

IHS Markit | Frankfurt/Main, 25th January 2017
New Year's Briefing 2017

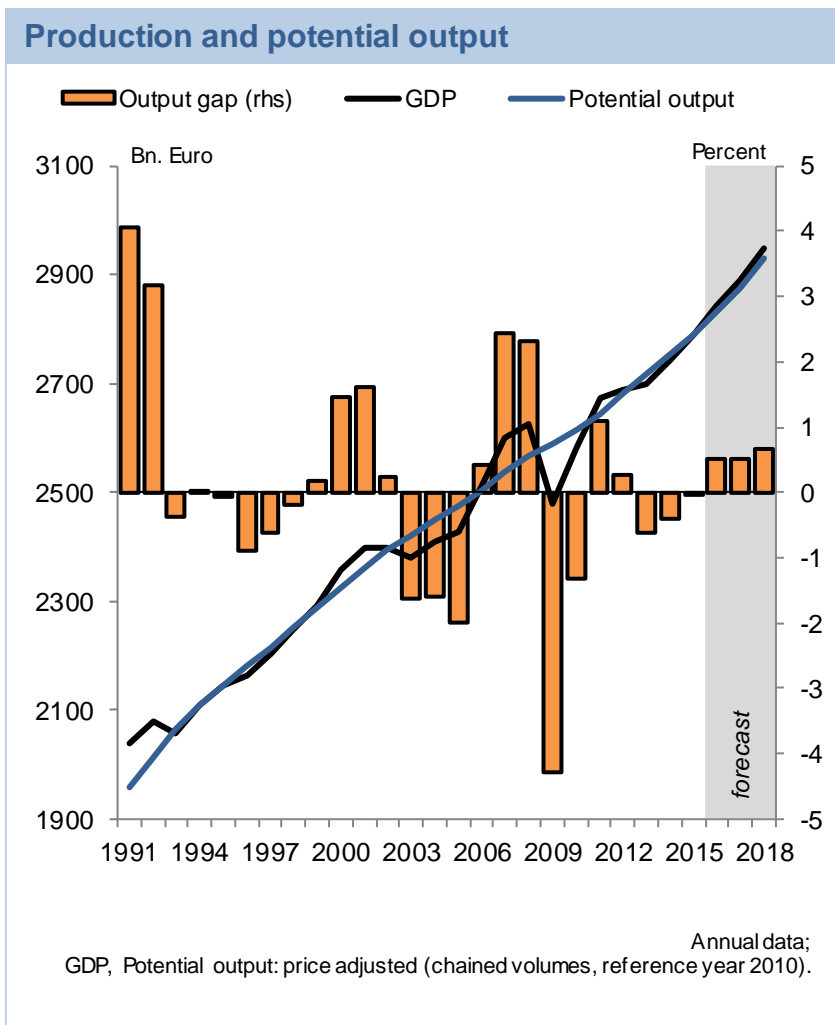
Germany's Economic Outlook

Chewing gum cycle, bubble gum risks

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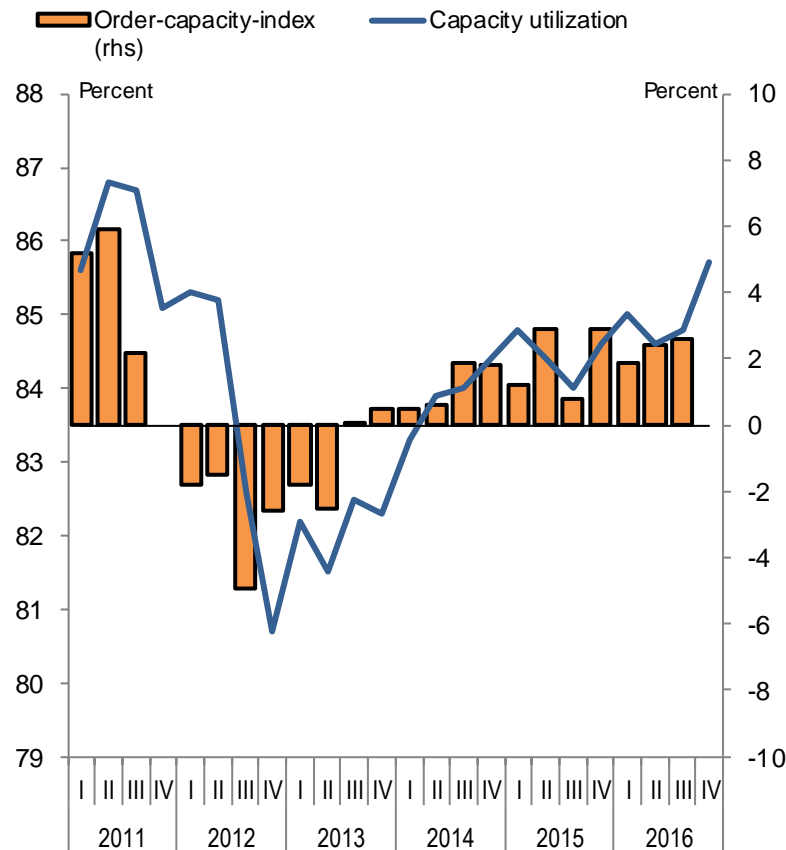
Chewing gum-type business cycle



- Stretched upswing, faint cyclical pattern
- Migration feeds markedly into potential growth (delayed for refugees)
 - » 2015: + 331,000
 - » 2016: + 511,000
 - » 2017: + 313,000
 - » 2018: + 213,000
- Capacities already slightly over-utilized

