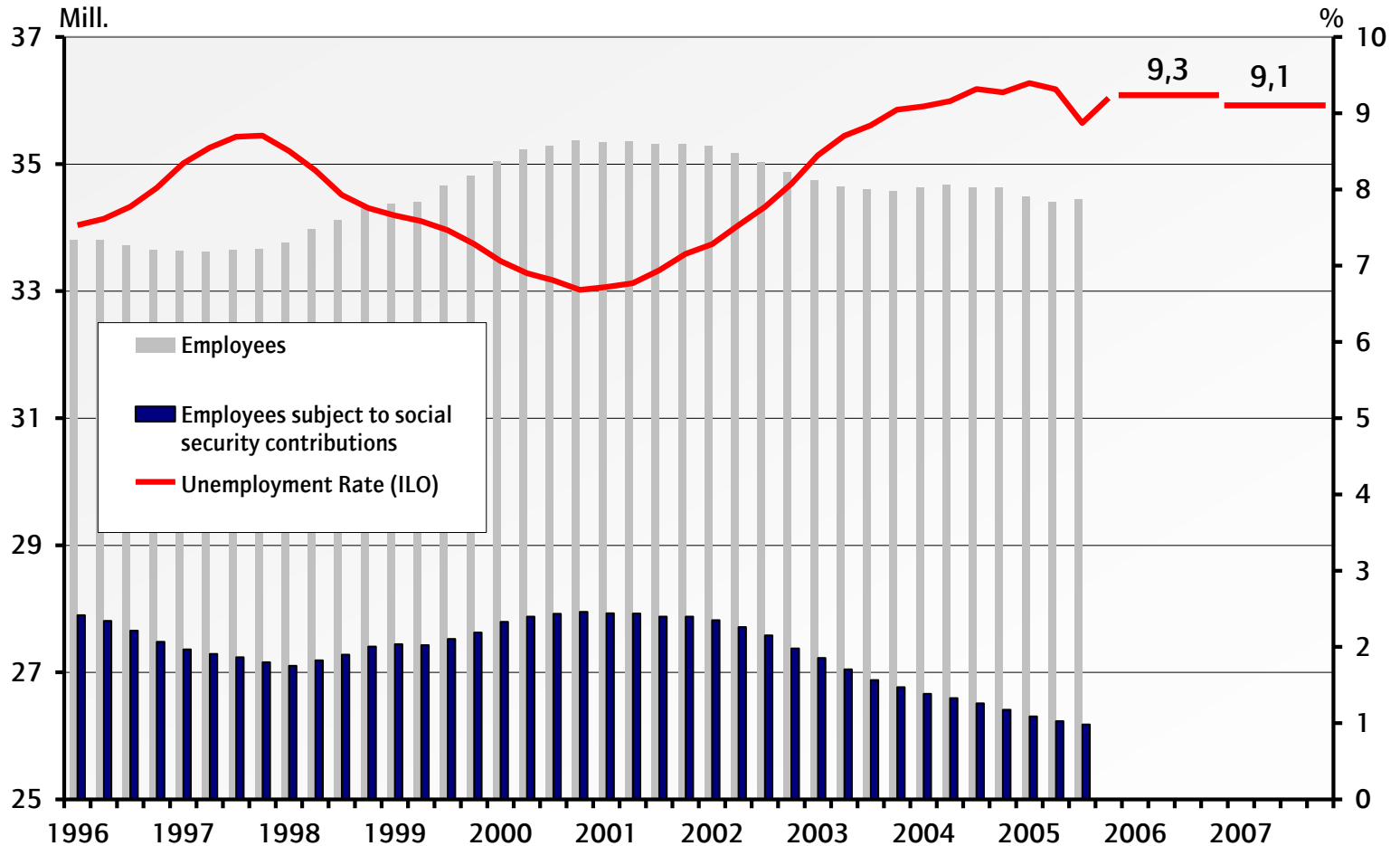
	2006	2007	2008	2006-2008
<b>Oil price increase (+ 30 USD/barrel)</b>				
GDP	-0,4	-0,4	-0,5	-1,3
Inflation	0,6	0,3	0,0	0,8
<b>Euro revaluation (1,50 USD/Euro)</b>				
GDP	-0,5	-0,5	0,0	-1,0
Inflation	-0,3	-0,2	-0,1	-0,6
<b>ECB monetary tightening (+100 basis points)</b>				
GDP	-0,7	-0,6	-0,5	-1,8
Inflation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

