



Kiel Institute

for the World Economy

The World Economy: Ready for Take-off?

89th Kieler Konjunkturgespräch | Kiel, 17-18 March 2014

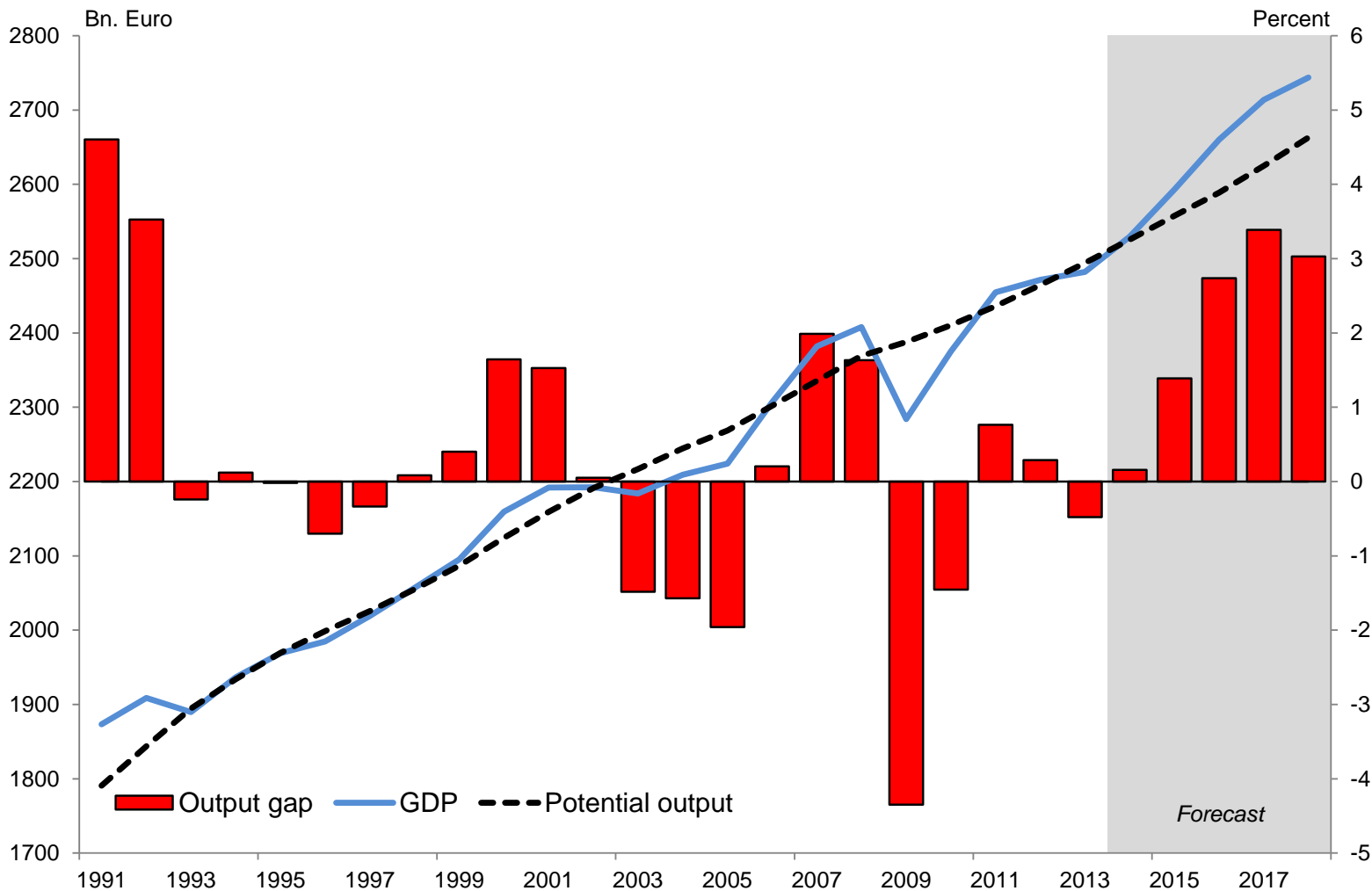
Germany: Boom of economic activity, but lower potential growth

Stefan Kooths
Forecasting Center

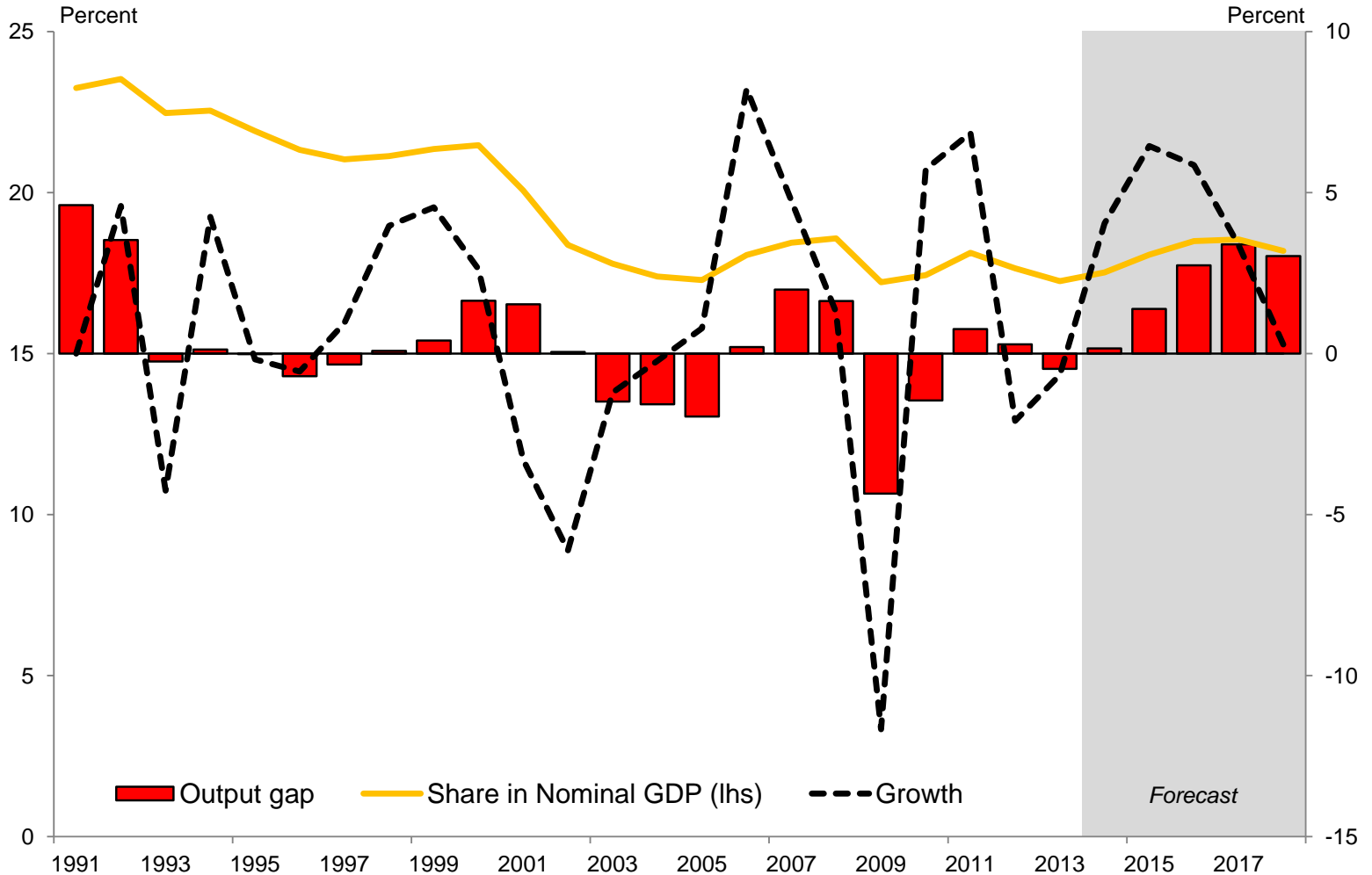


100 YEARS
UNDERSTANDING
AND SHAPING
THE GLOBAL ECONOMY

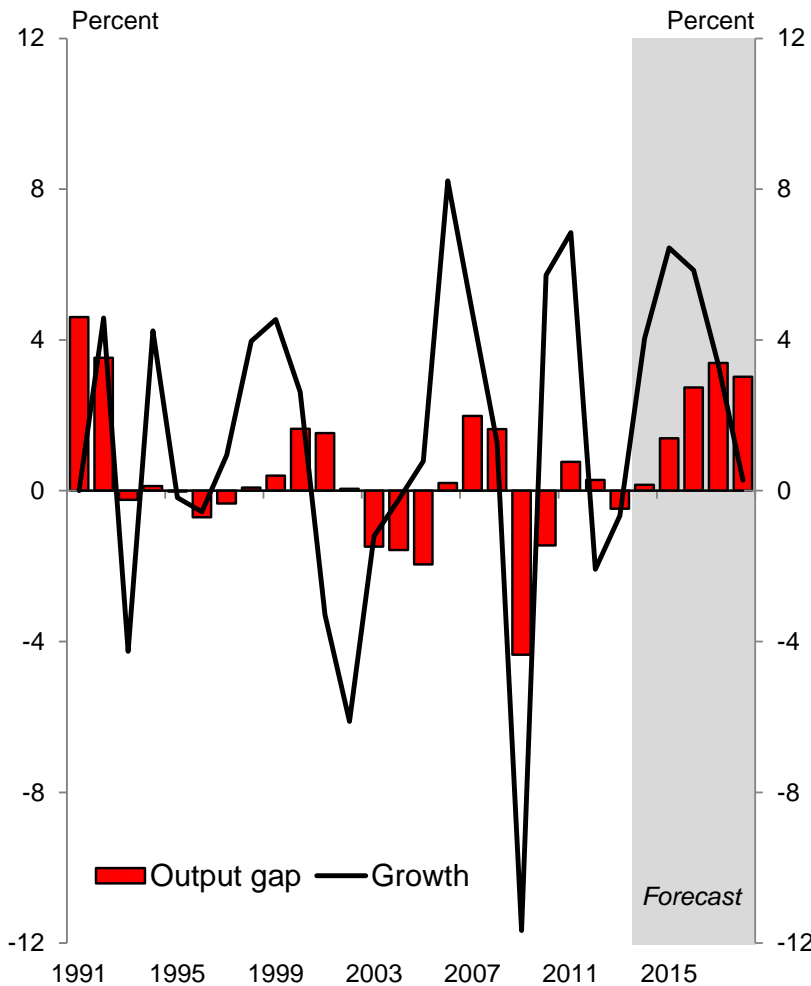
The big picture: Overheating ahead



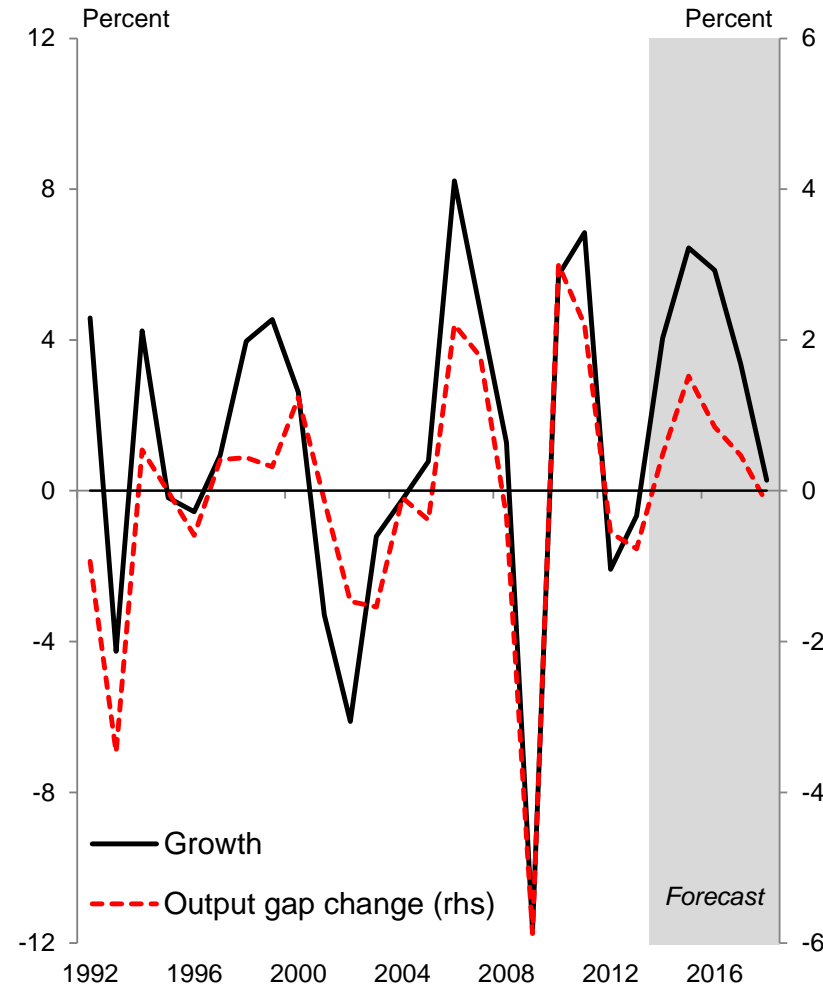
Fixed capital formation: The cyclical engine driving the boom (1/2)