Capacity utilization above normal and increasing

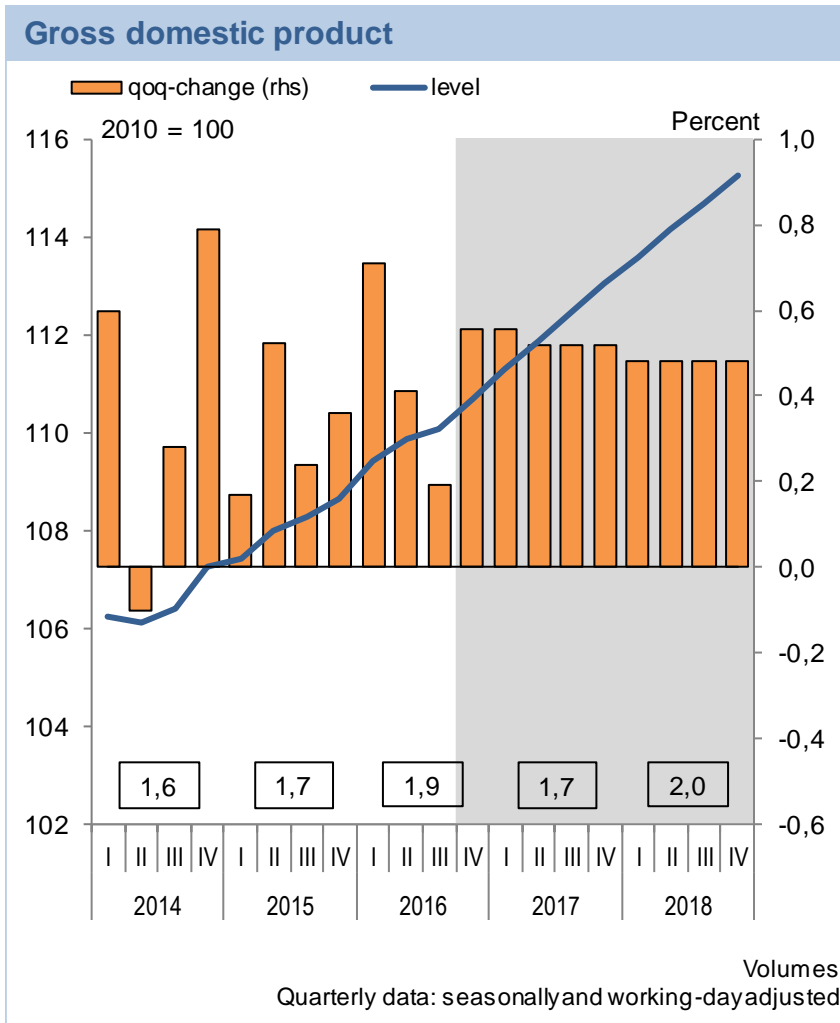
Capacity utilization in manufacturing



Quarterly data, seasonally adjusted;
Capacity utilization: axes cross at normal capacity utilization level.

- Manufacturing
 - » Upward trend, third year of over-utilization ...
 - » ... incoming orders exceed production capacities
- Construction
 - » Record-high capacity utilization
- Services
 - » Lack of demand (ifo) on record-low levels
- Vibrant labor market