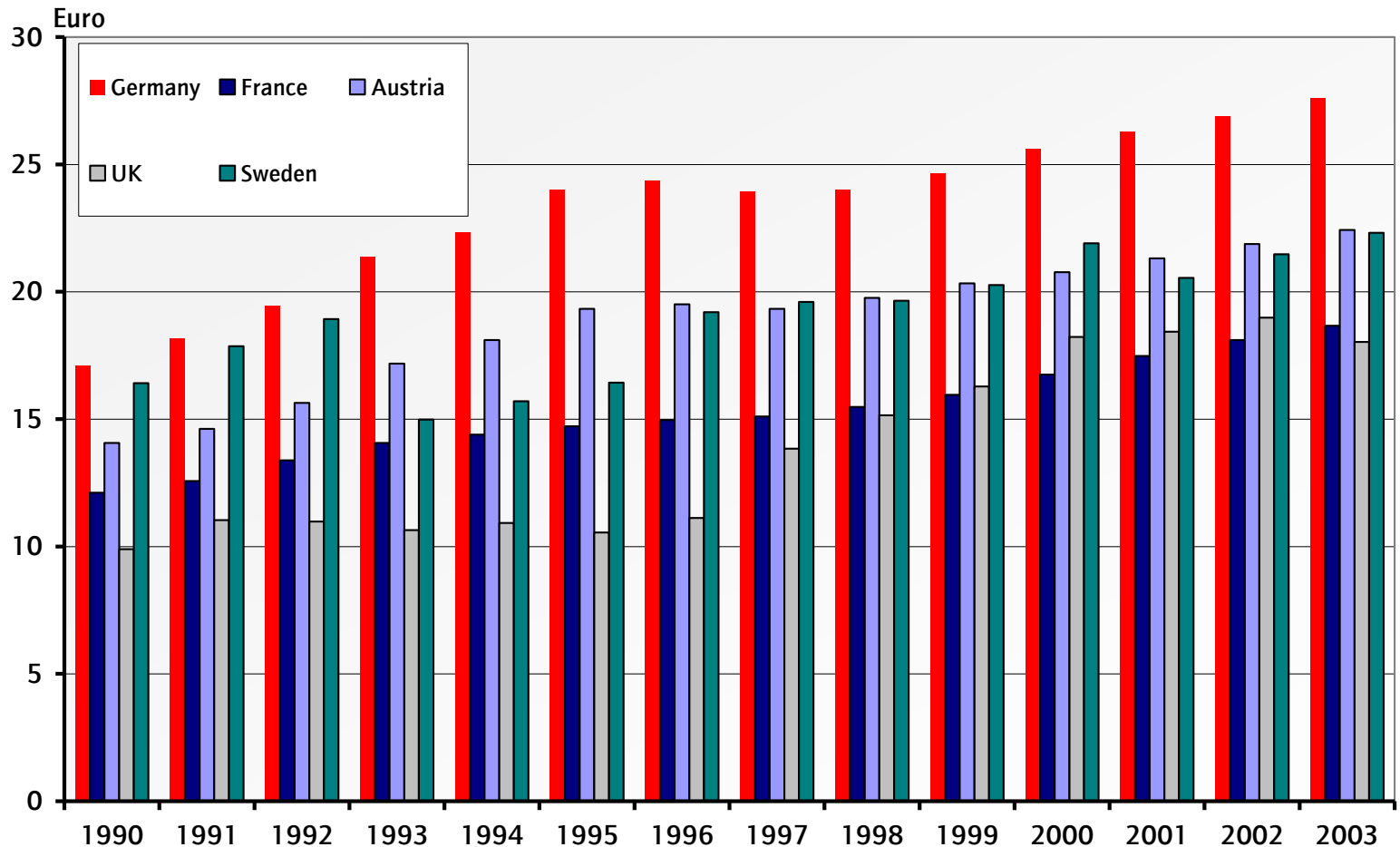


# Labor market calls for action

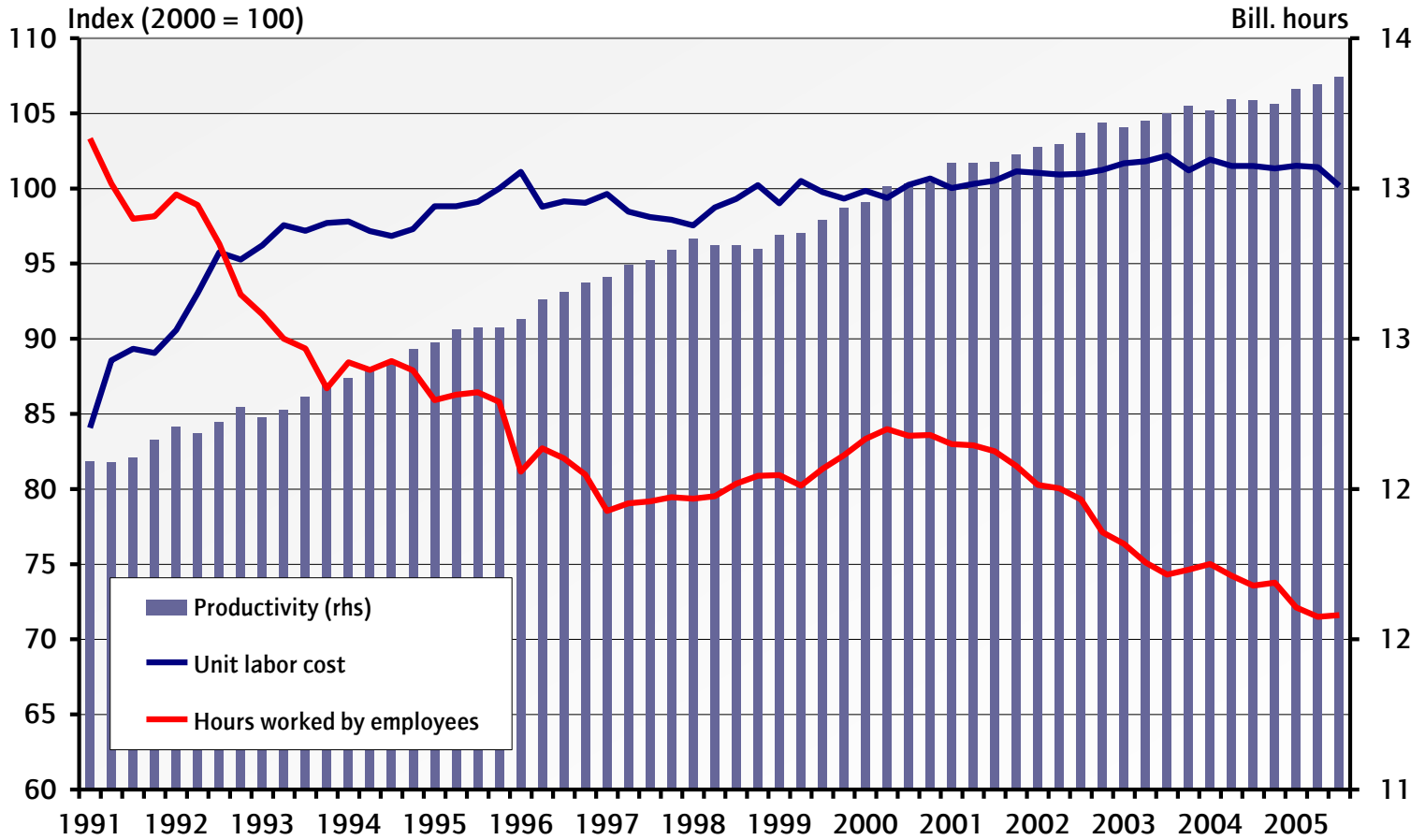