Fixed capital formation: The cyclical engine driving the boom (2/2)

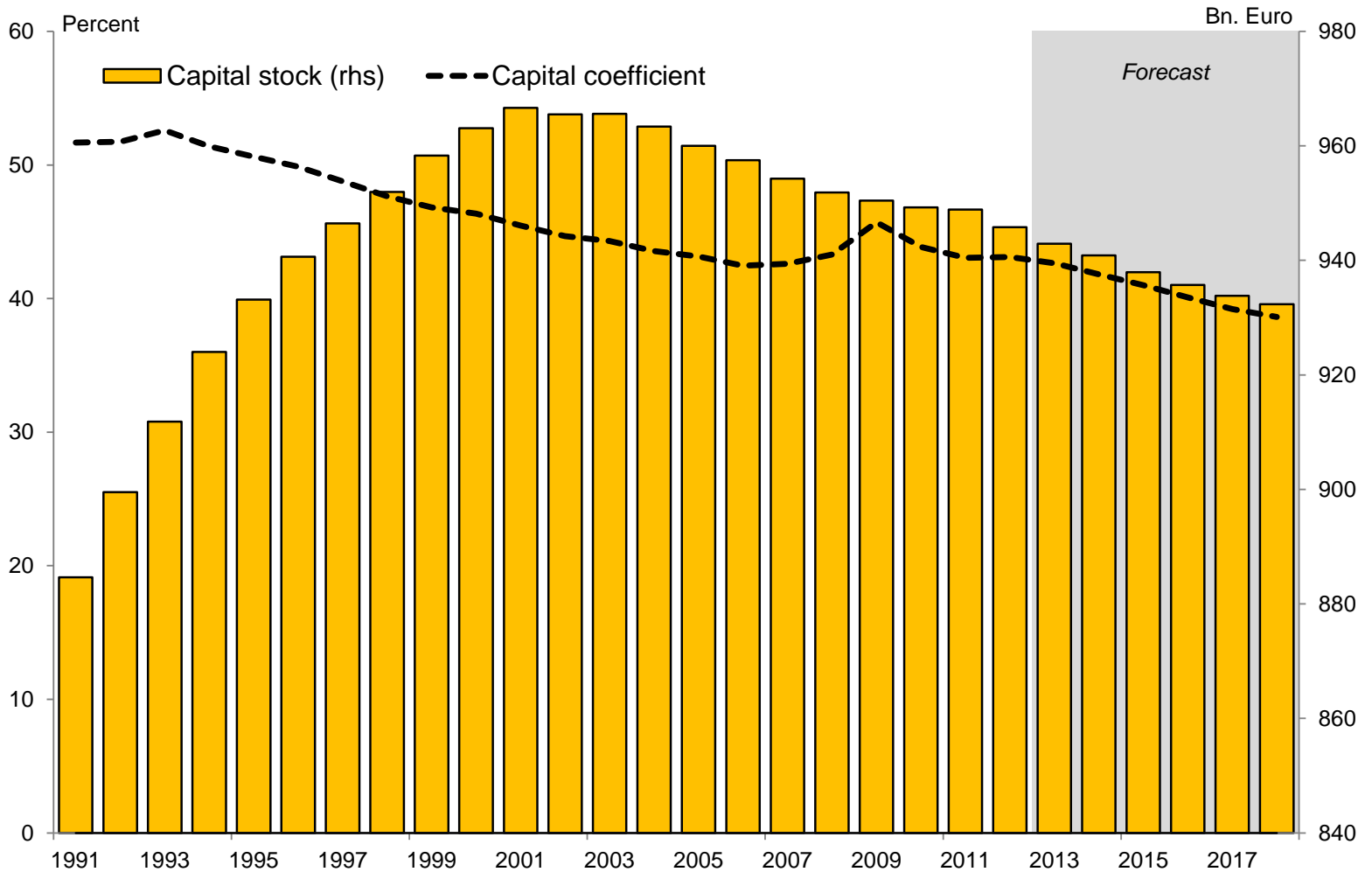


Annual data, volumes (1991 to 2018).
Output gap in percent of potential output.

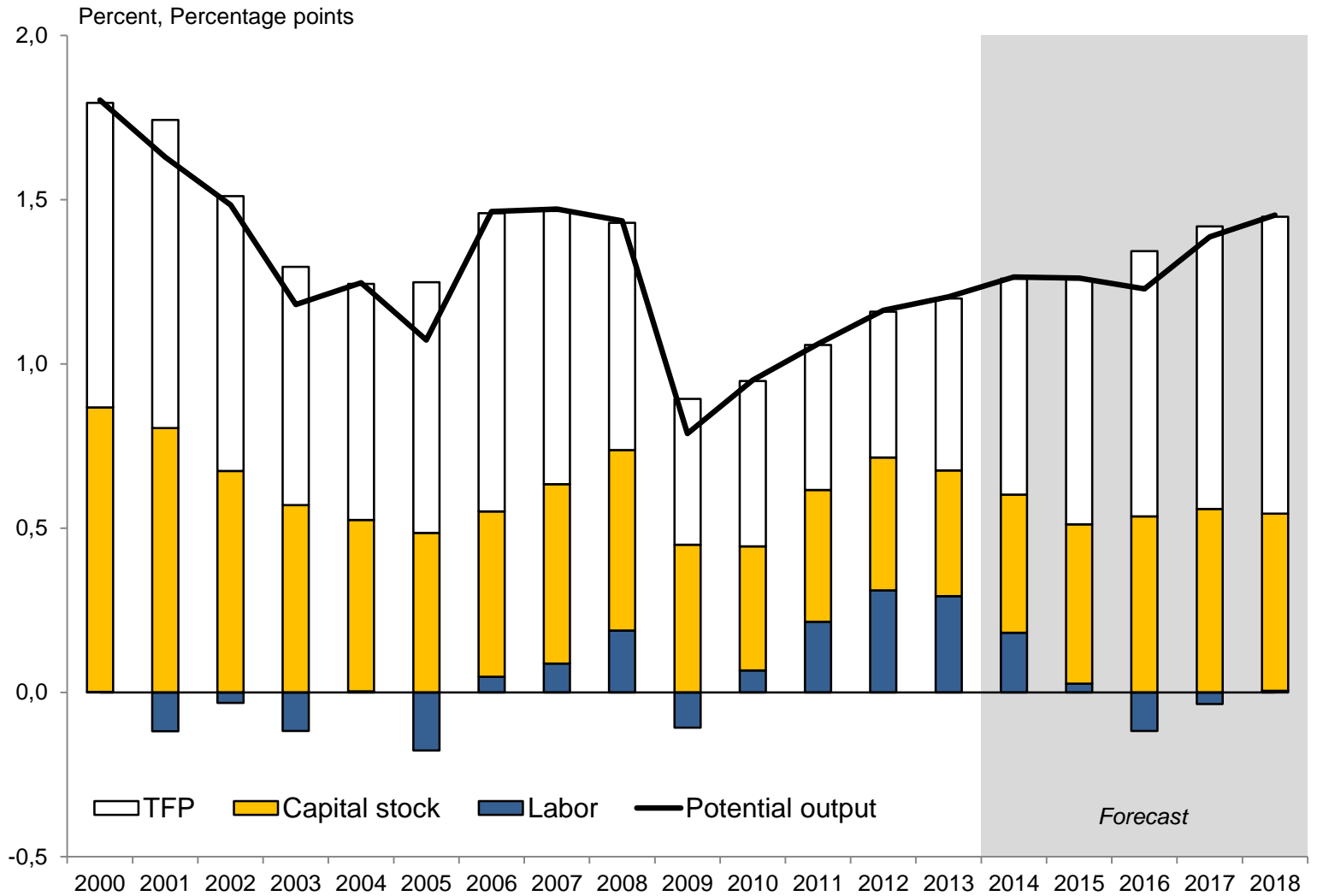


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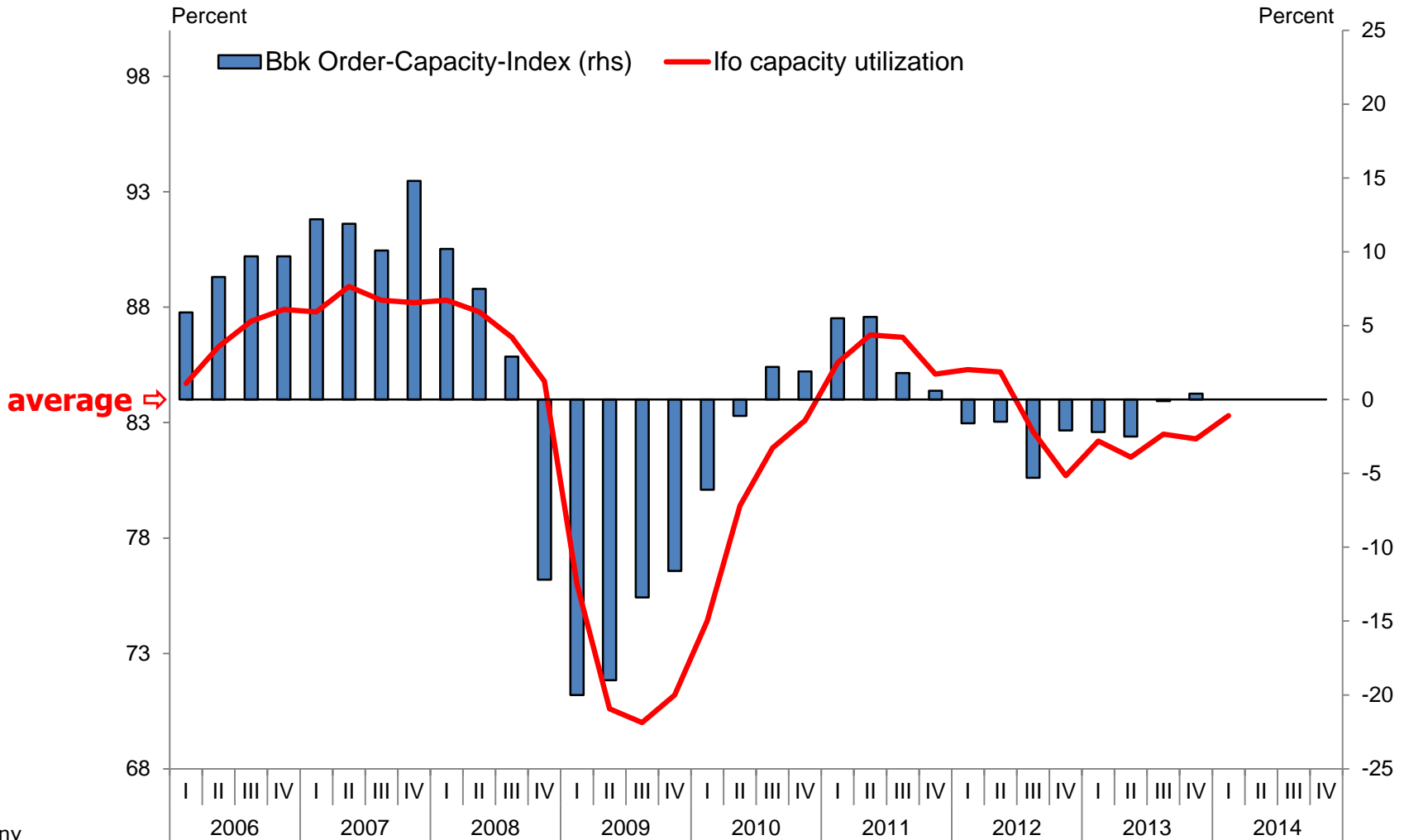
Erosion of public capital stock continues



