

Konjunkturperspektiven für das Jahr 2016 | Hamburg, 30 Oktober 2015
UVNORD, Deutsche Bundesbank, IVH-Industrieverband

Perspektiven für 2016

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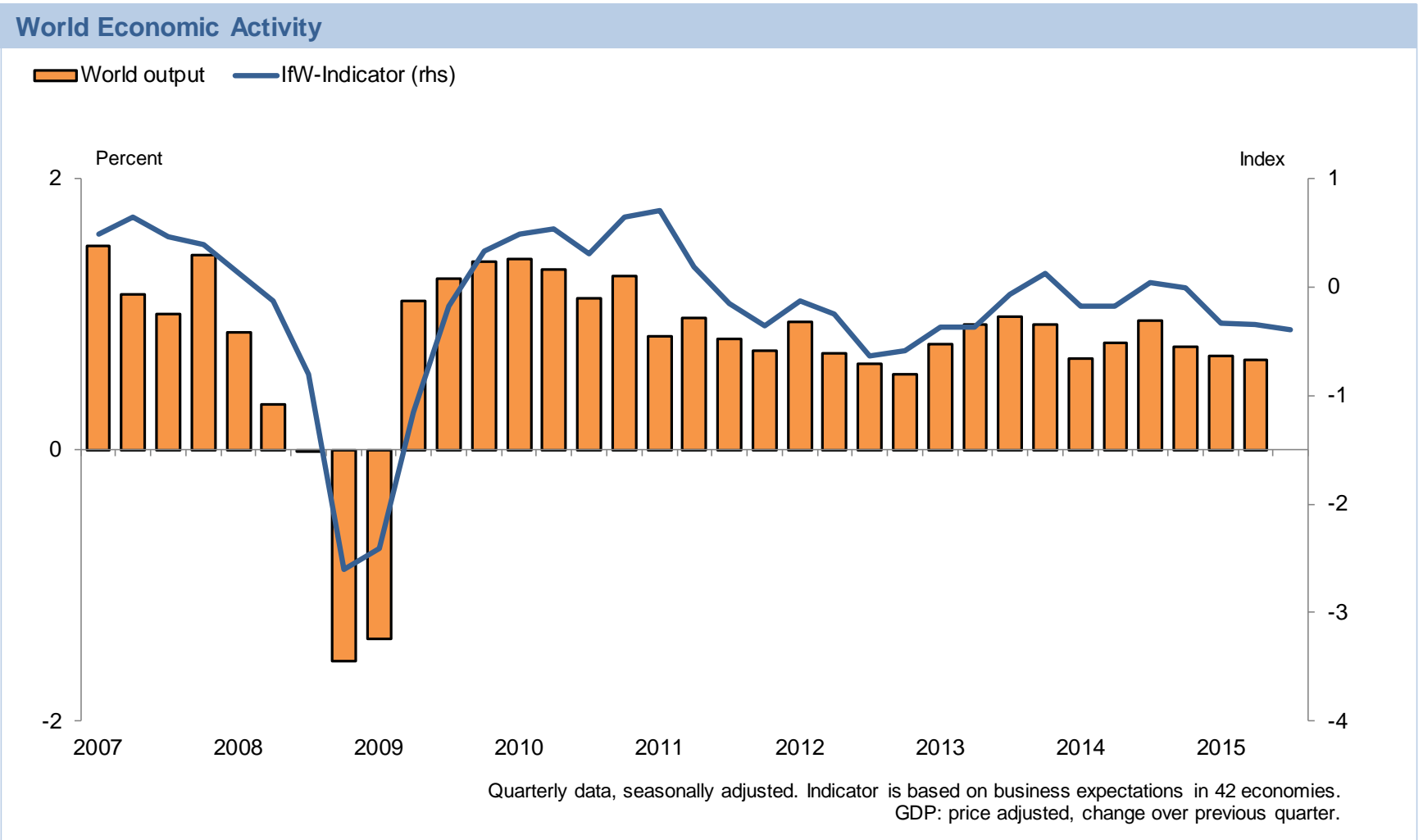
Überblick

- Weltwirtschaft
- Euroraum
- Deutschland

Überblick

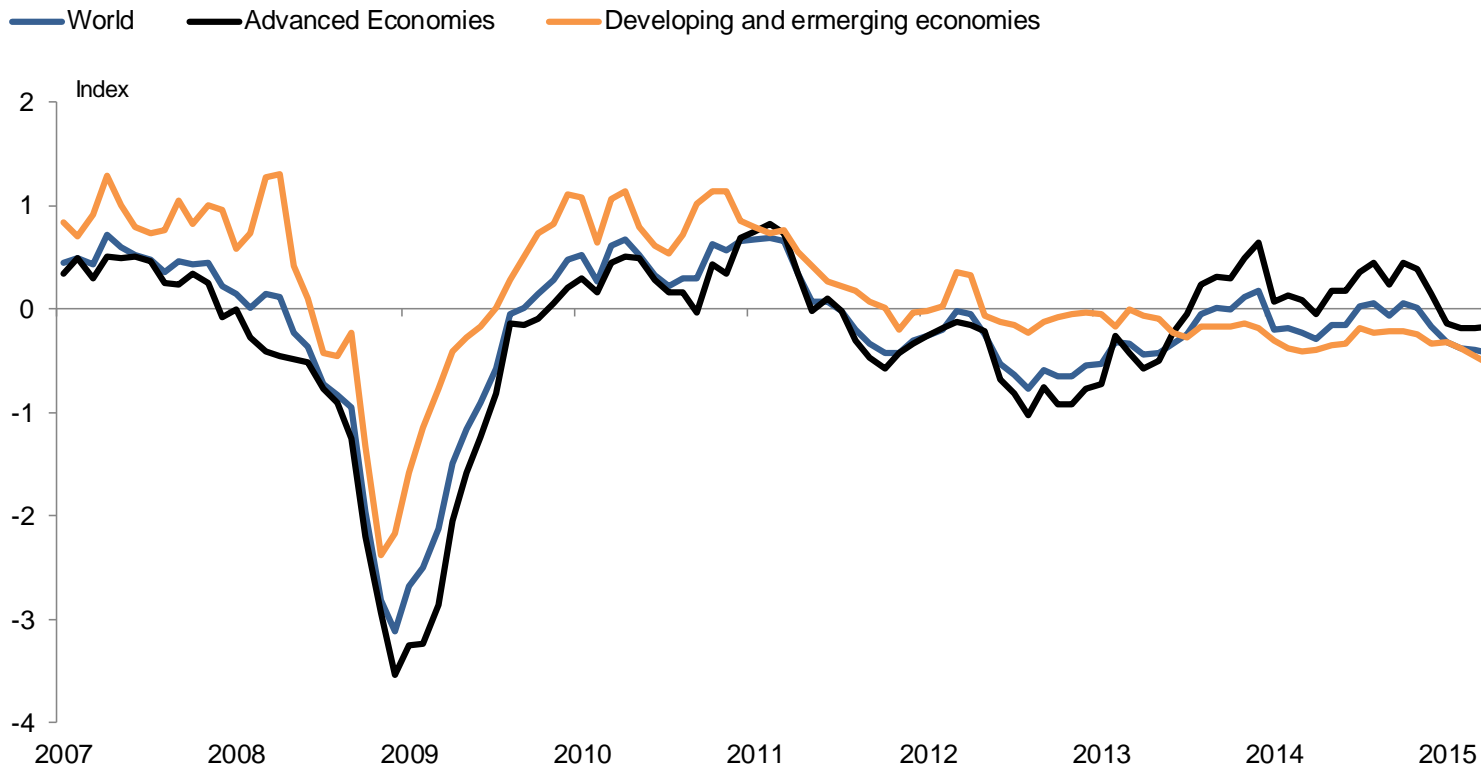
- **Weltwirtschaft**
- Euroraum
- Deutschland

Global activity has been decelerating



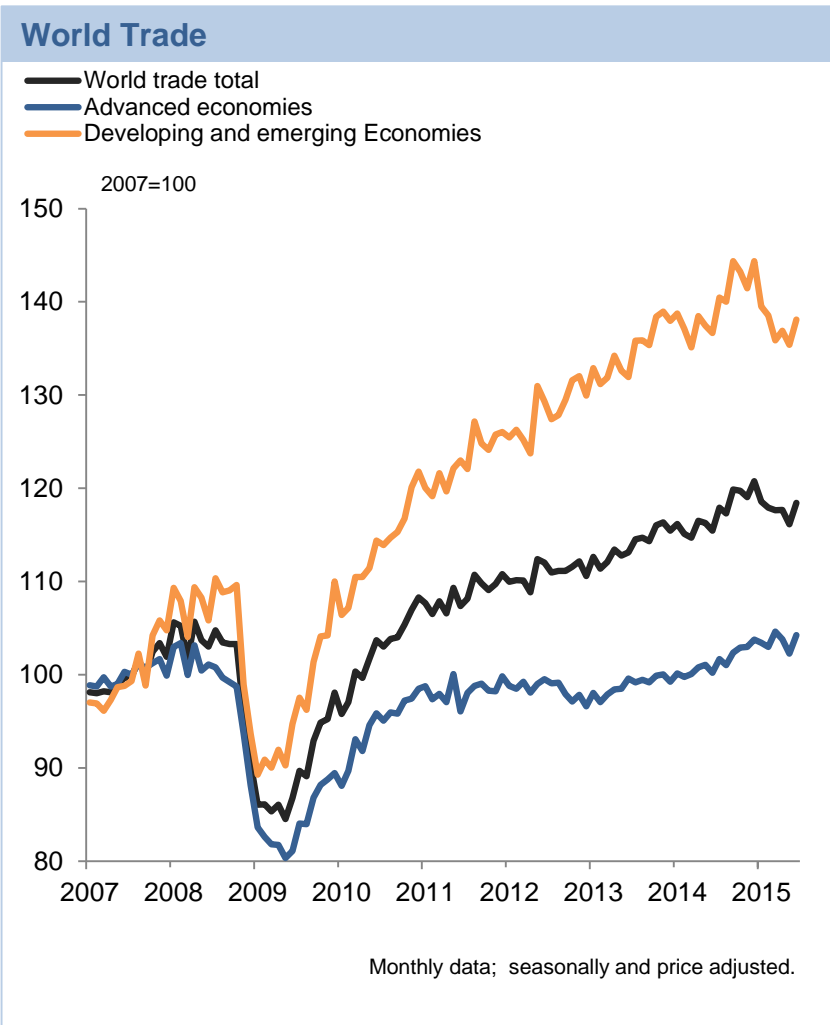
Pronounced weakness in emerging economies

Business expectations by groups of countries



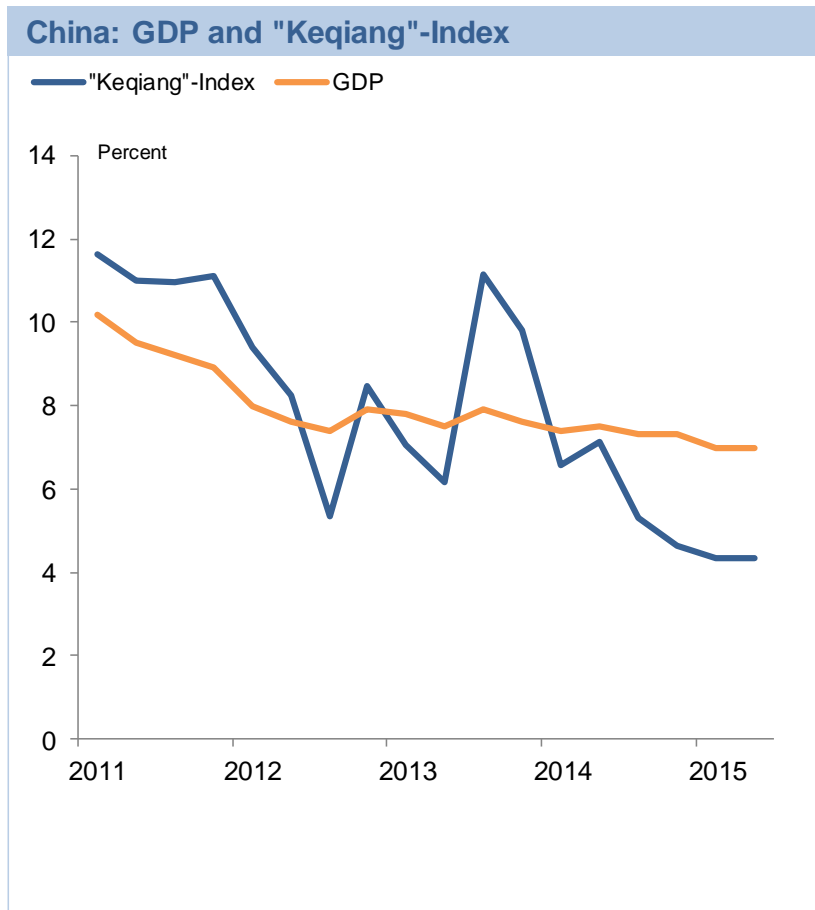
Monthly data, seasonally adjusted. Indicators are based on business expectations in 42 countries (34 advanced economies and 8 emerging economies).

World trade in decline during 2015-H1 due to EE weakness



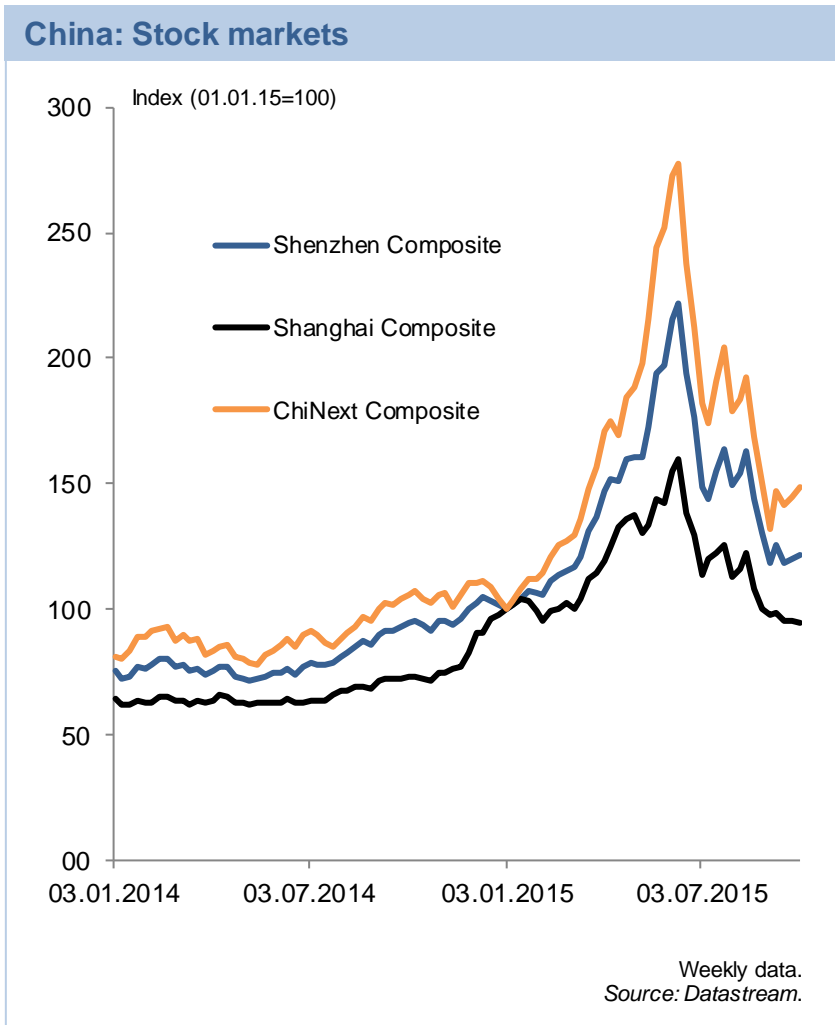
- World trade growth slowed further actually declining during 2015-H1
- Annual growth poised to slow to around 1 percent in 2015 following already weak growth of around 3 percent in 2013 and 2014
- Elasticity fell further to below 1
- Weakness of trade growth stems mainly from emerging economies

Slowdown in China may be even worse than official GDP data suggest



- GDP growth close to 7% target
- Alternative activity indicators suggest otherwise
- Pronounced weakness in trade
- Car sales growth slowed to a crawl
- Stock market correction
- Fears of a fullblown crisis

China – Price correction in equity markets



- Sharp correction in stock prices since June
- Initially, government resisted and intervened heavily
- Direct impact on real economy should be limited
- More important are developments in the housing sector -> roughly 50 per cent of outstanding loans directly or indirectly linked to real estate

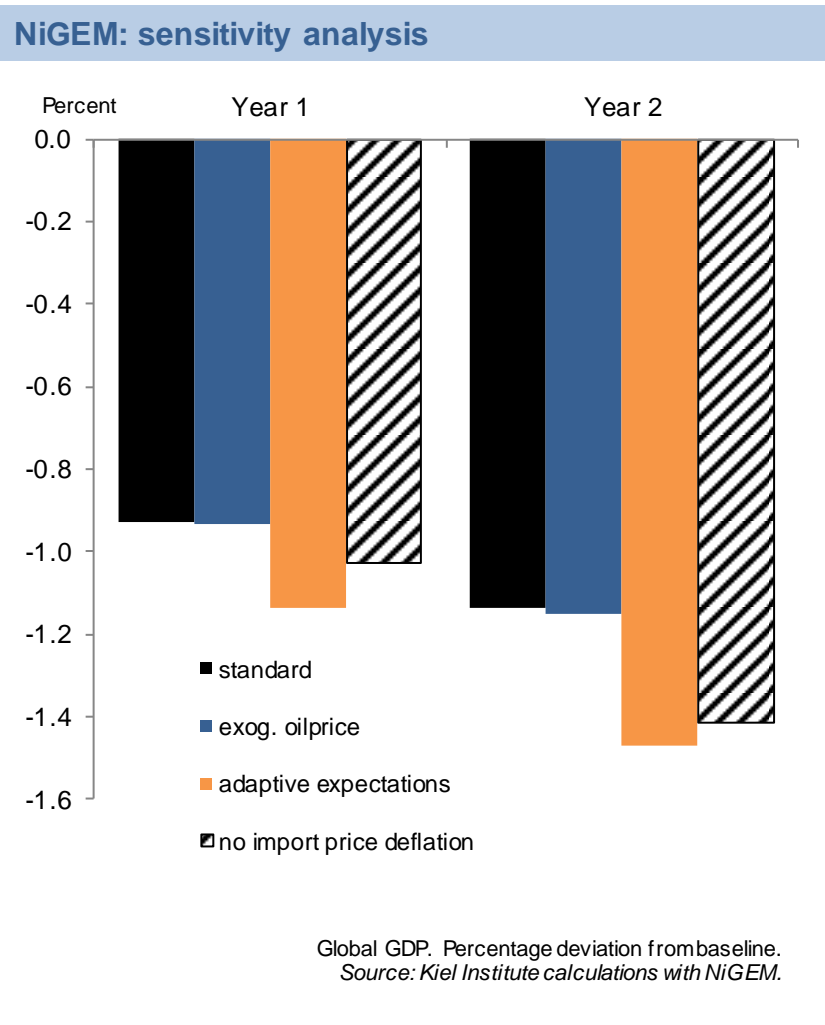
China – Hard landing: global impact (1)

Year after shock	GVAR			NiGEM		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
World						
GDP	-0,7	-0,9	-1,0	-0,9	-1,1	-0,7
World trade	-	-	-	-2,7	-2,0	-0,3
Oil price	-1,3	-2,7	-3,0	-0,4	-1,0	-1,2
World excl. China						
GDP	-0,3	-0,4	-0,5	-0,5	-0,5	-0,3
Advanced Economies (GDP)						
Germany	-0,4	-0,5	-0,5	-0,4	-0,3	0,0
France	-0,1	-0,2	-0,2	-0,3	-0,2	0,0
Japan	-0,5	-0,7	-0,7	-0,9	-1,1	-0,8
South Korea	-0,6	-0,9	-1,0	-1,3	-1,9	-1,7
UK	-0,2	-0,3	-0,3	-0,3	-0,2	-0,1
USA	-0,3	-0,5	-0,5	-0,1	0,3	0,5
Emerging Economies (GDP)						
Brazil	-0,1	-0,2	-0,2	-0,8	-0,8	-0,2
China	-3,0	-3,3	-3,4	-3,0	-3,8	-2,7
India	0,2	0,2	0,2	-0,6	-1,1	-1,1
Indonesia	-0,3	-0,7	-0,8	-1,1	-2,1	-1,9
Mexico	0,0	0,3	0,4	-0,2	-0,1	-0,1
Russia	-	-	-	-0,7	-1,0	-0,5
Regions (GDP)						
Euro area	-0,2	-0,4	-0,4	-	-	-
Rest of Asia	-0,4	-0,7	-0,8	-	-	-
Latin America	-0,1	-0,1	-0,1	-	-	-

China – Hard landing: global impact (2)

- Broadly robust results across both models
- Relative order also robust across country -> Germany more severely affected than UK or France due to stronger trade links with China
- Emerging markets generally affected more adversely in NiGEM than in GVAR
- Biggest difference: United States! US economy actually benefits from hard landing in NiGEM -> income effect from cheaper imports