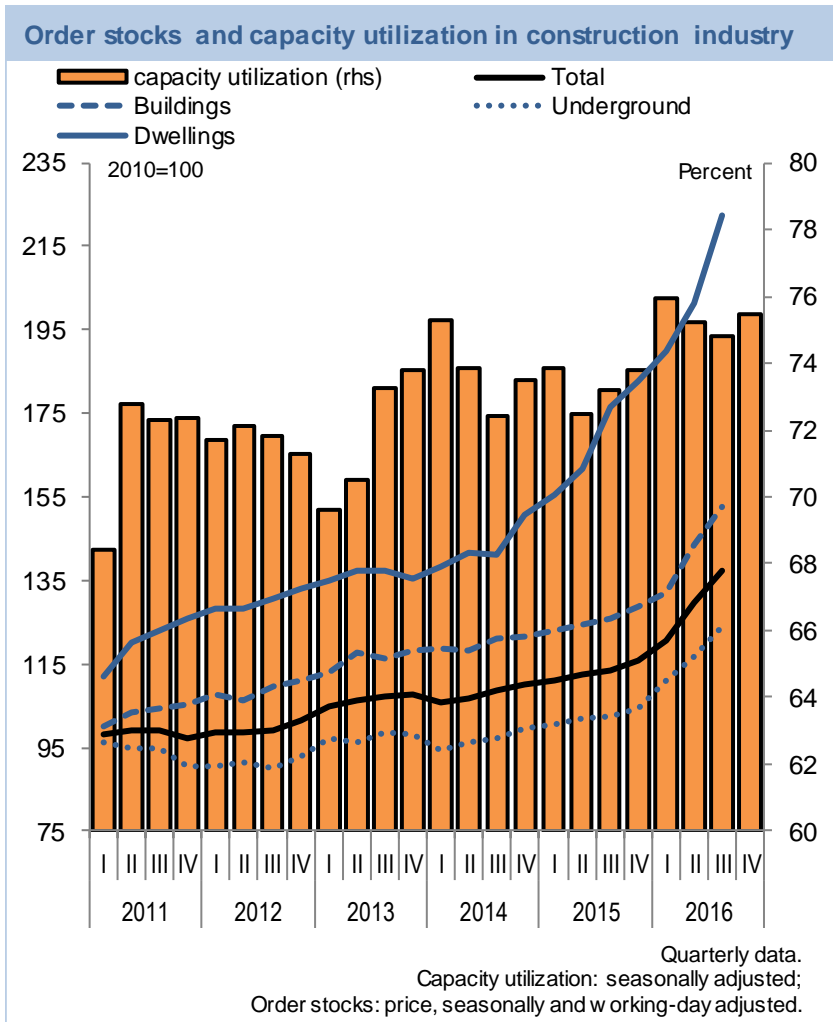
Data edge: High momentum



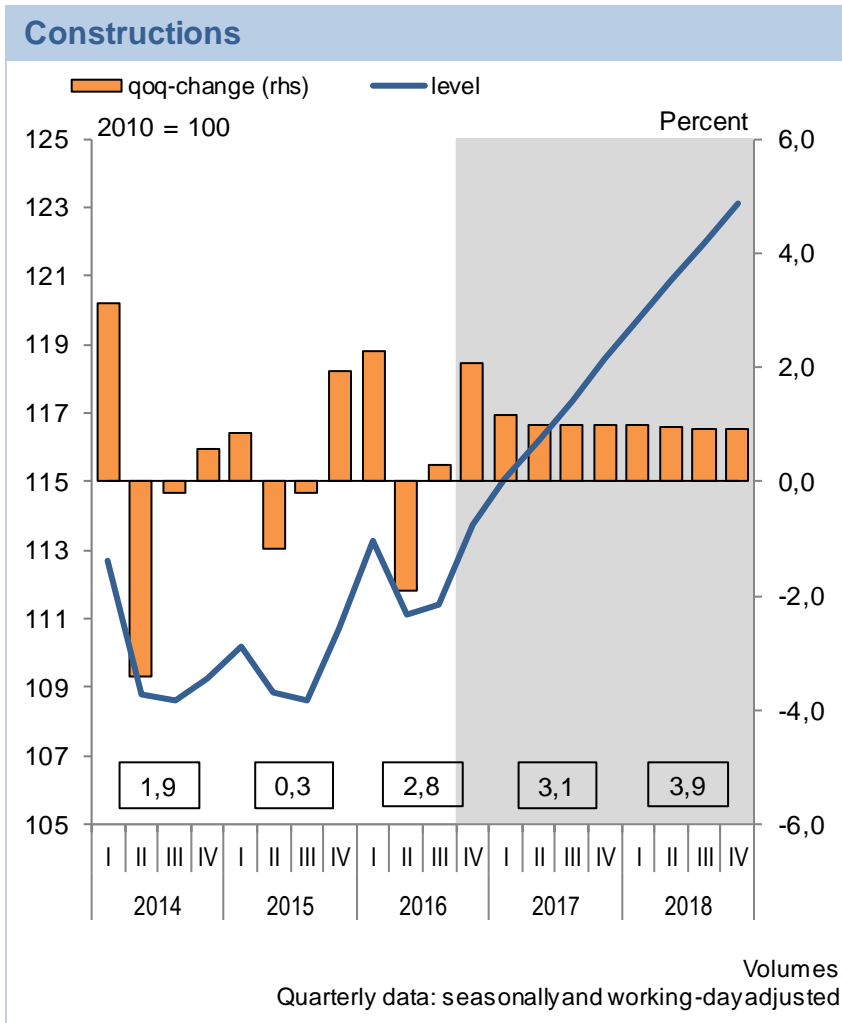
- ifo climate brightened up
 - » Situation: 4-years high
 - » Expectations: Pronounced improvement since August
- Incoming orders on the rise
- Industrial production: upward trend since 2012

- 2017: Dampening working-day effect (0.3 ppt)