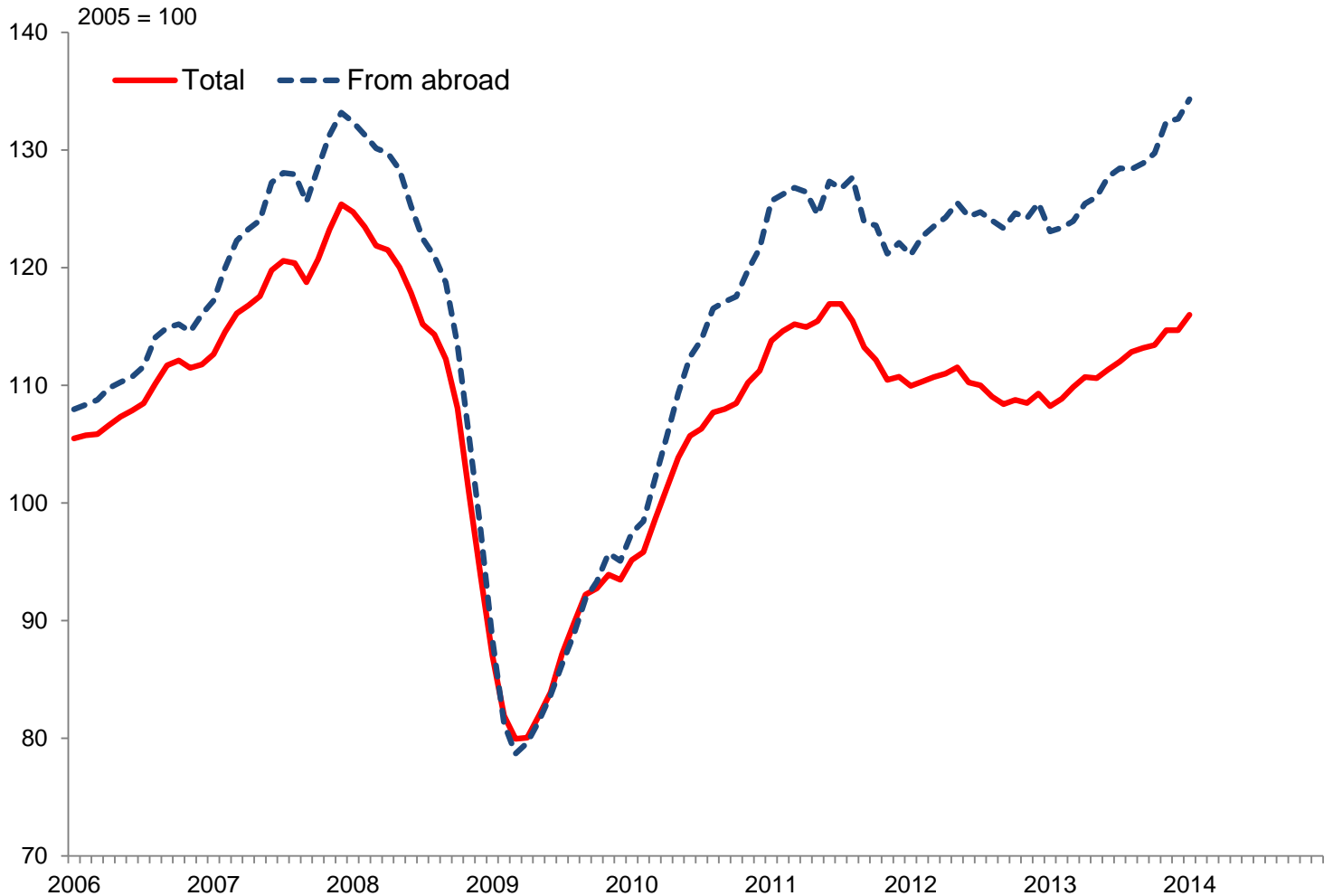
Pillars of potential growth



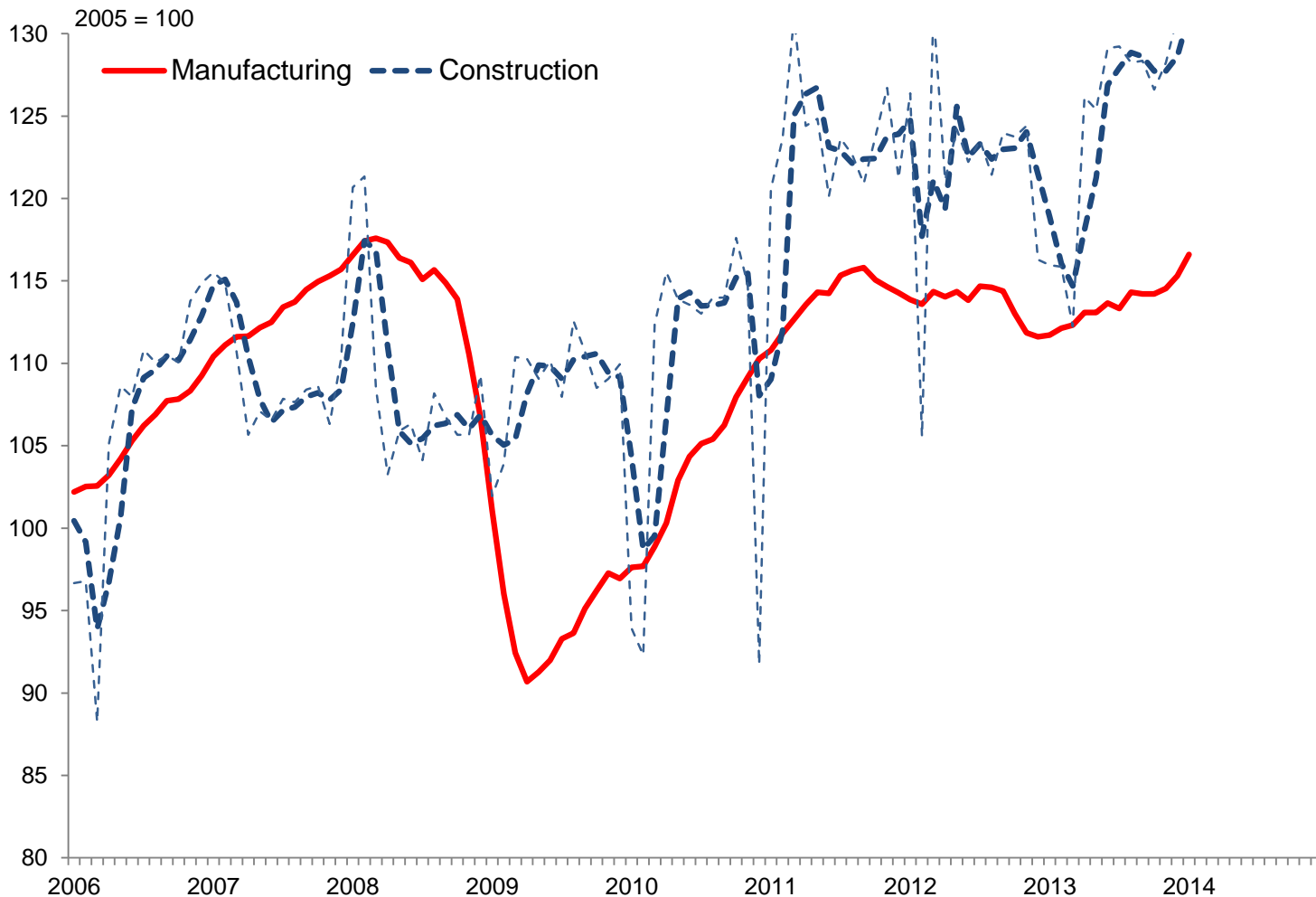
Manufacturing: Capacity utilization almost back to normal



Upward trend of in incoming orders ...