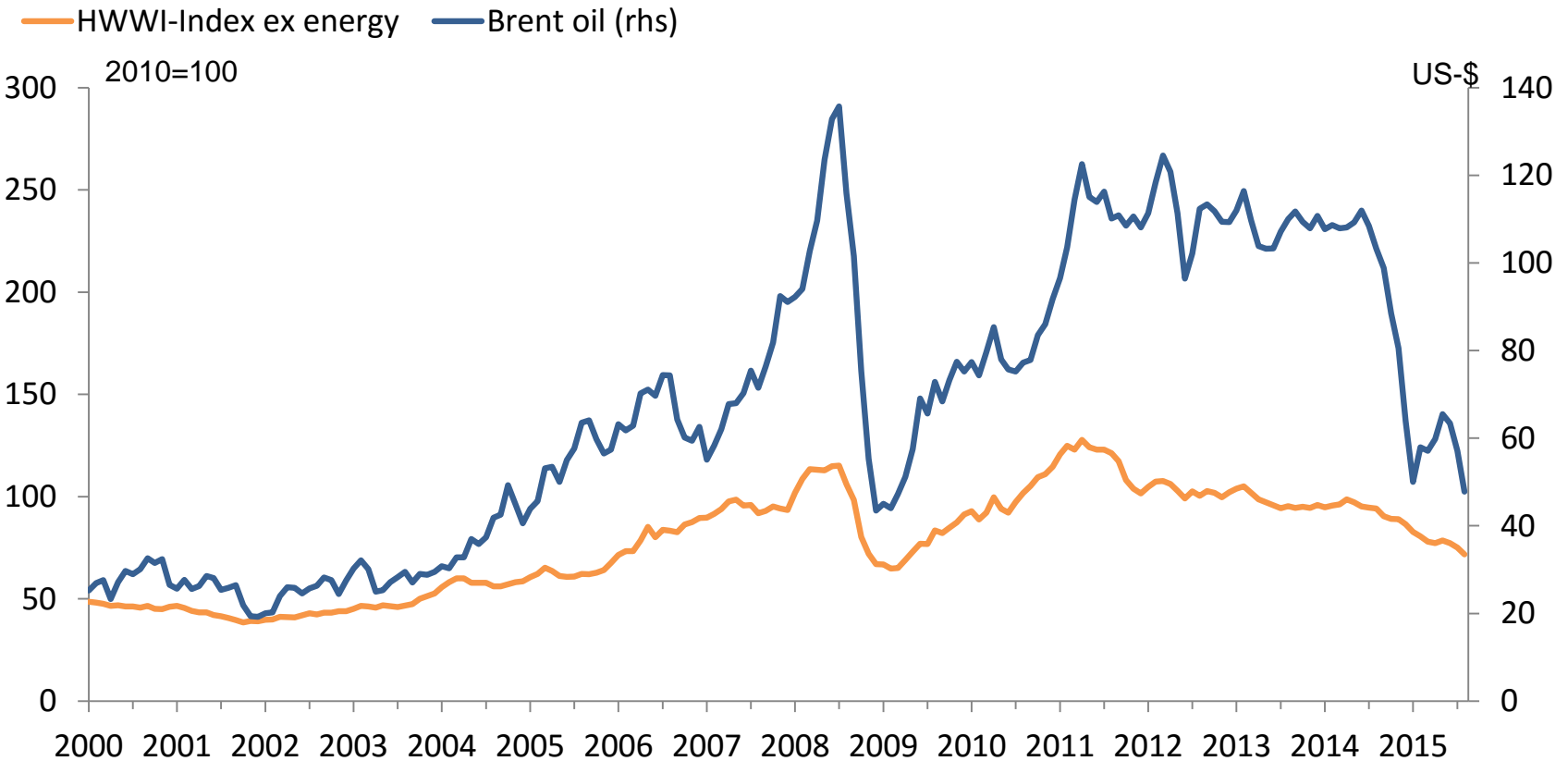
China – Hard landing: sensitivity analysis



- Results virtually unchanged if oil prices are held fixed
- Effectiveness of monetary policy at the ZLB might be overestimated in NiGEM: under adaptive expectations hard landing lowers global GDP by an additional 0.2 pp in the first year
- Exogenizing Chinese import prices leads to similarly stronger negative impact

Another leg in the decline of oil prices

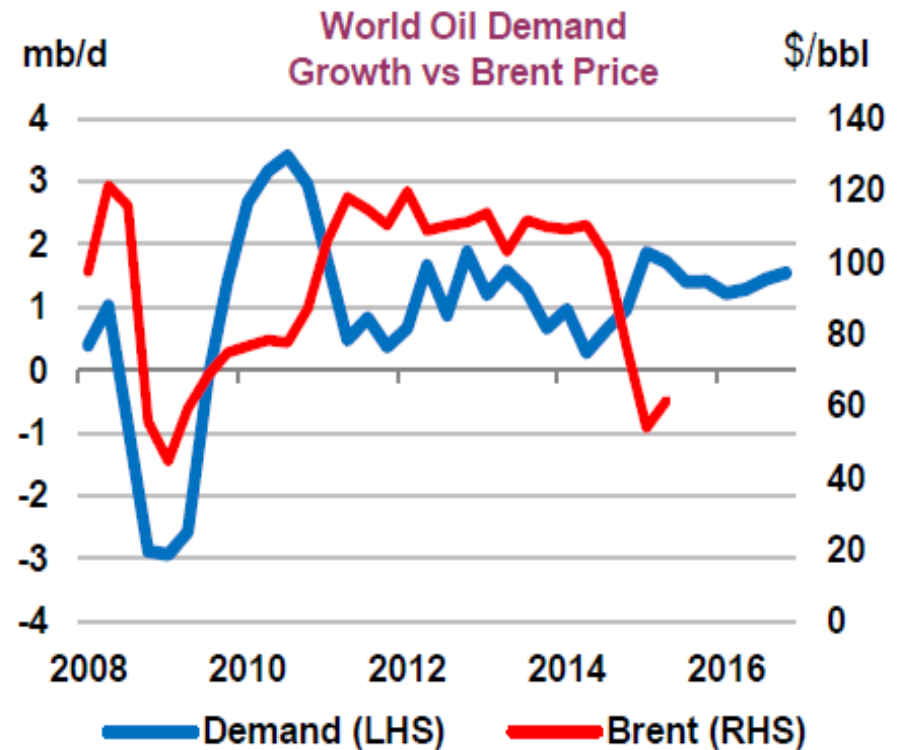
Commodity prices



Monthly data; commodities prices without energy: HWWA-index based on US-Dollar; oil price: Spot price Brent.

Oil market: Textbook-like demand pattern

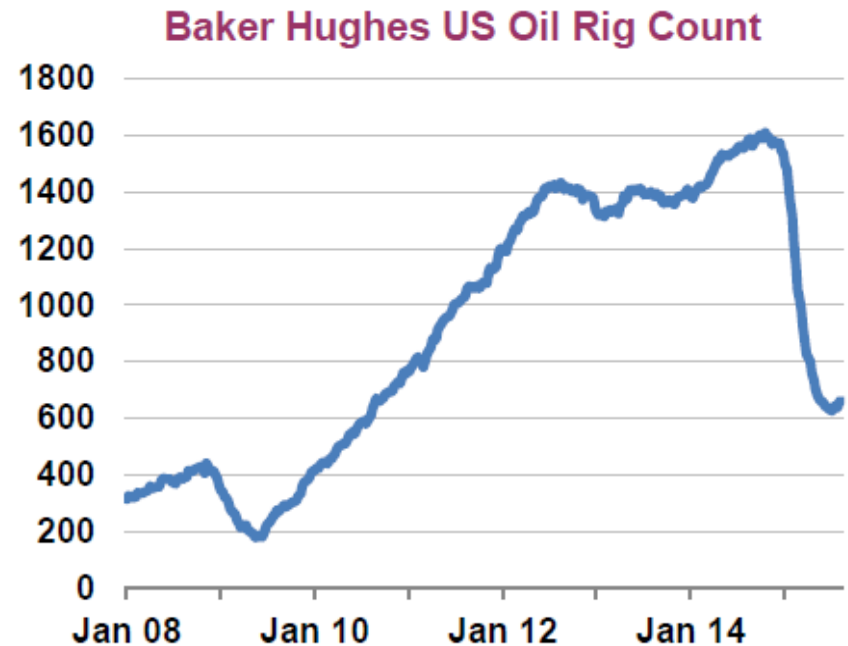
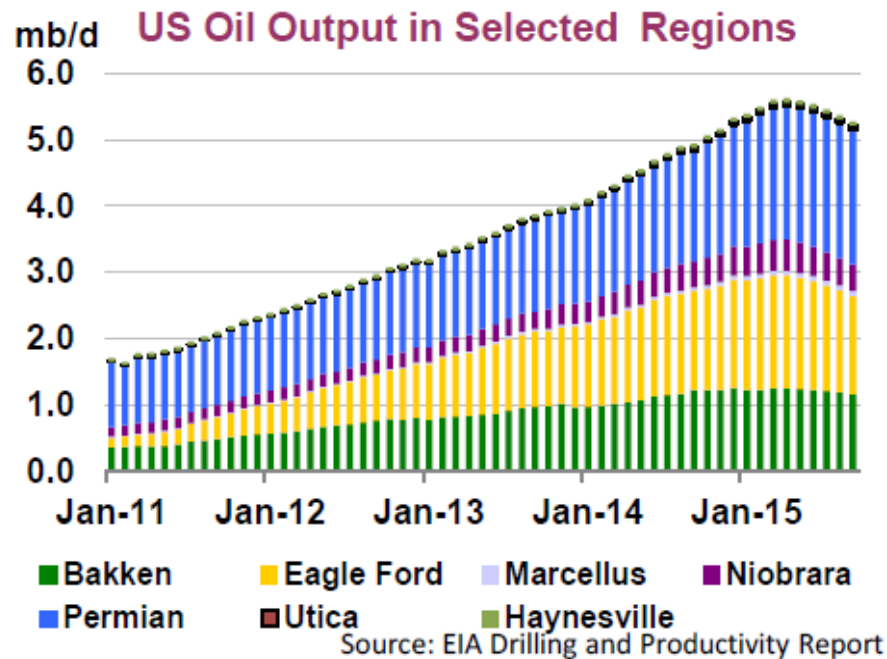
- Lower prices triggered additional demand
- Rate of demand growth was diminishing in face of high oil prices in 2011-2014
- Demand growth picked up with the decline in prices despite continued modest growth



Source: IEA, Monthly Oil Market Report.
August 2015.

Output response also as expected: US shale oil boom is over

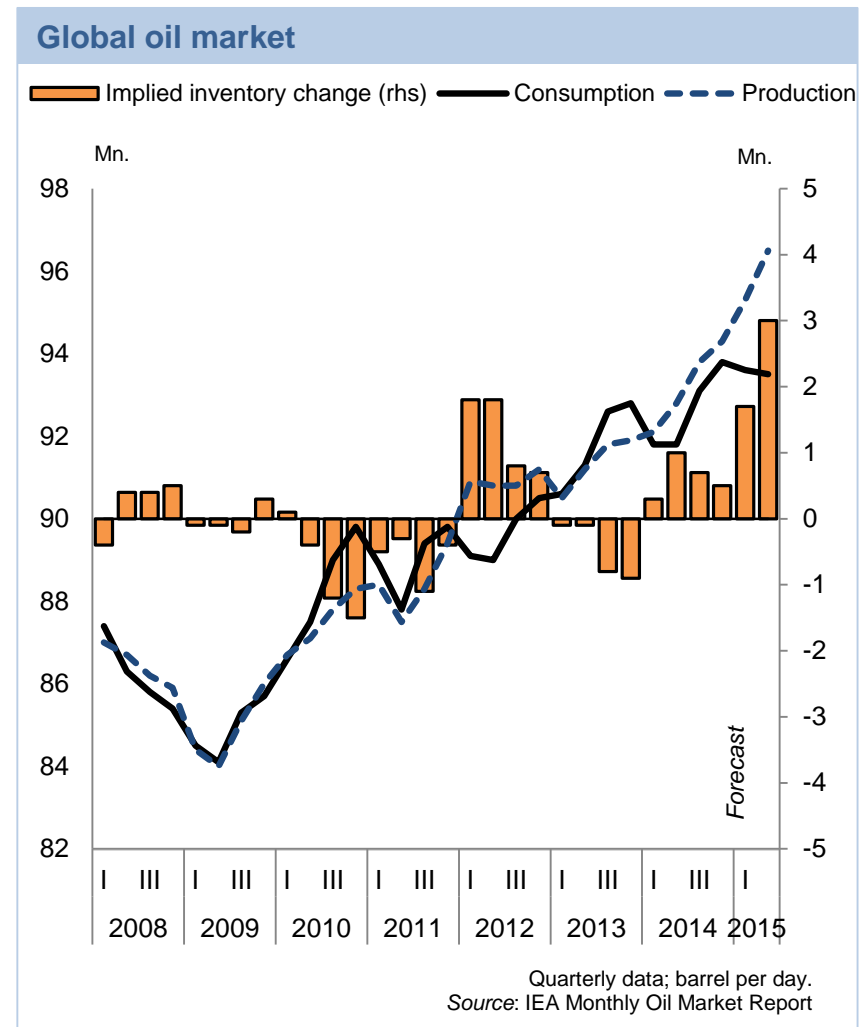
- Collapse of drilling activity (-60%)
- Lagged reaction of production



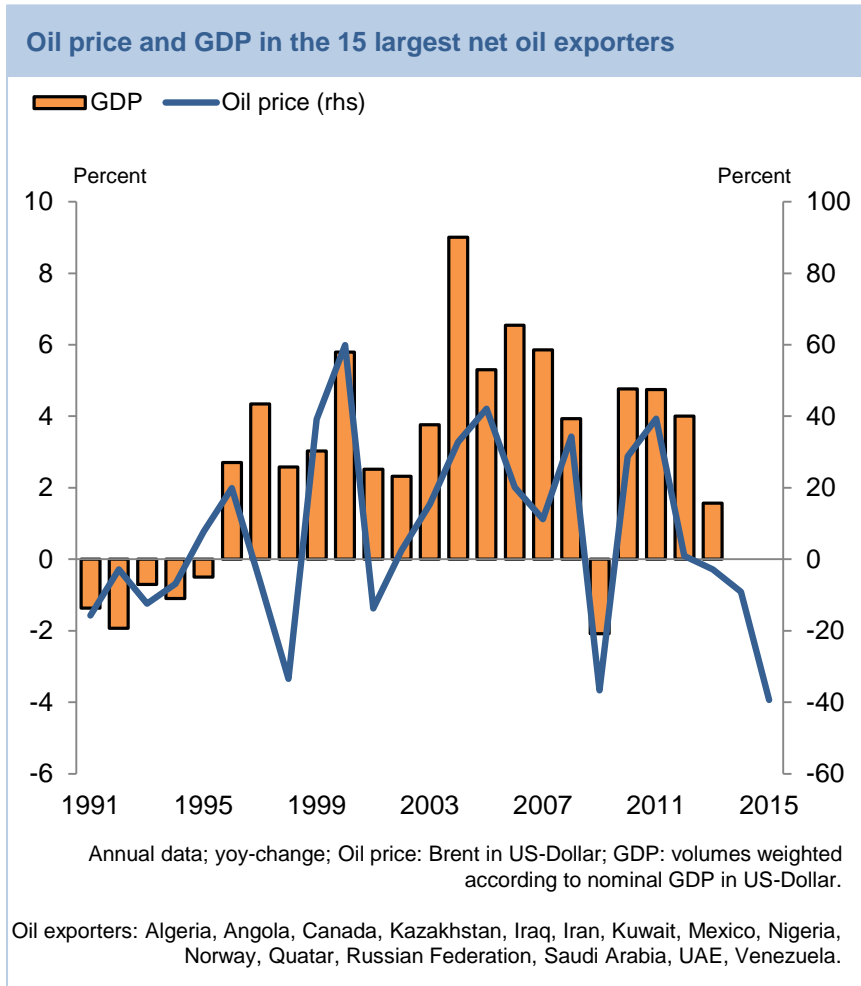
Source: IEA, Monthly Oil Market Report. August 2015.

But: Total oil production kept on increasing

- OPEC continued to ramp up production in 2015-H1
- Production quota were disregarded
- Record output in Saudi Arabia and strong increase in Iraq
- Others kept producing at full capacity
- Iran can be expected back to the market with another 1 mill. b/d over the next year

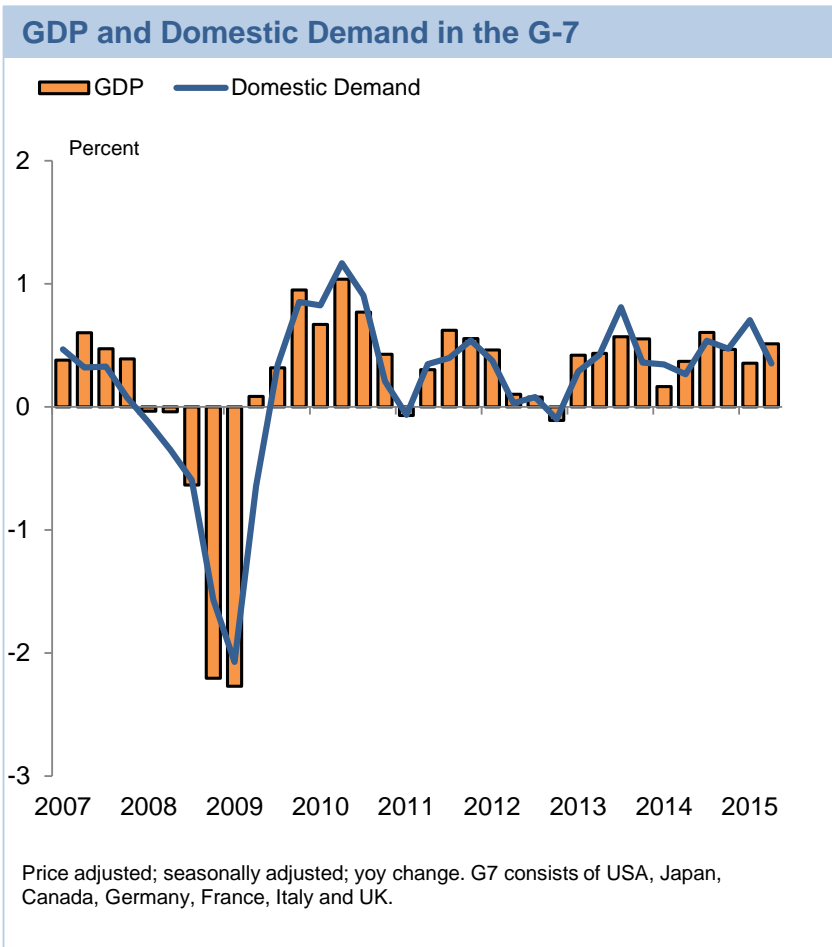


Lower oil prices may stimulate GDP of oil importers but exporters suffer



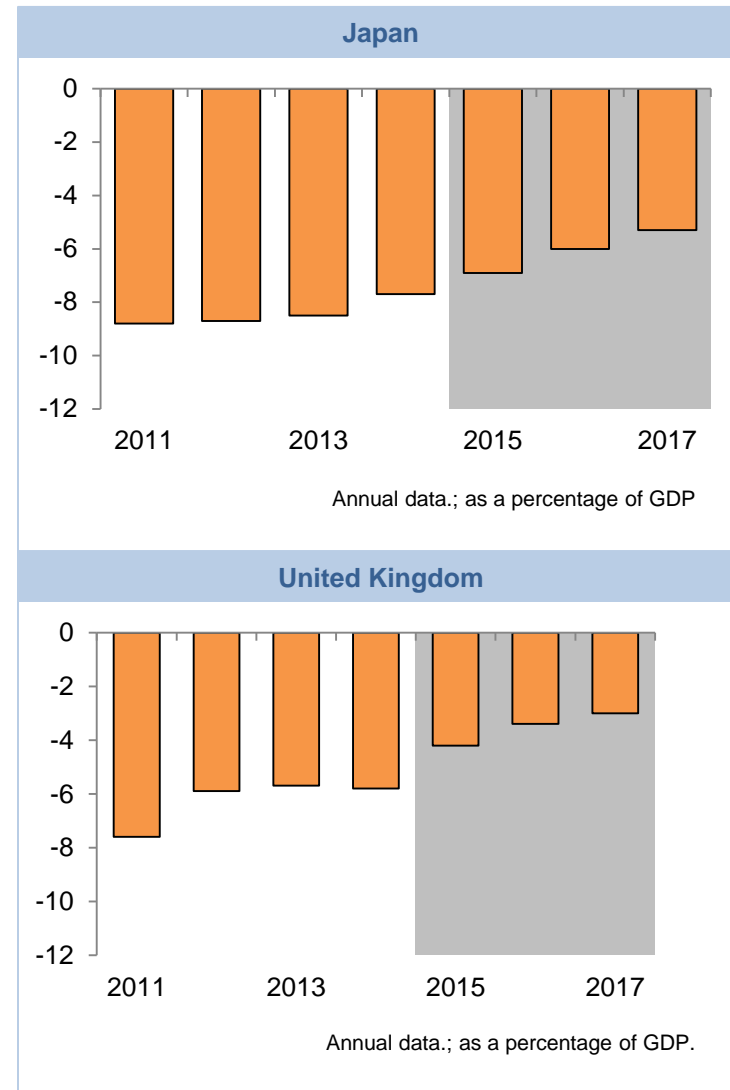
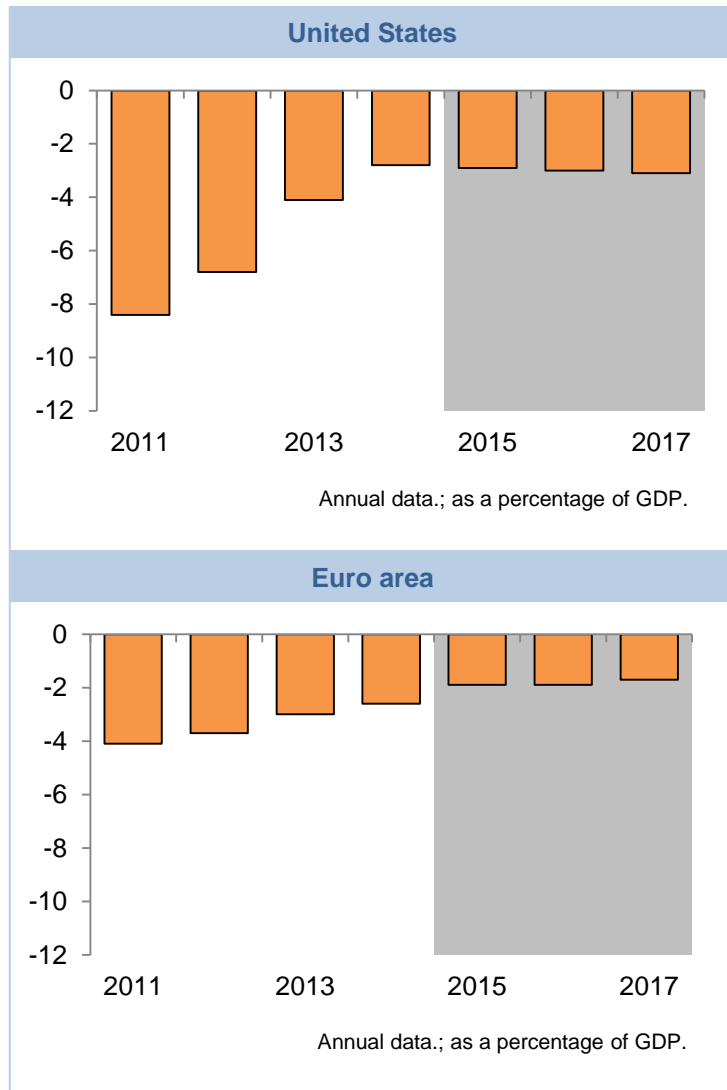
- Uncertain stimulus to oil importers
- size of effect depends on
 - » Source of the shock
 - » Oil intensity of production,
 - » Duration of the shock
 - » External repercussions
 - » ...
- Oil exporters imports could decline substantially
- Modest impact on global output

