

92nd Kieler Konjunkturgespräche | Berlin, 14-15 September 2015
Investment stimulus after the crisis: Kick-starter or non-starter?

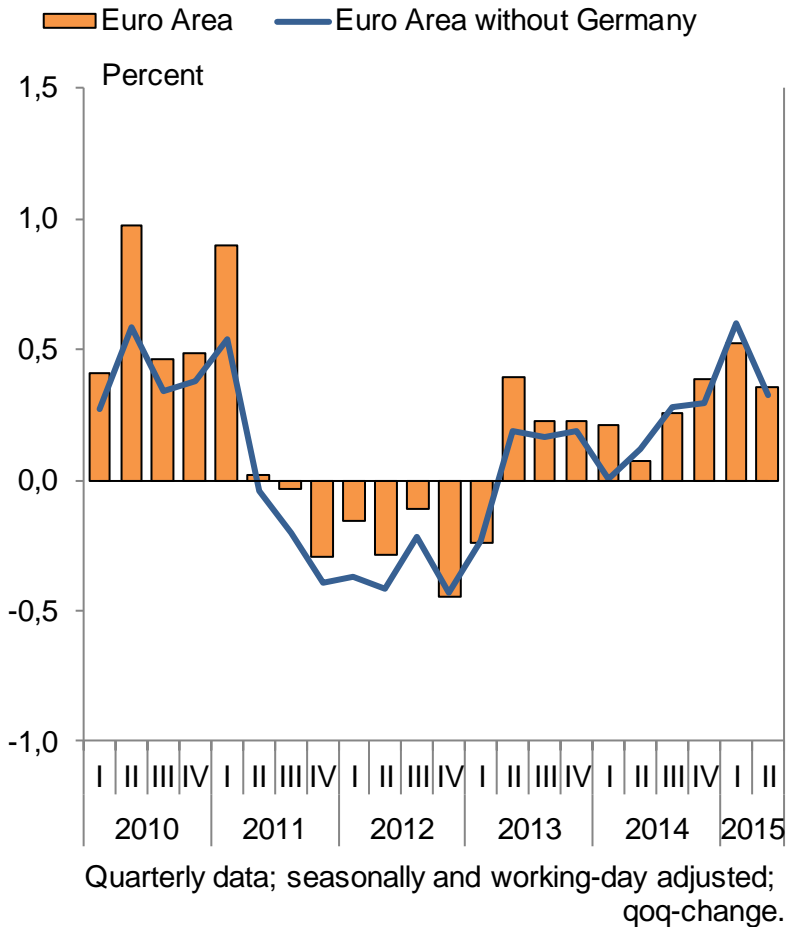
Moderate recovery in the euro area

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Gross domestic product

Gross Domestic Product in the Euro Area and the Euro Area without Germany

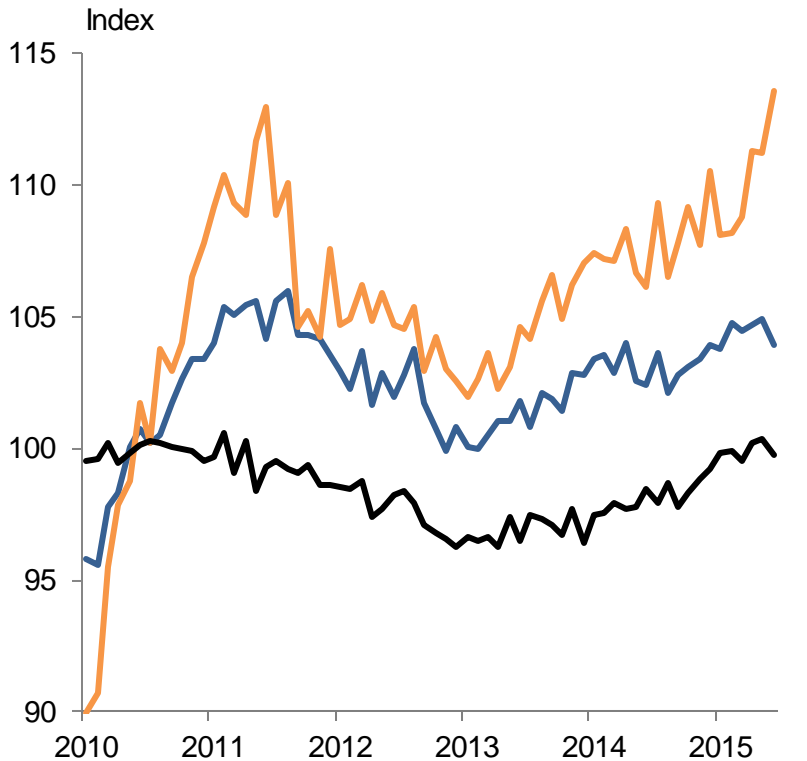


- qoq change
 - » 2015-Q1: +0.5 percent
 - » 2015-Q2: +0.4 percent (net export contr.: 0.3 pp)
- Moderate recovery since 2013
 - » qoq: 0.1 percent - 0.5 percent
 - » 2014: + 0.9 percent

Early activity indicators and business climate

Industrial Production, New Orders and Retail Sales

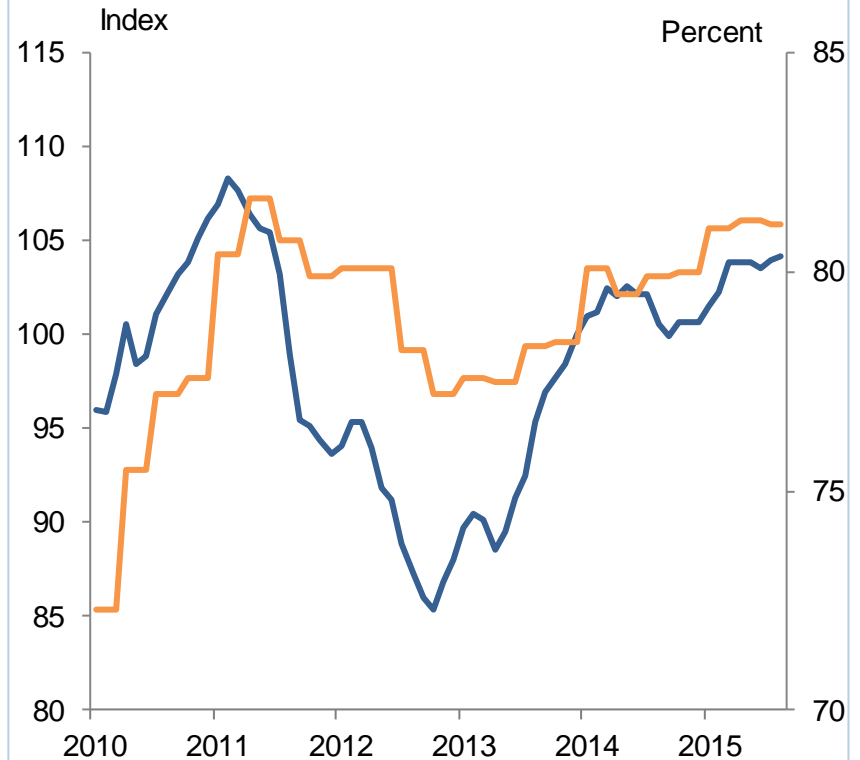
— Industrial Production — New Orders — Retail Sales



Monthly data, volume, seasonally adjusted.

Economic Sentiment and Capacity Utilization

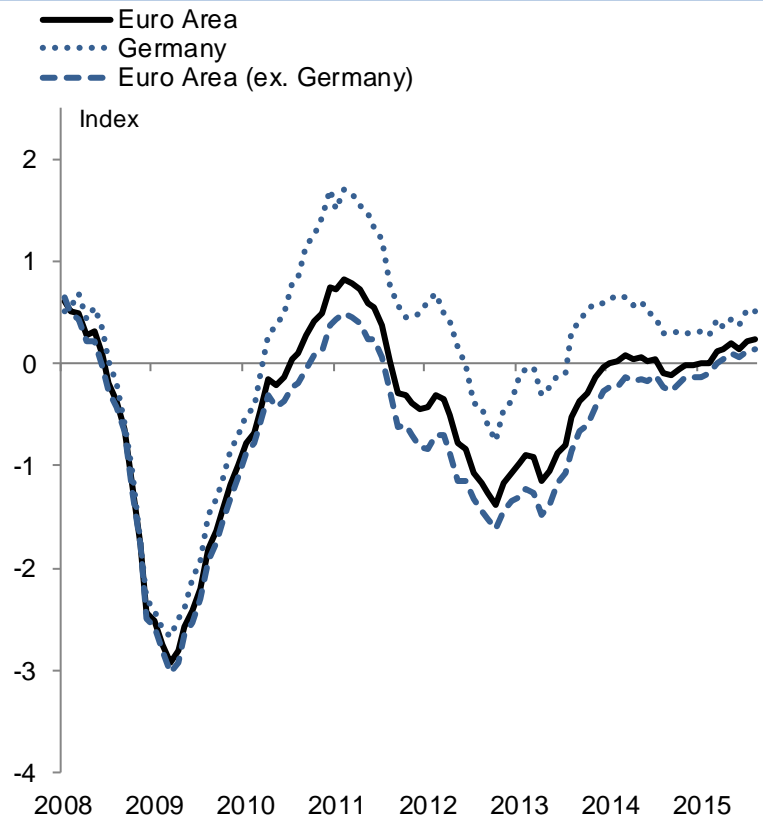
— Economic Sentiment Indicator — Capacity Utilization (rhs)



Monthly data, seasonally adjusted.