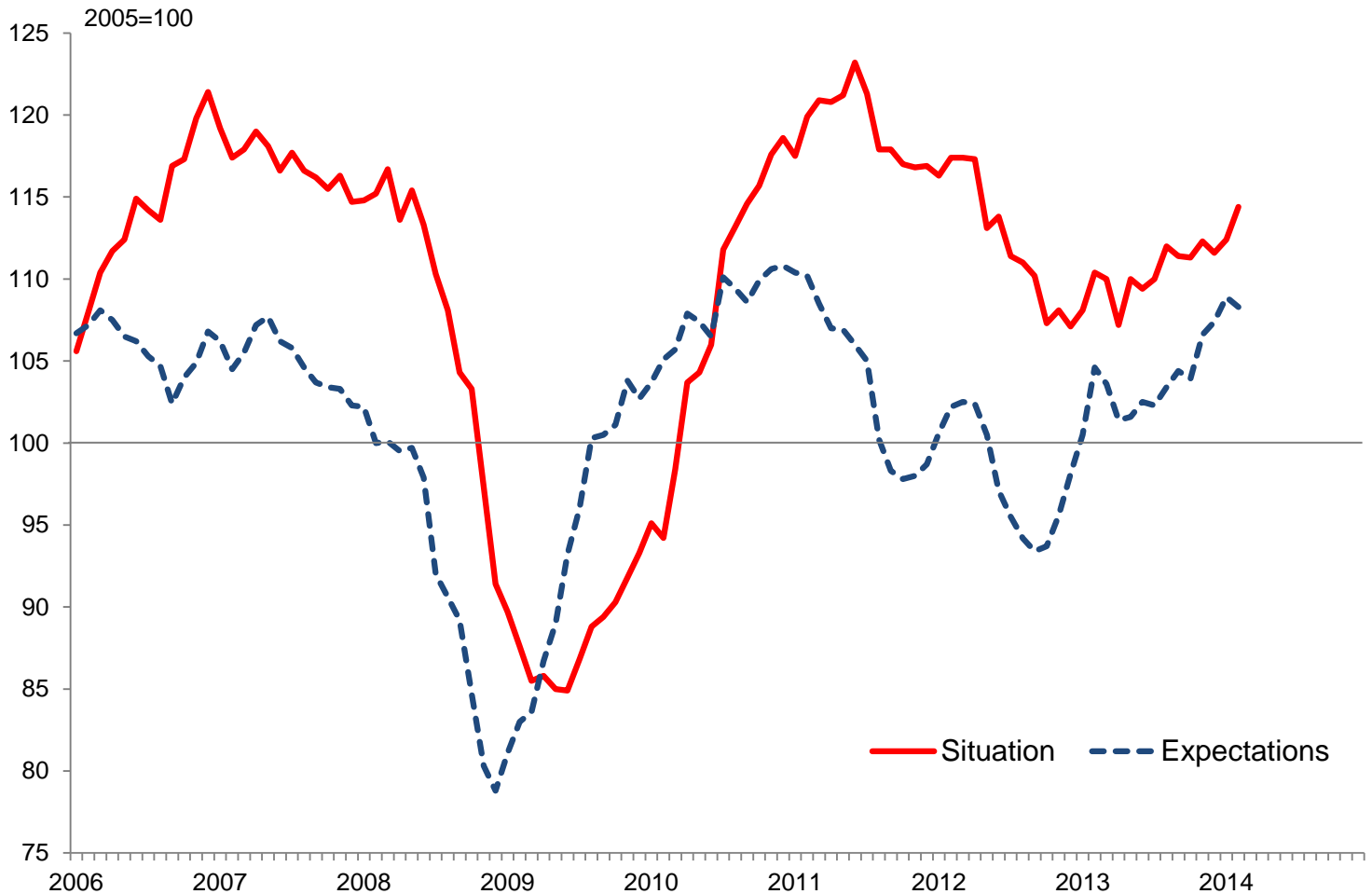


... mirrored by industrial production

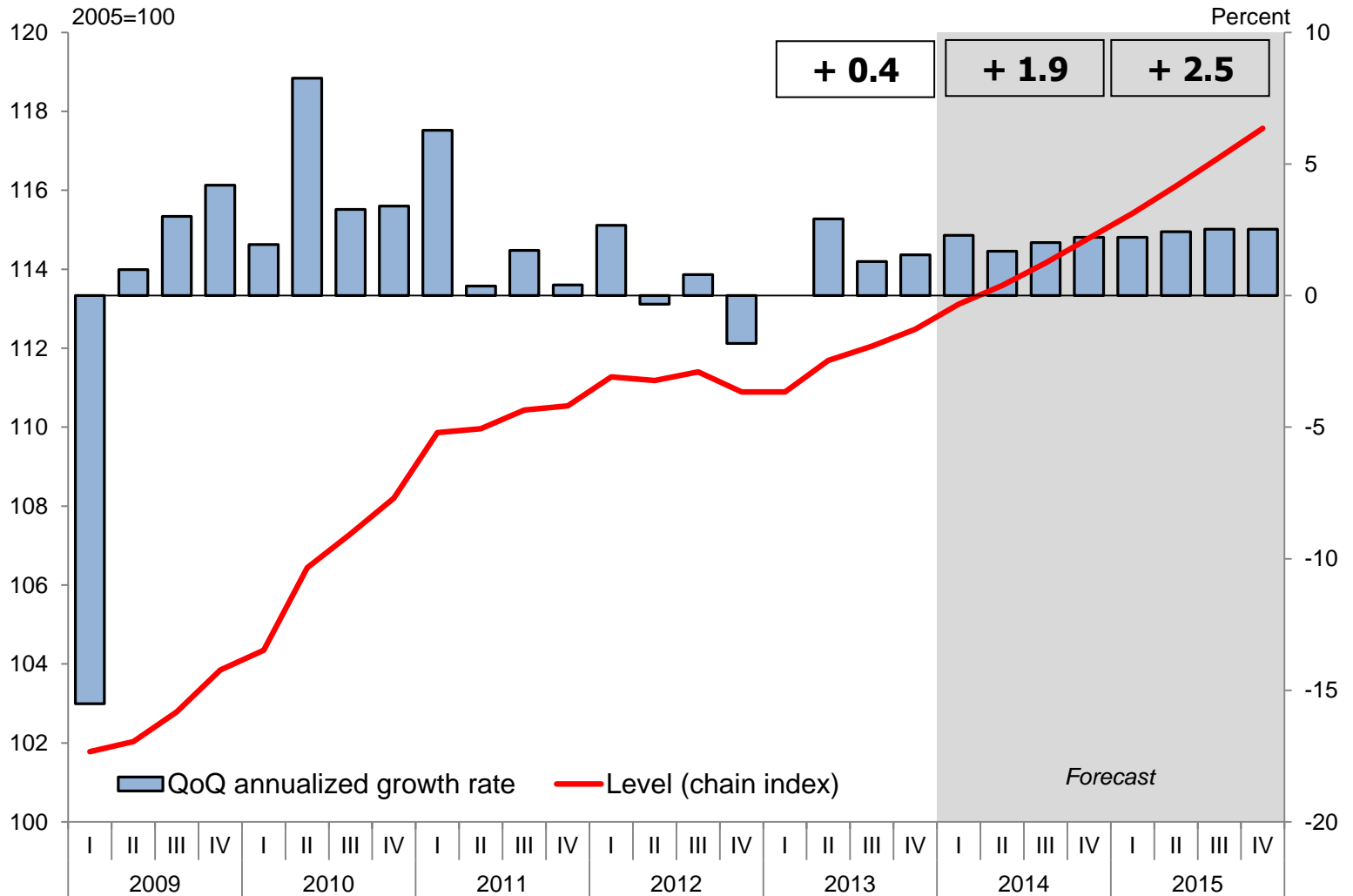


Business climate brightens up

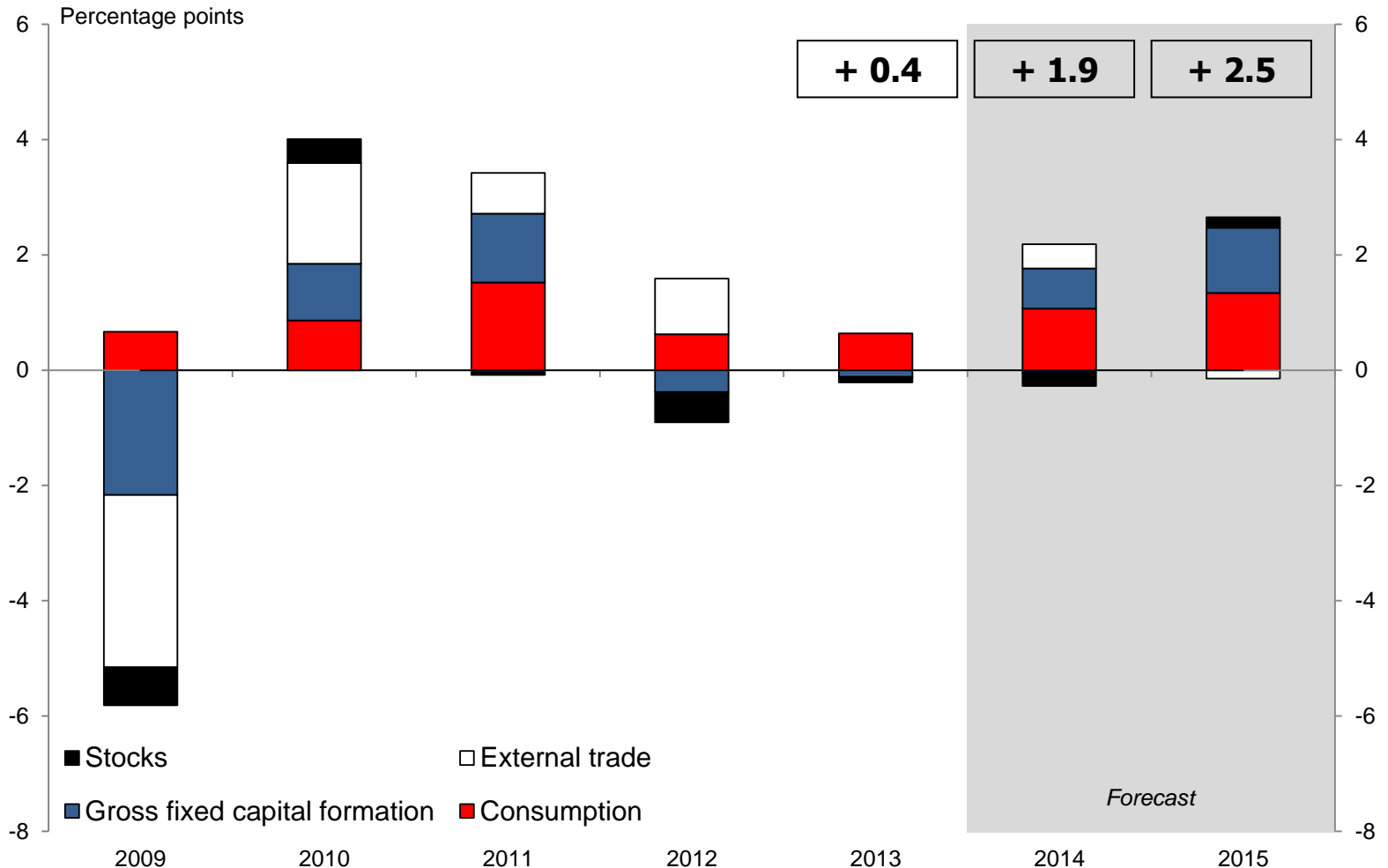
ifo business survey for trade and industry



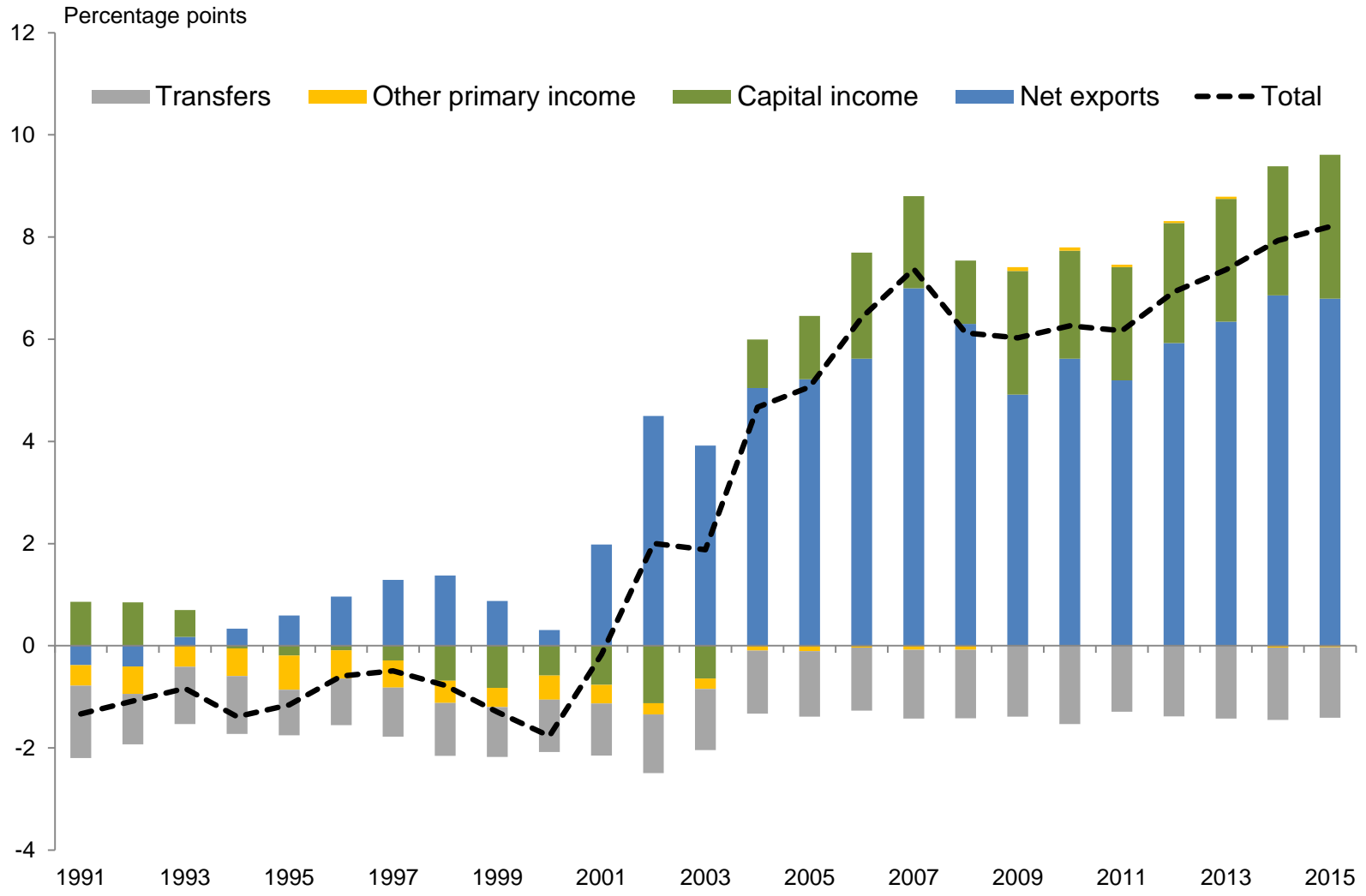
GDP: Accelerating expansion



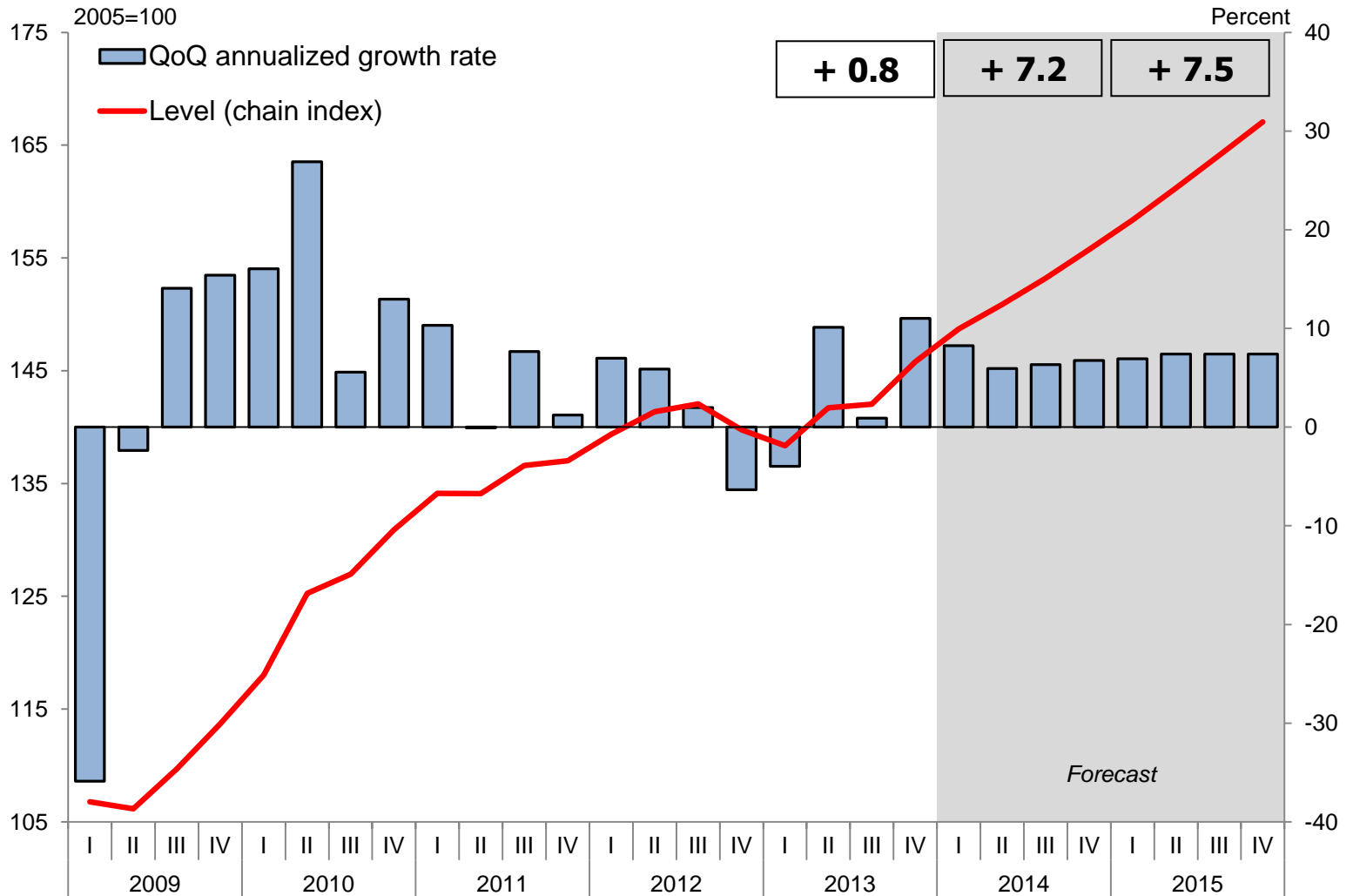
Growth contributions (expenditure view): Investment pillar becomes stronger