Steady growth in the advanced economies



- G7 output growth in 2015-H1 has proven robust on the whole
- 2015-Q2
 - » Resurgence of US growth
 - » Declining output in Japan
 - » Moderate but robust growth in the euro area
 - » Continued strong expansion in EU ex EA

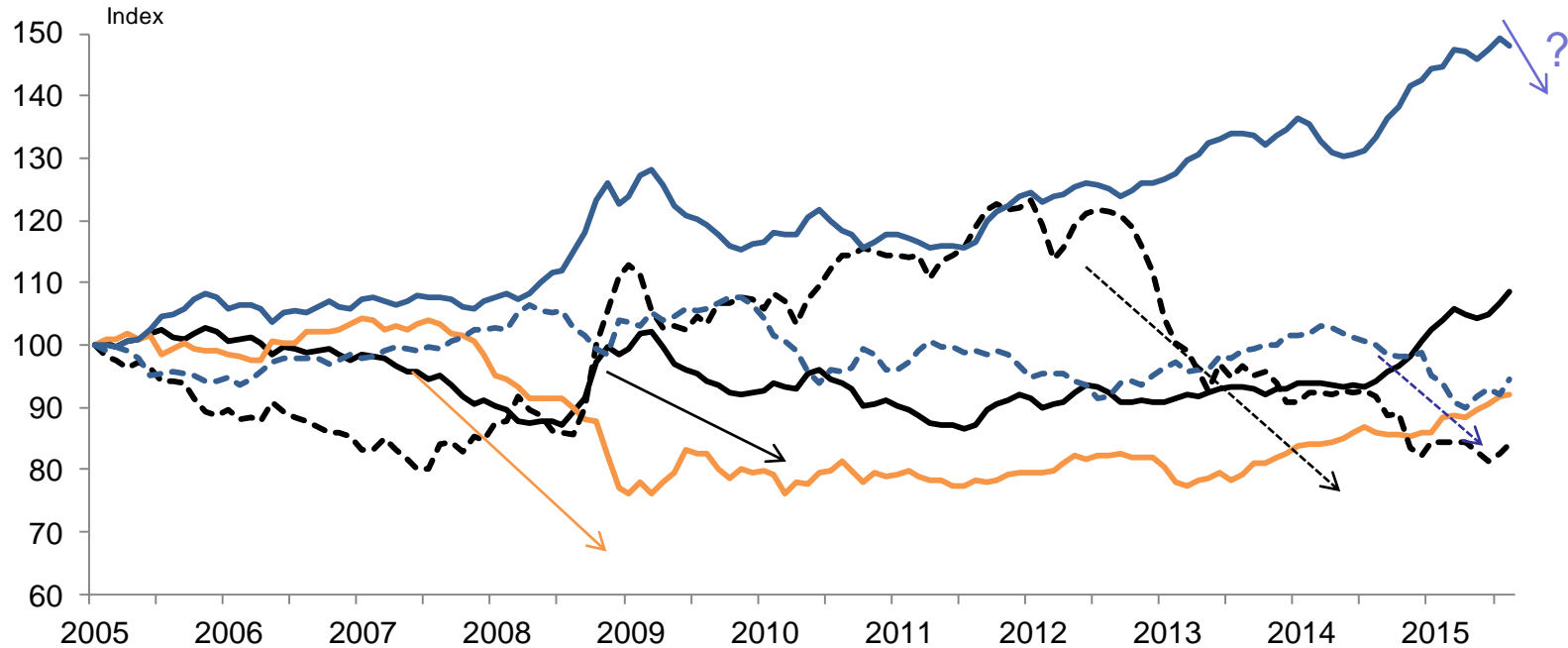
Fading fiscal policy restriction in advanced economies



„Currency war“: Succession of expansive monetary policy decisions

Nominal effective exchange rates

— United States — United Kingdom - - - Japan - - - Euro Area — China



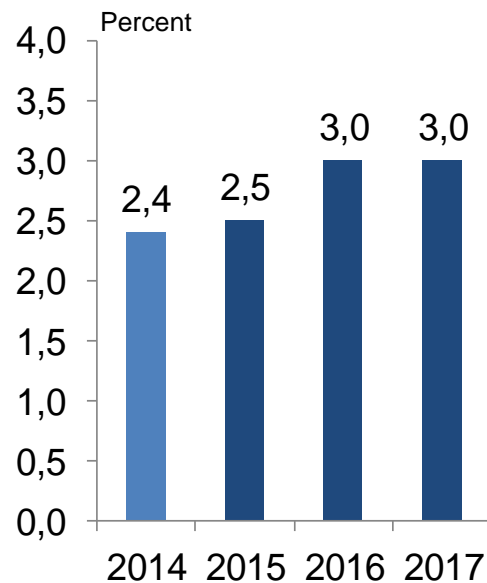
30 percent devaluation of Renminbi (NiGEM simulation)

Deviation of GDP from baseline in percent

	Year 1	Year 2
World	-0,3	-0,9
Advanced Economies		
Germany	-0,4	-1,2
Euro area	-0,4	-1,2
Japan	-0,9	-2,3
South Korea	-0,9	-2,7
UK	-0,6	-1,7
USA	-0,4	-0,9
Emerging Economies		
Brazil	-0,5	-1,4
China	0,7	1,2
India	-0,6	-2,0
Indonesia	-0,7	-2,5
Mexico	-0,3	-0,9
Russia	-0,6	-1,9

United States: Modest acceleration

Real GDP Growth

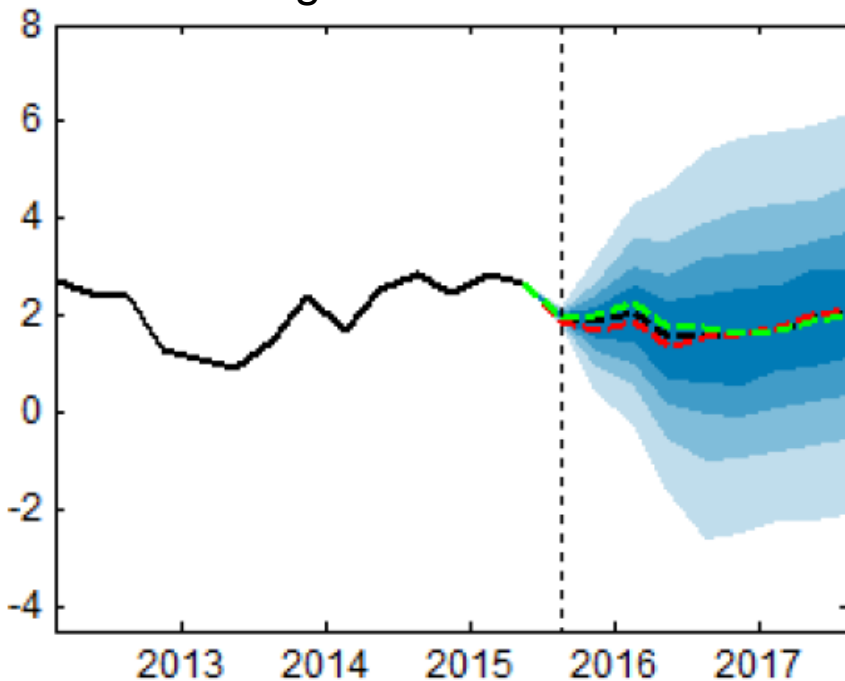


- Soft patch at the start of the year proved temporary
 - » Employment growth has slowed down somewhat but is expected to accelerate again
 - » Robust real wage growth although nominal wages have been slowing recently
 - » Recovery in the housing market to continue
 - » Corporate investment to pick up
- Monetary policy is still expected to raise interest rates in winter
 - » MP remains expansive
 - » No severe impact on domestic demand expected
 - » Surprise move would have modest and temporary impact

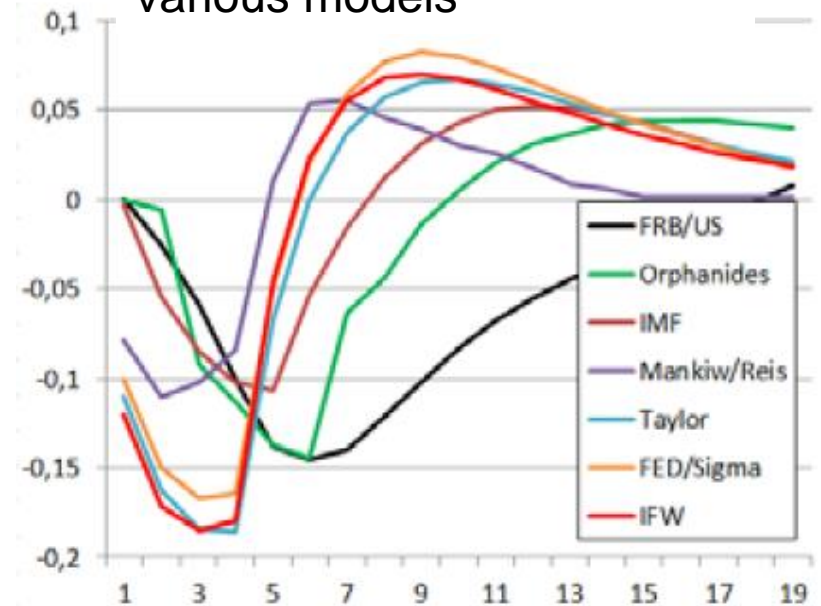
GDP and MP: Response to surprise interest rate move according to model simulations (Macroeconometric Model Base MMB)

- 25 bp increase lowers GDP by 0.2 % in the short term, not significantly in the longer term in a DSGE framework
- Similar results in a number of other (different) models

GDP growth forecast

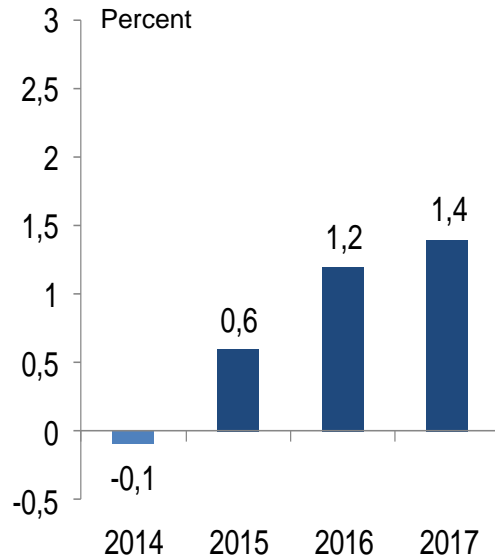


Impulse response (GDP) various models



Japan: Moderate recovery

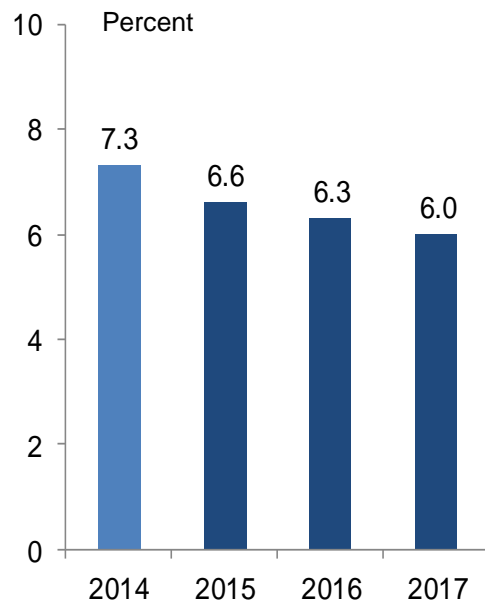
Real GDP Growth



- GDP declined in Q2 due to weakness in exports and a temporary drop in private consumption
- Monetary expansion has continued unabated, level of the yen has remained low
- Exports should gradually strengthen going forward
- Limited progress in structural reforms—moderate decrease of corporate taxes
- Slow progress with fiscal consolidation
- Second VAT increase scheduled for 2017
- Moderate GDP growth expected

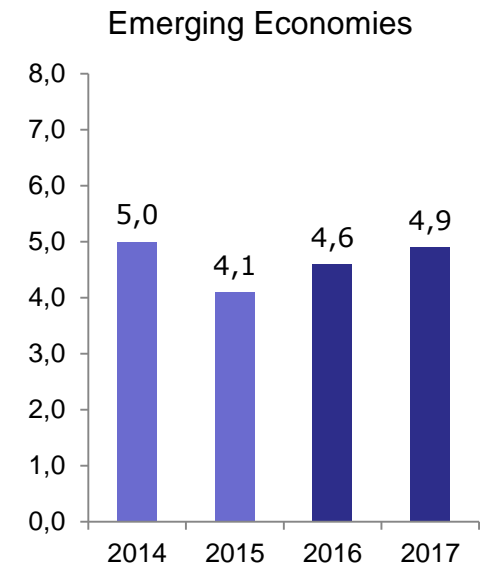
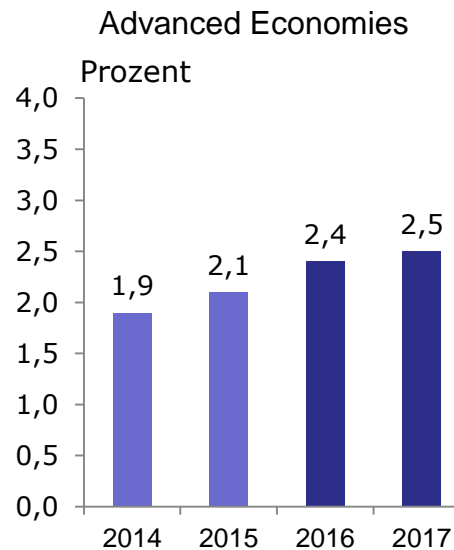
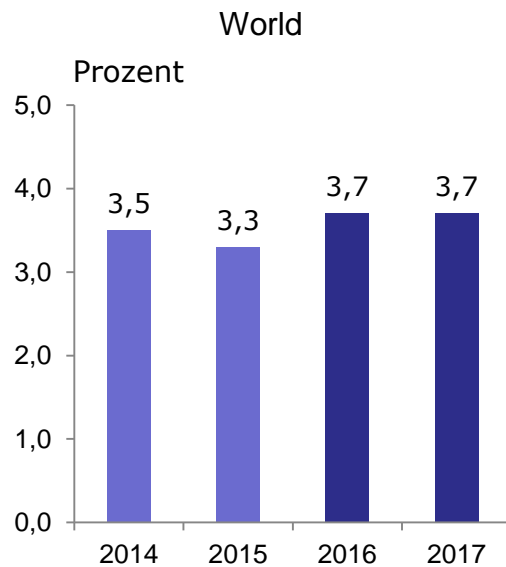
China: Slowdown continues

Real GDP Growth



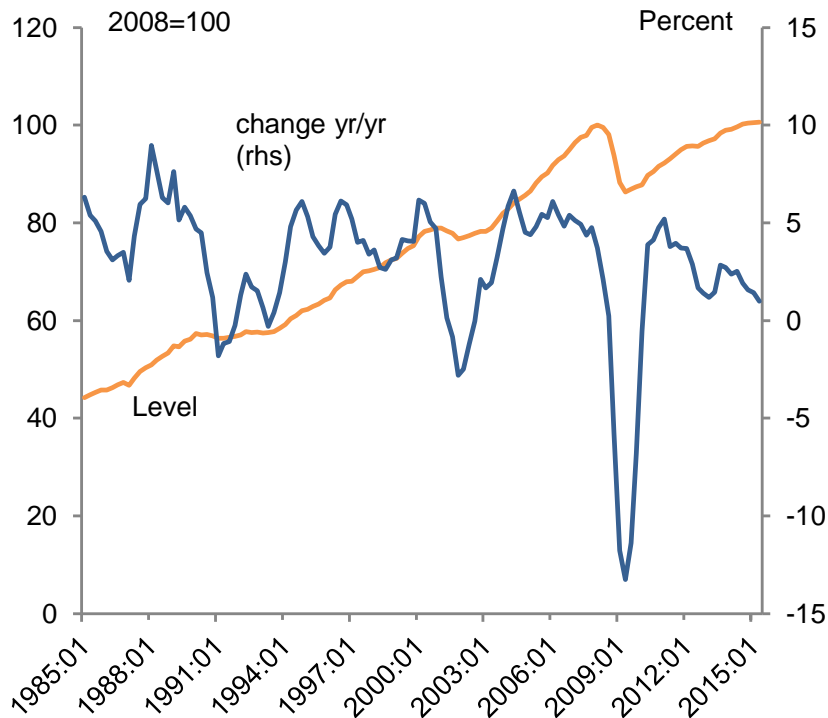
- Continued transition to a lower growth trajectory
- Cyclical downturn expected to be controlled with the help of monetary and fiscal stimulus
- Growth in credit has been reigned but debt remains high
- Property market shows signs of stabilization but remains a risk
- No sustained acceleration of growth expected

The global picture



Global investment has been disappointing after 2009 and decelerating lately

World GFCF (ex China)



Quarterly data; price and seasonally adjusted; yoy-change. Indicator is based on Gross Fixed Capital formation in 45

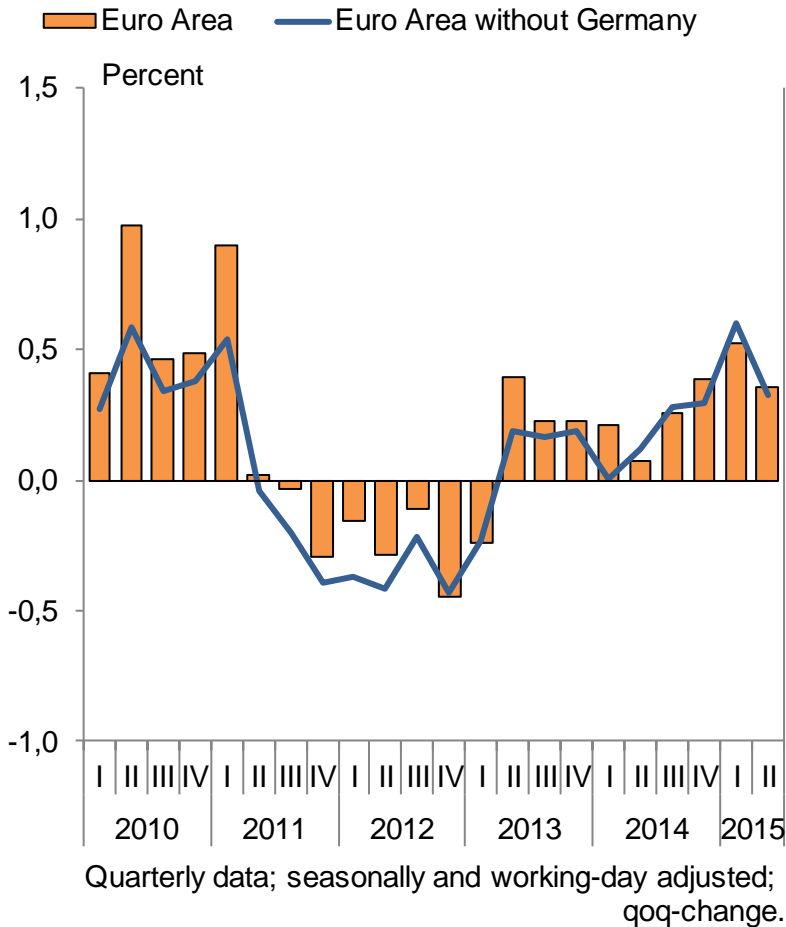
- Level shift after the crisis in line with historical experience
- Recent slowdown mainly driven by emerging economies
- Commodity sector adjustment
- Structural correction of commodity prices heralds continued weak investment in commodity sector
- Change in Chinese growth model suggests that moderation in Chinese investment may be persistent

Überblick

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Gross domestic product

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

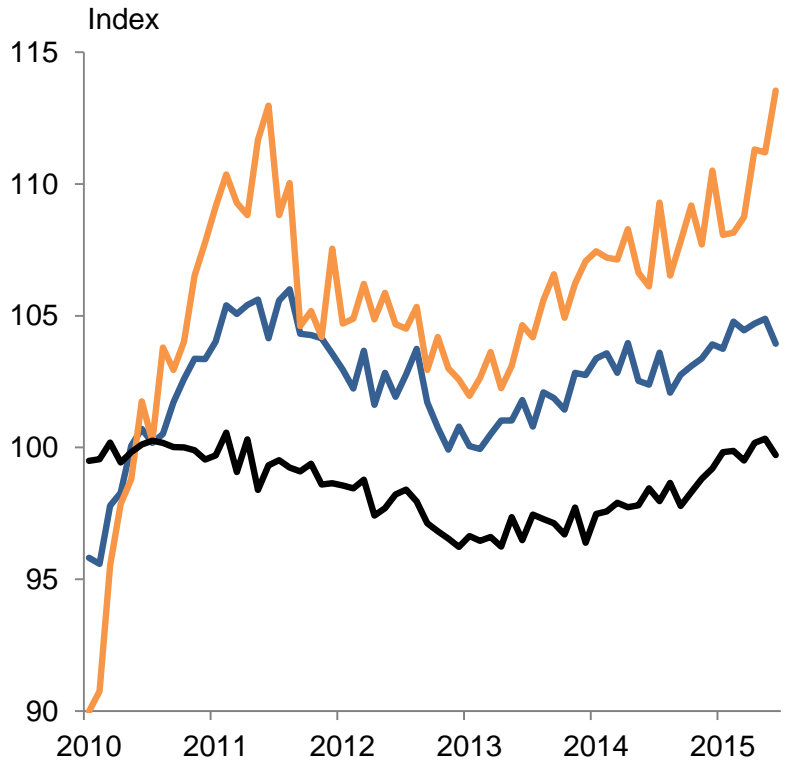


- qoq change
 - » 2015-Q1: +0.5 percent
 - » 2015-Q2: +0.4 percent (net export contr.: 0.3 pp)
- Moderate recovery since 2013
 - » qoq: 0.1 percent - 0.5 percent
 - » 2014: + 0.9 percent

Early activity indicators and business climate

Industrial Production, New Orders and Retail Sales

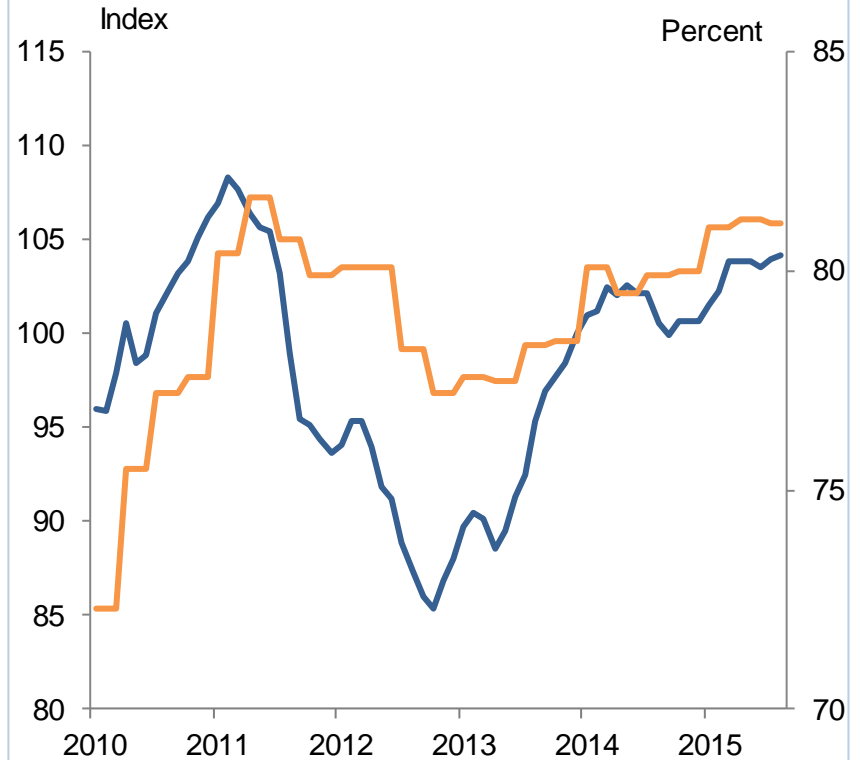
— Industrial Production — New Orders — Retail Sales



Monthly data, volume, seasonally adjusted.