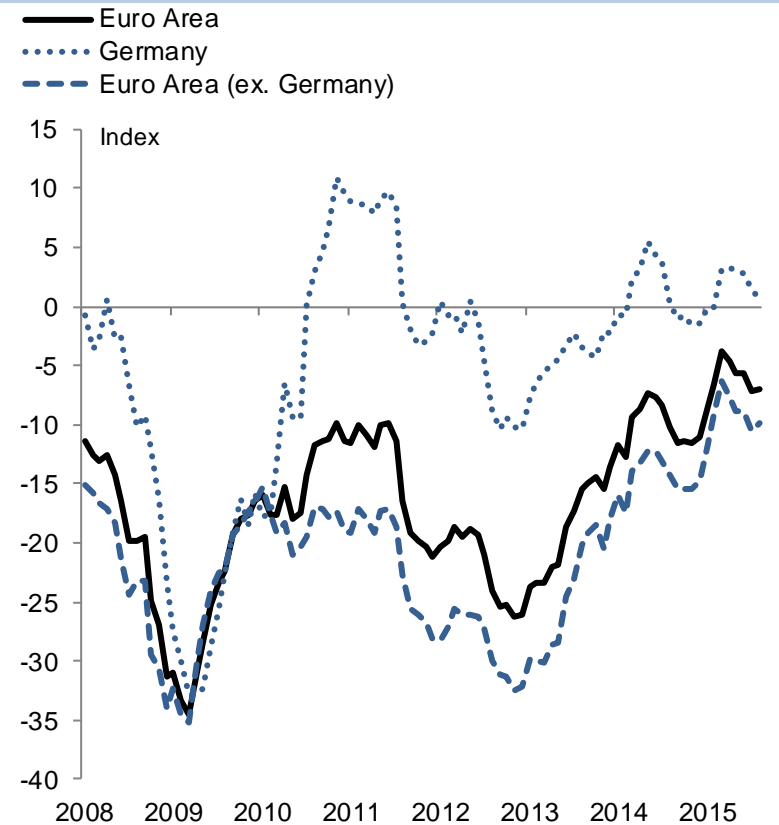
Economic Sentiment

Business



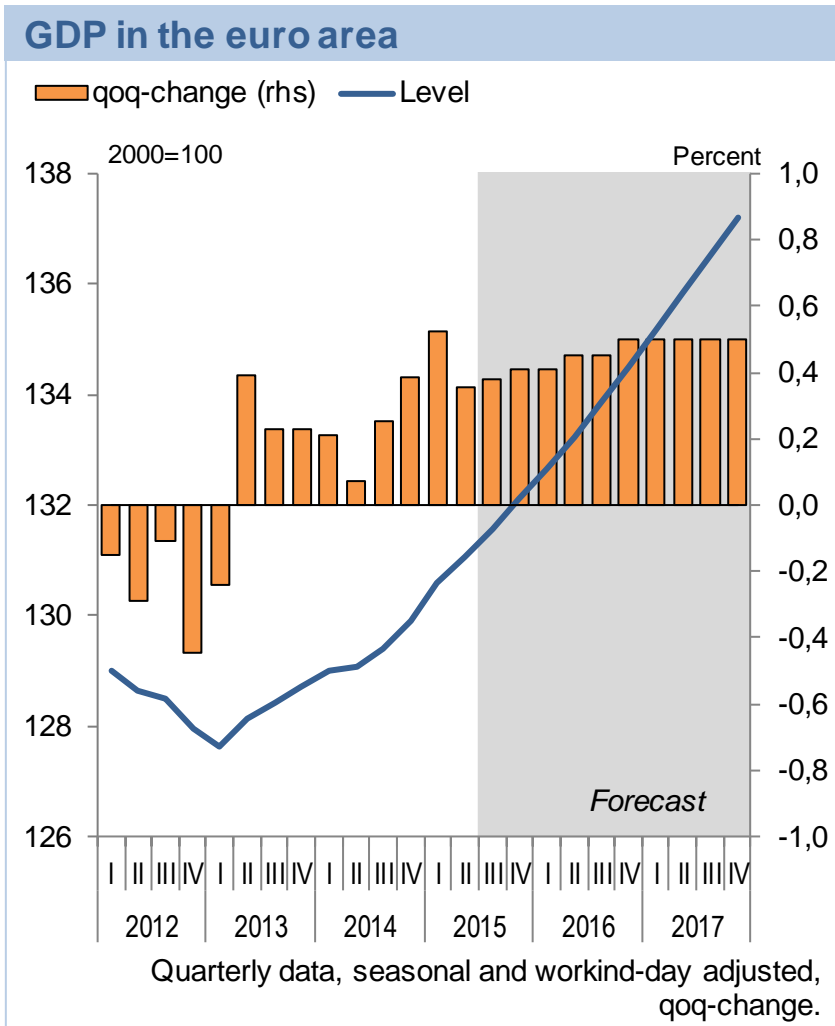
Monthly data, seasonally adjusted.

Consumer



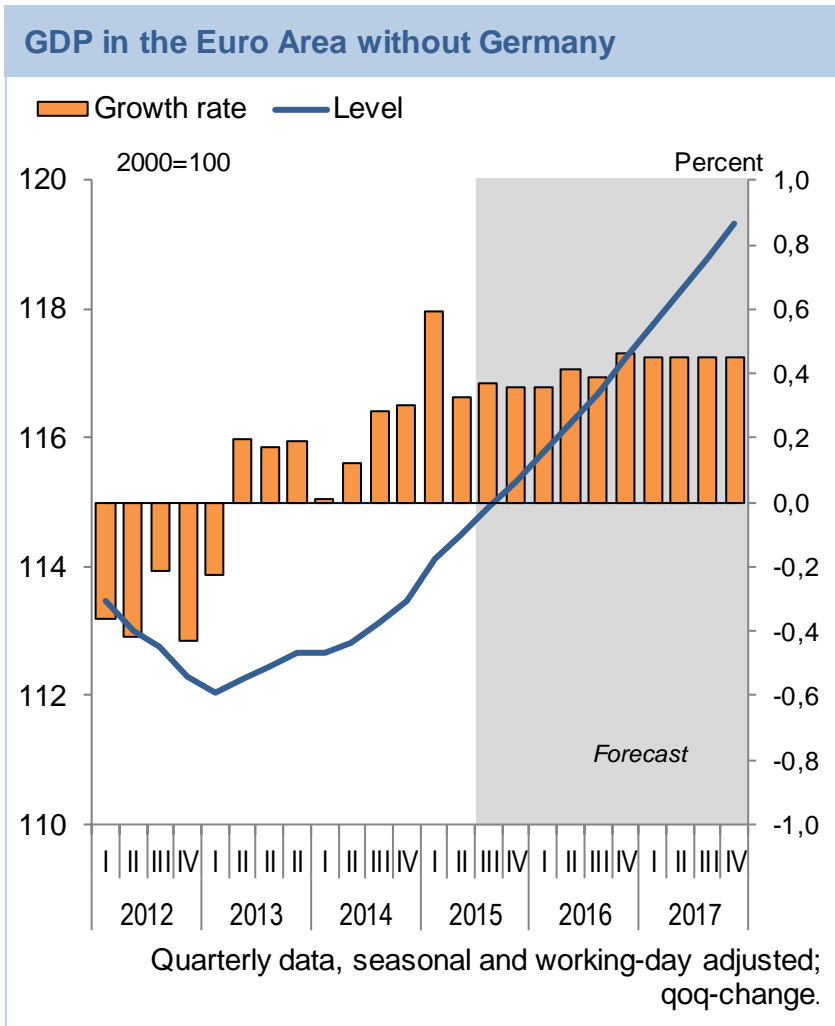
Monthly data, seasonally adjusted.

Outlook for the Euro Area (GDP)



- 2014: 0.9 percent
- 2015: 1.5 percent
- 2016: 1.7 percent
- 2017: 2.0 percent

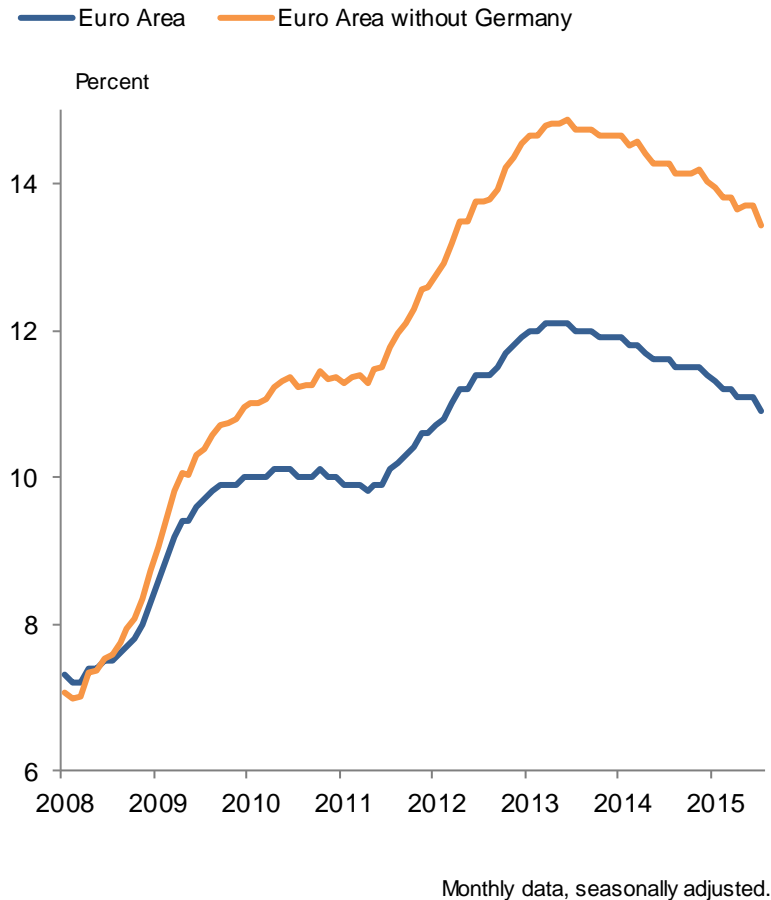
Outlook for the Euro Area ex Germany (GDP)



- 2014: 0.6 percent
- 2015: 1.4 percent
- 2016: 1.5 percent
- 2017: 1,8 percent

Labor market: Unemployment

Unemployment rate



- 2014: 11.6 percent
- 2015: 11.0 percent
- 2016: 10.5 percent
- 2017: 9.9 percent

Labor market:

Employment and migration in distressed countries (2012-2014)

■ Greece

- » Active population: -100 T
- » Net Migration: -117 T
- » **Employment: -62 T**
- » Unemployment: -37 T

■ Portugal

- » Active population: -87 T
- » Net Migration: -72 T
- » **Employment: +81 T**
- » Unemployment: -81 T

■ Ireland

- » Active population: -0 T
- » Net Migration: -61 T
- » **Employment: +81 T**
- » Unemployment: -81 T

■ Spain

- » Active population: -314 T
- » Net Migration: -362 T
- » **Employment: +249 T**
- » Unemployment: -564 T

Wages

percentage change over previous year

	2014	2015 ^b	2016 ^b	2017 ^b
Germany	2.6	3.0	2.2	3.1
France	1.4	1.3	1.2	1.2
Italy	0.7	1.4	0.7	1.0
Spain	-0.3	0.4	0.6	0.8
Netherlands	2.0	1.9	2.0	2.2
Belgium	1.0	0.6	1.5	2.0
Austria	1.7	1.9	2.1	2.3
Finland	1.4	1.0	0.8	1.0
Greece	-1.6	-0.8	0.0	0.5
Portugal	-1.4	1.6	1.5	2.0
Ireland	1.8	1.1	1.5	2.0
Slovakia	3.4	3.0	4.0	4.5
Luxembourg	1.9	1.0	2.0	2.5
Slovenia	1.1	0.8	1.0	1.1
Lithuania	4.8	4.4	5.0	5.2
Latvia	8.2	5.4	5.5	6.0
Estonia	7.7	6.2	7.0	7.5
Cyprus	-4.7	-2.7	-1.0	0.0
Malta	0.1	0.8	1.5	2.0
Euro area	1.5	1.8	1.5	1.9
Euro area excl. Germany	1.0	1.2	1.2	1.4

^aCompensation per employee. — ^bForecast.