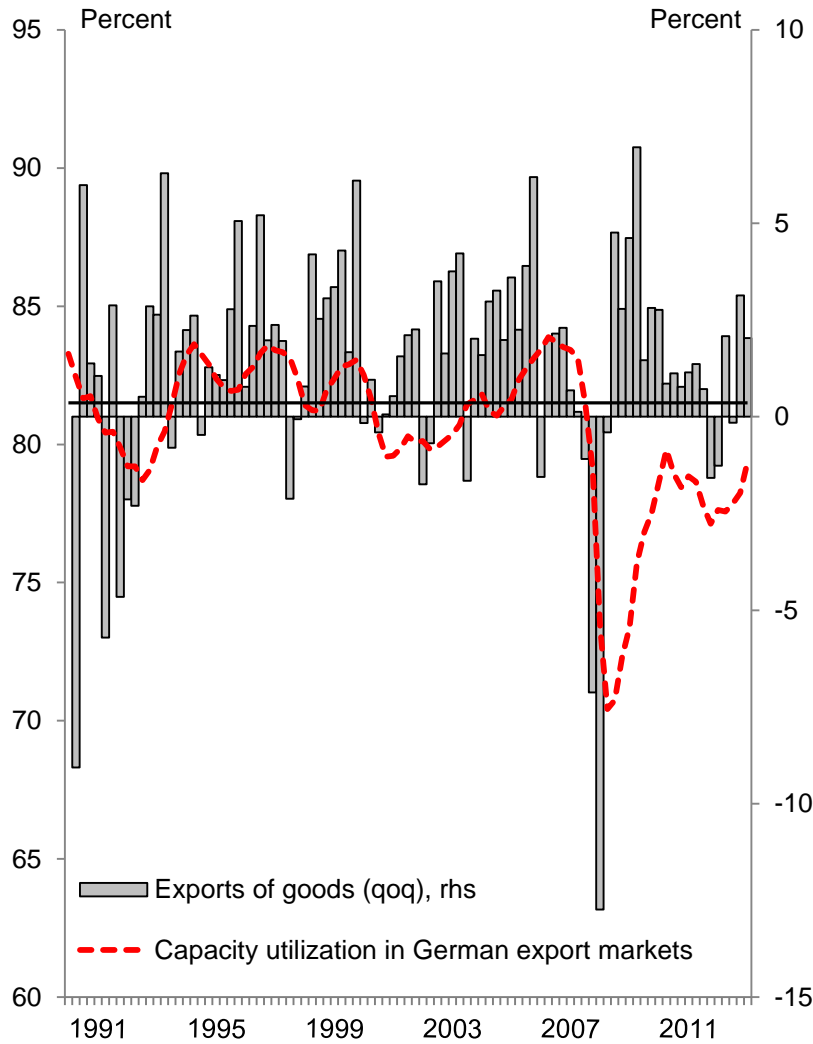
Stagnating net exports, but increasing current account surplus



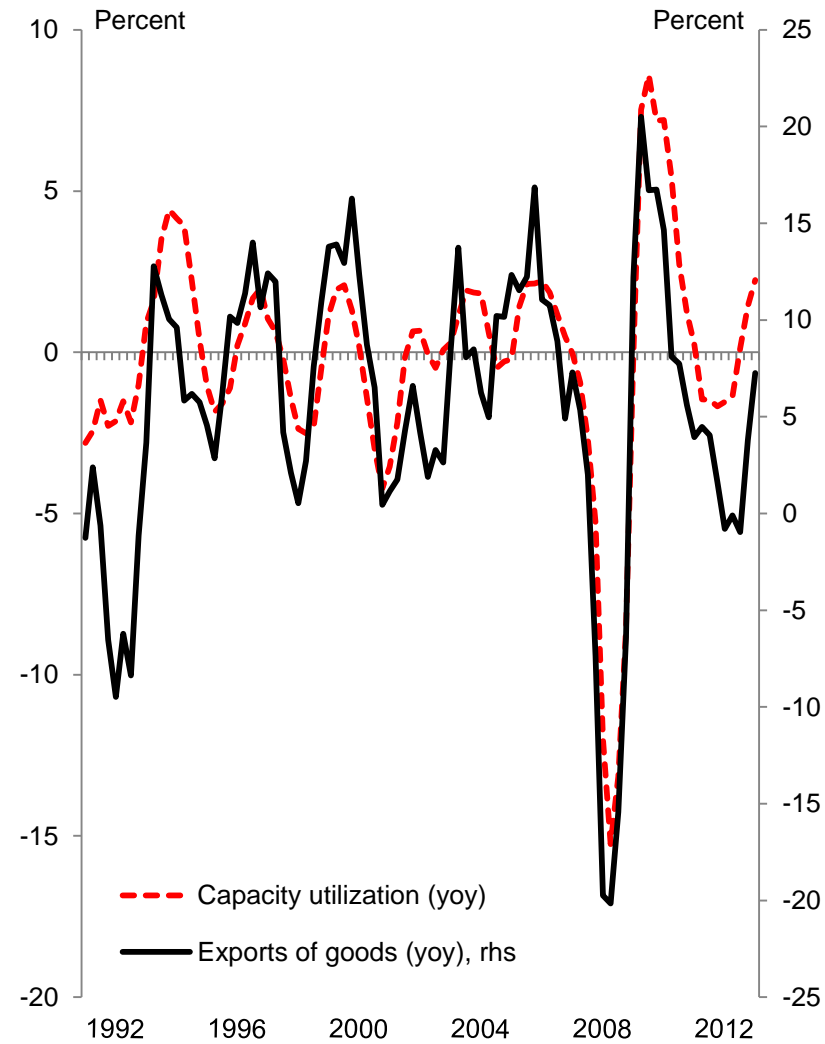
Exports benefiting from brisker global growth



Capacity utilization in German export markets



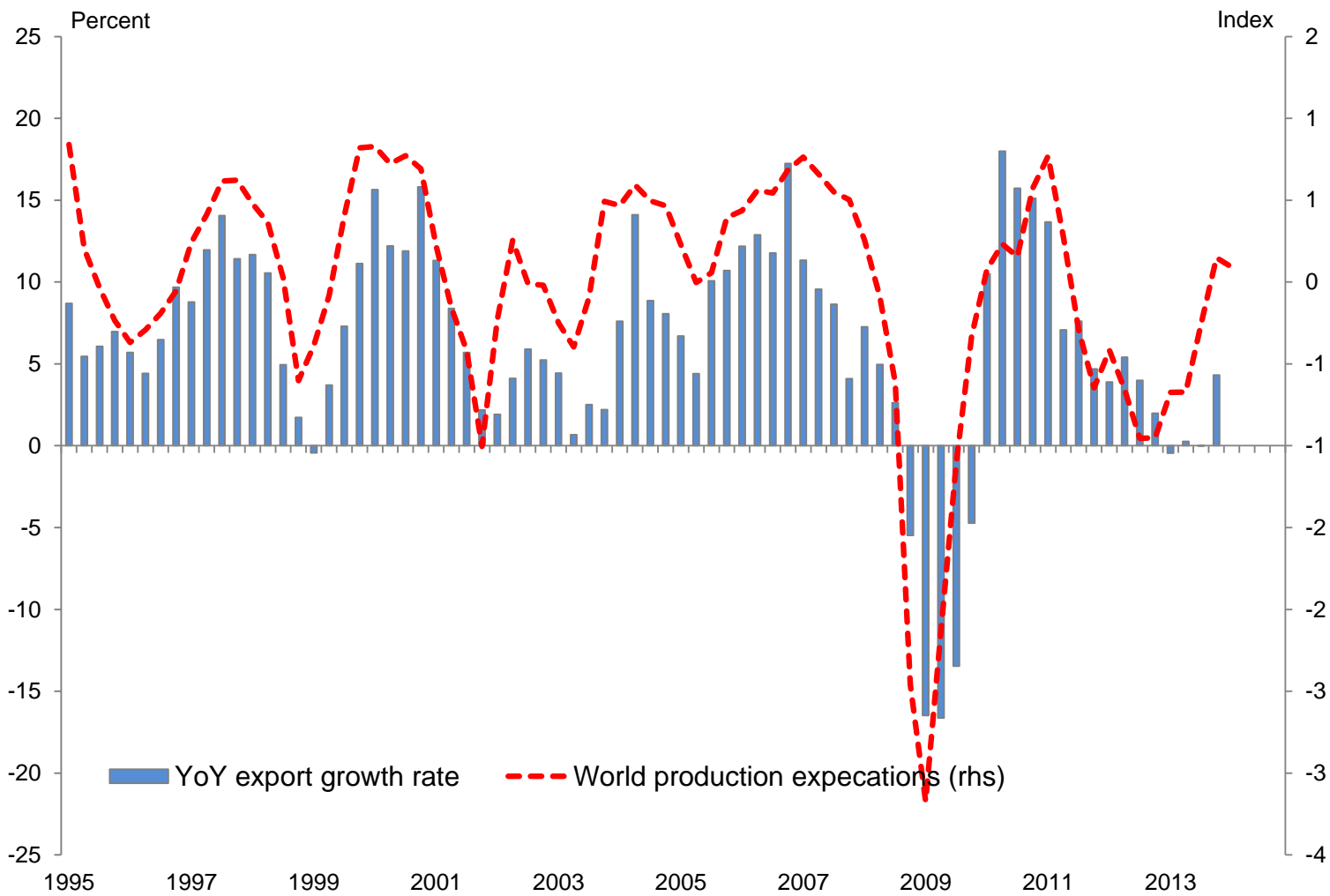
Quarterly data.
Computed from manufacturers' capacity utilization in 38 countries
weighted by shares of German exports.



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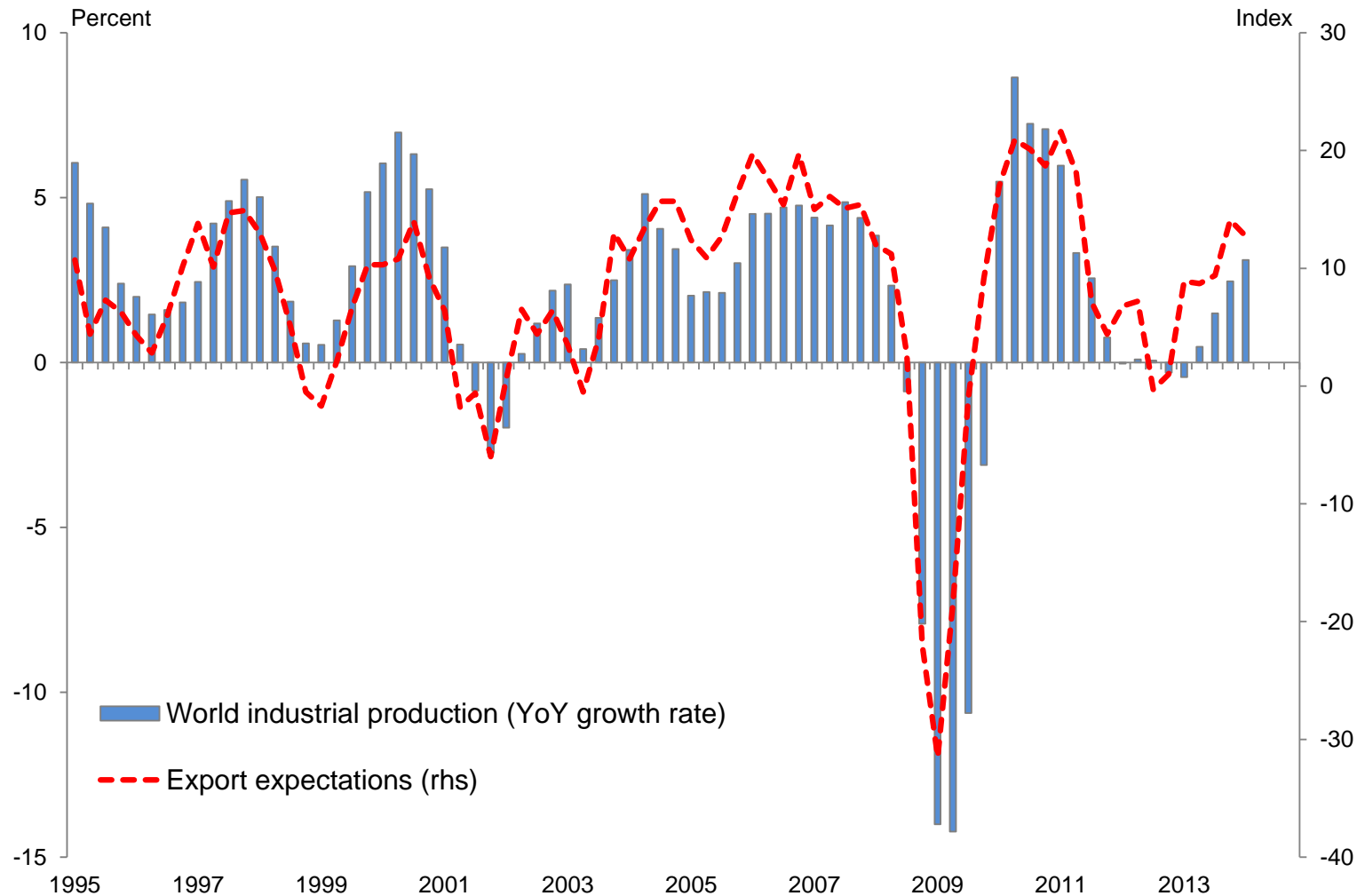