Economic Sentiment and Capacity Utilization

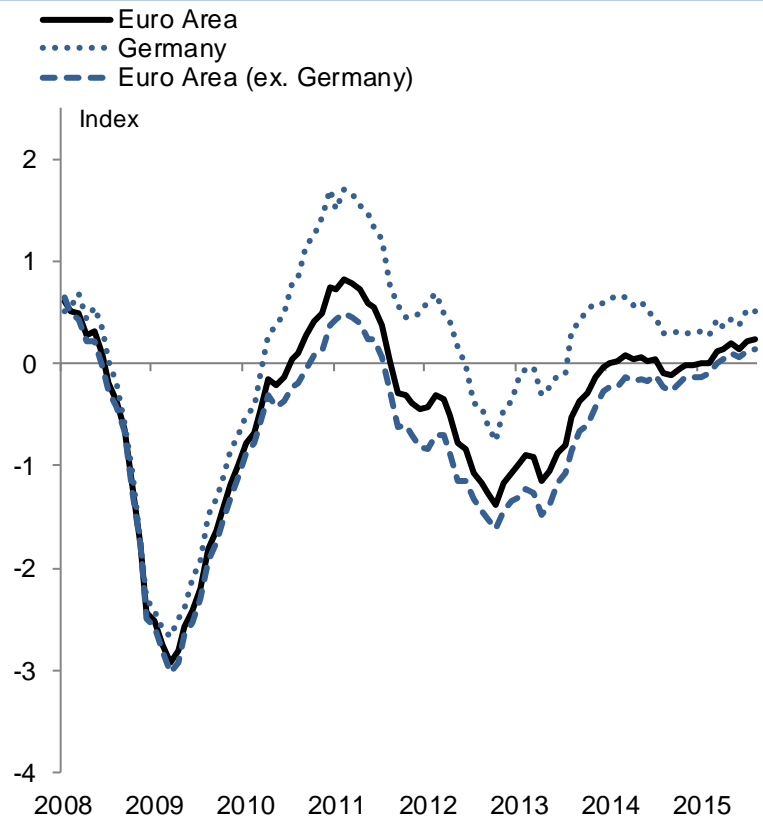
— Economic Sentiment Indicator — Capacity Utilization (rhs)



Monthly data, seasonally adjusted.

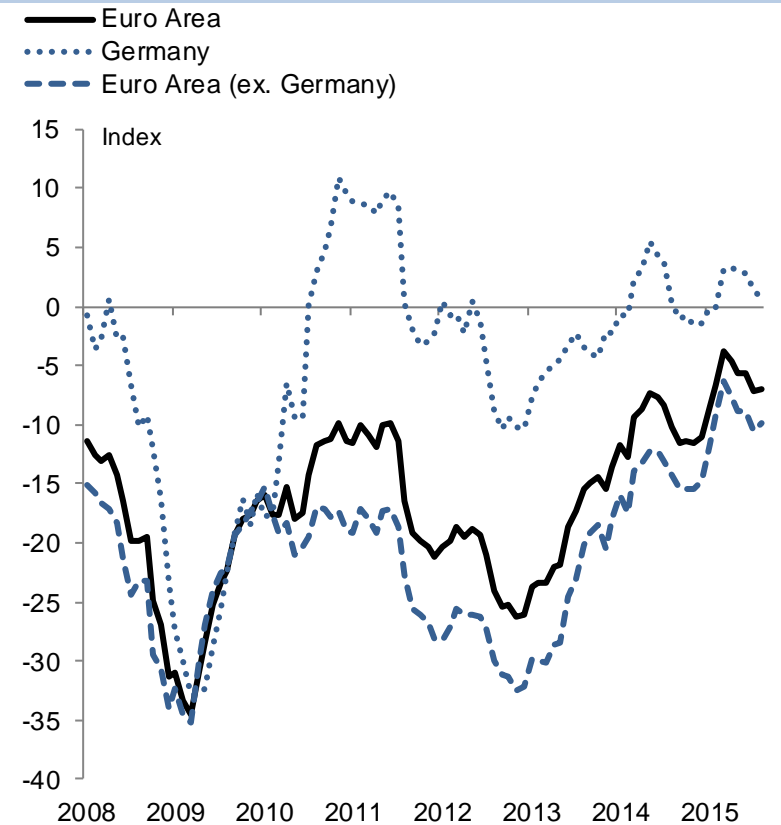
Economic Sentiment

Business



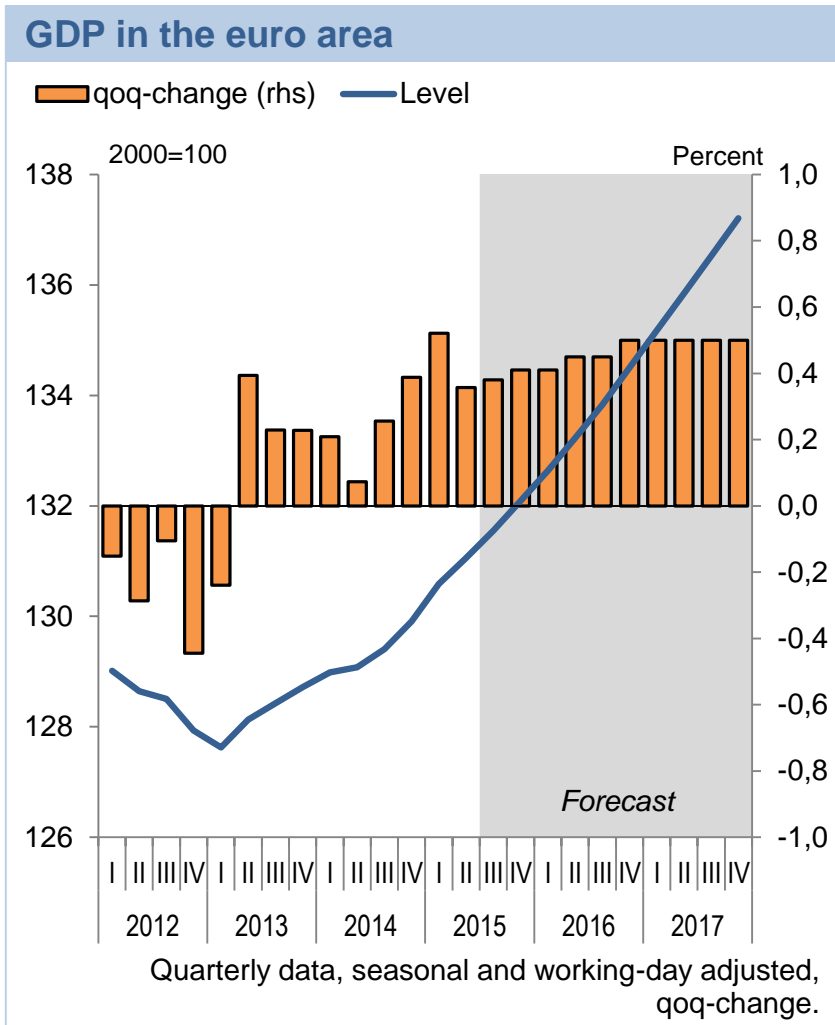
Monthly data, seasonally adjusted.

Consumer



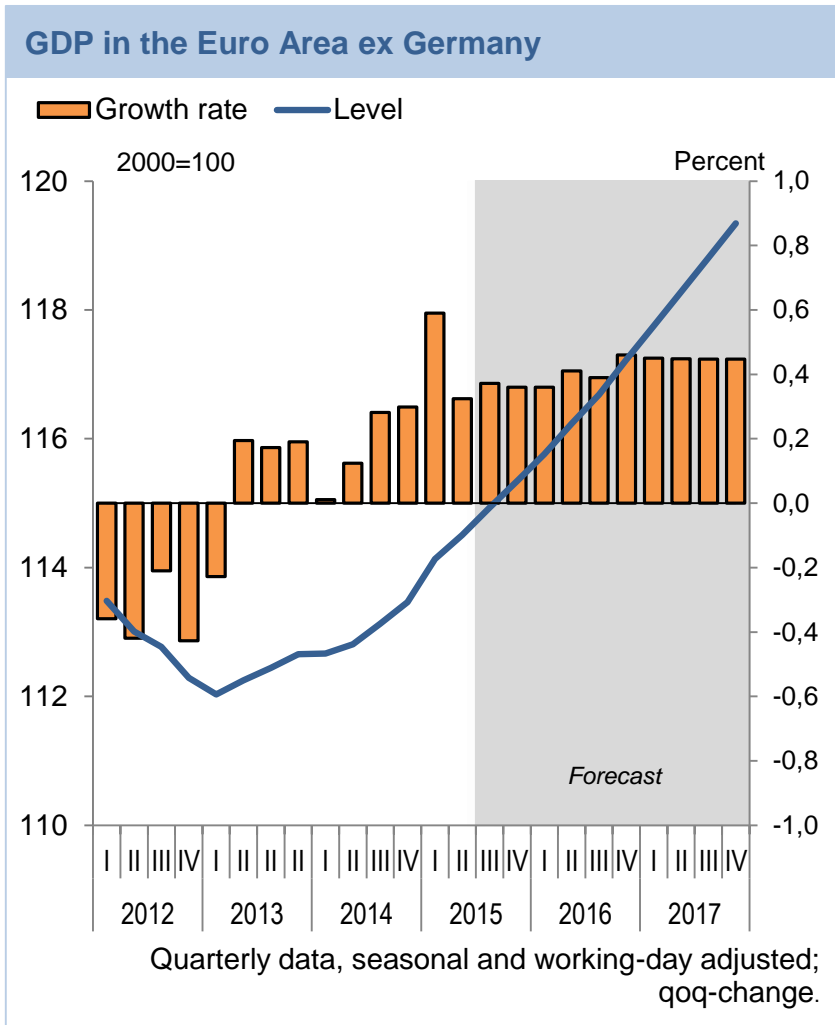
Monthly data, seasonally adjusted.

Outlook for the Euro Area (GDP)



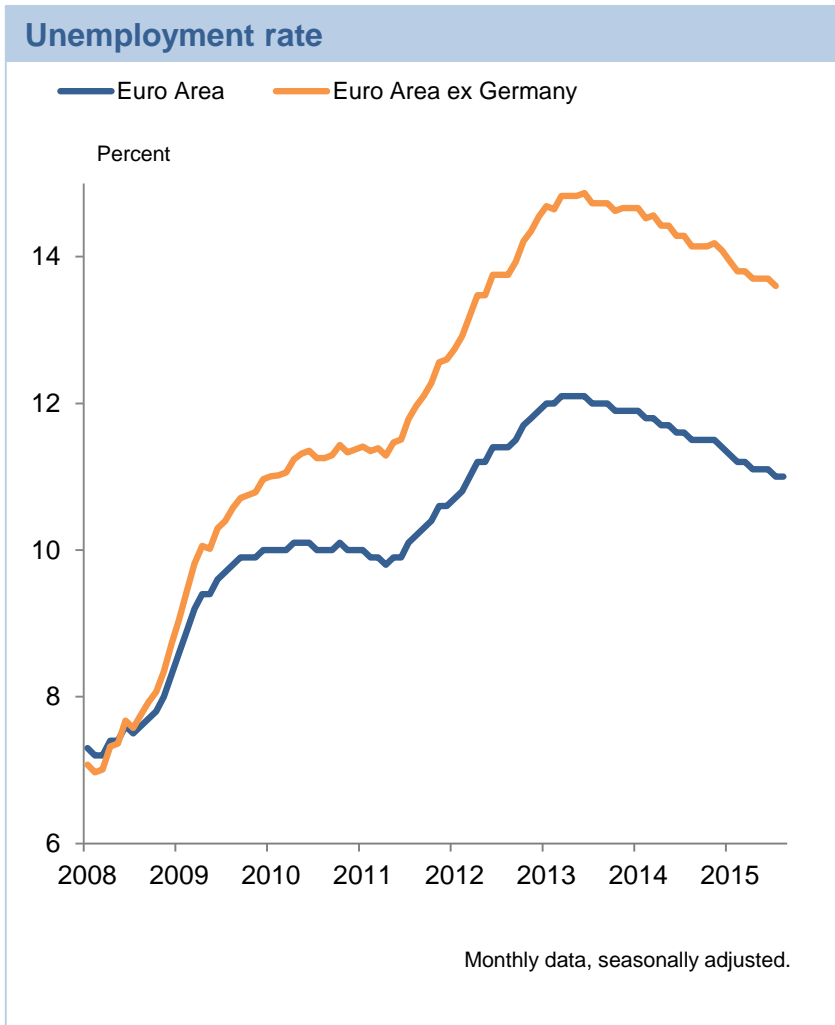
- 2014: 0.9 percent
- 2015: 1.5 percent
- 2016: 1.7 percent
- 2017: 2.0 percent

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



- 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.

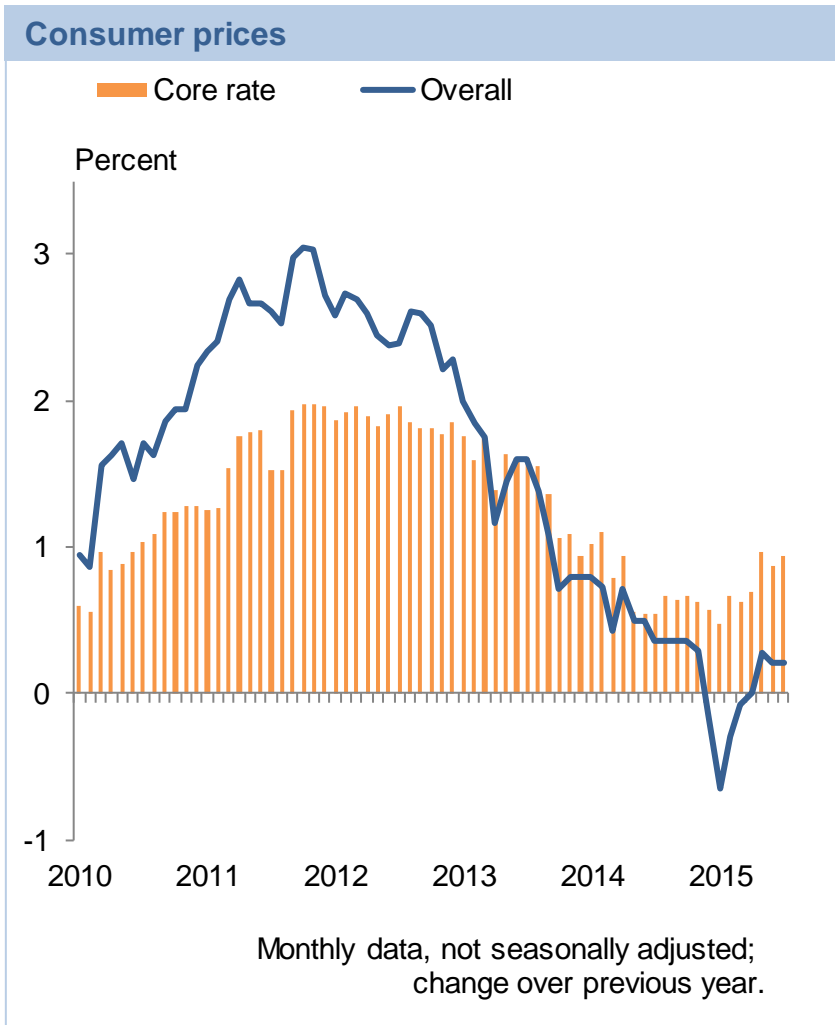
Wages, productivity, unit labor costs

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

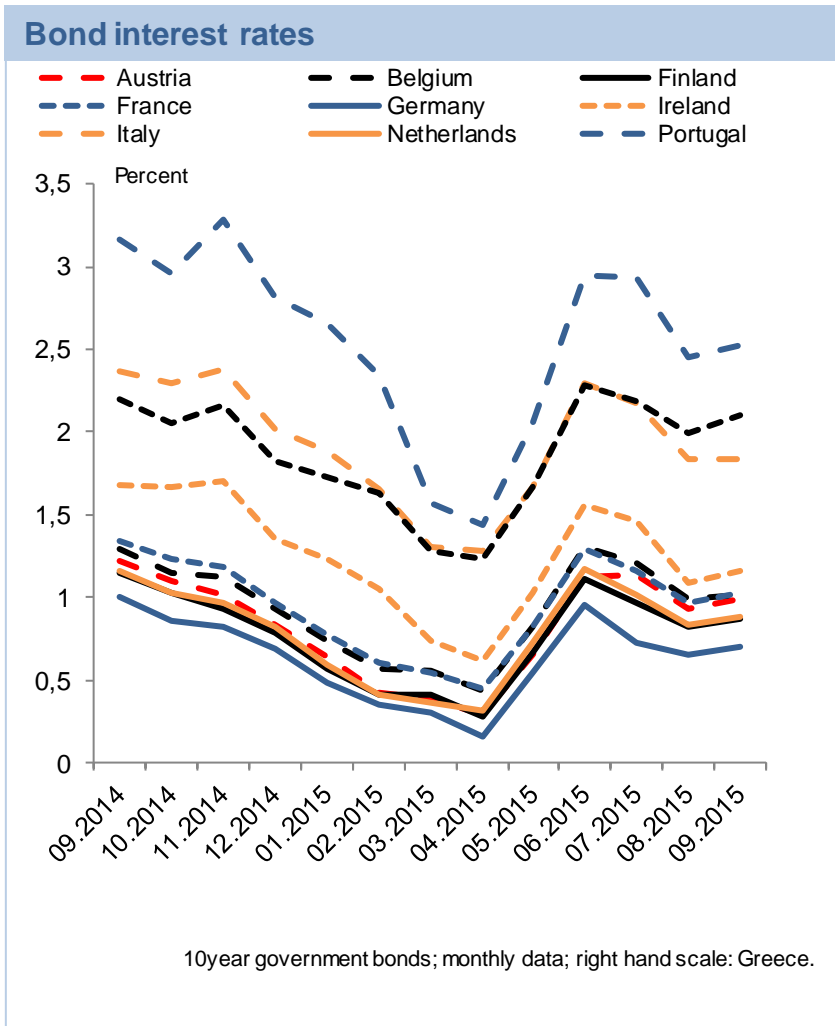
^aForecast.