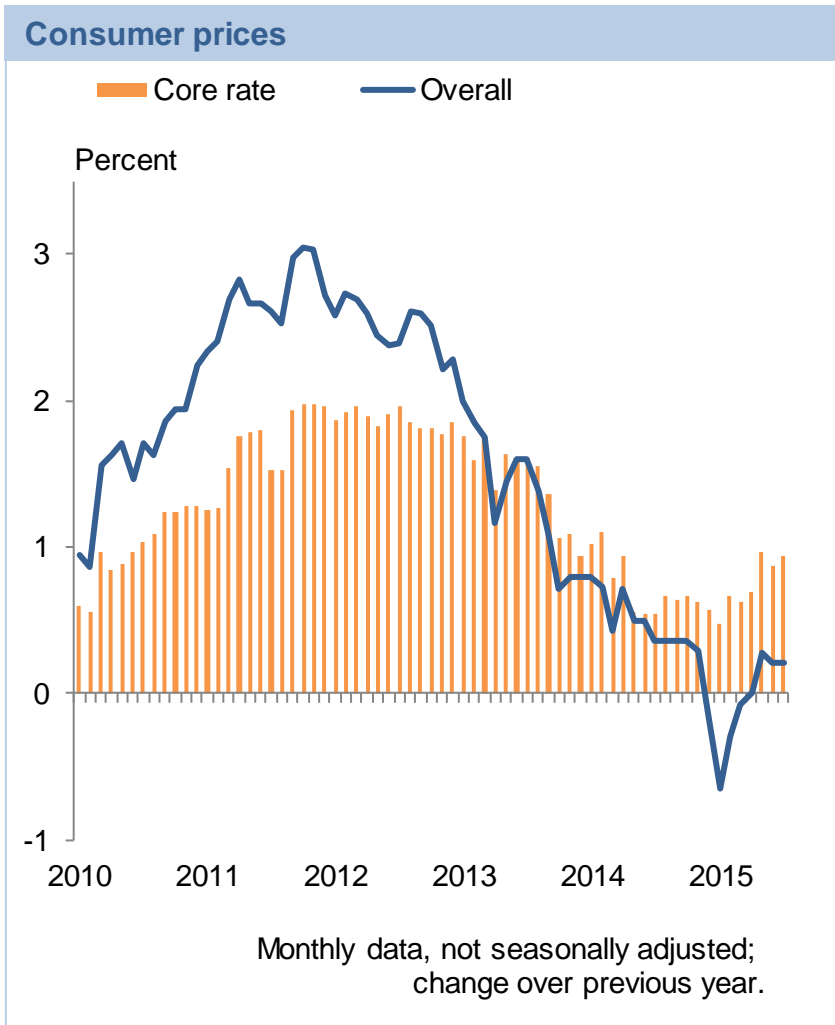
Wages, productivity, unit labor costs

percentage change over previous year

	2014	2015 ^a	2016 ^a	2017 ^a
Compensation per employee				
Euro area	1.5	1.8	1.5	1.9
Euro area excl. Germany	1.0	1.2	1.2	1.4
Productivity				
Euro area	0.3	0.8	1.1	1.1
Euro area excl. Germany	0.1	0.9	1.1	1.0
Unit labor costs				
Euro area	1.2	0.9	0.4	0.8
Euro area excl. Germany	0.9	0.3	0.1	0.4

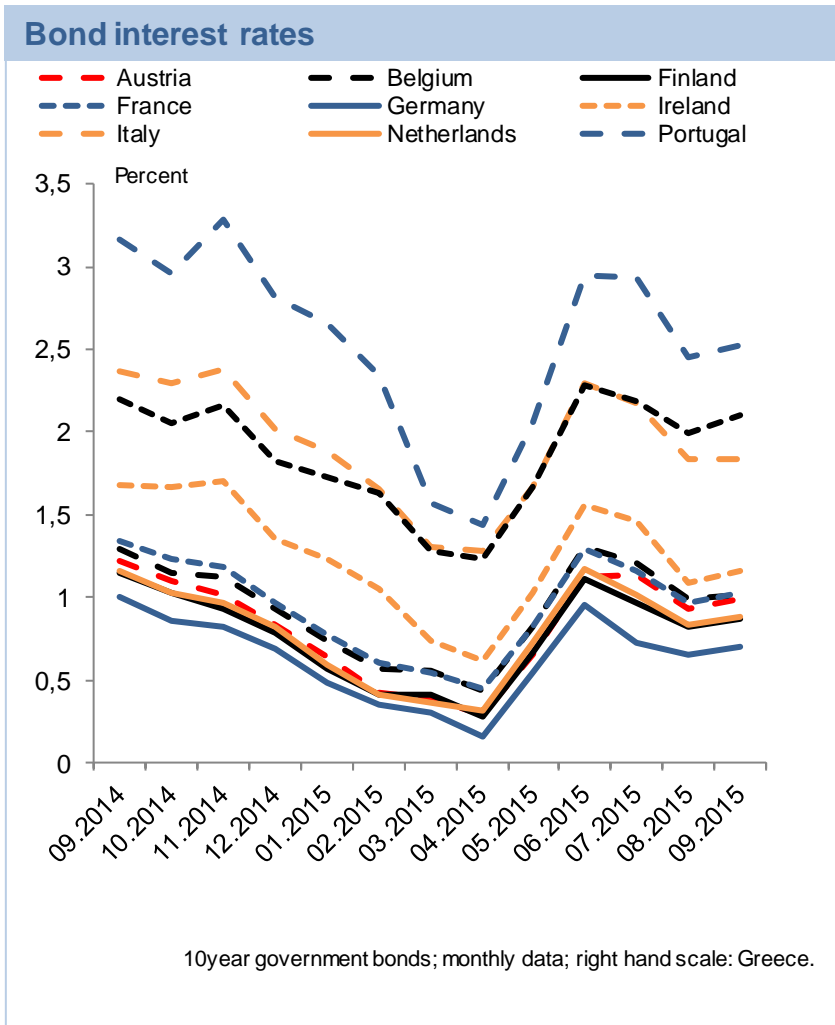
^aForecast.

Inflation



- Data edge
 - » CPI inflation about to dip again due to sharp drop of oil prices
- Expected increase of inflation by the end of 2015
 - » 2014: 0.4 percent
 - » 2015: 0.0 percent
 - » 2016: 0.9 percent
 - » 2017: 1.8 percent
- Core inflation rate at ~1 %

Inflation: Expectations



- Yields of government bonds on record-low levels at the start of QE program
- Rising yields since April (increase in inflation expectations)

Outlook: Upswing increasingly driven by domestic demand

- **Supporting factors** for economic activity
 - » Low oil prices, low interest rates, low external value of the euro
- **Labor market** conditions improve further, thus stimulating consumption
- **Private investment** benefits from decrease in overall uncertainty
- **Budget:** Fiscal consolidation eases. Only slight improvement of budgets due to favorable financial conditions and recovery
 - » 2014: -2,5 percent
 - » 2015: -1,9 percent
 - » 2016: -1,9 percent
 - » 2017: -1,7 percent
- **External trade** will accelerate
 - » Exports (low euro) and imports (domestic forces) both increase
 - » Contribution of net exports to growth will be rather small

Budget Balances in the Euro Area

	2014	2015 ^b	2016 ^b	2017 ^b
Germany	0.3	1.0	0.5	0.7
France	-4.0	-3.8	-3.8	-3.5
Italy	-3.0	-2.5	-2.0	-2.2
Spain	-5.8	-4.5	-3.7	-3.3
Netherlands	-2.3	-1.5	-1.3	-1.1
Belgium	-3.2	-2.5	-2.3	-2.1
Austria	-2.4	-1.9	-1.9	-1.7
Finland	-3.2	-3.6	-3.4	-3.1
Greece	-3.5	-2.2	-3.0	-2.9
Portugal	-4.1	-2.4	-2.4	-2.5
Ireland	-4.5	-3.1	-3.0	-2.8
Slovakia	-2.9	-2.7	-2.6	-2.5
Luxembourg	0.6	0.5	0.1	0.1
Slovenia	-4.9	-2.7	-2.4	-2.4
Lithuania	-0.7	-1.9	-0.8	-0.5
Latvia	-1.4	-1.2	-1.5	-1.5
Estonia	0.6	-0.4	-0.2	0.1
Cyprus	-8.8	-0.3	0.3	0.5
Malta	-2.1	-2.0	-1.7	-1.5
Euro area	-2.5	-1.9	-1.9	-1.7
Euro area excl. Germany	-3.7	-3.0	-2.8	-2.7

^aPercent of GDP. — ^bForecast.