Global business sentiment (German perspective)

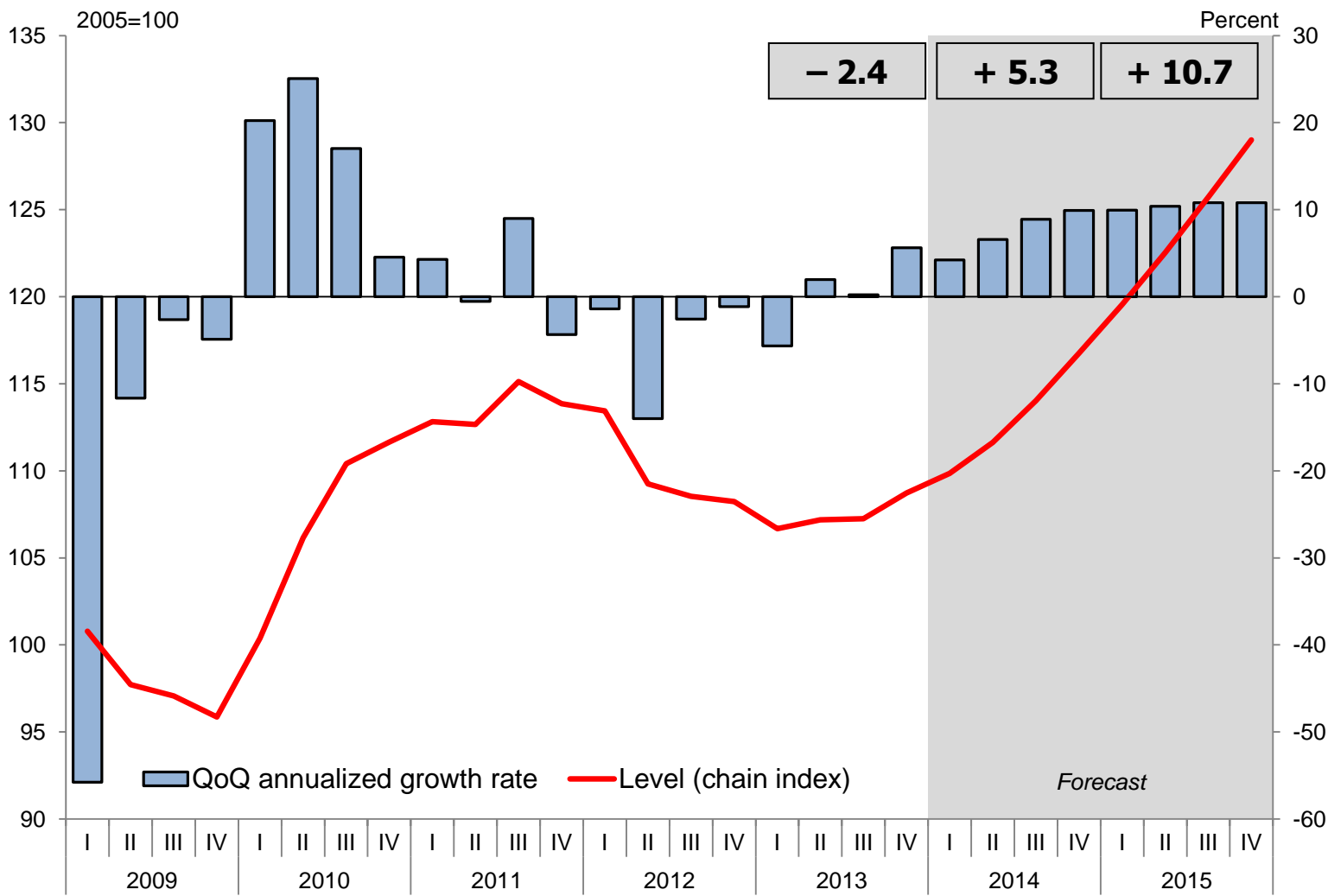


Quarterly data, volumes.
World production expectations: computed from 41 countries weighted by shares of German exports.

Export expectations and global production



M&E investment overcoming bumpy territory



- 2.4

+ 5.3

+ 10.7

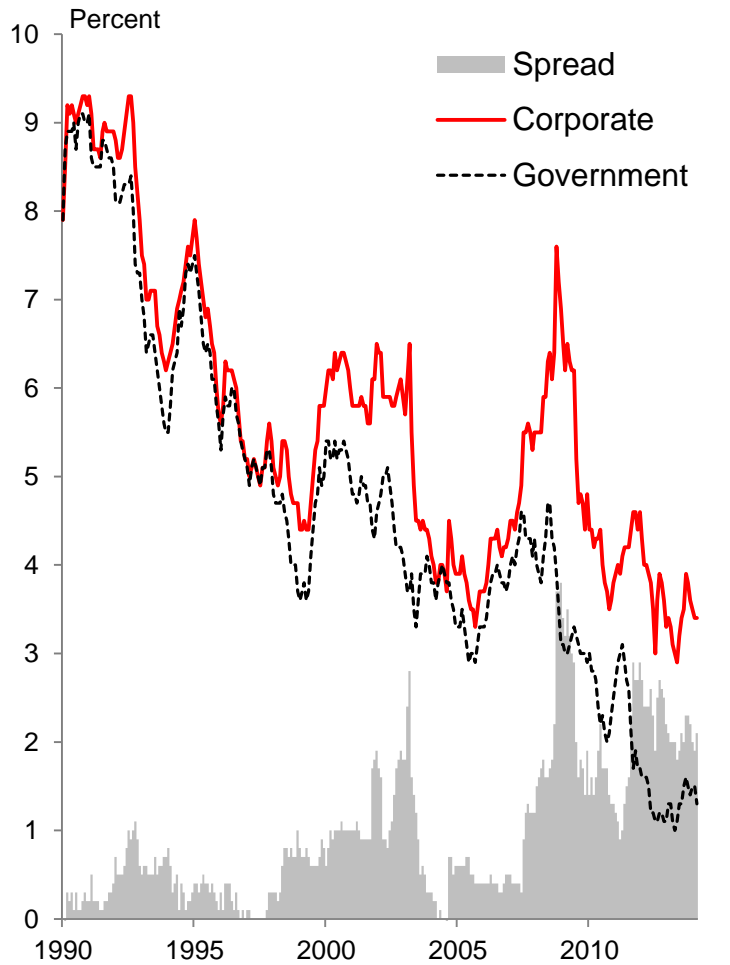
QoQ annualized growth rate

Level (chain index)

Forecast

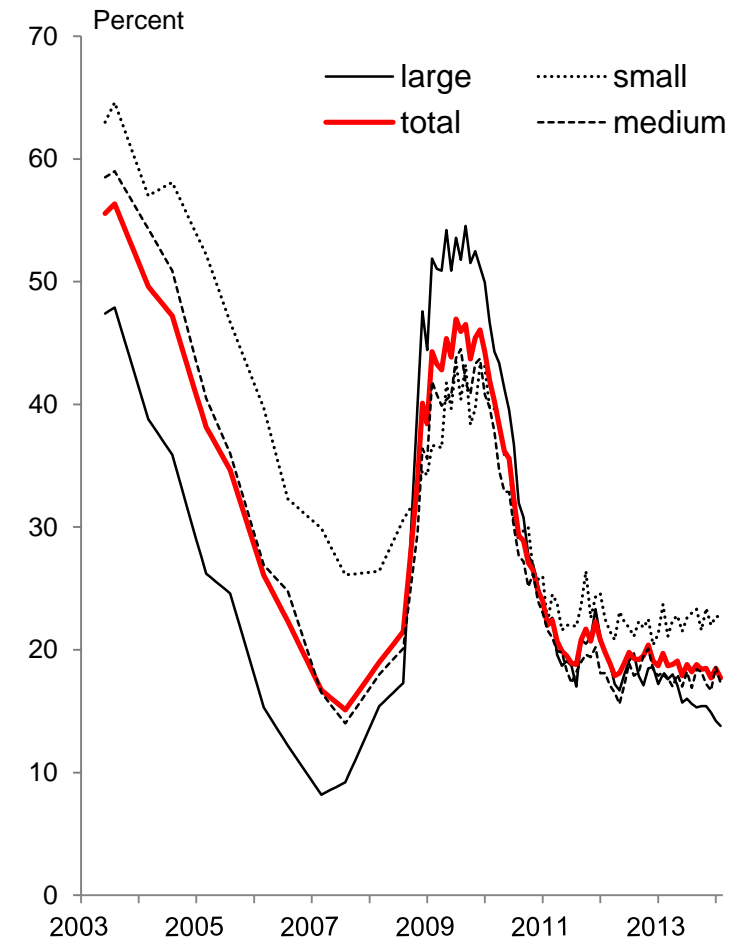
Corporate financing made easy

Interest rates



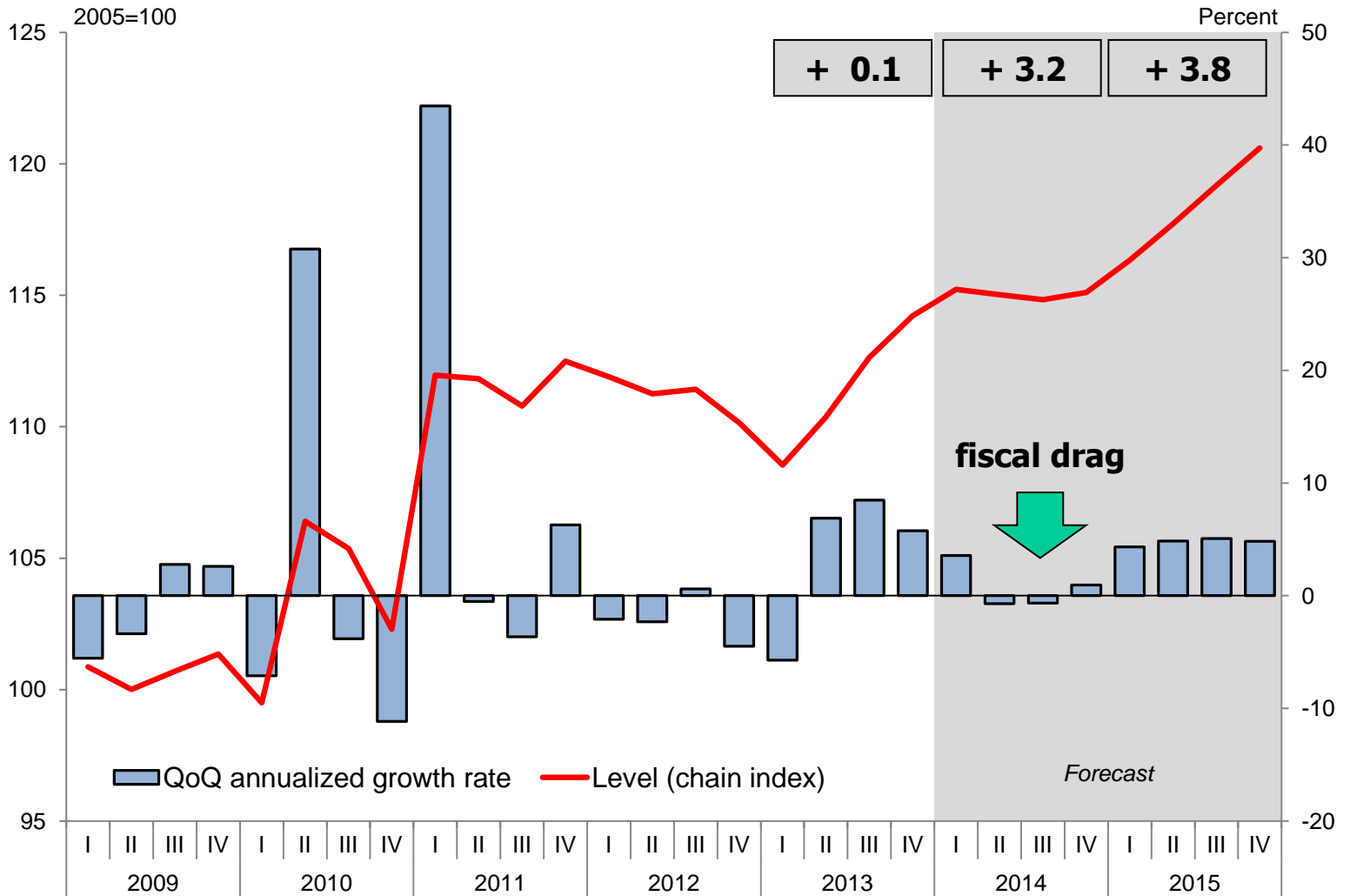
Monthly data.
Corporate bonds: maturing within 3 years; Government bonds: maturing within 5 years.