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

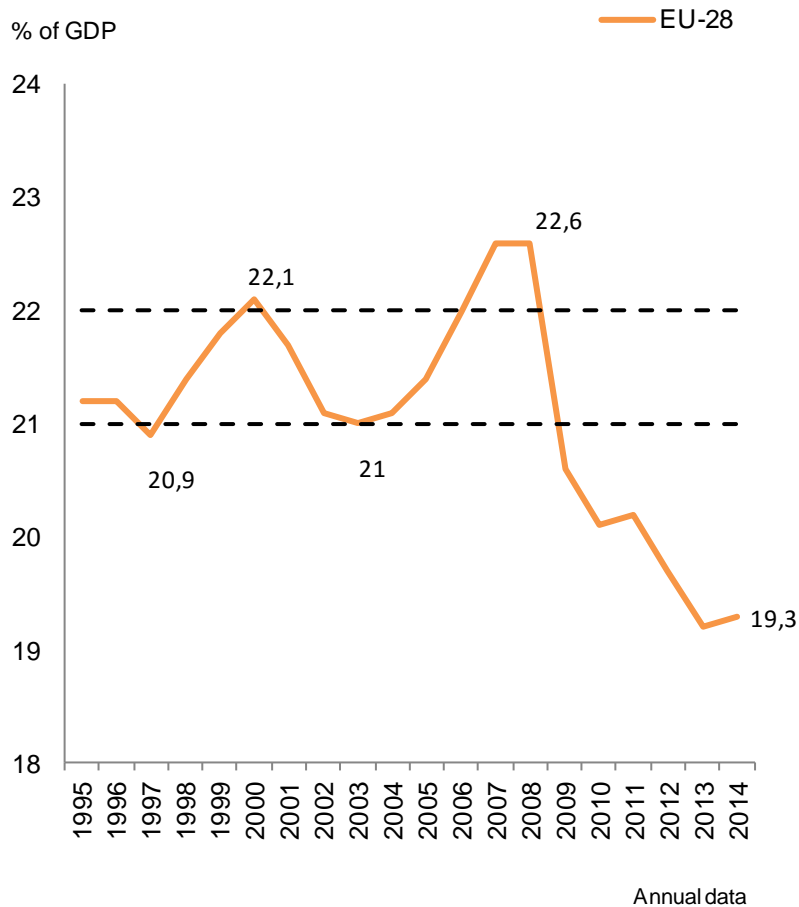
Real GDP, Consumer Prices and Unemployment Rates in the Euro Area 2015–2017

	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

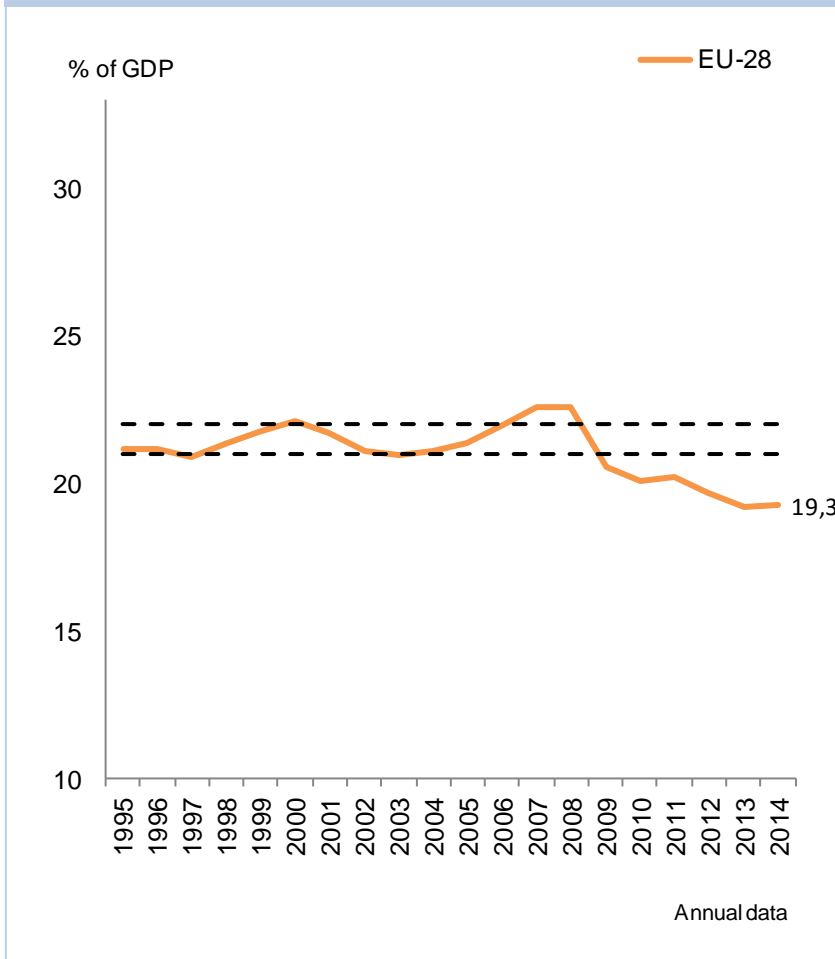
Gross Fixed Capital Formation (% GDP)



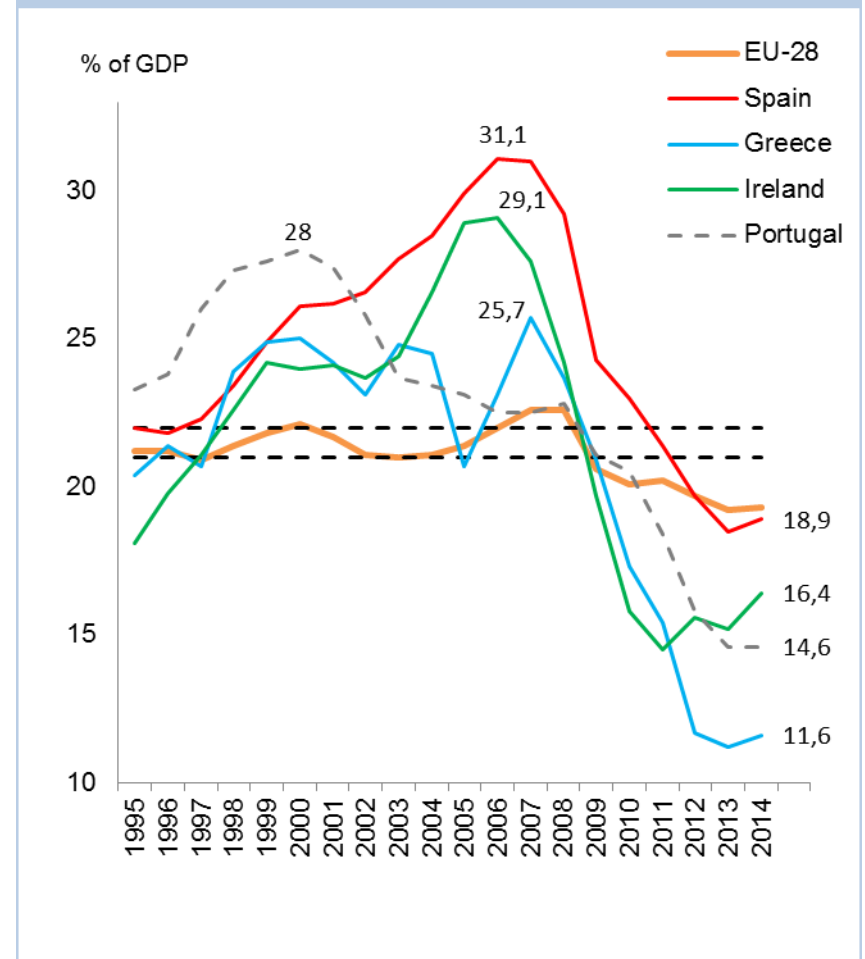
- Decline of gross investment since 2008
- „Investment gap“:
Still no recovery of the share of investment to the long-run range of 21-22 percent

Investment: GIPS and the credit bubble

Gross Fixed Capital Formation (% GDP)

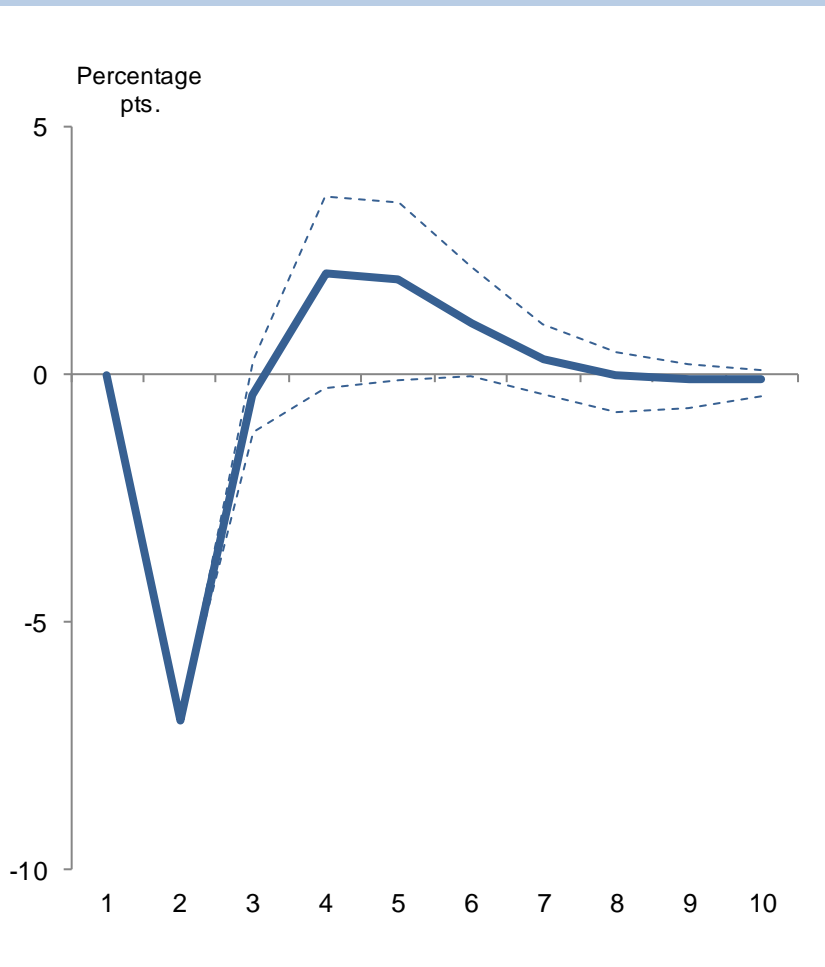


Gross Fixed Capital Formation (% GDP)

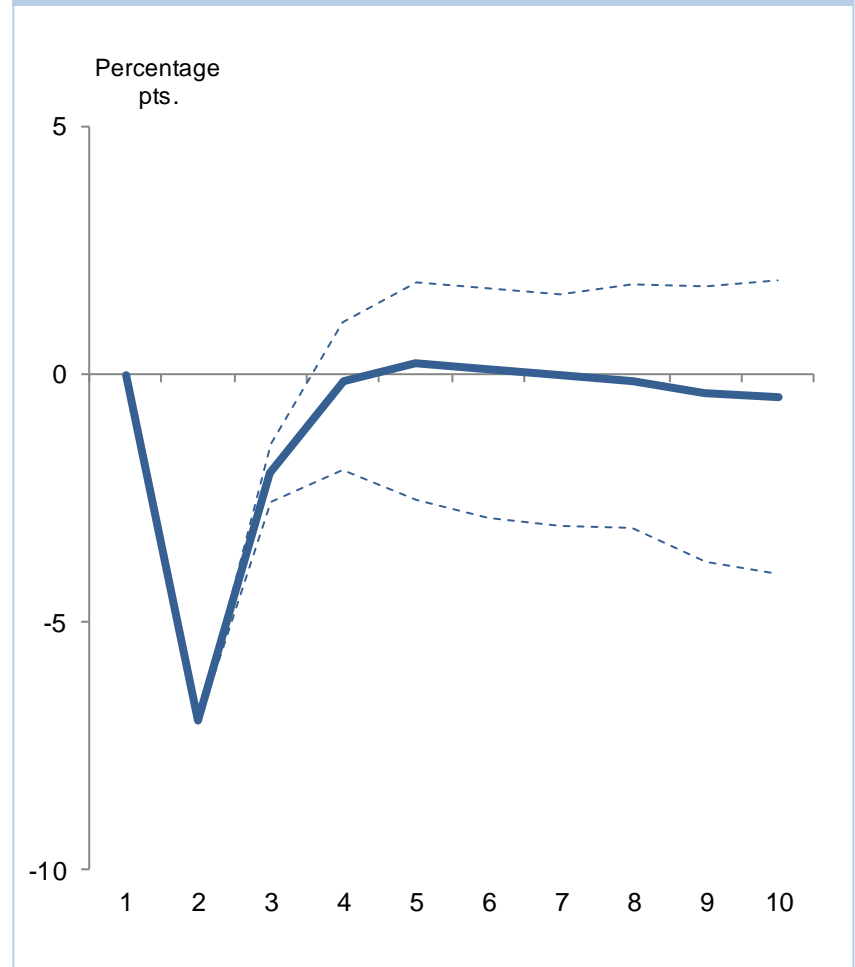


Box: Post-recession investment (yoy change)

A. Normal recessions (growth rate)

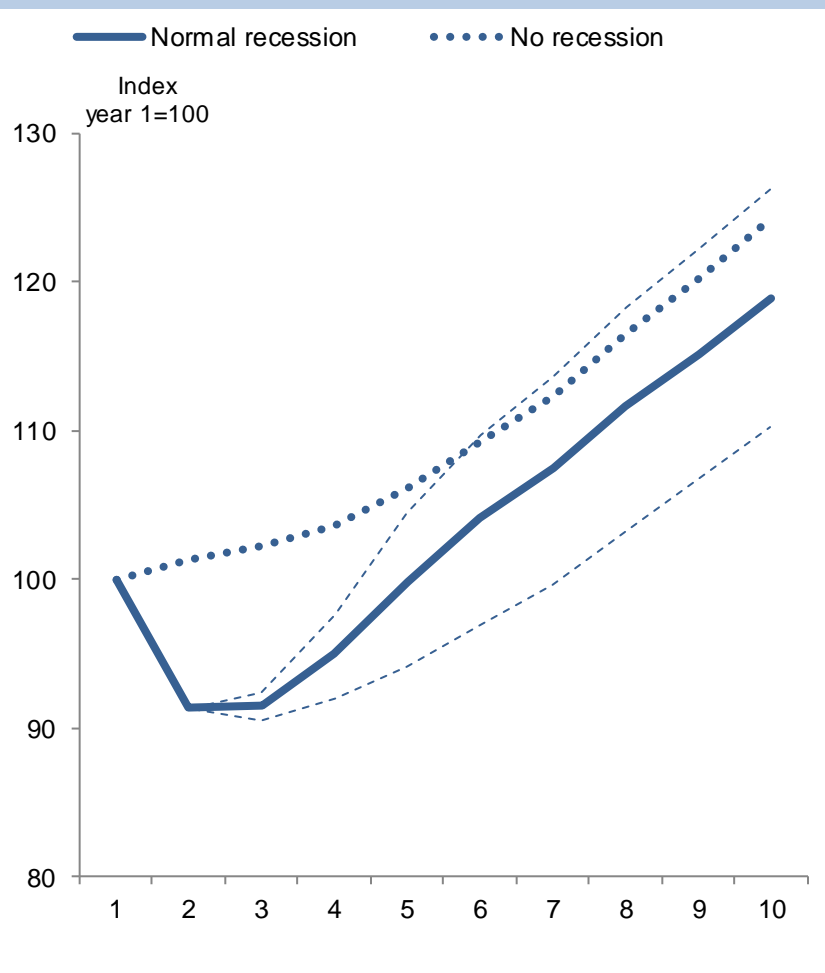


B. Financial crisis (growth rate)

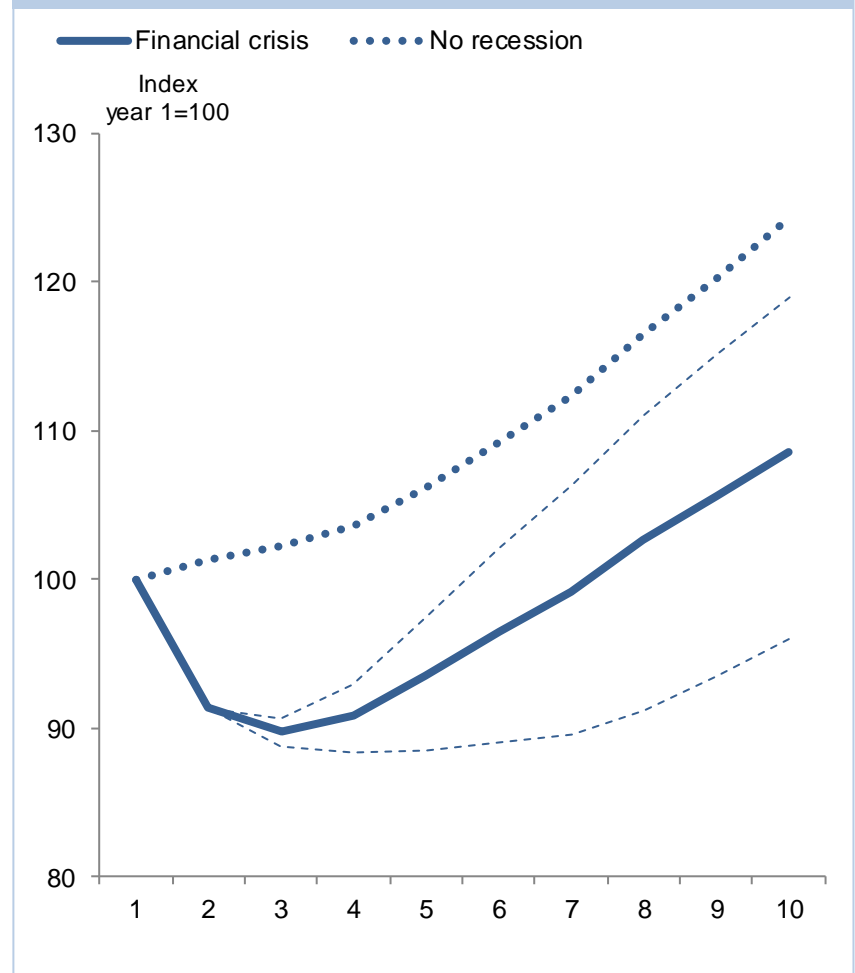


Box: Post-recession investment (level)

C. Normal recessions (level)



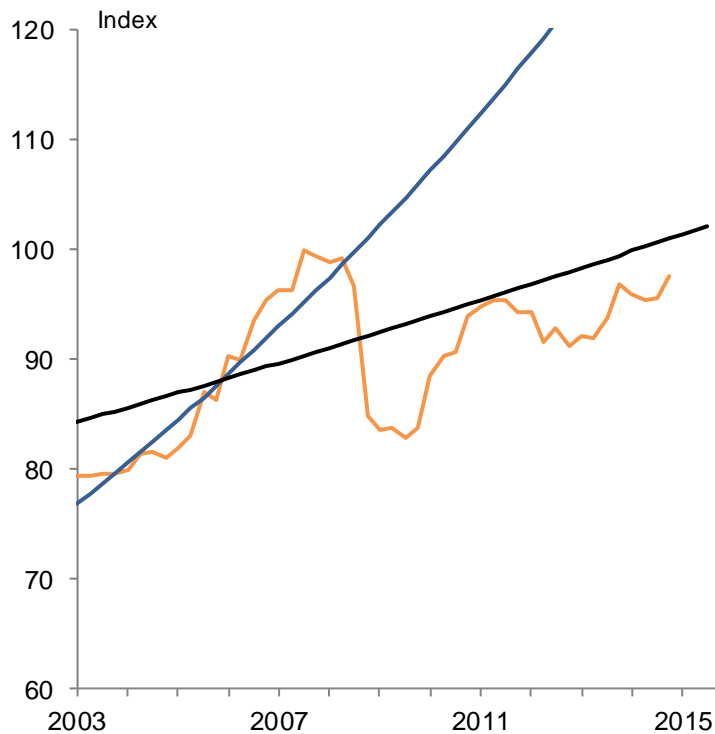
D. Financial crisis (level)



Box: Post-crisis investment (Germany and Italy)

Germany

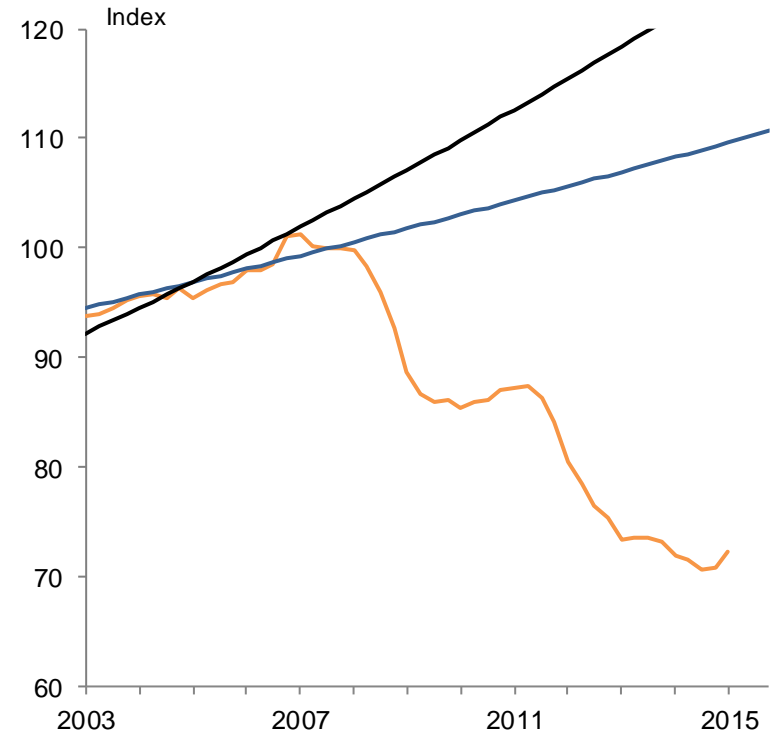
— GDP — Growth path (5 years) — Growth path (10 years)



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.