Outlook for the Euro Area

Euro Area 2014–2017

	2014	2015	2016	2017
Gross domestic product	0,9	1,5	1,7	2,0
Domestic demand	0,8	1,4	1,5	2,1
Private consumption	0,9	1,7	1,6	1,9
Public consumption	0,8	1,3	1,4	1,8
Fixed capital formation	1,3	1,8	2,1	3,3
Change in stocks	-0,1	-0,2	-0,2	-0,1
Net exports	0,1	0,2	0,2	0,0
Exports	3,9	4,9	5,0	5,5
Imports	4,1	5,0	4,9	6,2
Consumer prices	0,4	0,0	0,9	1,8
Unemployment rate	11,6	11,0	10,5	9,9
Current Account	2,0	2,4	2,7	2,7
Budget Balance	-2,5	-1,9	-1,9	-1,7

Gross Domestic product: volume; change over previous year. — Change in stocks, net export: contribution to GDP growth. — Consumer Prices: Harmonized Index of Consumer Prices (HICP). — Unemployment rate: ILO. — Budget Balance: in relation to GDP.

Source: Eurostat, *National Accounts*; own calculation; gray: forecast of IfW.

Outlook for the Euro area

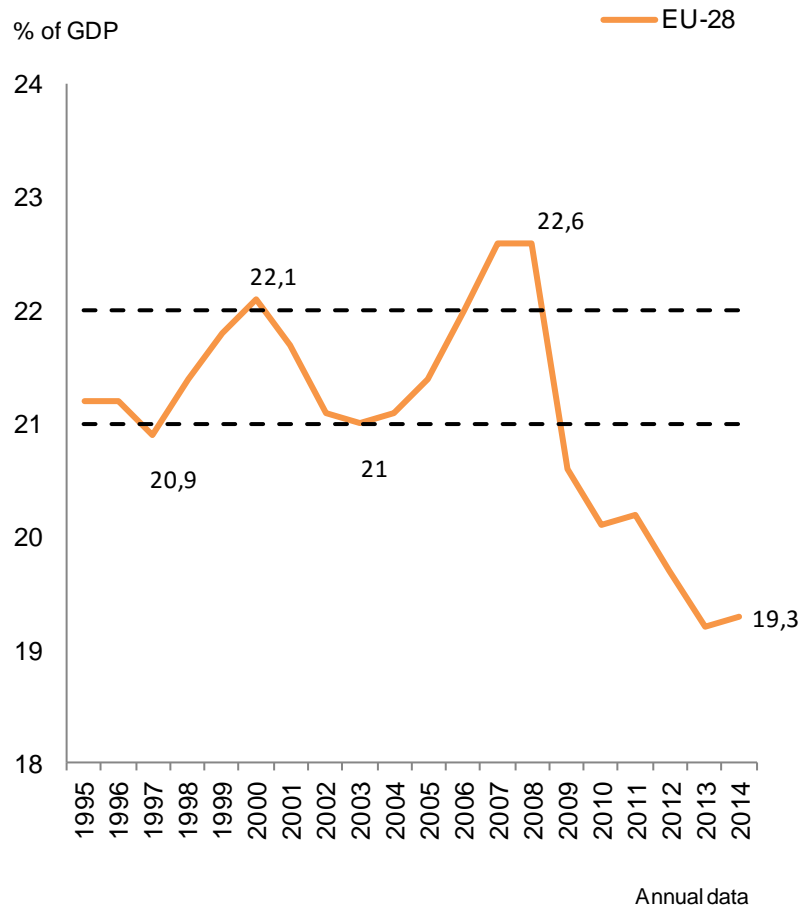
Real GDP, Consumer Prices and Unemployment Rates in the Euro Area 2015–2017

	Weight	GDP			Consumer Prices			Unemployment rate		
		2015	2016	2017	2015	2016	2017	2015	2016	2017
Germany	28,3	1,5	2,1	2,3	0,2	1,0	2,1	4,7	4,5	3,9
France	21,3	1,1	1,2	1,6	0,1	0,9	1,8	10,4	10,3	9,8
Italy	16,2	0,8	1,5	1,6	0,0	0,7	1,5	12,2	11,8	11,2
Spain	10,6	3,3	3,2	2,5	-0,5	0,7	1,7	22,3	21,1	20,0
Netherlands	6,5	2,0	1,5	1,6	0,0	0,9	1,8	7,0	6,5	6,2
Belgium	4,0	1,3	1,6	1,6	0,2	1,1	2,0	8,5	8,2	7,8
Austria	3,2	1,0	1,8	1,8	0,9	1,9	2,9	5,5	5,2	4,9
Finland	2,0	0,3	1,2	1,5	0,0	0,7	1,7	9,5	9,4	9,1
Greece	1,8	-0,2	0,7	2,7	-2,1	-1,3	-0,1	25,8	24,6	24,0
Portugal	1,7	1,6	1,6	1,5	0,4	1,2	2,0	12,6	11,5	10,9
Ireland	1,8	5,1	3,6	3,0	-0,3	0,9	2,4	9,5	8,3	7,5
Slovakia	0,7	3,1	3,2	3,6	-0,2	1,1	2,5	11,5	10,2	8,8
Luxembourg	0,5	4,5	3,1	2,9	0,0	1,2	2,4	5,7	5,5	5,3
Slovenia	0,4	2,8	2,9	2,7	-0,6	0,5	1,5	9,2	8,8	8,5
Lithuania	0,4	1,6	3,0	3,6	-0,6	0,6	1,7	9,3	7,9	7,1
Latvia	0,2	2,6	3,1	3,8	0,5	1,6	2,9	9,7	9,0	8,5
Estonia	0,2	1,8	2,5	3,1	0,1	1,2	2,4	6,0	5,4	4,9
Cyprus	0,2	1,7	2,4	2,7	-1,1	0,1	1,0	16,0	15,3	14,5
Malta	0,1	3,1	2,6	2,4	0,9	1,7	2,7	5,4	5,0	4,8
Euro area	100,0	1,5	1,8	2,0	0,0	0,9	1,8	11,0	10,5	9,9
Euro area w/o Germany	71,7	1,4	1,5	1,8	-0,1	0,8	1,8	13,2	12,6	12,0

Weights: Based on nominal GDP in 2013. — Percentage change over previous year— 2015 and 2016 forecast. — Source: Eurostat, National Accounts, Price Statistics, Labor Statistics; own calculations.

Investment „gap“ in EU-28

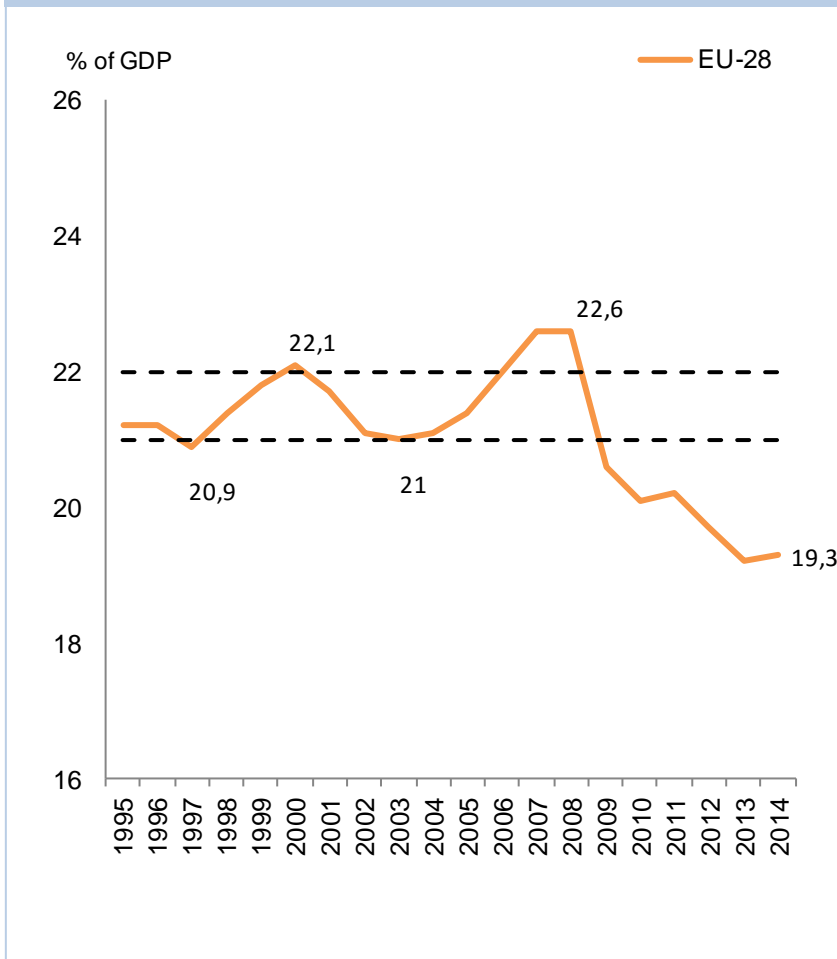
Gross Fixed Capital Formation (% GDP)



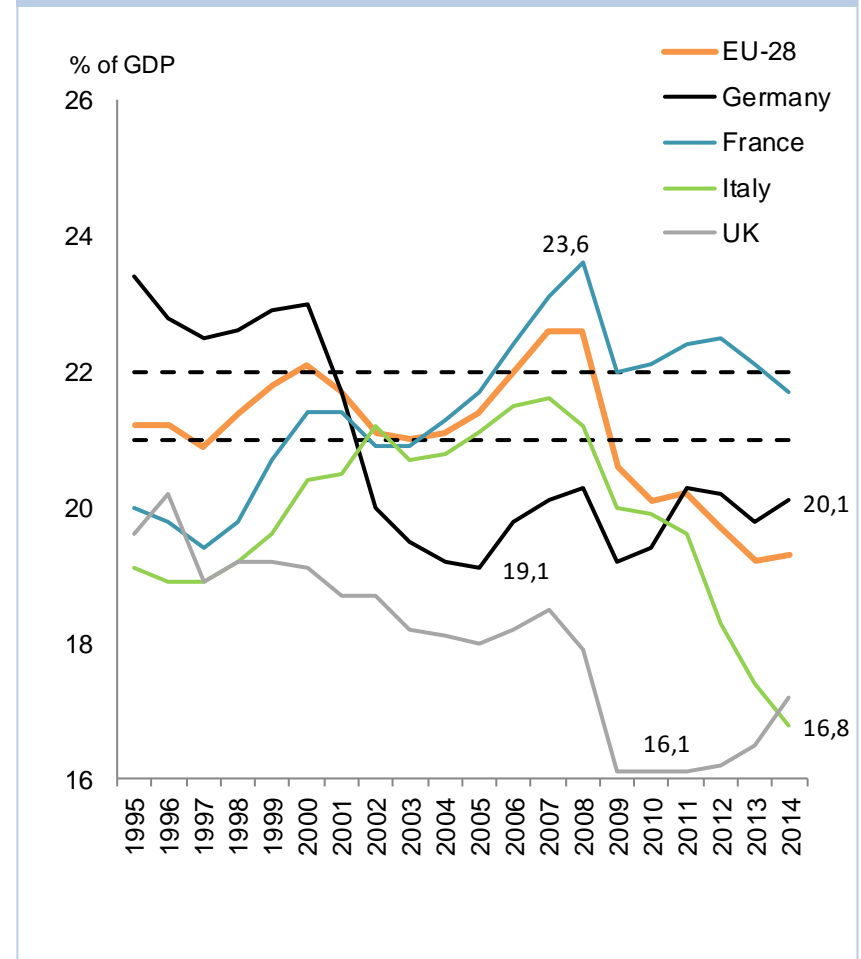
- Decline of gross investment since 2008
- „Investment gap“:
Still no recovery of the share of investment to the long-run range of 21-22 percent