Booming construction sector

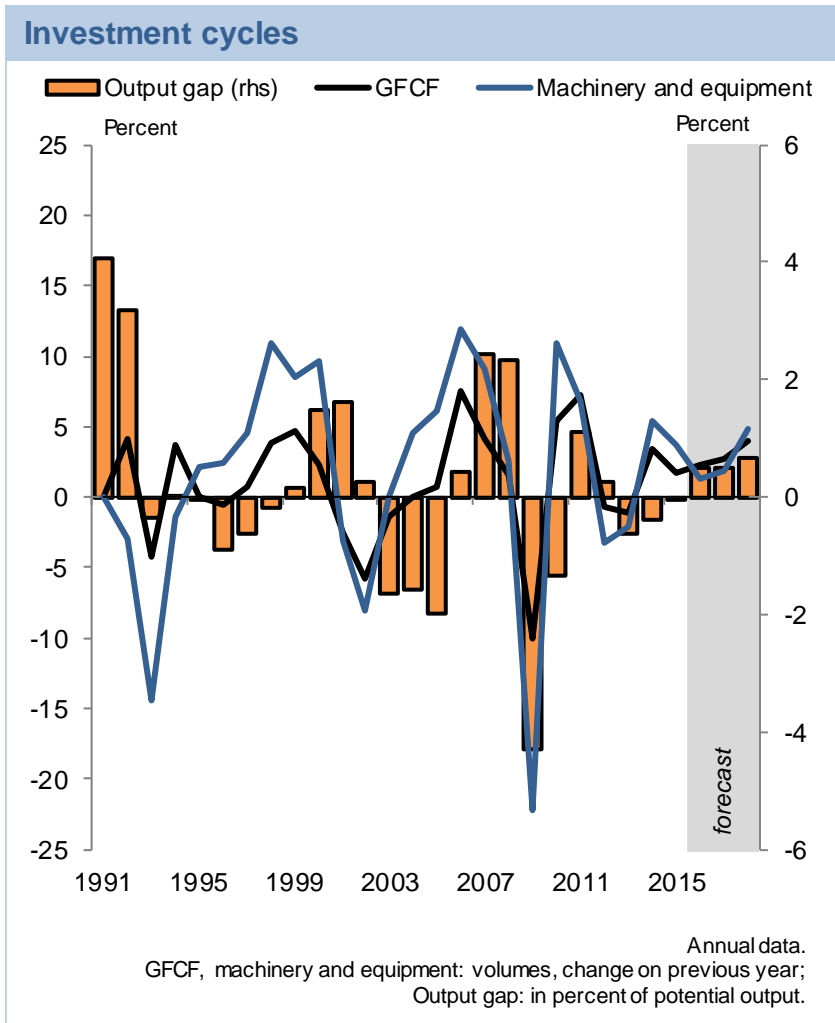


- Record-high capacity utilization
- Swelling order books
 - » Total: + 21 % (Q3, y-o-y)
 - » Dwellings: Second year of two-digit rates
- Price pressure
 - » Value added: > 5 percent (two years in a row)
 - » Real estate transactions (vdp)
 - 2014: + 3.1 %
 - 2015: + 4.5 %
 - 2016: + 5.8 % (Q1 to Q3)



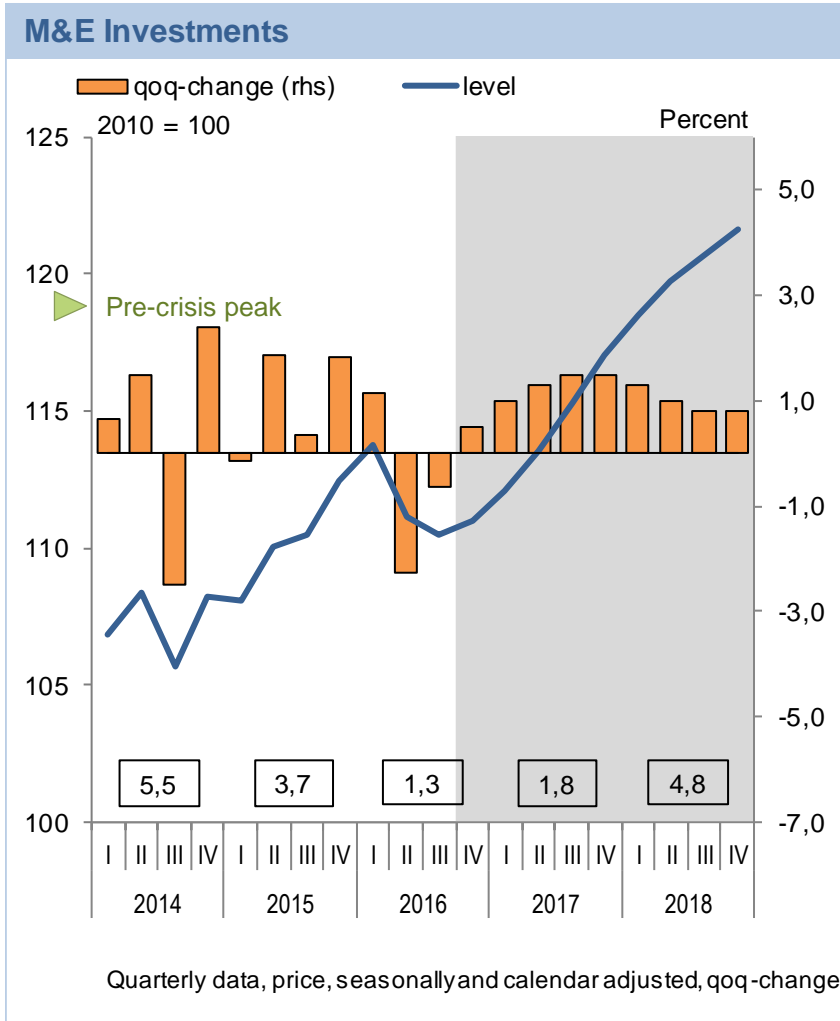
- Driving force: housing
 - » Mortgage interest rates at record-low levels
 - » Dynamic labor market
- High government revenues
- Growth contributions
 - » 2016: 0.3 ppt
 - » 2017: 0.3 ppt
 - » 2018: 0.4 ppt