Credit hurdle

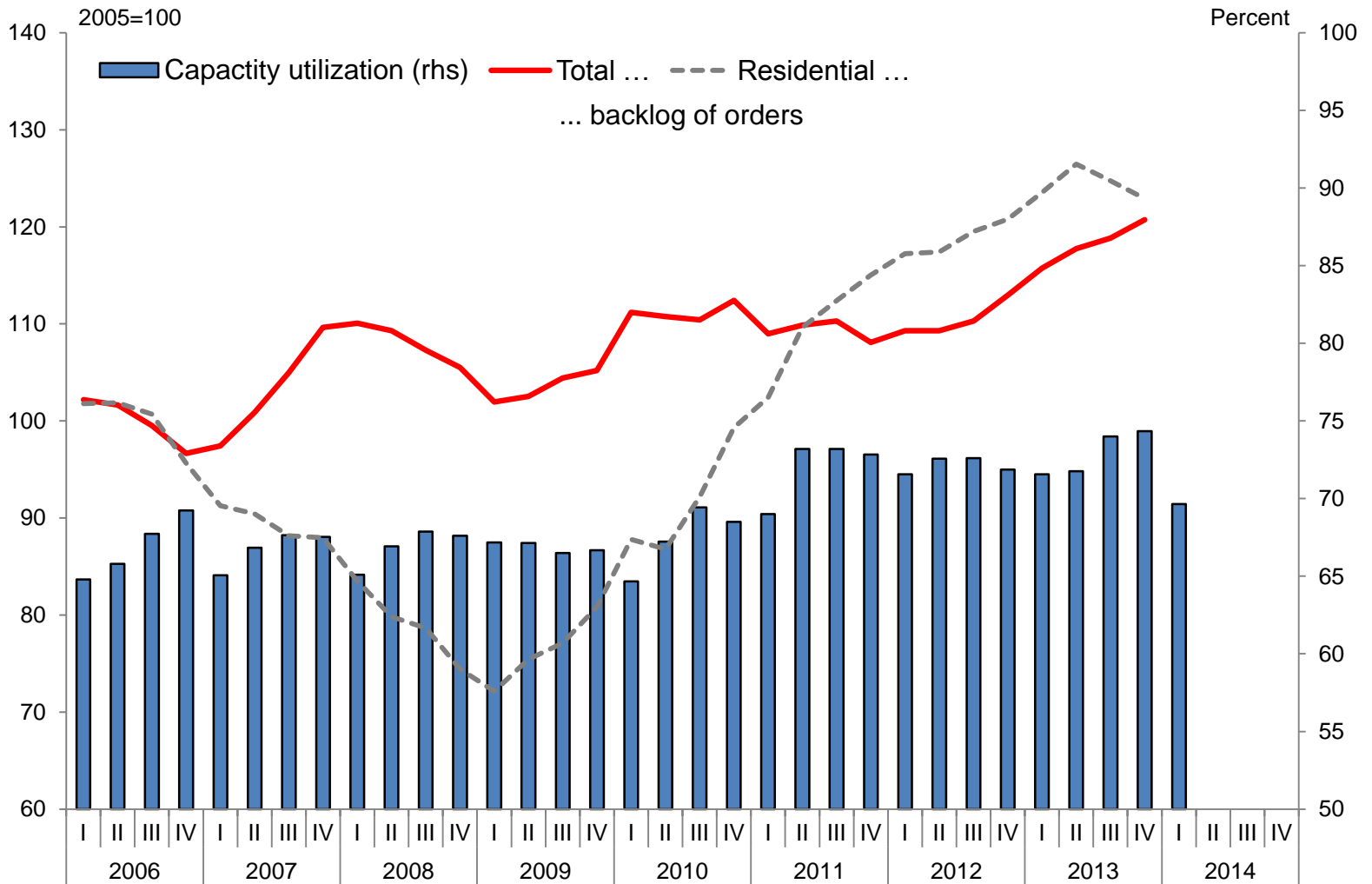


Monthly data.
Ifo credit hurdle by firm size (percentage of firms assessing banks' lending as restrictive).

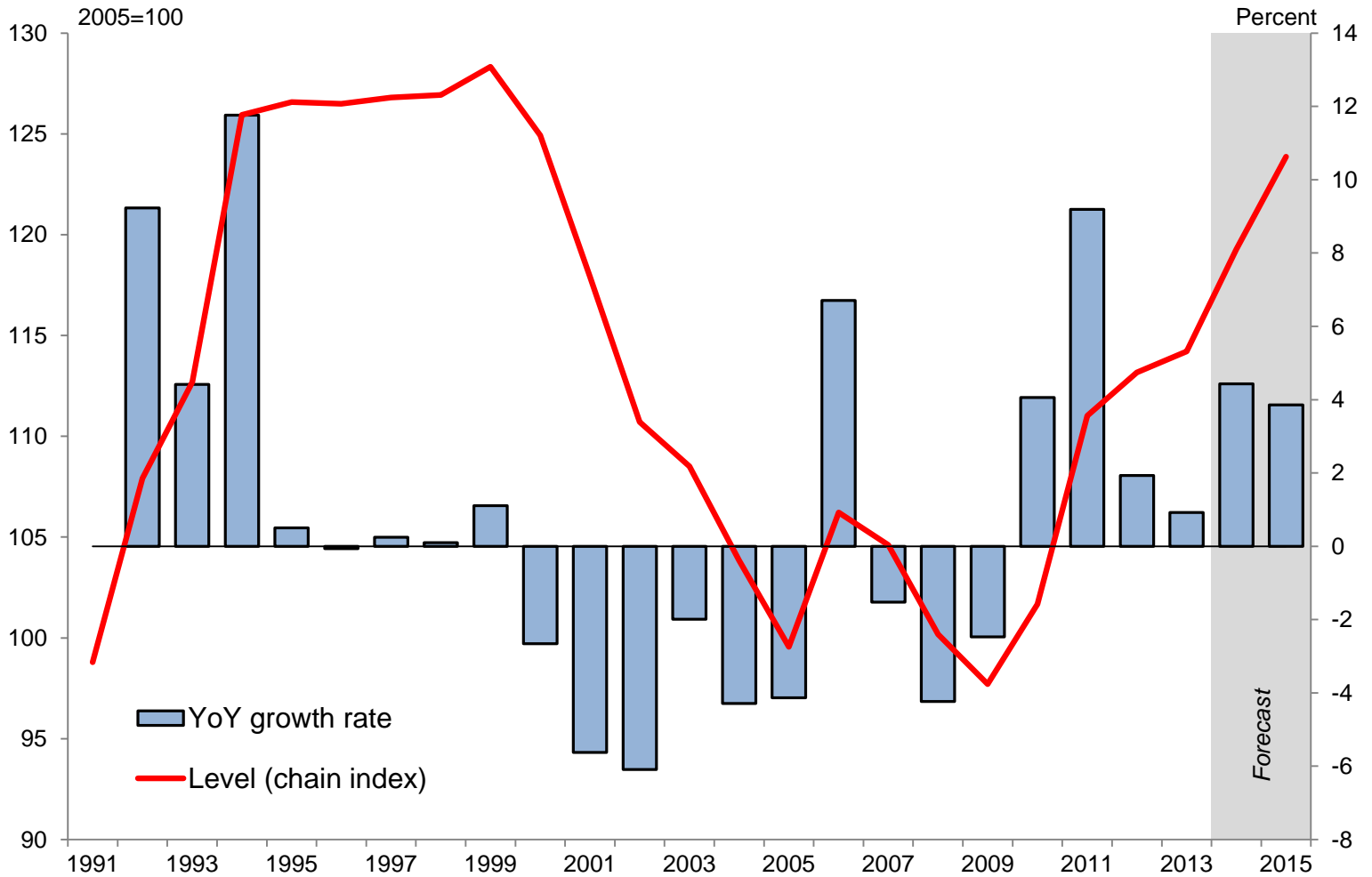
Constructions on an upward trend



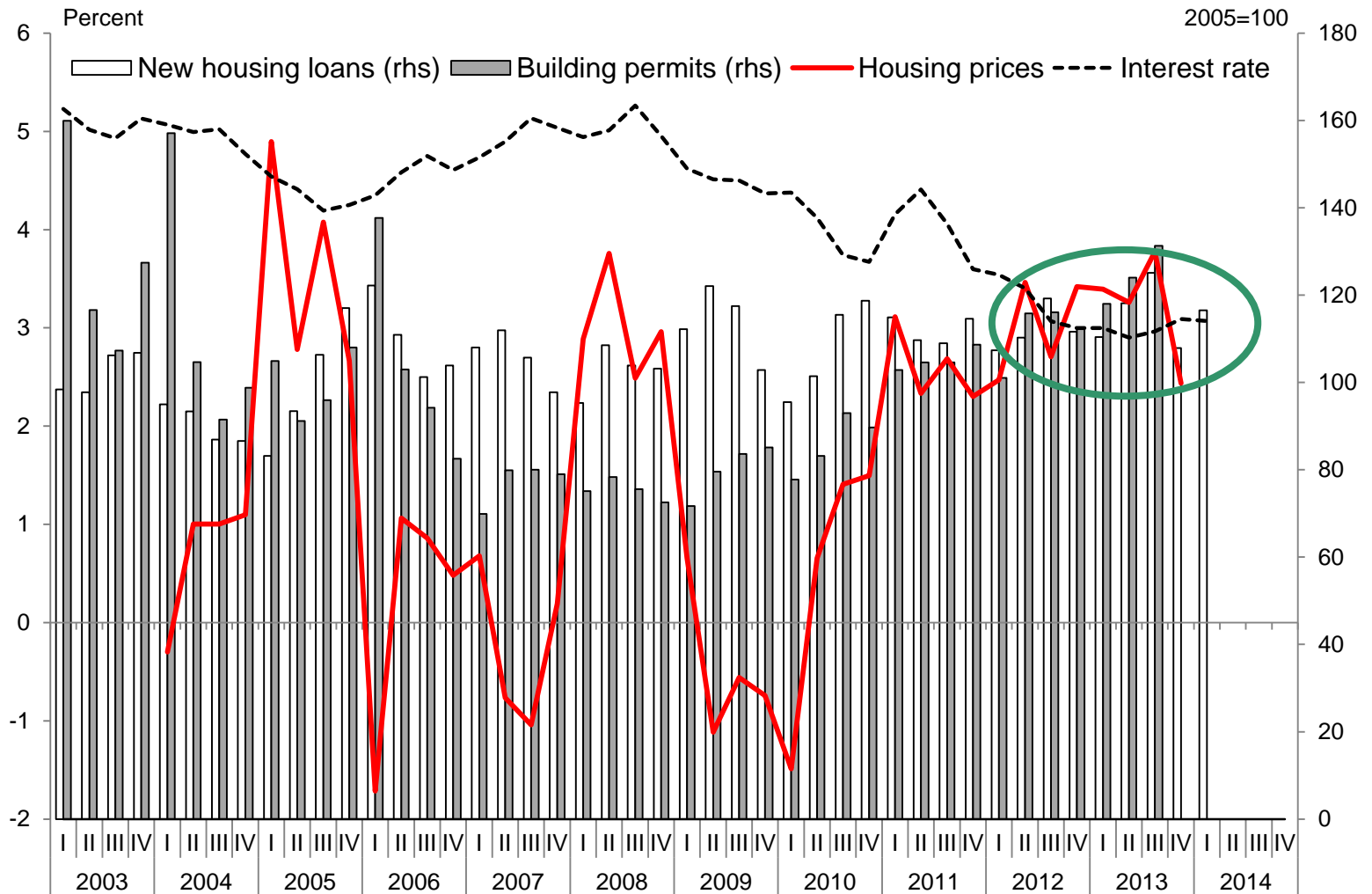
Construction industry: Capacity utilization and backlog of orders