Investment: large economies

Gross Fixed Capital Formation (% GDP)

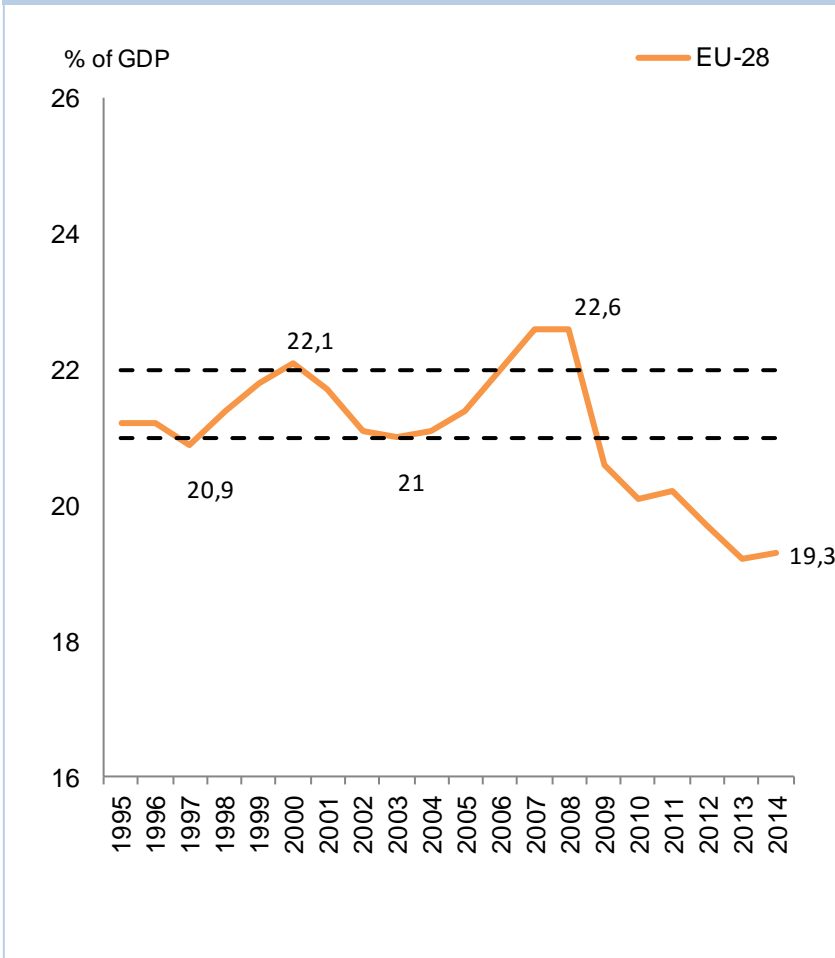


Gross Fixed Capital Formation (% GDP)

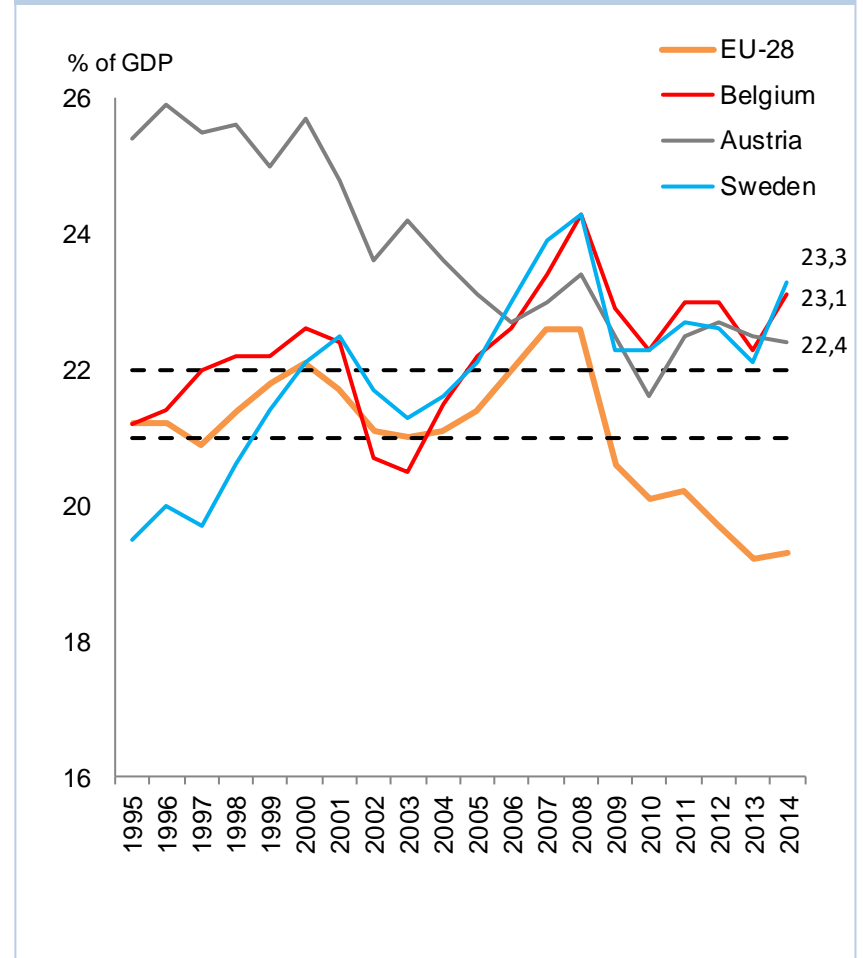


Investment: Countries without investment „gap“

Gross Fixed Capital Formation (% GDP)

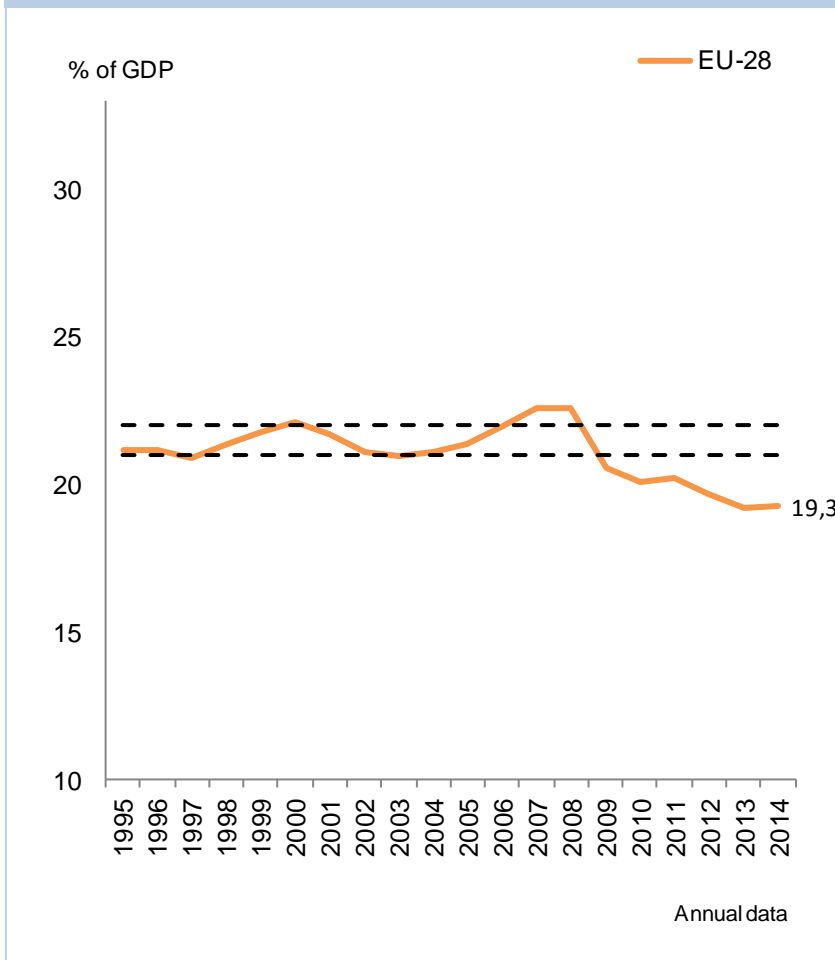


Gross Fixed Capital Formation (% GDP)