GFCF: Stretched upswing, small accelerator effects



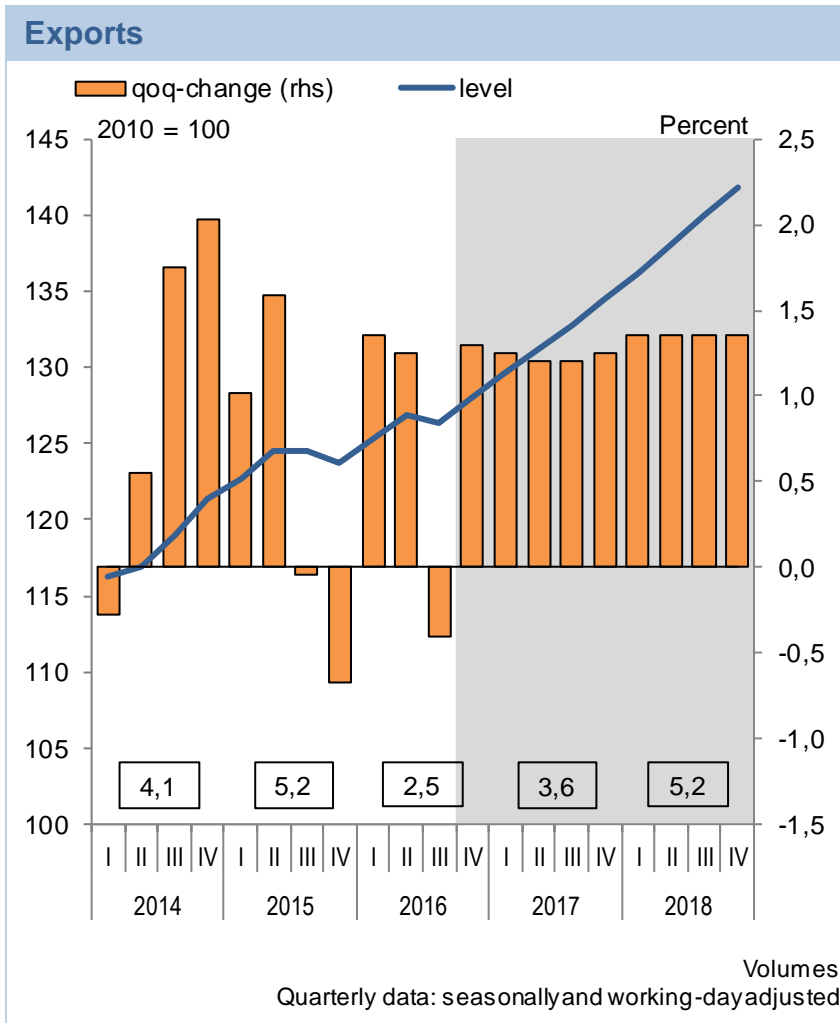
- Flat cyclical pattern
- Gross fixed capital formation gradually gaining momentum

Dampened dynamics in M&E spending



- 2017 (yoy)
 - » Carry-over effect (- 0.5 ppt)
 - » Working-day effect (- 0.8 ppt)
- 2018
 - » Topping pre-crisis level
- Weak dynamics compared to historical standards
- Financing conditions
 - » Record-low credit costs
 - » Hardly any credit hurdles
- Low market uncertainty, but increased policy uncertainty
- Harbinger of demographics?

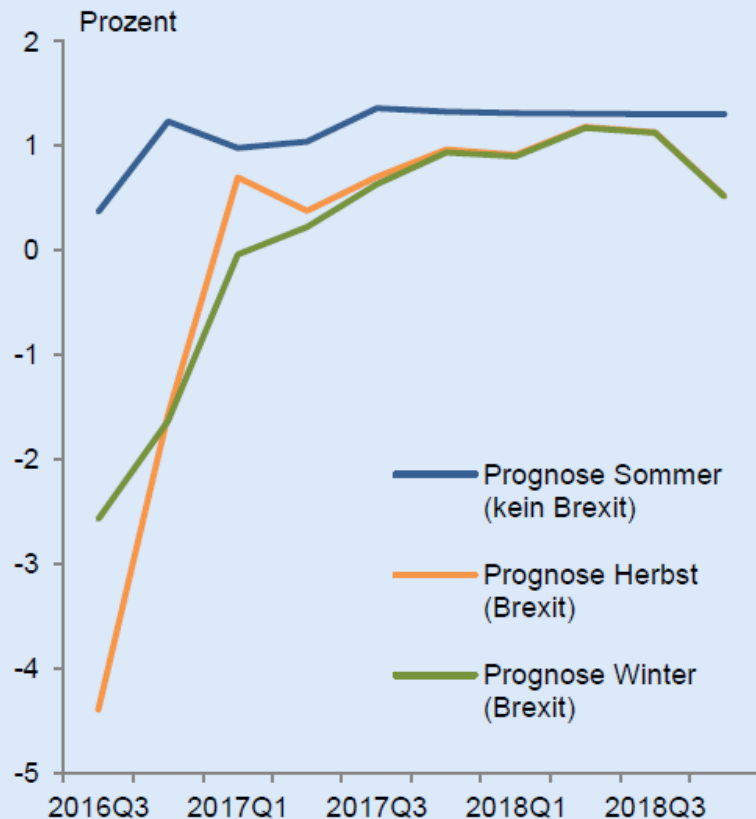
Exports back on track



- Recovered incoming orders
- German export markets
 - » Lower uncertainty
 - » Improved business climate
- Export market growth
 - » 2016: + 2.1 percent
 - » 2017: + 2.2 percent
 - » 2018: + 2.4 percent
- Risks
 - » Brexit
 - » Neo-protectionism (US: micro-interventionism?)