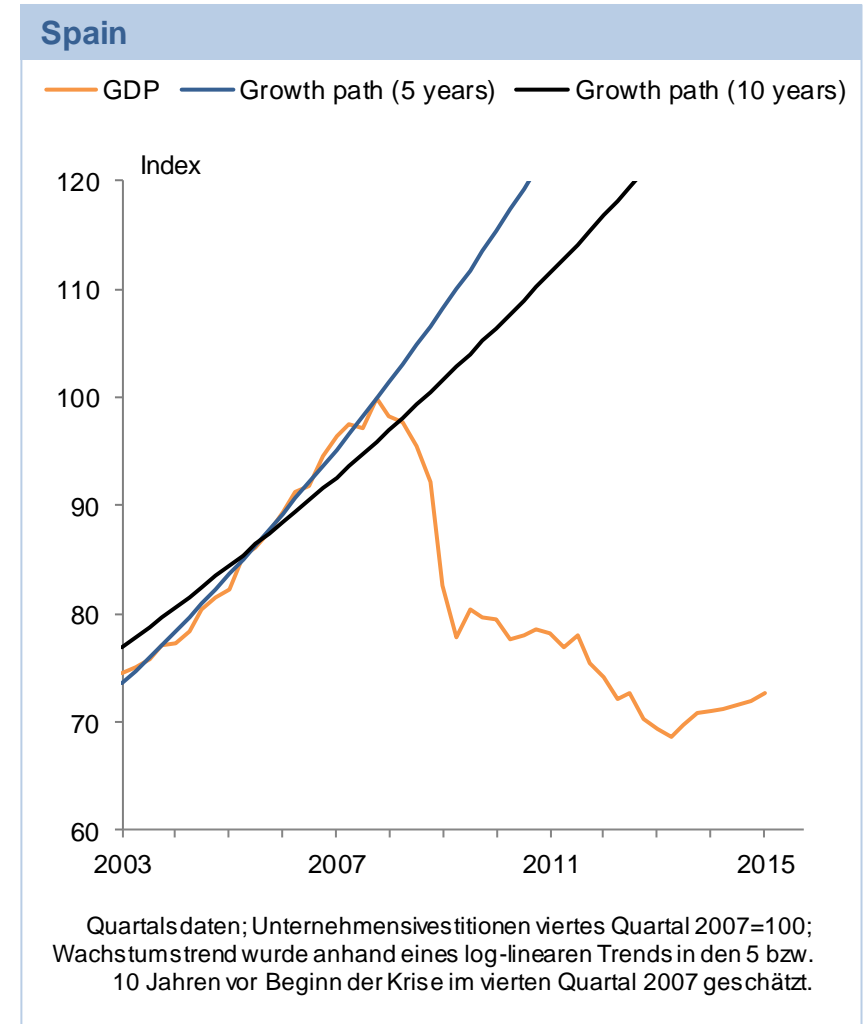
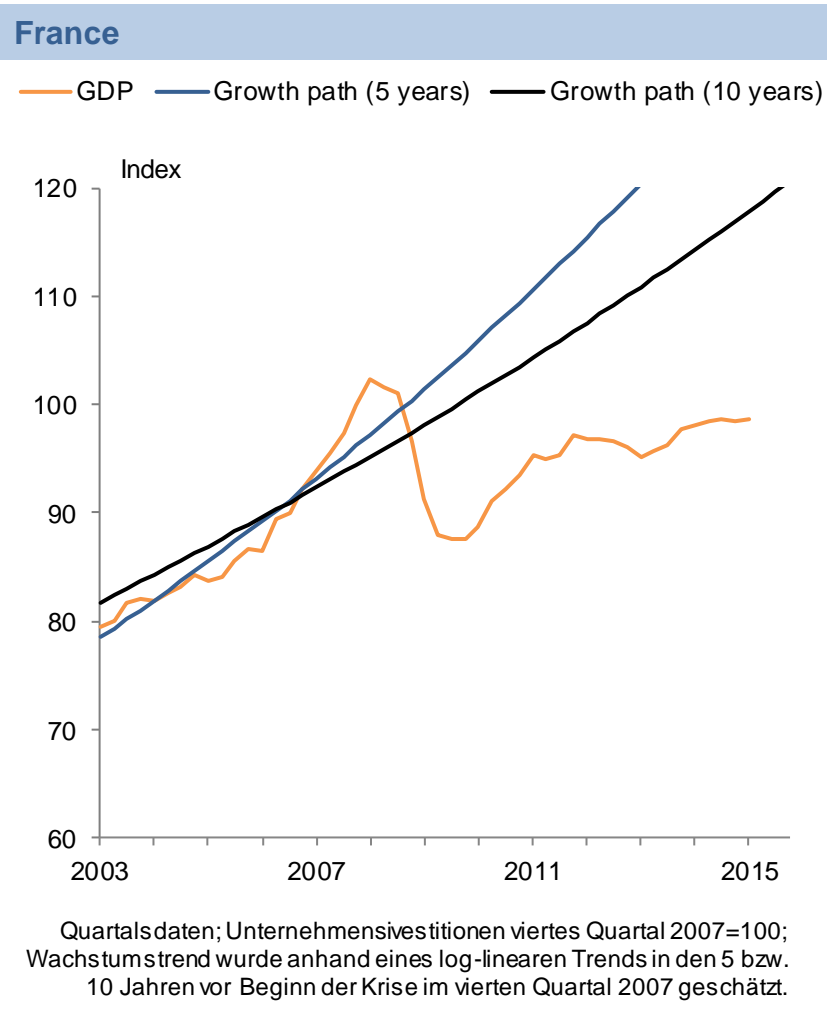
Italy

— 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)



Überblick

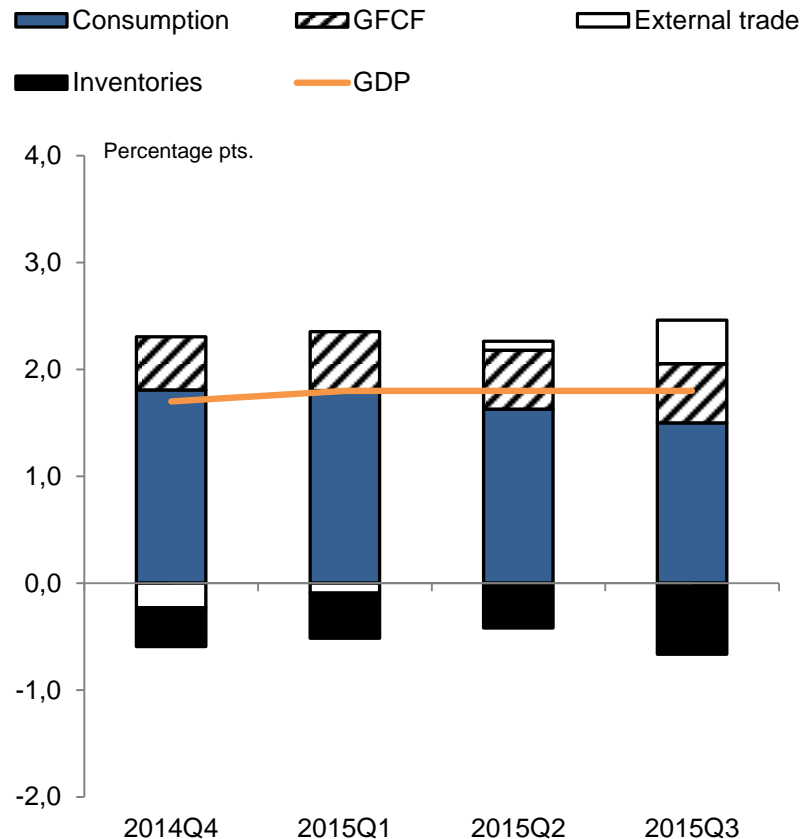
- Weltwirtschaft
- Euroraum
- **Deutschland**

Overview

- German GDP is expected to increase by 1.8 percent (2015), 2.1 percent (2016), and 2.3 percent (2017).
- The uncertain international environment did not have strong dampening effects so far
- Private consumption is one of the main growth engines
- Investment to become a second growth pillar
- Imports are expected to grow faster than exports
- Economy dives into overutilization – overheating on the horizon

GDP growth forecasts for 2015 stable since 2014 Q4

GDP growth forecasts and expenditure components for 2015



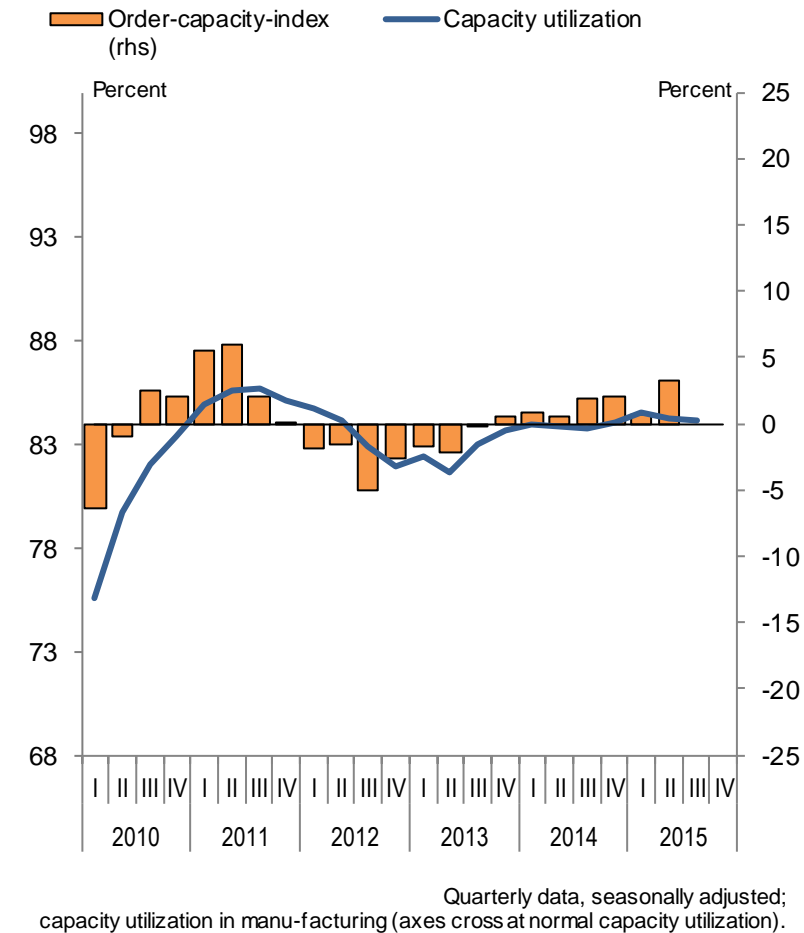
Annual data; price-adjusted, Lundberg components.

x-axis: quarter when the forecast for GDP growth in 2015 was made.

- GDP growth forecast of 1.8 percent for 2015 has been rather stable
- Contribution to GDP growth of consumption is currently expected to be somewhat lower than in 2014-Q4
- Contribution to GDP growth of net exports is currently expected to be somewhat larger than in 2014-Q4

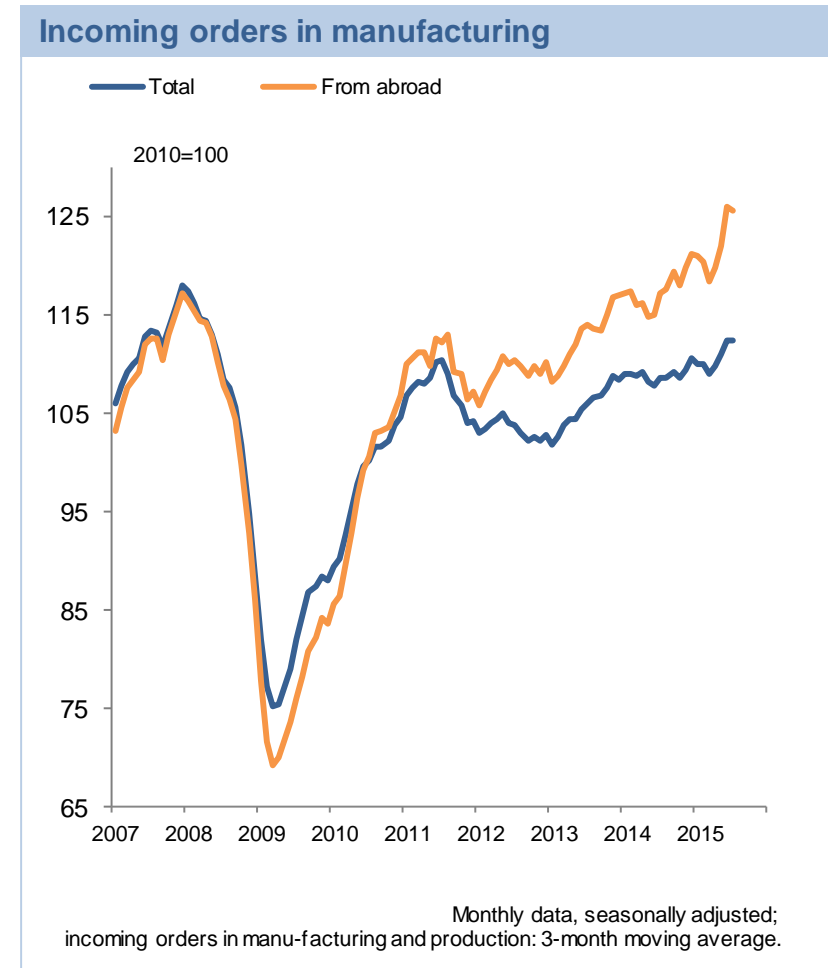
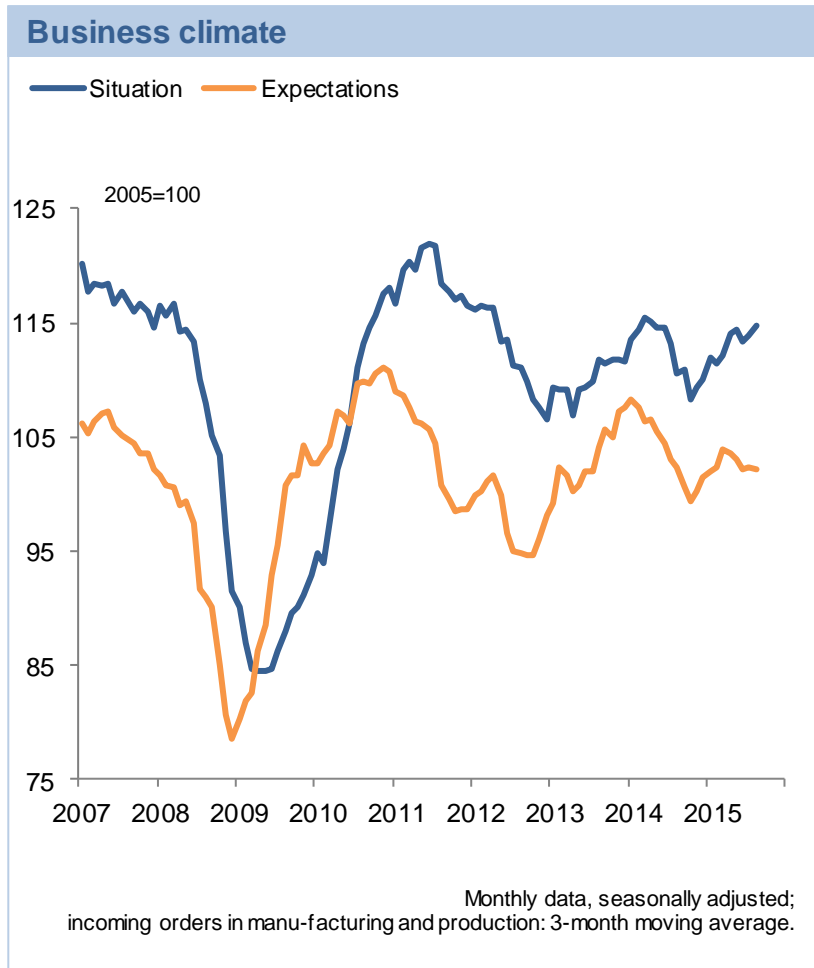
Output gap is by and large closed

Capacity utilization

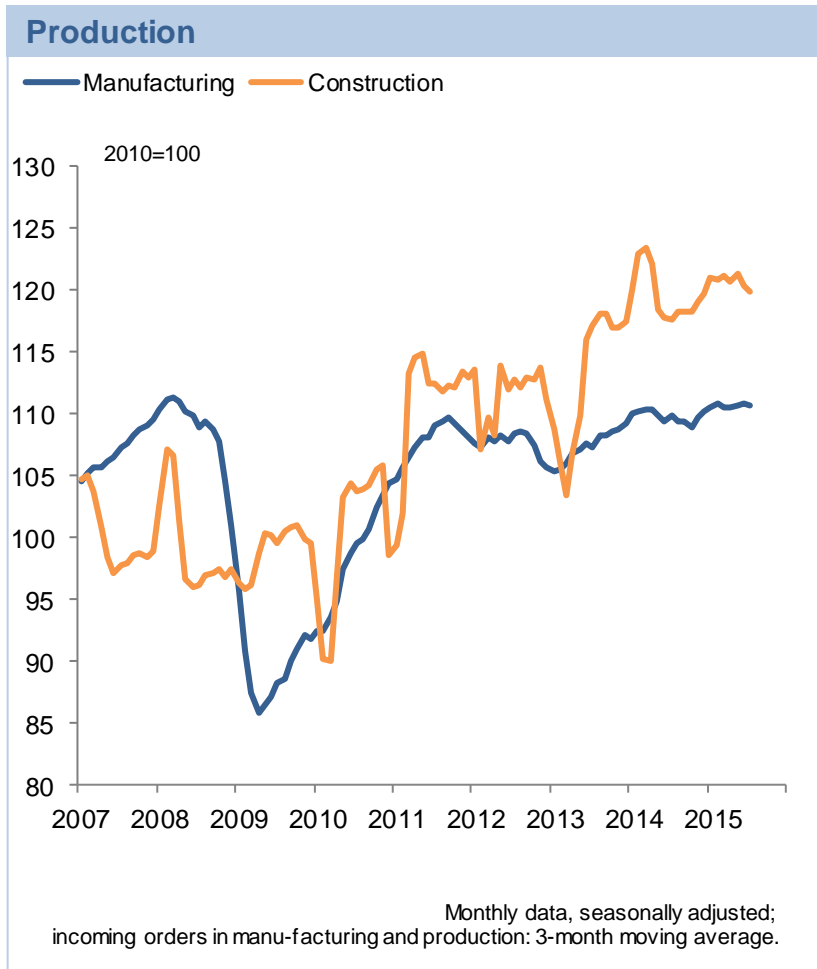


- Capacity utilisation is at normal levels
- Incoming orders are higher than production capacities for manufacturing firms for nearly two years

Business situation and incoming orders are improving



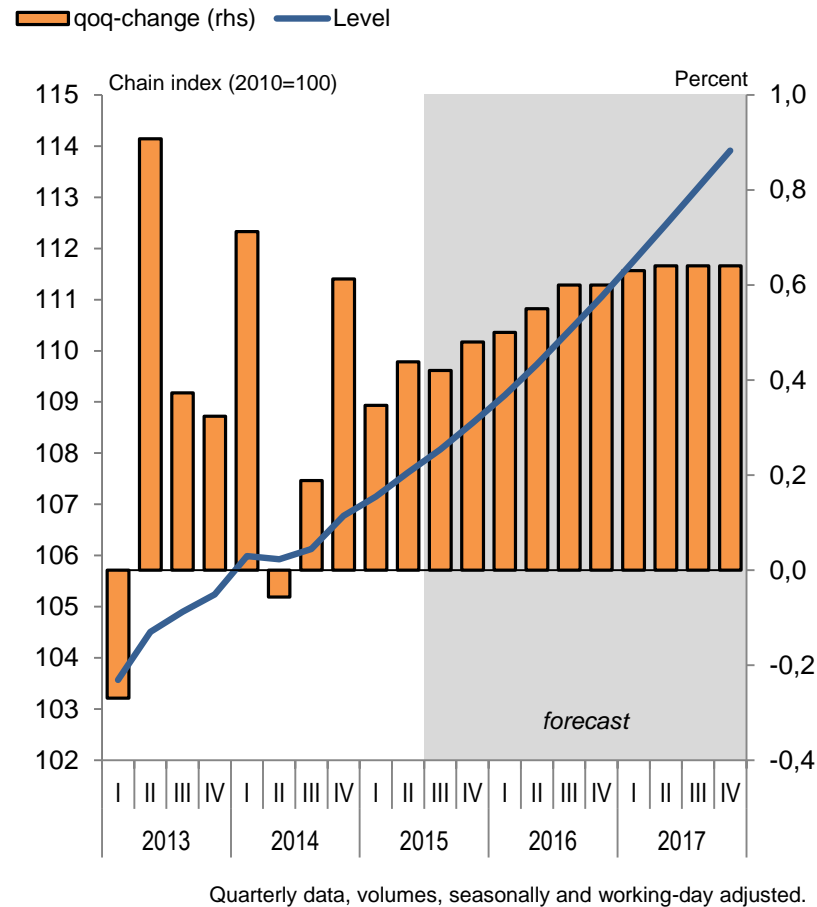
Modest growth in industrial production



- Business situation is still improving while expectations have deteriorated somewhat
- Strong incoming orders
- Modest growth in manufacturing production
- Weather conditions may have contributed to recent decline in construction activity

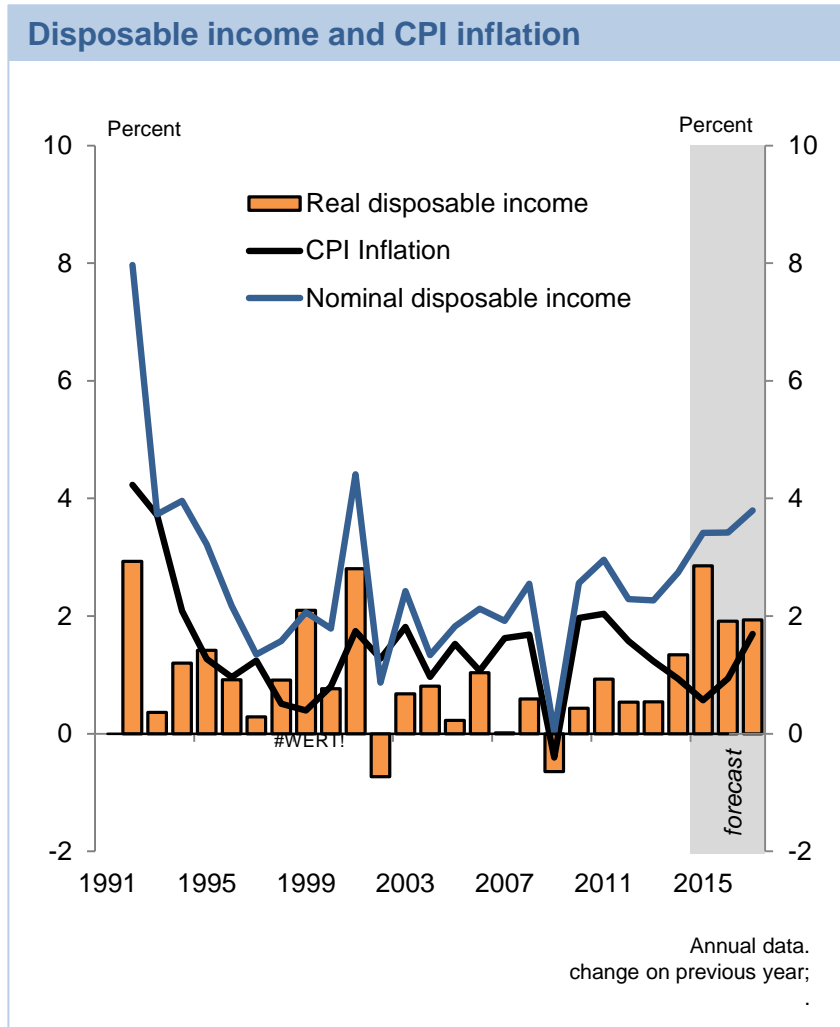
GDP growth is accelerating

Gross domestic product



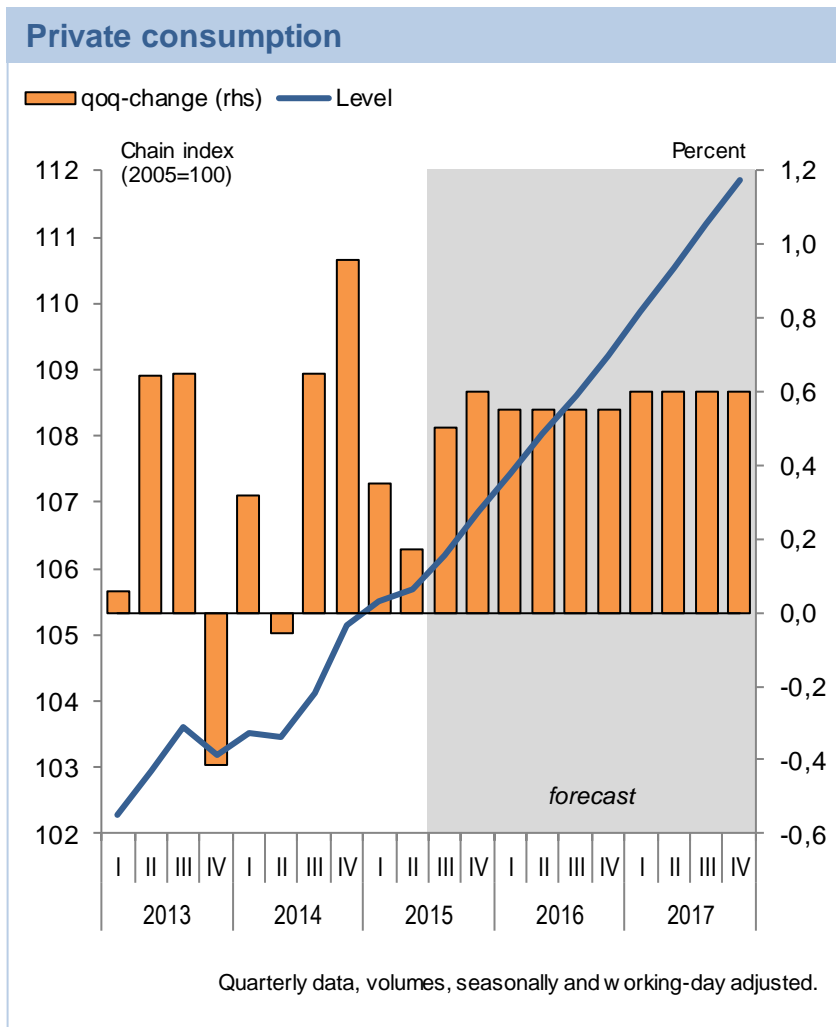
- 2015: +1.8 %
 - 2016: +2.1 %
 - 2017: +2.3 %
-
- GDP is expected to grow by 0.4 percent in 2015-Q3
 - GDP growth is expected to accelerate