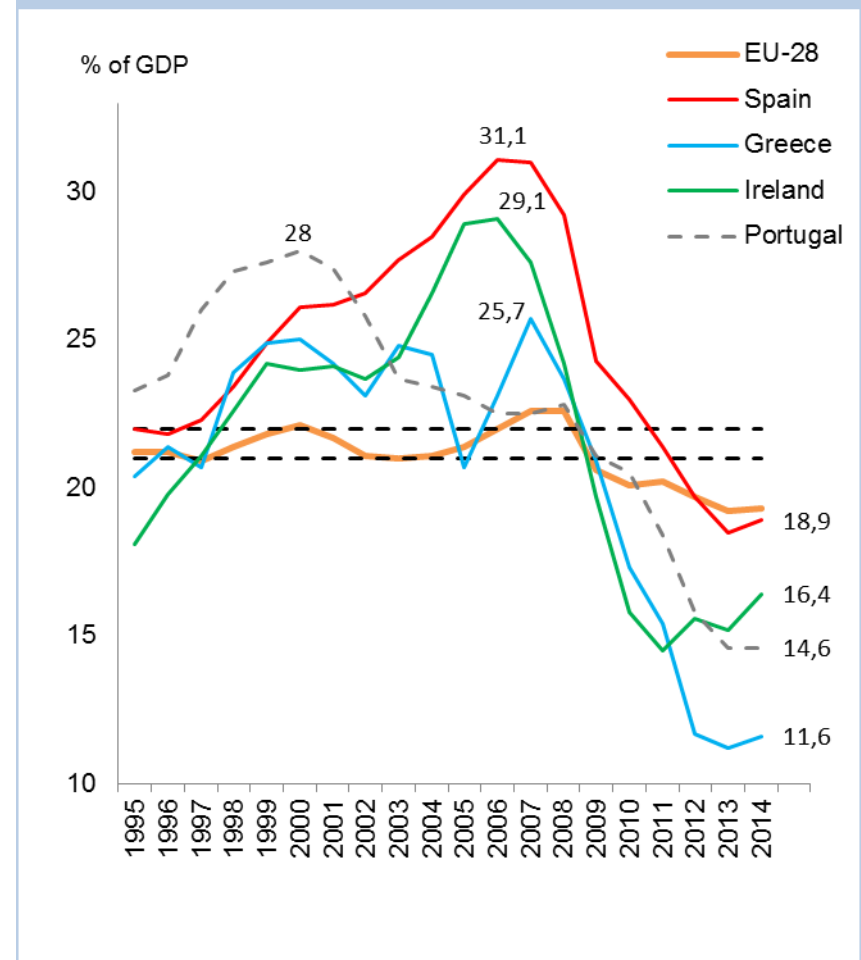


Investment: GIPS and the credit bubble

Gross Fixed Capital Formation (% GDP)



Gross Fixed Capital Formation (% GDP)

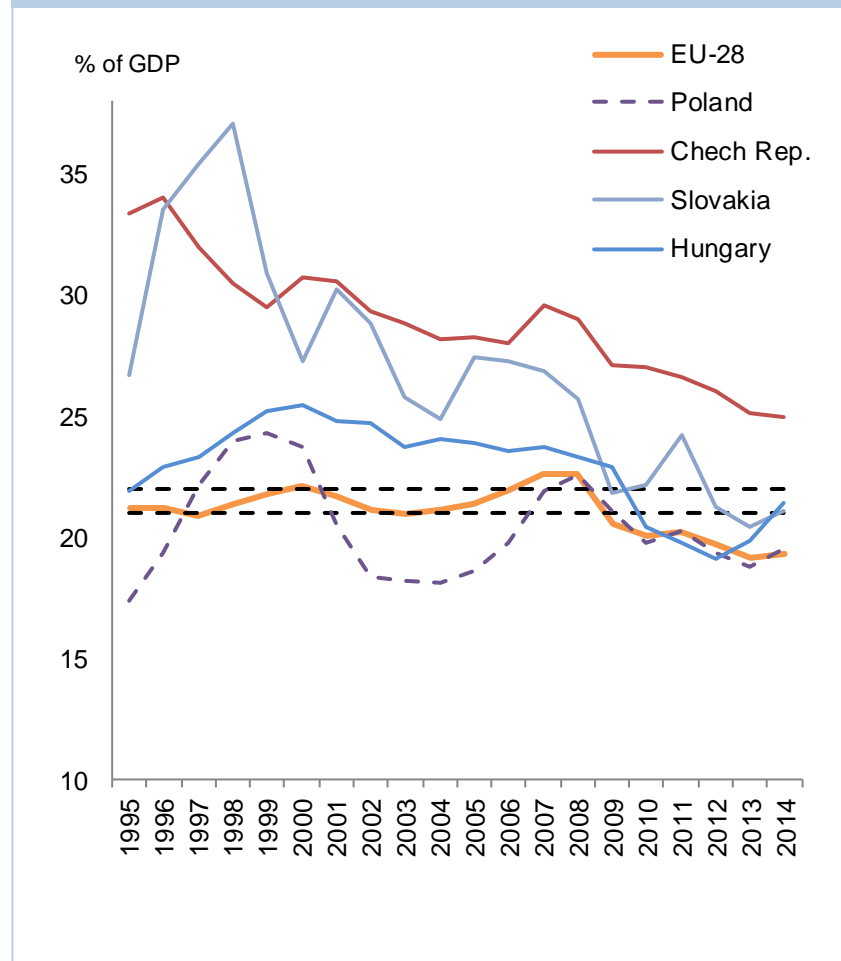


Investment: Eastern Europe

Gross Fixed Capital Formation (% GDP)

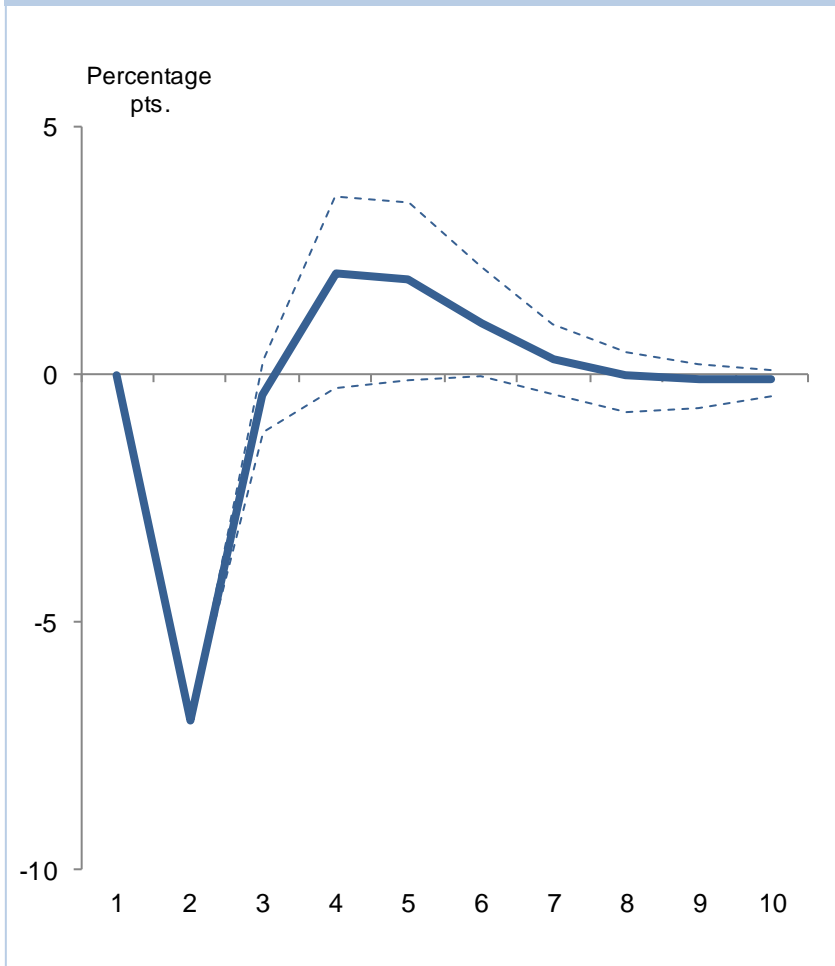


Gross Fixed Capital Formation (% GDP)

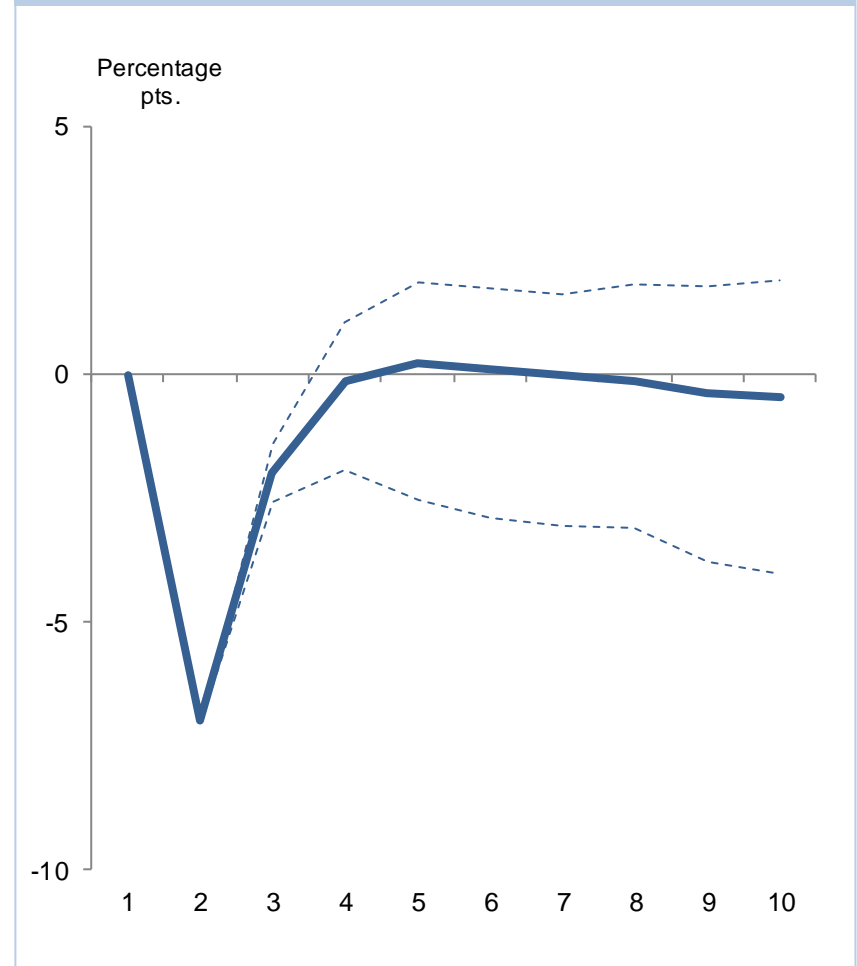


Box: Post-recession investment (yoy change)