Brexit: Impact on German growth

Ausfuhren in das Vereinigte Königreich 2016–2018

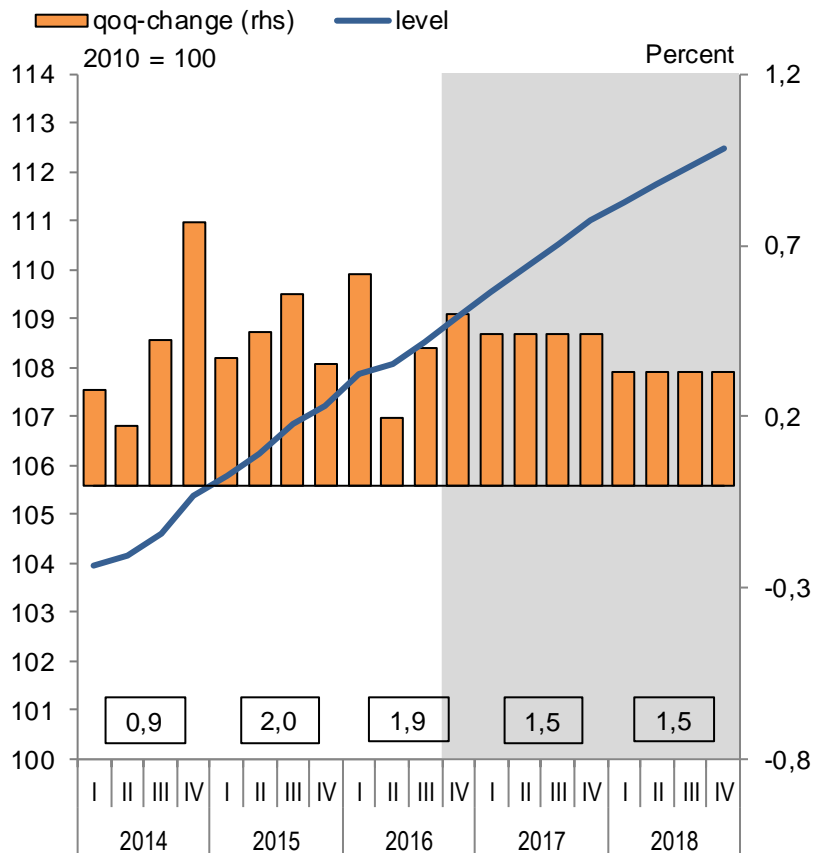


Veränderung gegenüber dem Vorquartal in Prozent. Prognose Sommer: Juni 2016, vor Brexit-Votum, Prognose Herbst: September 2016, nach Brexit-Votum. Prognose Winter: Dezember 2016, inklusive Daten für 2016Q3.

- Country-specific export function
 - » UK-GDP
 - » Exchange rate GBP/EUR
- UK-GDP [autumn forecast]
 - » 2016: + 2.0 % [+ 1.6 %]
 - » 2017: + 1.2 % [+ 0.6 %]
 - » 2018: + 1.6 % [+ 1.6 %]
- More pronounced devaluation of the British pound: 8 + 3.5 percent
- Impact on exports in the UK (cumulated)
 - » 2016: – 2.2 %
 - » 2017: – 8.2 %
 - » 2018: – 10.0 %
- Impact on GDP (cumulated): < 0.5 %

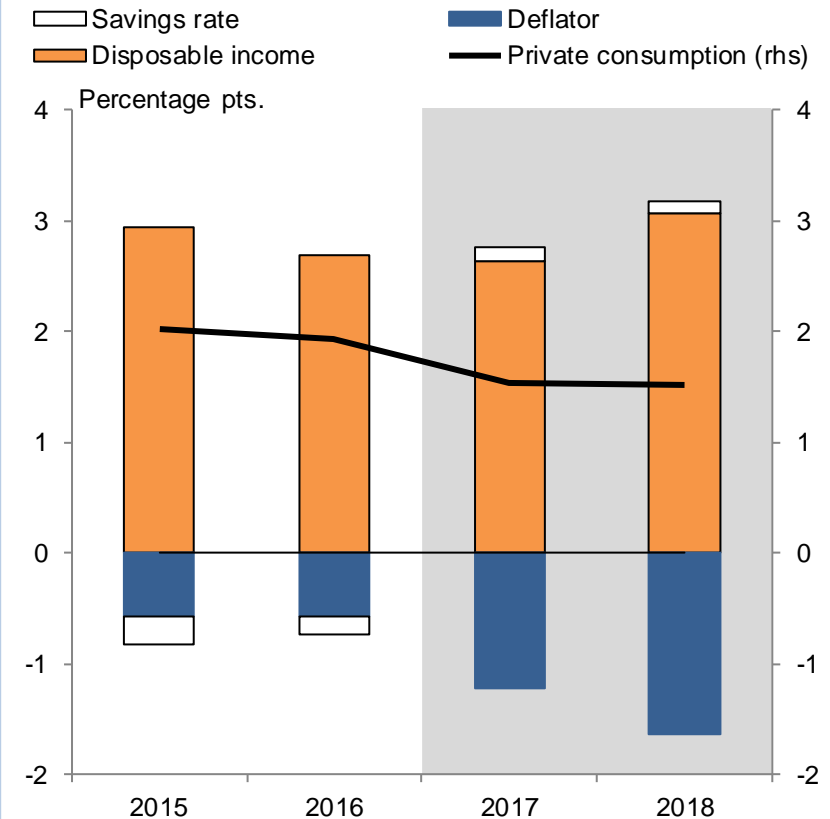
Higher oil prices weigh on purchasing power