Strong increases in real disposable income



- 2015: +2.9 %
- 2016: +1.9 %
- 2017: +1.9 %
- Temporary effects (oil prices, expanded social transfers, minimum wage) boost income growth in 2015

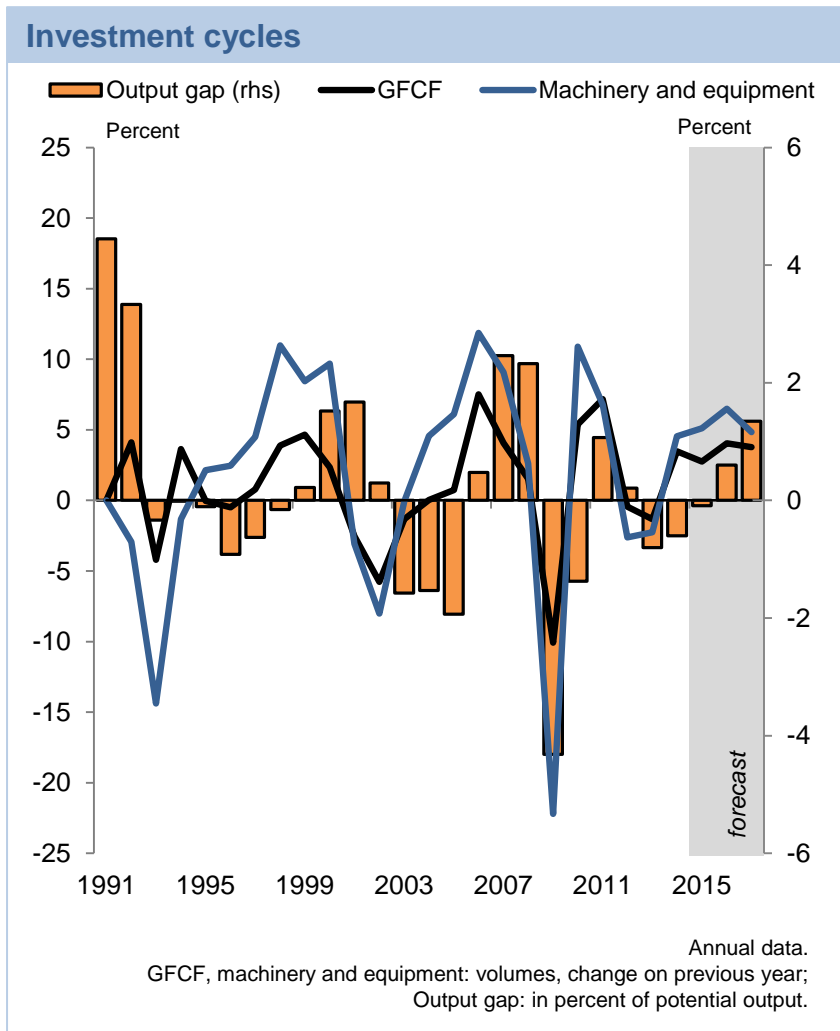
Private consumption is growing with highest rates since 2000



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

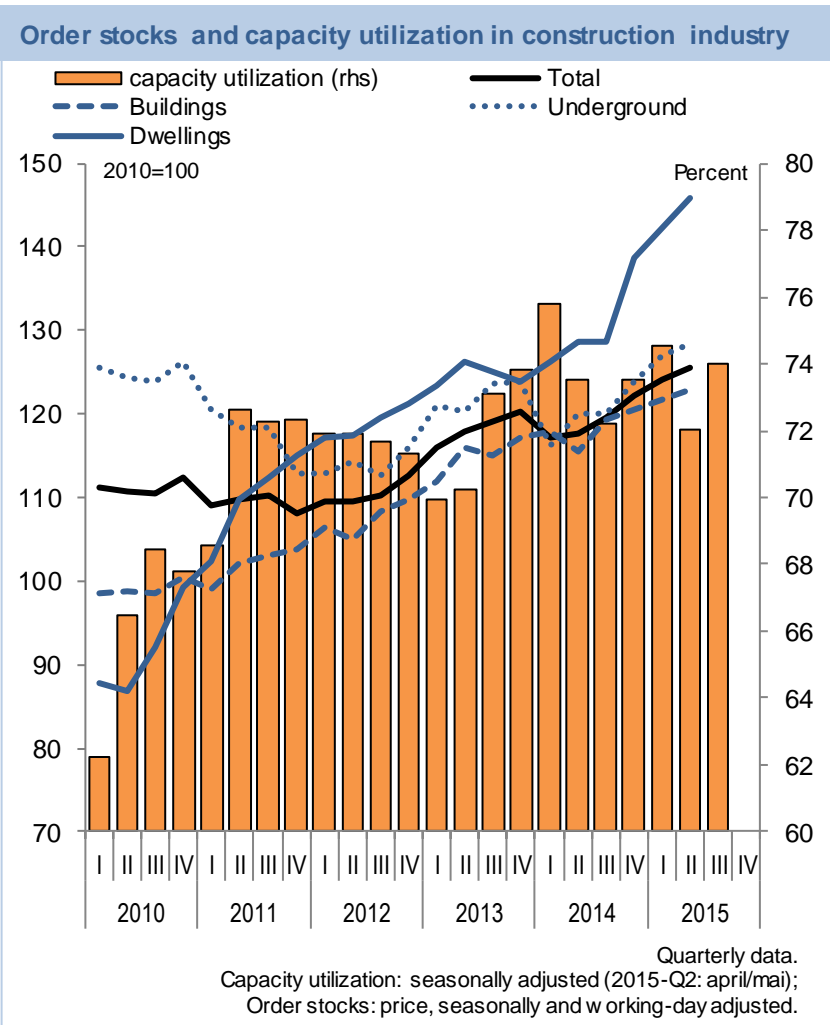
- Savings rate is expected to decline after 2015
 - » 2015: 10.0 %
 - » 2016: 9.9 %
 - » 2017: 9.6 %

Gross Fixed Capital Formation and output gap



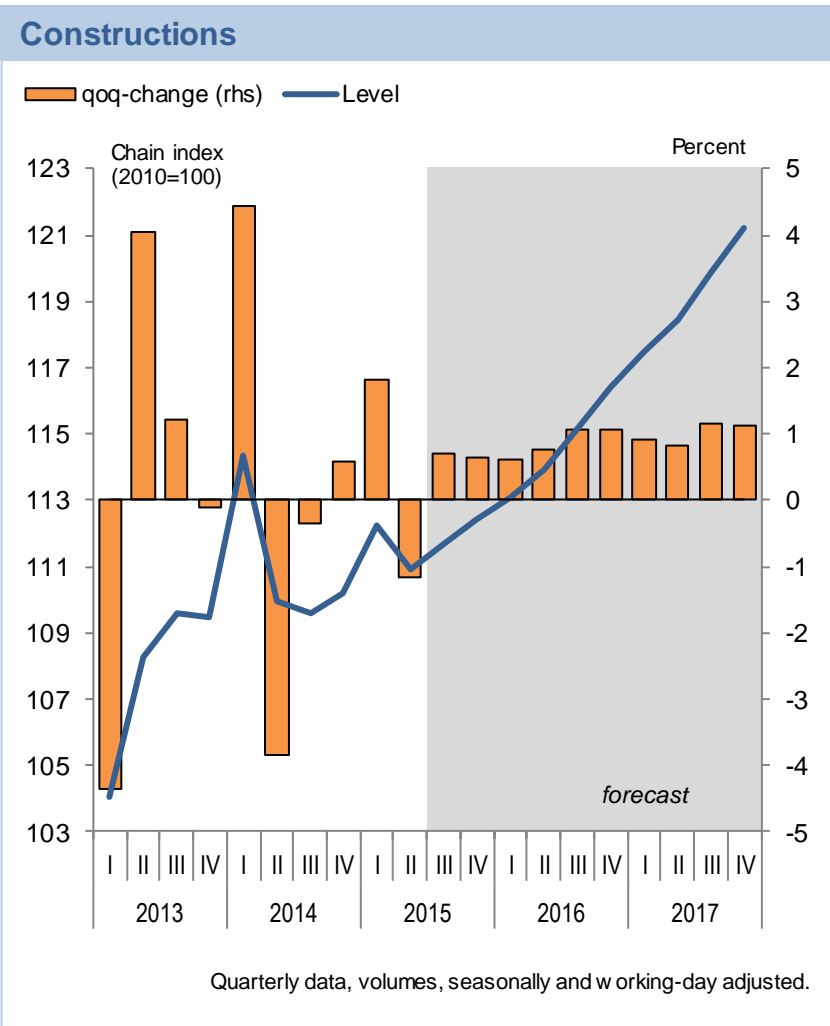
- Growth in GFCF will accelerate with increasing capacity utilisation
- Growth in all GFCF components is expected to accelerate in 2016
- GFCF is expected to become a second growth pillar

Order stocks and capacity utilization in construction industry



- Order stocks are increasing and are at high levels
- Increase in capacity utilisation indicates that construction will grow again in Q3

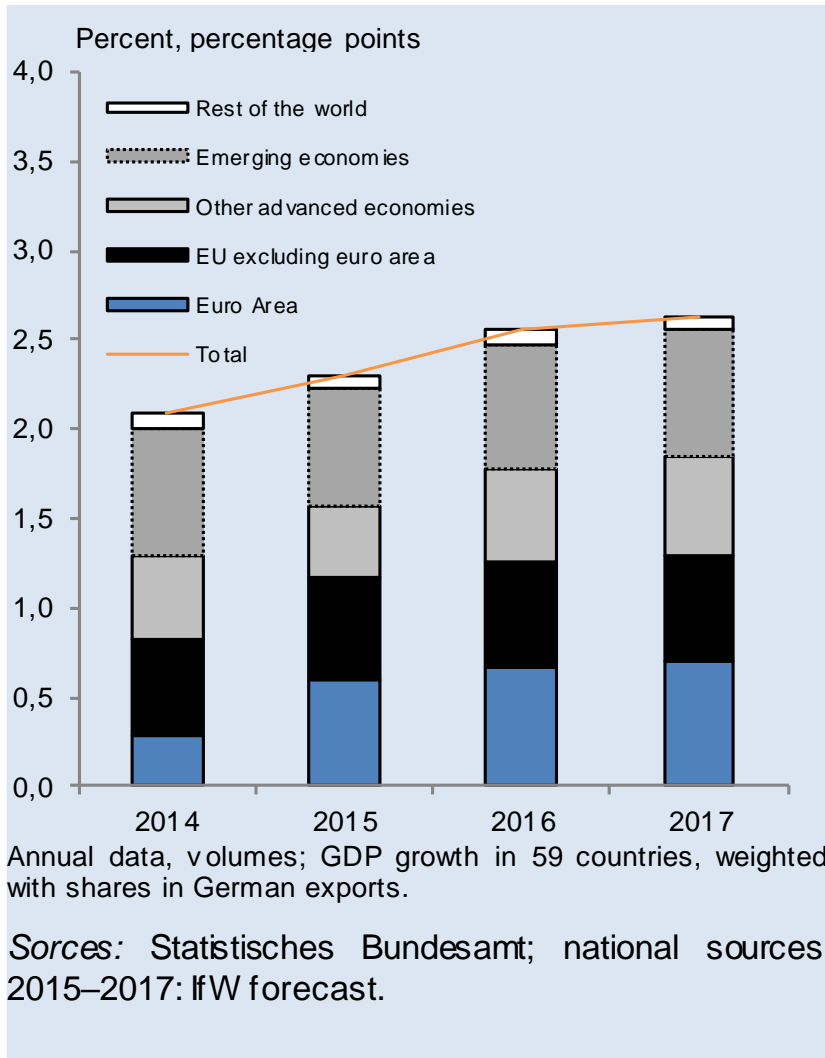
Very stimulating environment for constructions



- Very stimulating environment for constructions:
 - » Low interest rates
 - » Strong income growth
 - » High government revenues
 - » Increasing capacity utilisation

- Growth in private residential investment and infra-structures is expected to pick up

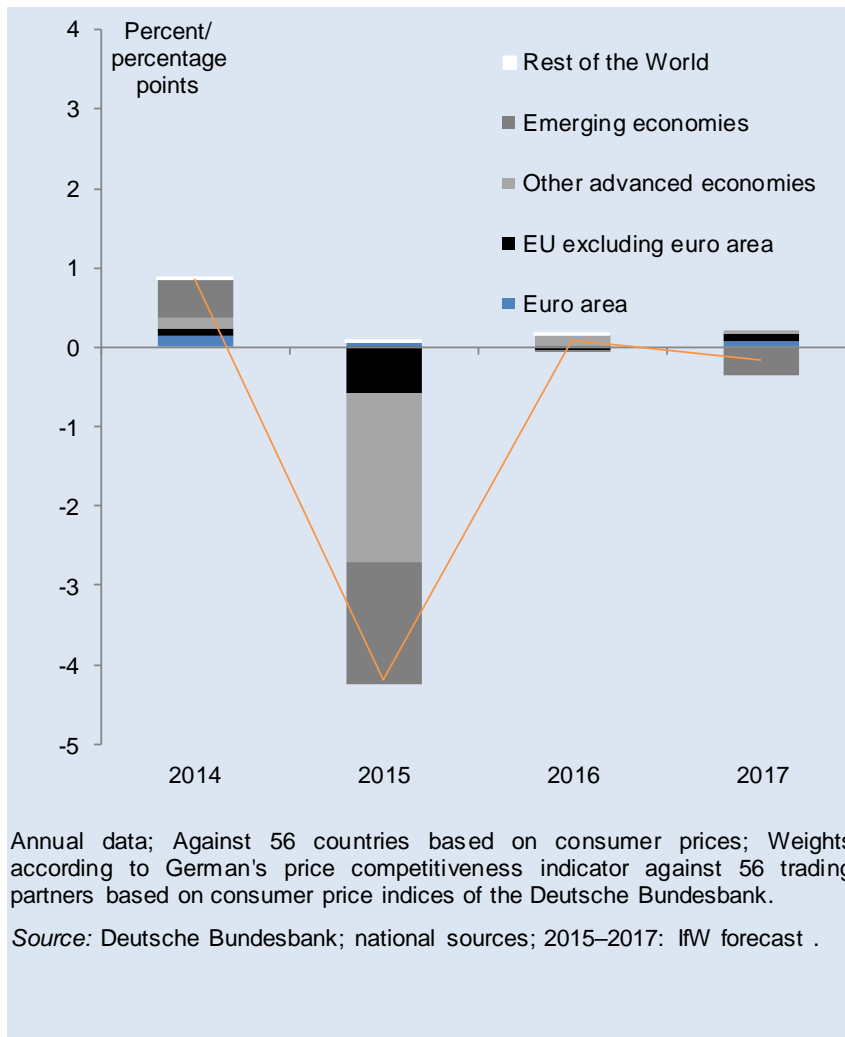
GDP growth in German export markets



- 2015: +2.3 %
- 2016: +2.6 %
- 2017: +2.6 %

- GDP growth is expected to accelerate somewhat in advanced economies in 2016
- No additional impulses from emerging economies

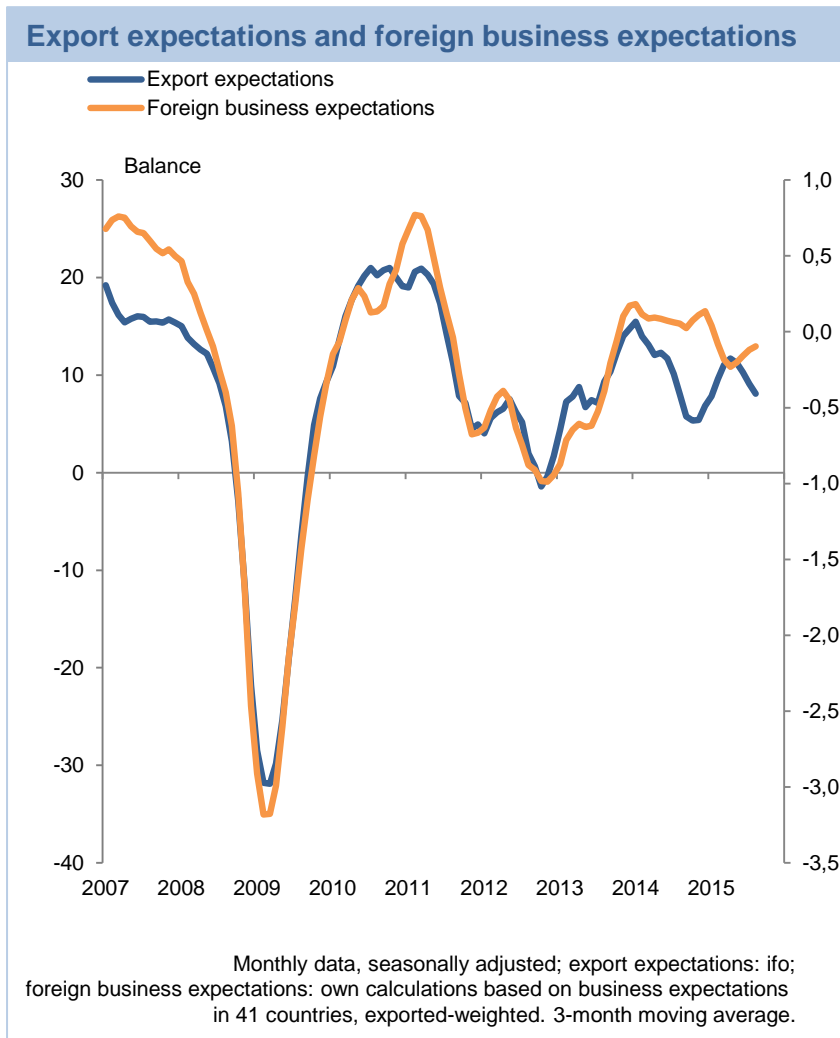
Price Competitiveness



- 2015: -4.2%
- 2016: $+0.1\%$
- 2017: -0.2%

- Price competitiveness is improving due to euro depreciation in the current year
- In 2016 and 2017 it is expected to remain largely unchanged

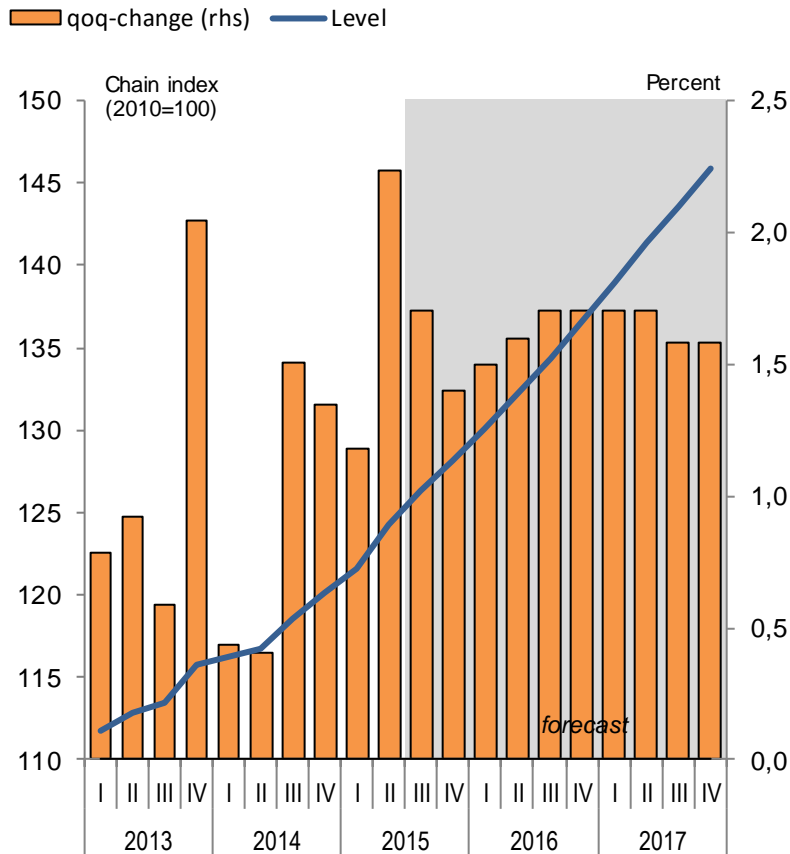
Exports expectations and foreign business expectations



- Export expectations have deteriorated recently
- Foreign business expectations were relatively stable
- We expect strong export growth in Q3 (1.7%; strong export data in July) and somewhat weaker export growth in Q4

Exports are growing with solid rates

Exports

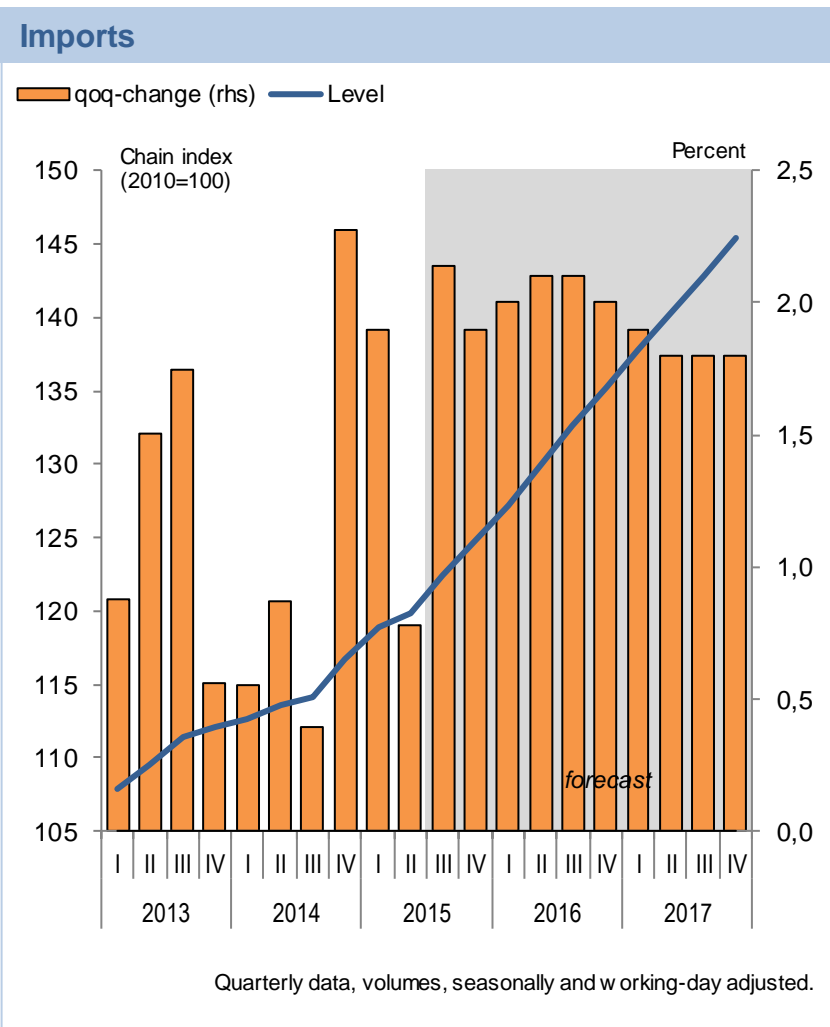


Quarterly data, volumes, seasonally and working-day adjusted.