# Hourly labor costs: Germany beats them all

Hourly wages, manufacturing sector



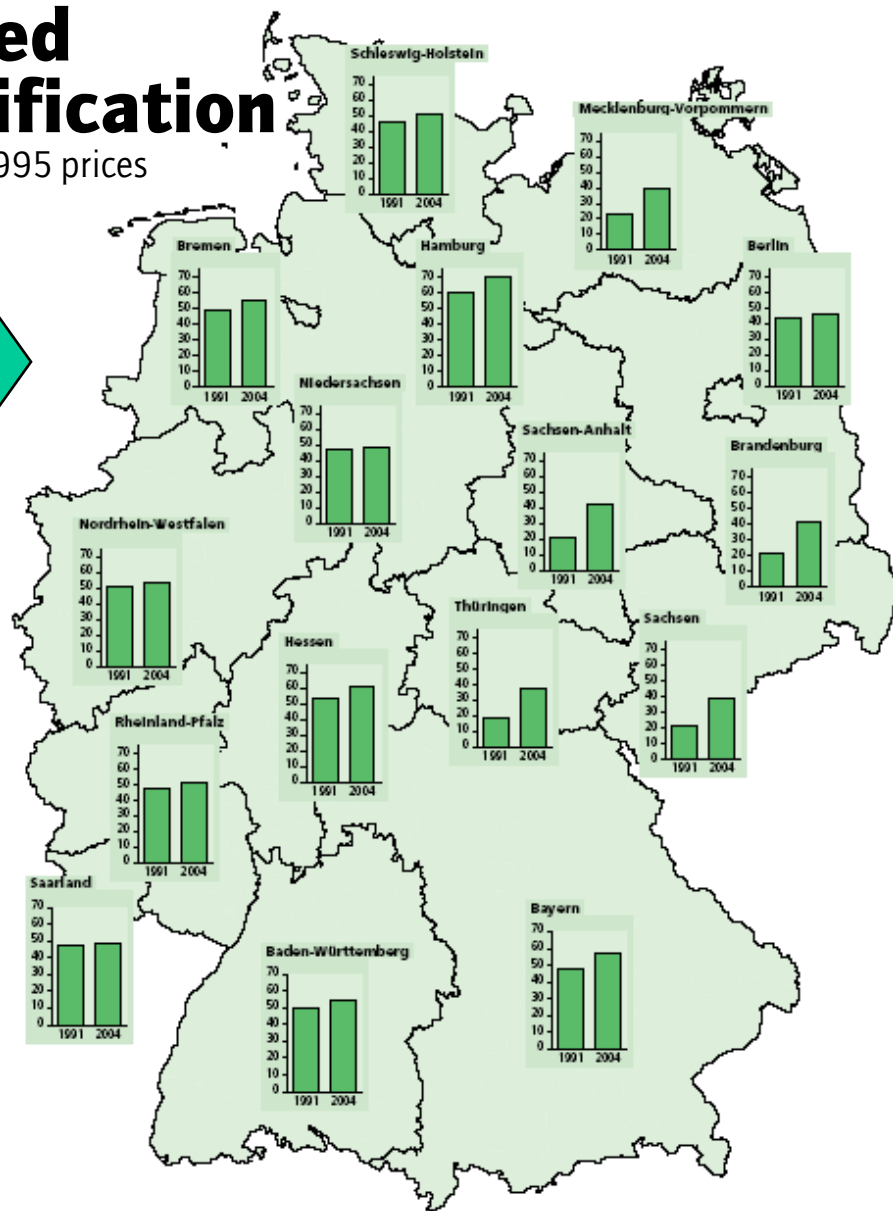
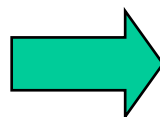
# Productivity whip at work



# 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