Private consumption



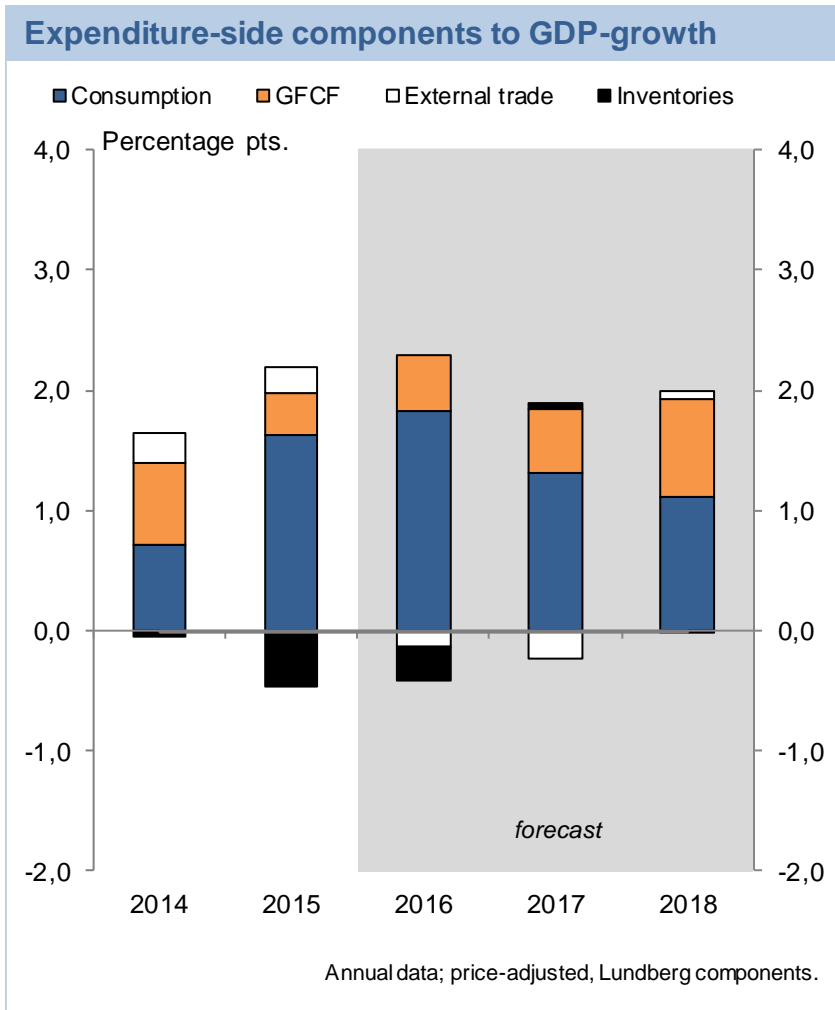
Volumes. Quarterly data: seasonally and working-day adjusted.

Contributions to change in private consumption



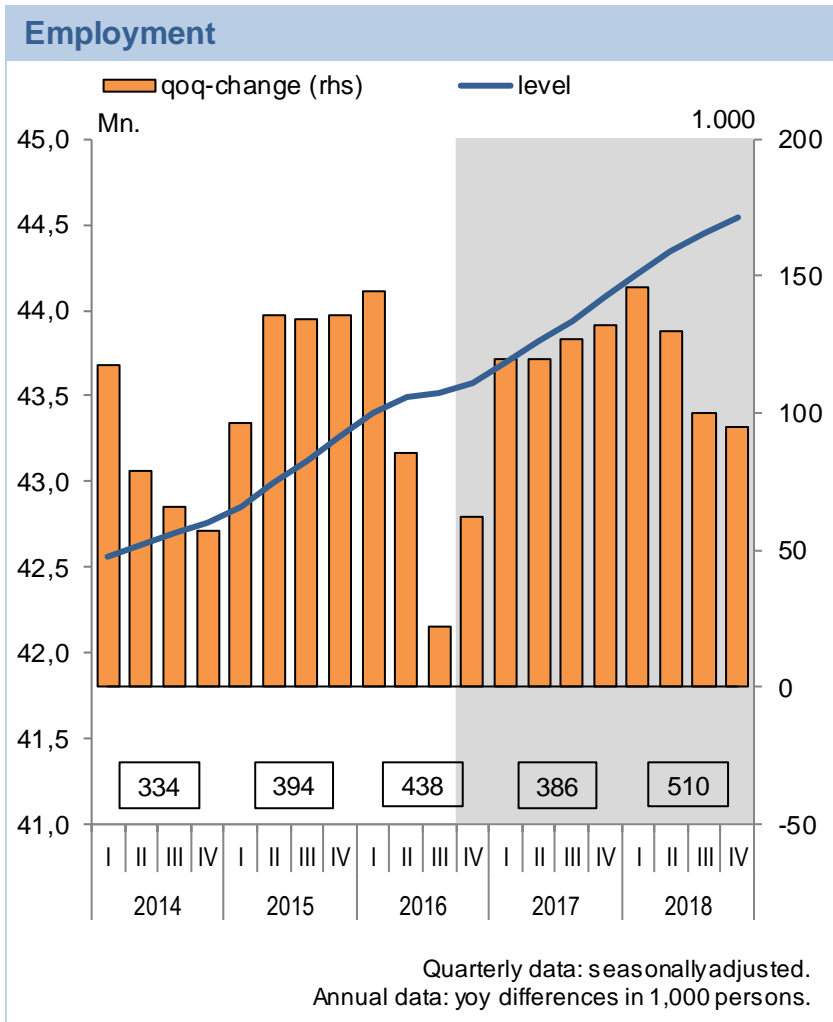
Annual data. Disposable income including change in pension entitlements.