- 2015: +6.6 %
- 2016: +6.8 %
- 2017: +6.4 %

- euro area countries compensate for lower growth in emerging markets

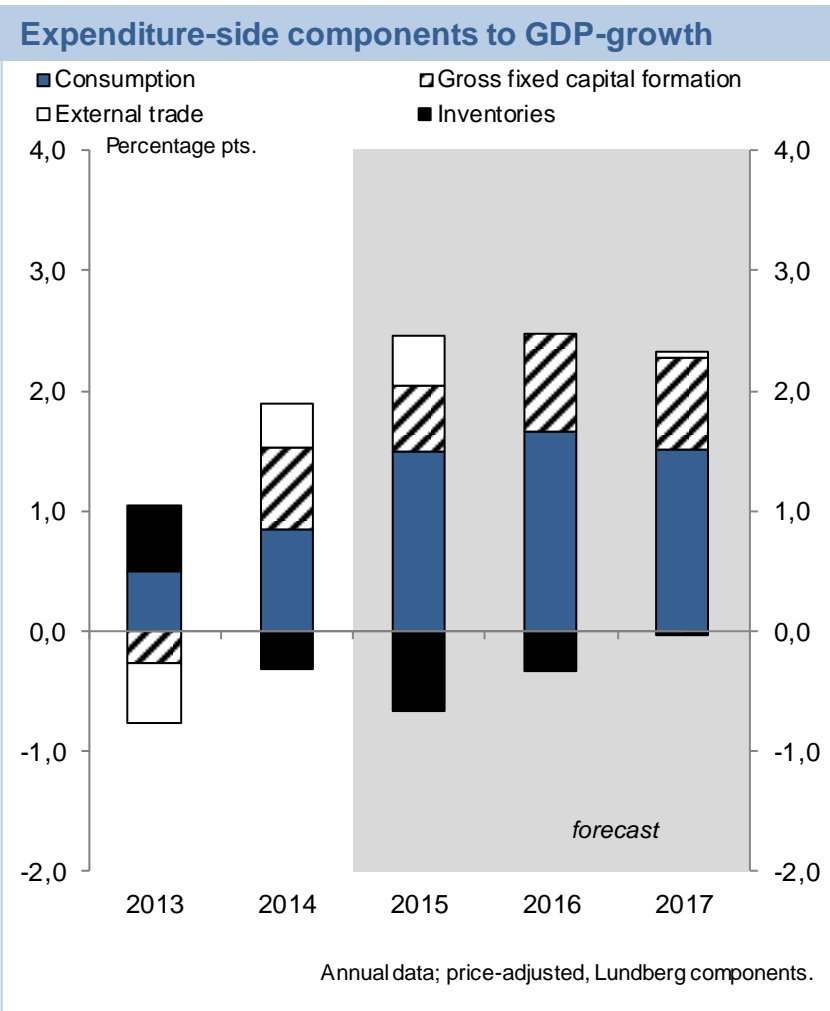
Imports are growing faster than exports



- 2015: +6.7 %
- 2016: +8.1 %
- 2017: +7.6 %

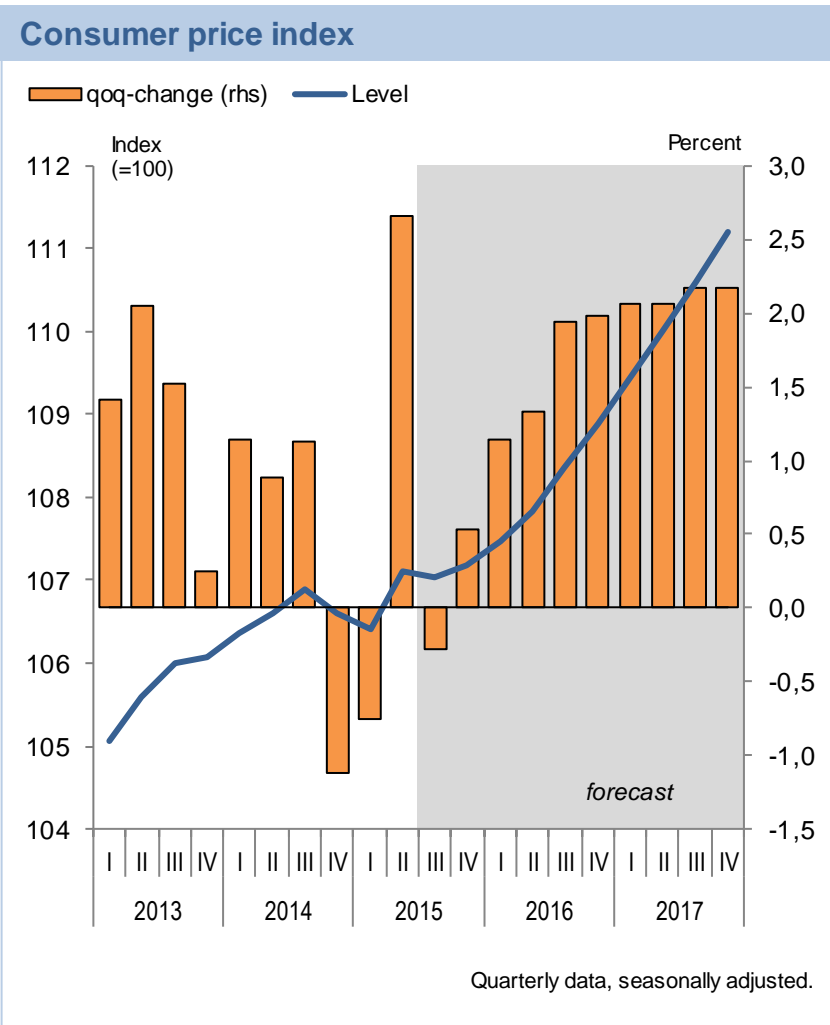
- Strong domestic demand and solid export growth will stimulate imports further
- Improvement in Terms of Trade

Growth contributions



- 2015-2017: GDP growth is driven by private consumption
- 2016: GFCF to become second growth pillar
- Due to strong import growth contributions of net exports are expected to be close to zero

Consumer Prices



- **CPI inflation:**

- 2015: 0.3 %

- 2016: 1.1 %

- 2017: 2.0 %

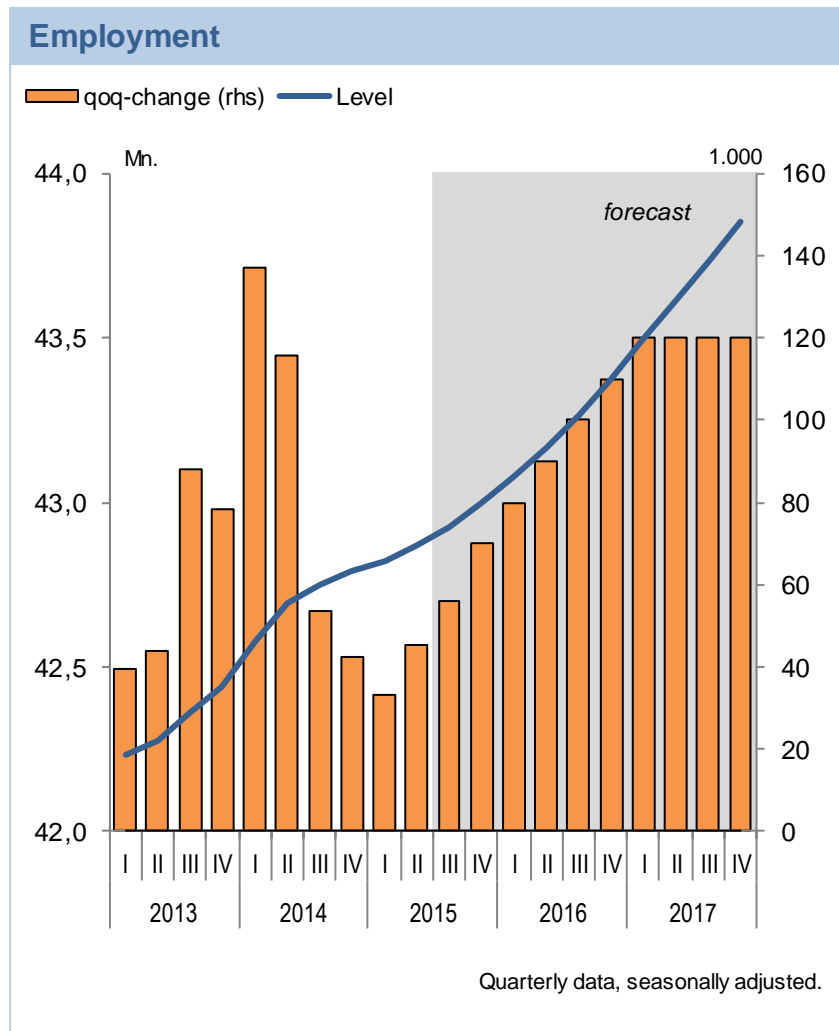
- **GDP deflator**

- 2015: 2.0 %

- 2016: 1.9 %

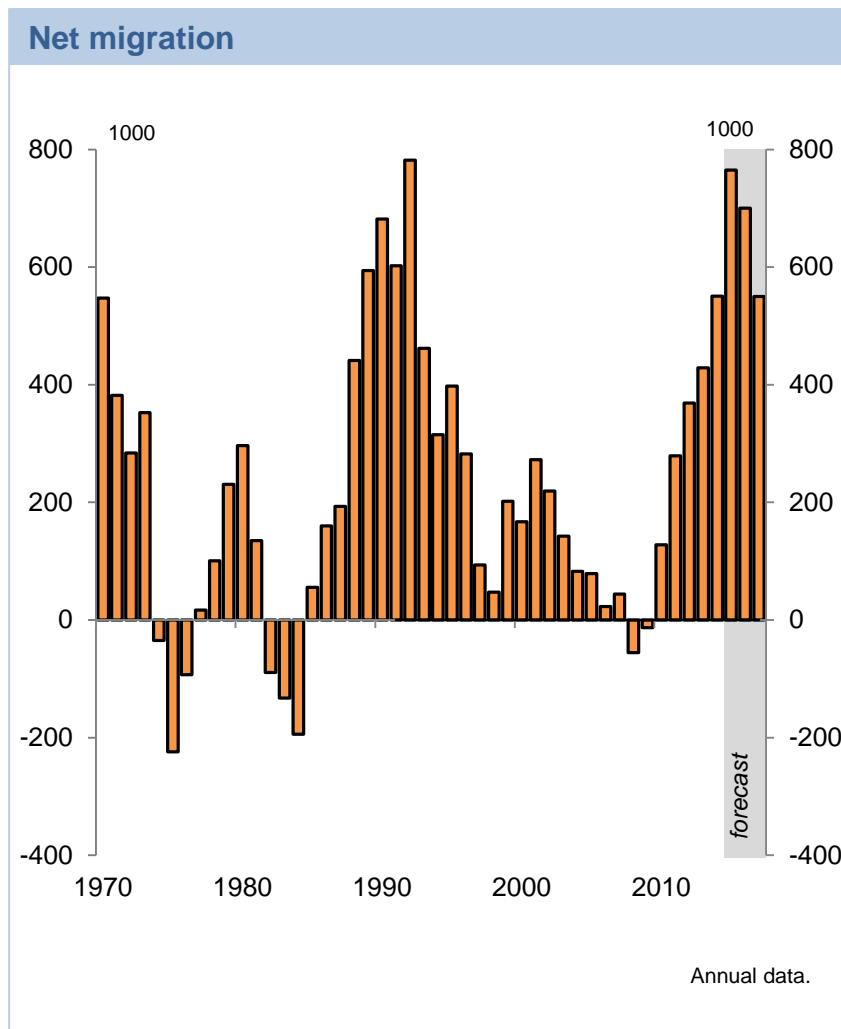
- 2017: 2.1 %

Labor market remains in good shape



- Temporary weakness in employment growth due to minimum wage.
- Loss of 200,000 mini jobs in the last 12 months (most of them in 2015-Q1)
- Labor force is increasing due to net migration.

Net migration will stay at high levels

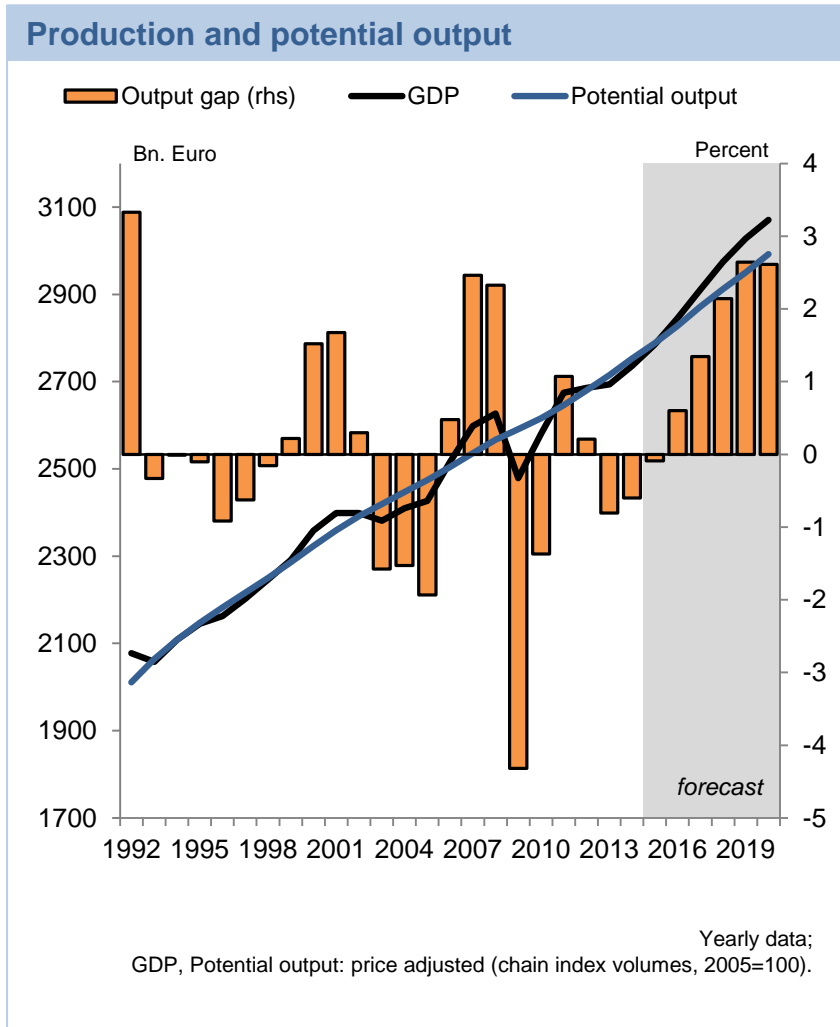


- Increasing net migration is a factor in current labor market developments: 66% of increase in employment in the past 12 months.
- Most important is migration from Eastern Europe (freedom of movement)
- Effects due to increased number of asylum applicants is currently relative small, but is expected to become larger in the medium-run

Net Migration

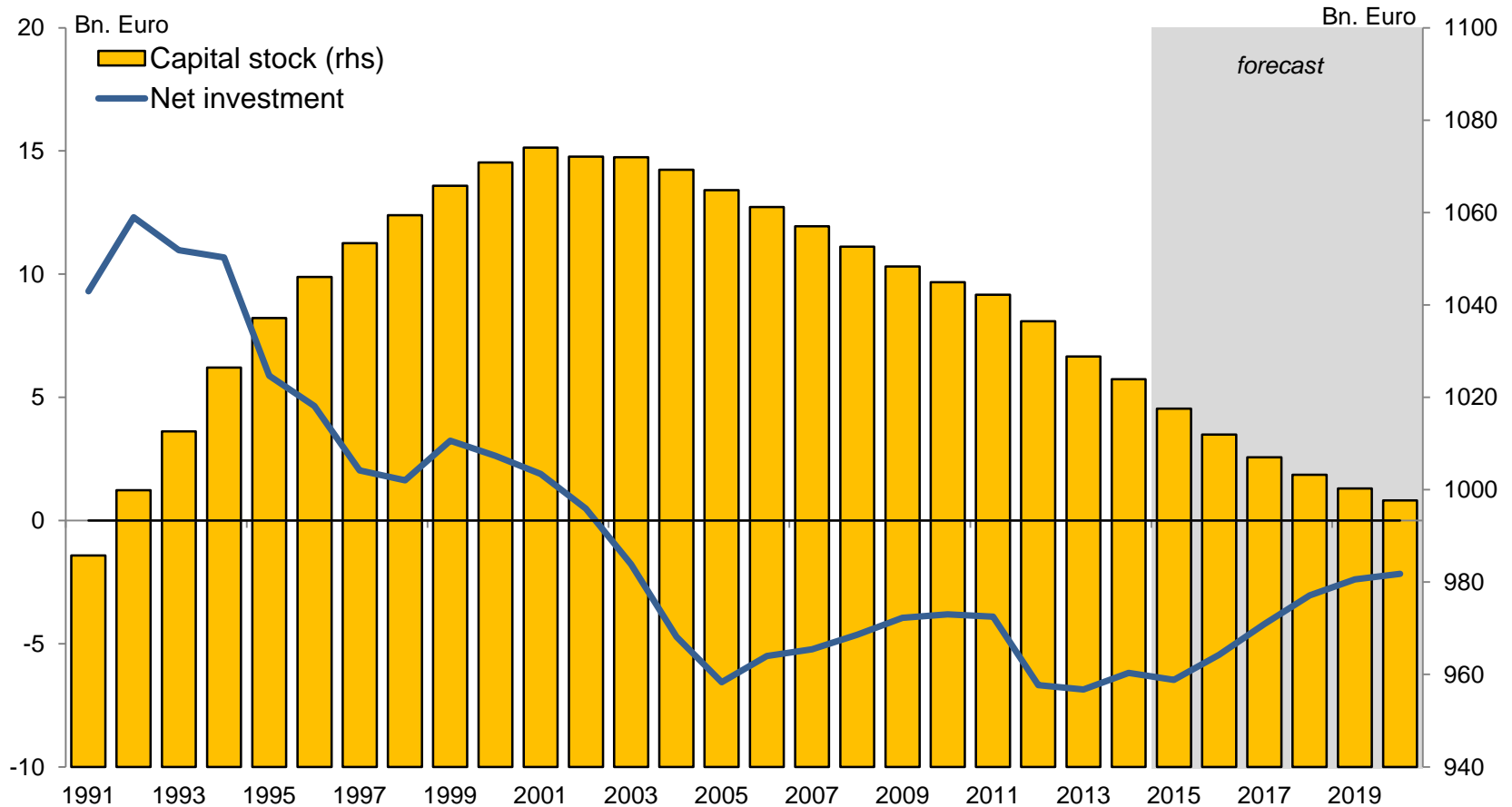
- Government expenditures are expected to increase by 5 bn. in 2015 and by 4 bn. in 2016 due to increased number of asylum seekers
- Rough estimates may indicate visible increases in private consumption and construction
- However, net effects are difficult to estimate (e.g., due to potential crowding out of alternative investment projects at the local level)
- Currently, due to net migration the labor force is increasing instead of decreasing
- From about 500,000 asylum seekers in the current year, by far less than 100,000 enter the labor force
- Additional asylum seekers may have visible (but small) effects on potential output

Potential output and production



- Potential growth is expected to grow on average with 1.4 percent per year
- GDP to grow faster than potential for several years, e.g., due to expansionary monetary policy.
- Output gap is approaching its largest value since the reunification
- Risks for economic and financial stability are increasing

Public infrastructure capital stock



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.

Key Indicators

Key indicators 2014–2017

	2014	2015	2016	2017
Gross domestic product (GDP), price-adjusted	1,6	1,8	2,1	2,3
Gross domestic product, deflator	1,7	2,0	1,9	2,1
Consumer prices	0,9	0,3	1,1	2,0
Labor productivity (per hour worked)	0,4	0,8	1,5	1,3
Employment (1000 persons)	42.703	42.903	43.220	43.675
Unemployment rate (percent)	6,7	6,4	6,2	5,6
<i>in relation to nominal GDP</i>				
Public sector net lending	0,3	1,0	0,5	0,7
Gross public debt	74,4	70,5	66,9	62,8
Current account balance	7,6	8,8	9,0	9,0

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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