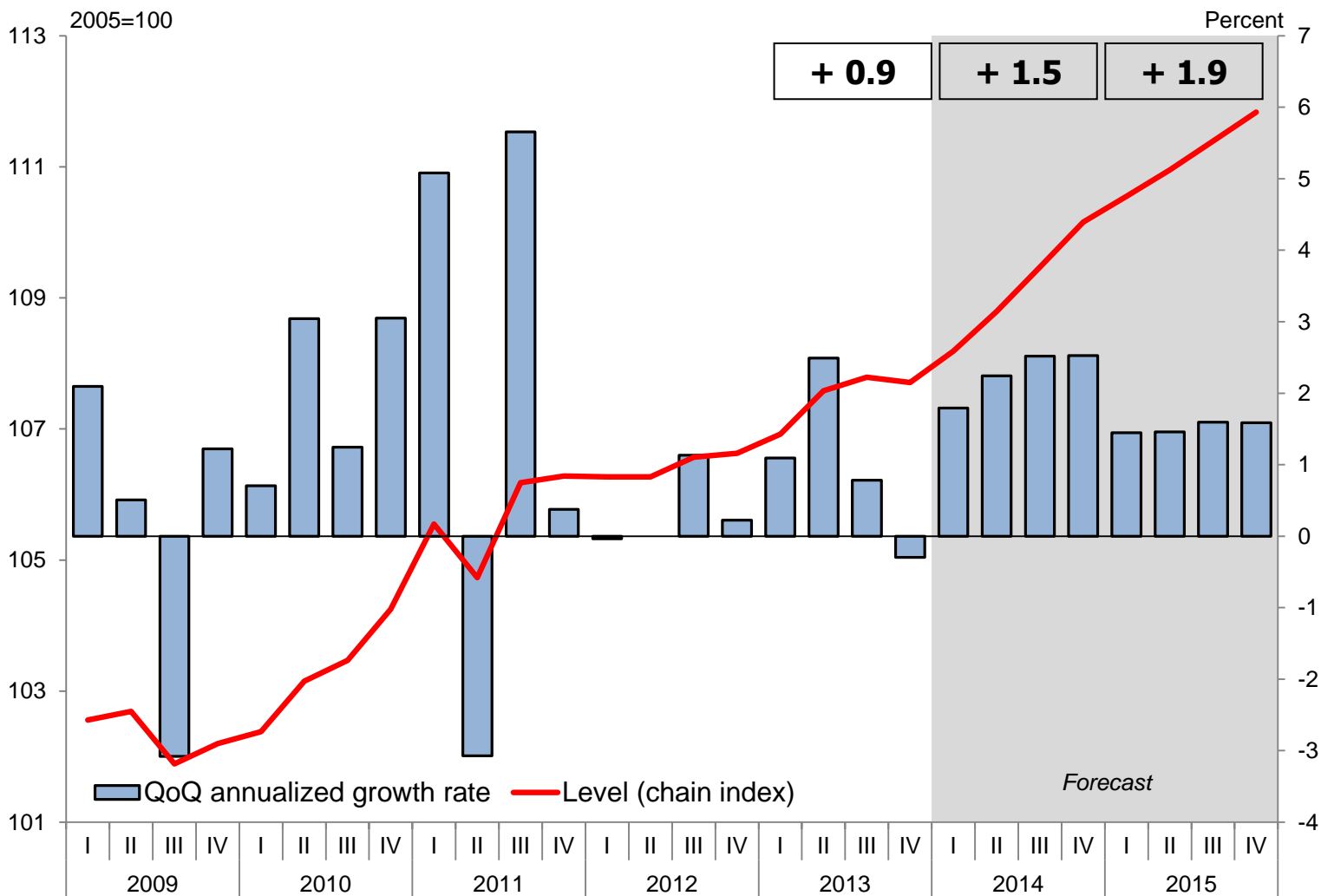
Residential constructions



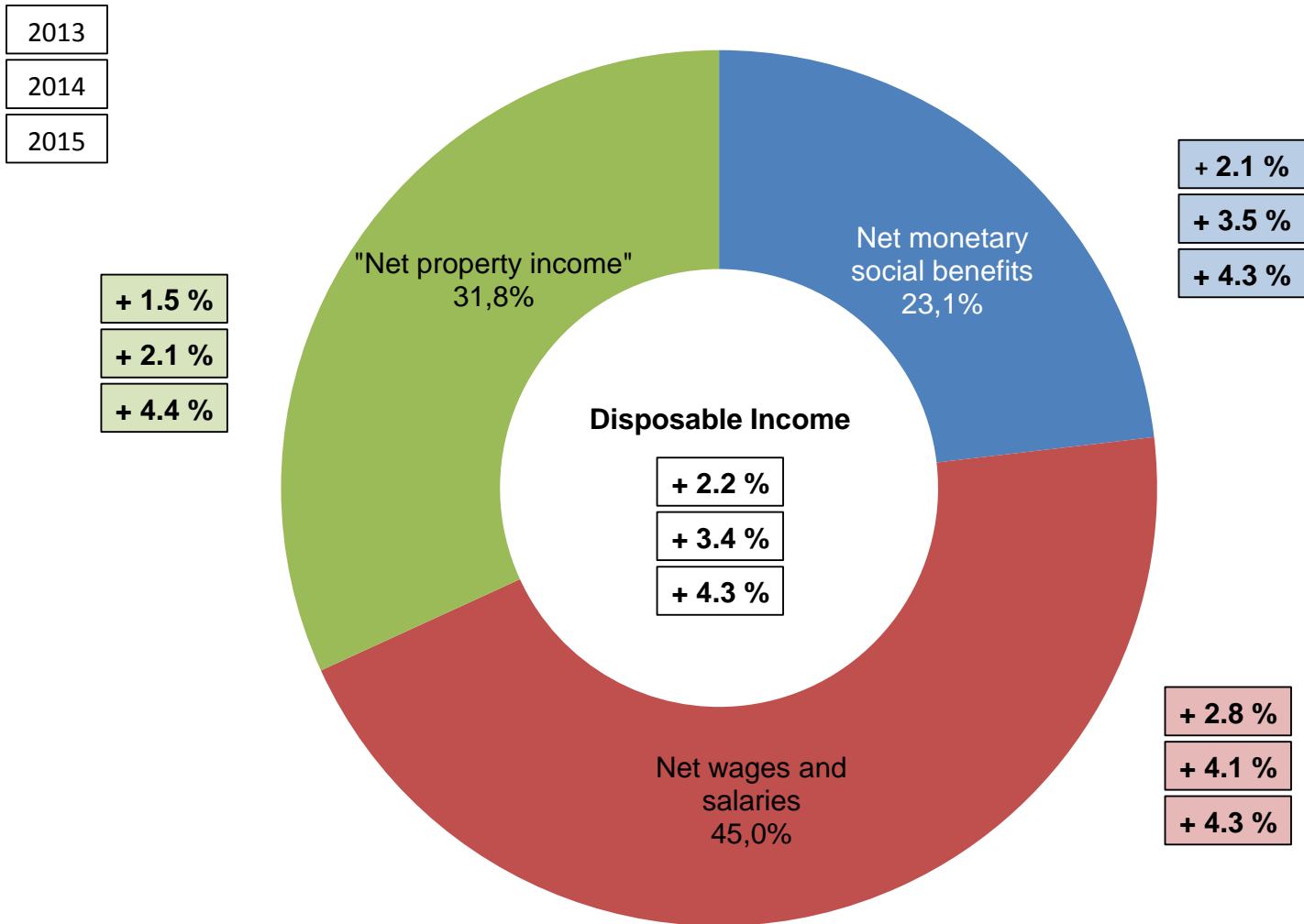
Housing market and financing



Robust labor market and fiscal gifts get private consumption going



Private disposable income



GDP and key expenditure components

Volumes, change over previous year in percent

	2013	2014	2015
GDP	0.4	1.9	2.5
Private consumption	0.9	1.5	1.9
Public consumption	0.7	1.2	1.3
M&E investment	-2.4	5.3	10.7
Construction	0.1	3.2	3.8
Exports	0.8	7.2	7.5
Imports	0.9	7.3	9.0

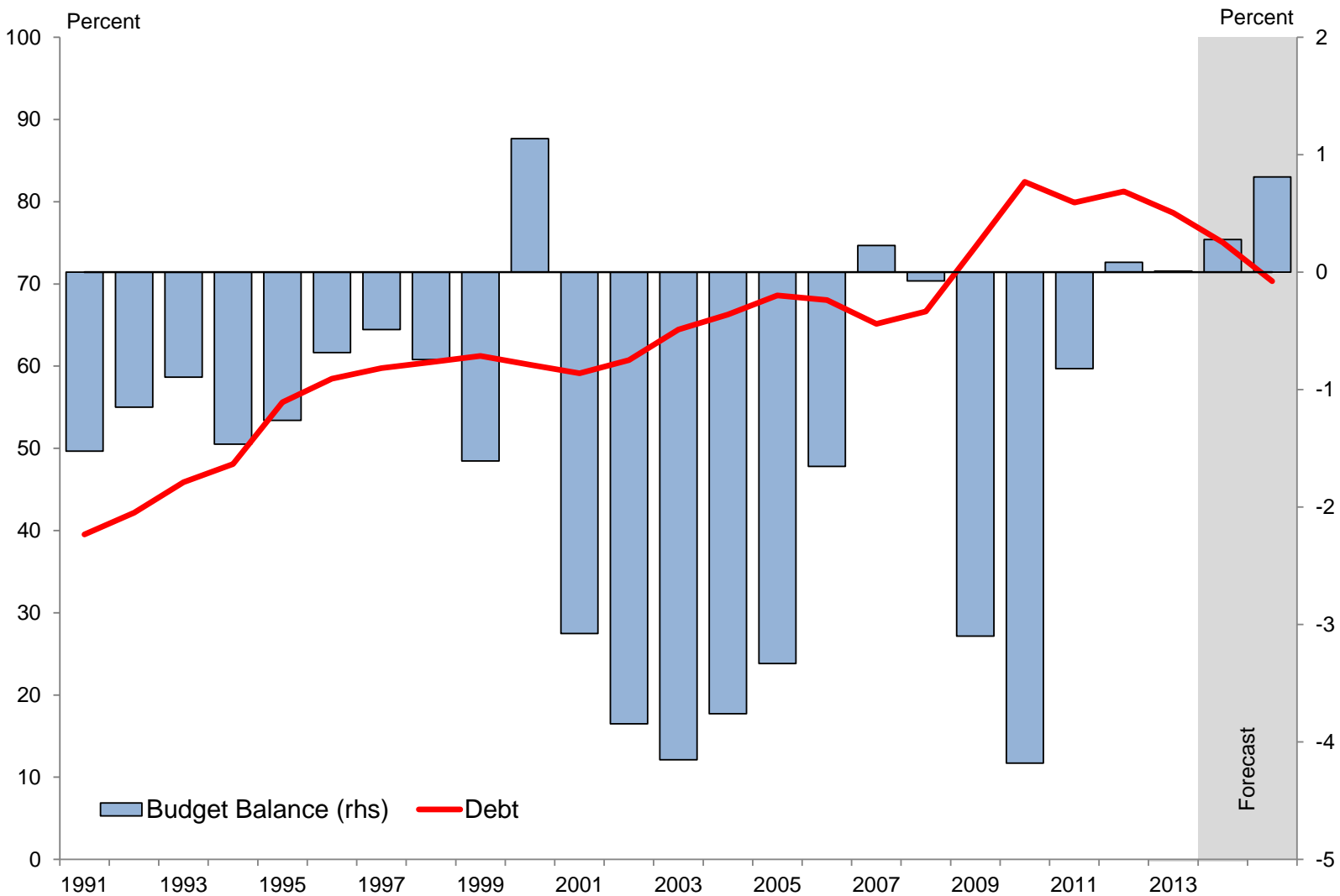
Labor market, productivity, and prices

Volumes, change over previous year in percent

	2013	2014	2015
Employment Thousand persons	41 840	42 183	42 604
Unemployment BA, Thousand persons	2 950	2 908	2 858
Unemployment rate BA, Percent	6.9	6.7	6.5
Labor productivity Change in percent	0.3	1.3	1.3
Effective wages Per hour (capita) change in percent	2.5 (2.2)	3.3 (3.4)	3.5 (3.8)
Unit labor cost Per hour (capita) change in percent	2.0 (2.1)	1.8 (2.1)	2.1 (2.2)
Consumer prices Change in percent	1.5	1.5	2.5



Public finance: Surpluses in the slipstream of the boom



Major fiscal risks

- Artificially low interest rates on public debt
 - Consolidation via eroding capital stock
 - “Demographic high” creates extra contributions to social security systems
 - Overestimating potential output due to monetary overheating
- ⇒ **Fiscal stance less robust/sustainable as it looks**

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