A. Normal recessions (growth rate)

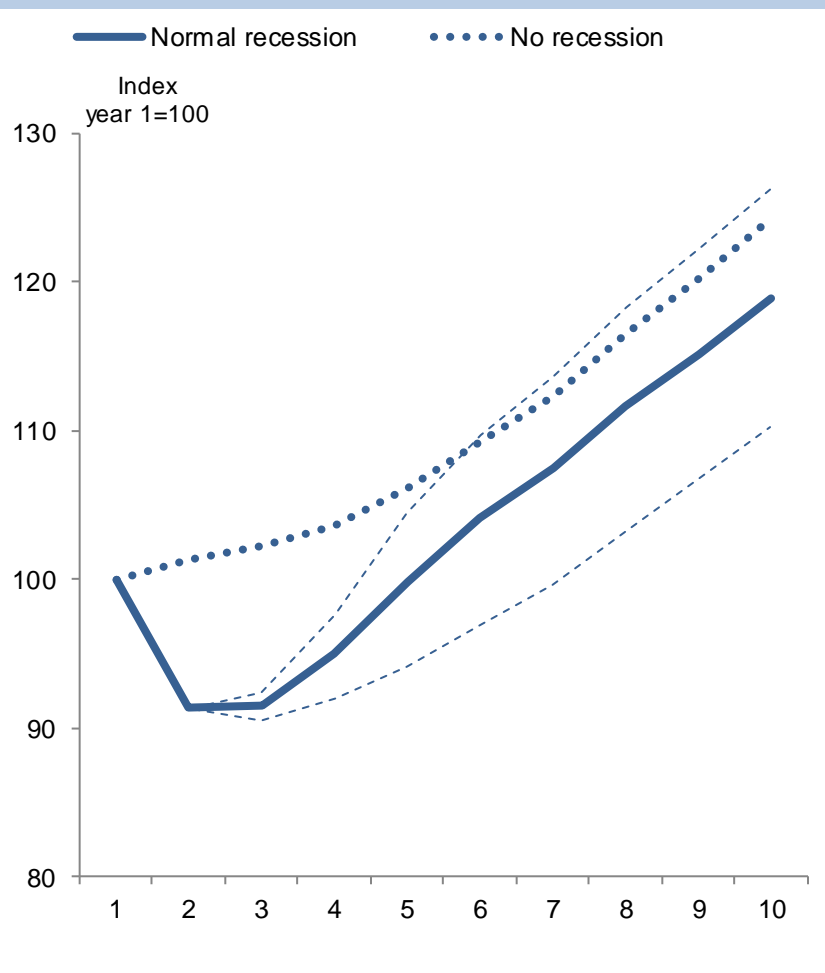


B. Financial crisis (growth rate)

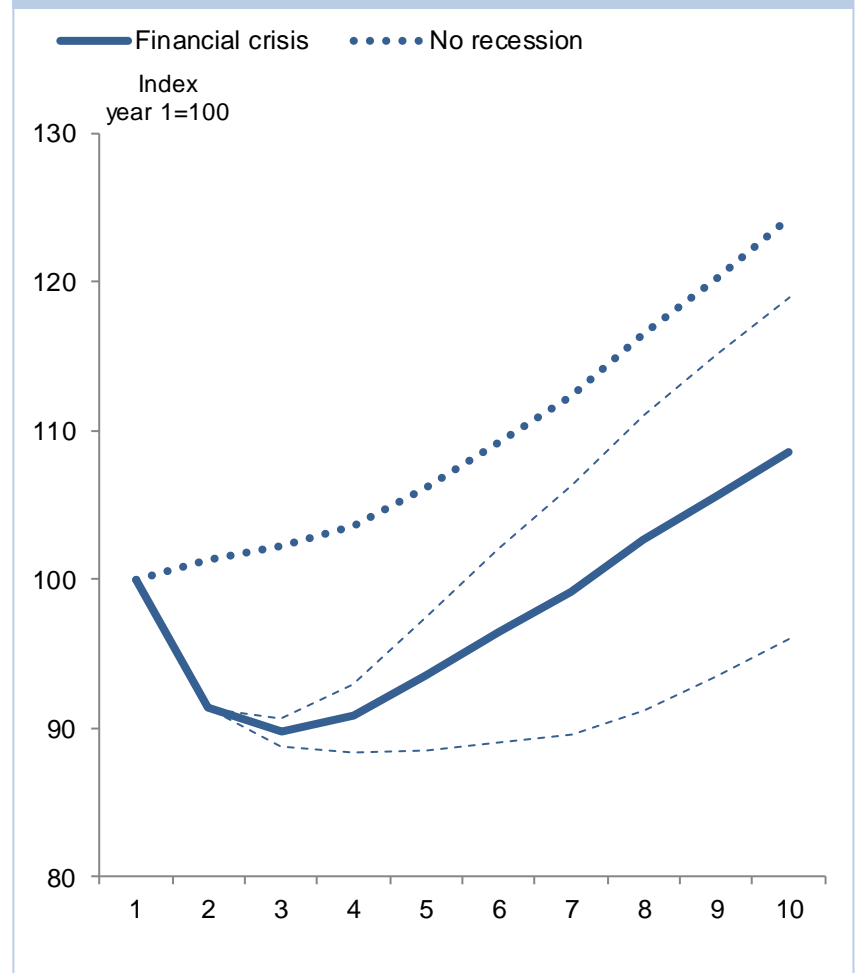


Box: Post-recession investment (level)

C. Normal recessions (level)



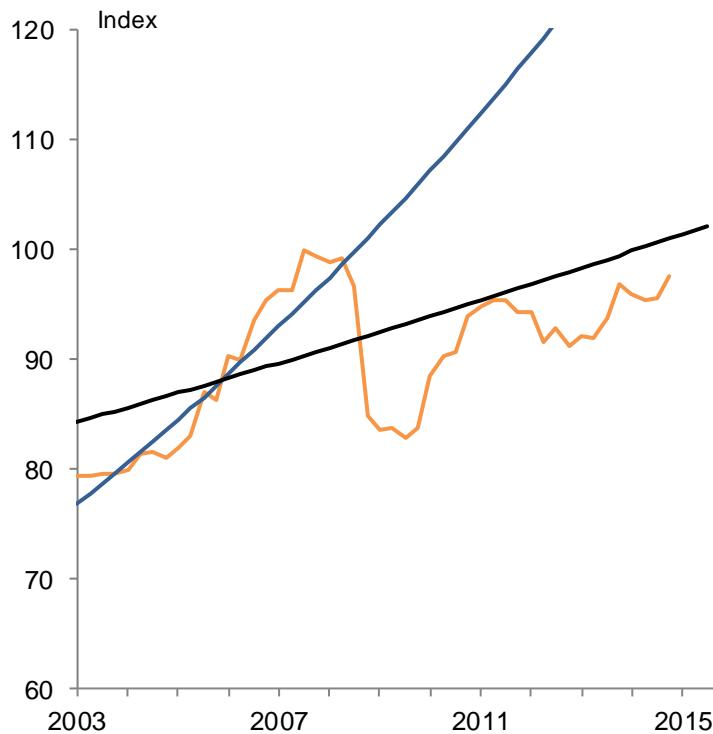
D. Financial crisis (level)



Box: Post-crisis investment (Germany and Italy)

Germany

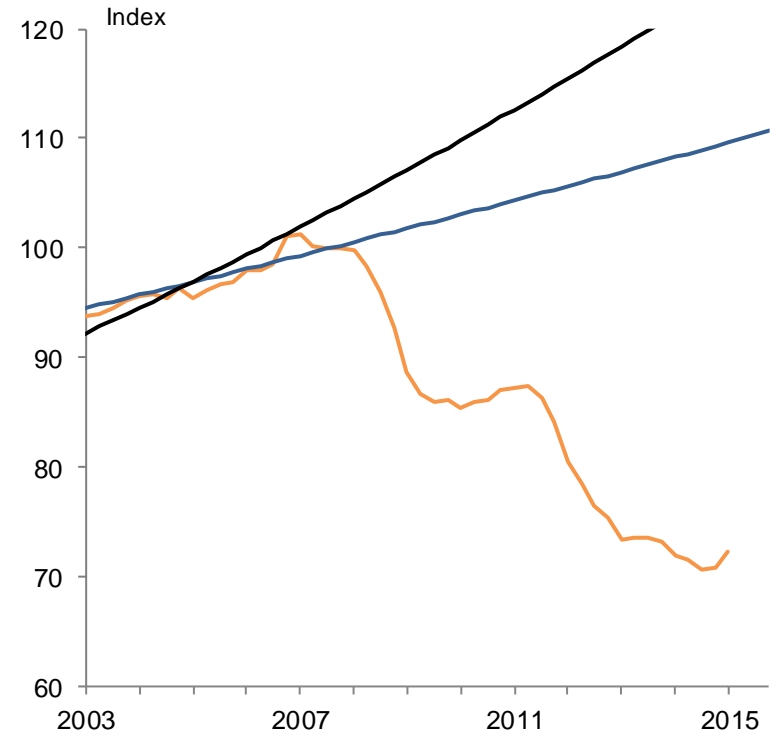
— GDP — Growth path (5 years) — Growth path (10 years)



Quartalsdaten; Unternehmensinvestitionen viertes Quartal 2007=100; Wachstumstrend wurde anhand eines log-linearen Trends in den 5 bzw. 10 Jahren vor Beginn der Krise im vierten Quartal 2007 geschätzt.

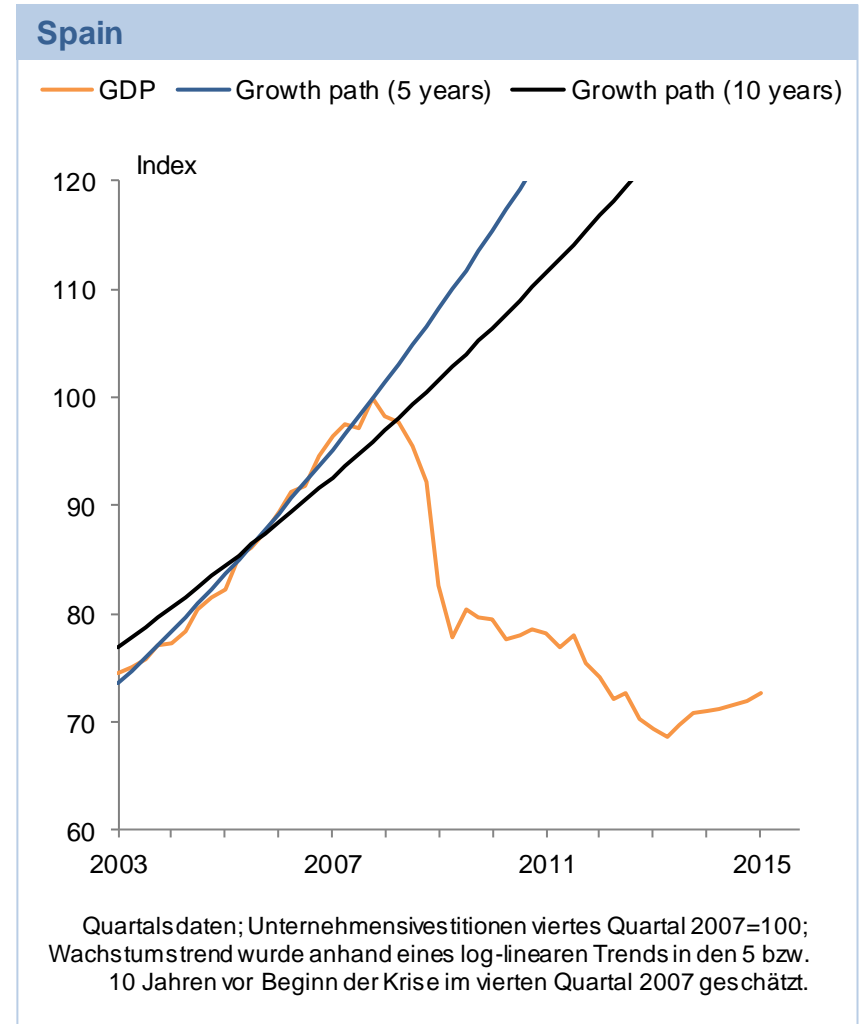
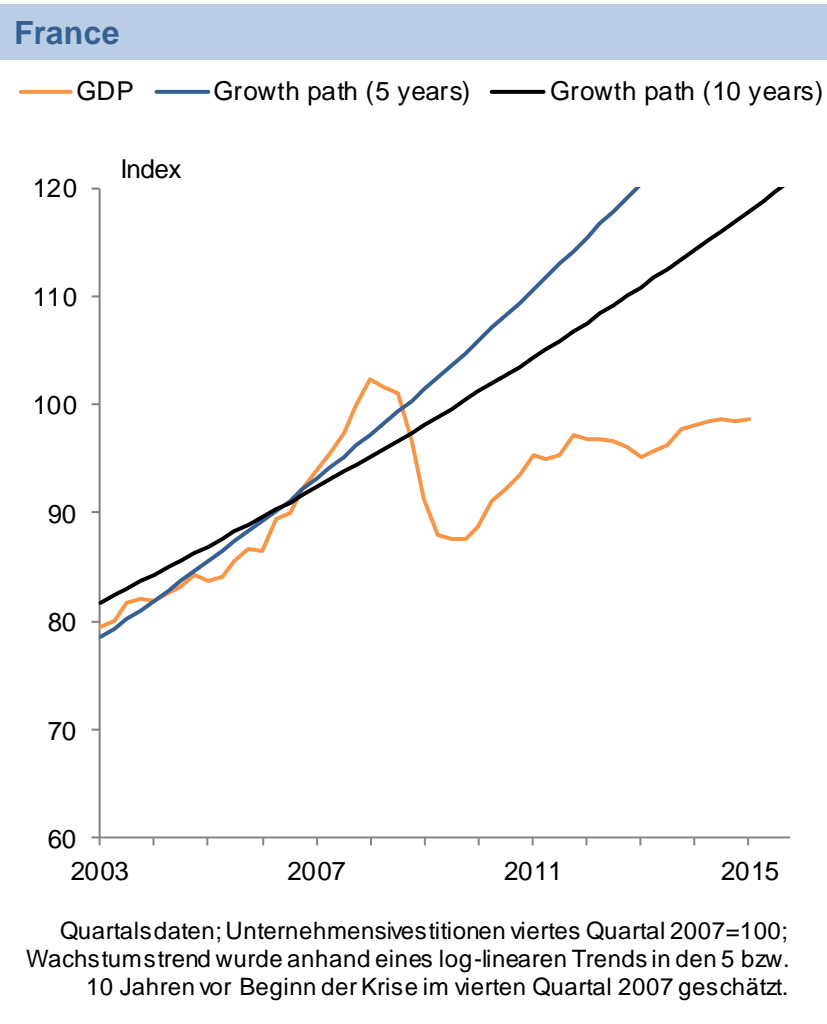
Italy

— GDP — Growth path (5 years) — Growth path (10 years)



Quartalsdaten; Unternehmensinvestitionen viertes Quartal 2007=100; Wachstumstrend wurde anhand eines log-linearen Trends in den 5 bzw. 10 Jahren vor Beginn der Krise im vierten Quartal 2007 geschätzt.

Box: Post-crisis investment (France and Spain)



Institut
für Weltwirtschaft



Institute
for the World Economy



Real GDP, Consumer Prices and Unemployment Rates in the Euro Area

	Weights ^a	GDP ^b			Consumer prices ^{b,c}			Unemployment rate ^d		
		2015	2016	2017	2015	2016	2017	2015	2016	2017
Germany	28.7	1.8	2.1	2.3	0.3	1.1	2.0	4.7	4.5	3.9
France	21.1	1.0	1.0	1.3	0.1	0.9	1.8	10.4	10.3	9.8
Italy	16.0	0.8	1.3	1.6	0.0	0.7	1.5	12.2	11.8	11.2
Spain	10.5	3.2	3.0	2.8	-0.5	0.7	1.7	22.3	21.1	20.0
Netherlands	6.5	2.0	1.3	1.6	0.0	0.9	1.8	7.0	6.5	6.2
Belgium	4.0	1.3	1.4	1.5	0.2	1.1	2.0	8.5	8.2	7.8
Austria	3.3	1.0	1.6	1.6	0.9	1.9	2.9	5.5	5.2	4.9
Finland	2.0	0.3	0.9	1.4	0.0	0.7	1.7	9.5	9.4	9.1
Greece	1.8	-0.4	0.4	2.7	-2.1	-1.3	-0.1	25.8	24.6	24.0
Portugal	1.7	1.6	1.6	1.6	0.4	1.2	2.0	12.6	11.5	10.9
Ireland	1.8	5.0	3.6	3.0	-0.3	0.9	2.4	9.5	8.3	7.5
Slovakia	0.7	3.1	3.2	3.6	-0.2	1.1	2.5	11.5	10.2	8.8
Luxembourg	0.4	4.5	3.1	2.9	0.0	1.2	2.4	5.7	5.5	5.3
Slovenia	0.4	2.8	3.0	2.8	-0.6	0.5	1.5	9.2	8.8	8.5
Lithuania	0.4	1.6	3.0	3.6	-0.6	0.6	1.7	9.3	7.9	7.1
Latvia	0.2	2.7	3.4	3.7	-0.6	0.6	1.7	9.3	7.9	7.1
Estonia	0.2	1.7	2.6	3.2	0.5	1.6	2.9	9.7	9.0	8.5
Cyprus	0.2	1.5	2.6	2.8	0.1	1.2	2.4	6.0	5.4	4.9
Malta	0.1	3.4	3.0	3.1	-1.1	0.1	1.0	16.0	15.3	14.5
Euro area	100.0	1.5	1.7	2.0	0.0	0.9	1.8	11.0	10.5	9.9
Euro area excl. Germany	71.3	1.4	1.5	1.8	-0.1	0.8	1.8	13.2	12.6	12.0

^aBased on nominal GDP in 2013. — ^bPercentage change over previous year. — ^cHarmonized Index of Consumer Prices (HICP). — ^dStandardized unemployment rates in percent (ILO). — 2015 to 2017 forecast.

Quarterly Data on the Economic Development in the Euro Area

	2015				2016				2017 ^a				2015 ^a	2016 ^a	2017 ^a
	I	II	III ^a	IV ^a	I ^a	II ^a	III ^a	IV ^a	I ^a	II ^a	III ^a	IV ^a	Annual averages		
Gross domestic product^b	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	1.5	1.7	2.0
Domestic demand^b	0.7	0.0	0.4	0.3	0.4	0.5	0.5	0.6	0.5	0.6	0.6	0.6	1.4	1.5	2.1
Private consumption ^b	0.5	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	1.7	1.6	1.9
Public consumption ^b	0.6	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	1.3	1.4	1.8
Fixed investment^b	1.3	-0.5	0.4	0.5	0.6	0.7	0.7	0.8	0.8	0.9	0.9	1.0	1.8	2.1	3.3
Change in stocks^c	0.1	-0.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.2	-0.0
Net exports^c	-0.2	0.3	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.0
Exports ^b	1.1	1.6	1.0	1.2	1.2	1.2	1.3	1.3	1.4	1.4	1.4	1.4	4.9	5.0	5.5
Imports ^b	1.6	0.9	1.0	1.1	1.2	1.3	1.4	1.5	1.5	1.6	1.6	1.6	5.0	4.9	6.2

^aForecast. — ^bAnnualized percentage change over previous quarter. — ^cContribution to change in GDP, in percentage points.

Key Data on the Euro Area Economy without Germany

	2015 ^a				2016 ^a				2017 ^a				2015 ^a	2016 ^a	2017 ^a
	I	II	III	IV	Ia	IIa	IIIa	IVa	Ia	IIa	IIIa	IVa	Annual averages		
Gross domestic product^b	0.6	0.3	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	1.4	1.5	1.8
Domestic demand^b	0.8	0.2	0.3	0.2	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5	1.4	1.3	2.0
Private consumption ^b	0.5	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	1.7	1.4	1.6
Public consumption ^b	0.5	0.3	0.1	0.2	0.4	0.5	0.3	0.4	0.5	0.6	0.4	0.5	1.0	1.3	1.8
Fixed investment^b	1.2	-0.5	0.2	0.3	0.4	0.5	0.5	0.7	0.7	0.9	0.8	1.1	1.6	1.4	2.9
Change in stocks^c	0.2	-0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	-0.1	-0.1	0.1
Net exports^c	-0.2	0.2	0.1	0.2	0.1	0.0	0.0	-0.1	0.0	-0.1	0.0	0.0	0.1	0.3	-0.1
Exports ^b	1.0	1.3	0.9	1.1	1.0	1.0	1.1	1.1	1.2	1.3	1.4	1.4	4.5	4.2	4.9
Imports ^b	1.5	1.0	0.7	0.8	0.9	1.0	1.1	1.3	1.3	1.5	1.6	1.6	4.5	3.8	5.5

^aForecast. — ^bAnnualized percentage change over previous quarter. — ^cContribution to change in GDP, in percentage points.