Internal and external driving forces



- 2015/2016: strongest increase in consumption in 15 years
- Gradually growing investment pillar
- Exports recovering

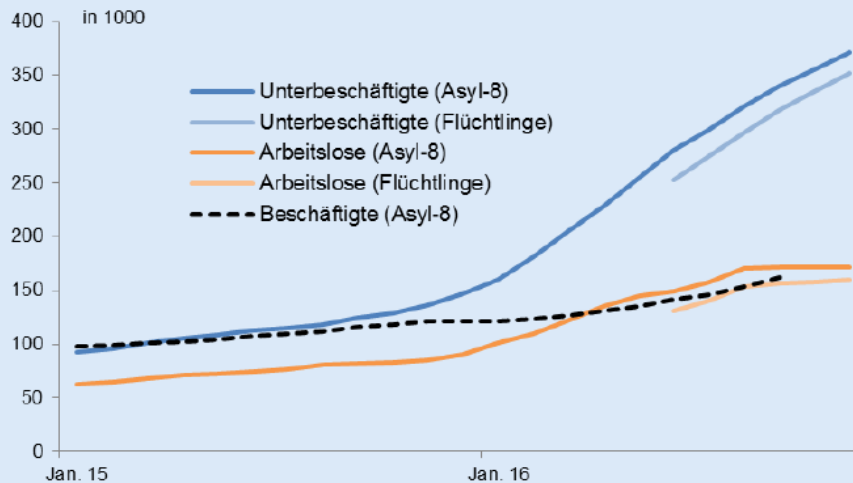
Labor market regains momentum



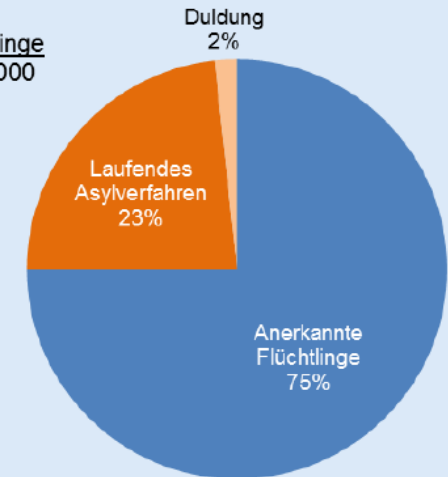
- Supportive effective wages (hourly)
 - » 2016: + 2.6 %
 - » 2017: + 3.1 %
 - » 2018: + 3.0 %
- Registered unemployment [vs. ILO rate]
 - » 2016: 6.1 % [4.0 %]
 - » 2017: 5.9 % [3.7 %]
 - » 2018: 5.6 % [3.1 %]

Refugees gradually showing up on the labor market

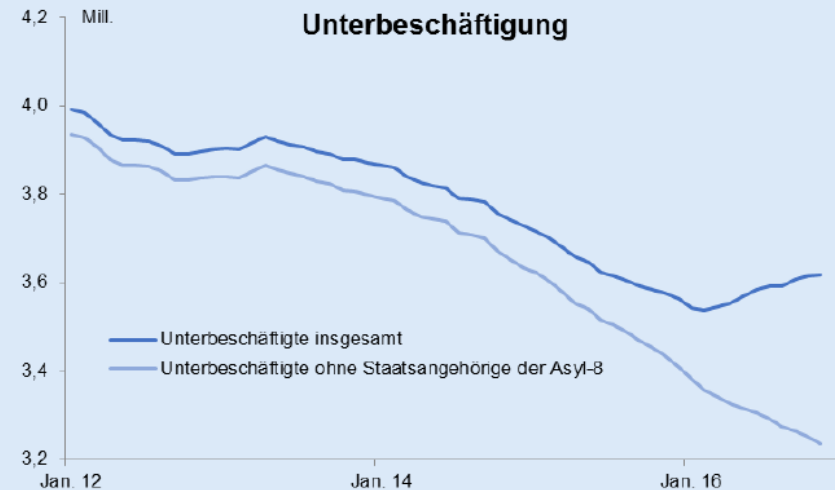
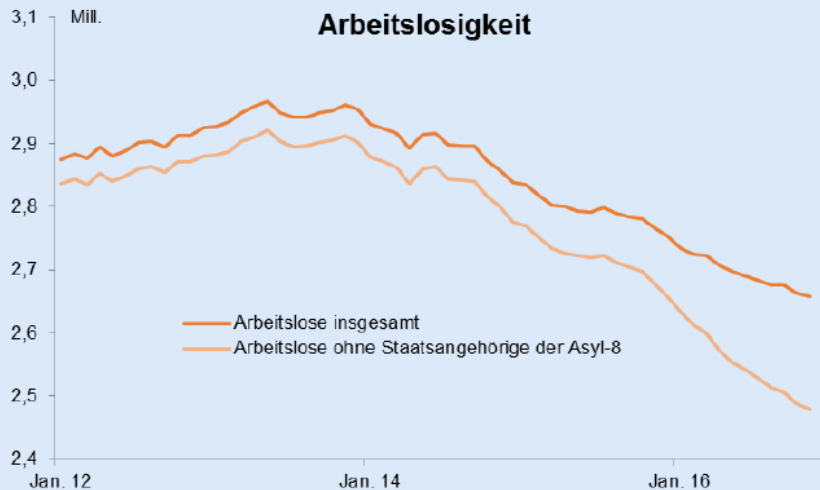
Unterbeschäftigte, arbeitslose und beschäftigte Flüchtlinge 2015-2016



Arbeitslose Flüchtlinge
(Nov 2016): 160 000



Einfluss der Flüchtlinge auf Arbeitslosigkeit und Unterbeschäftigung 2012-2016



Key figures

	2015	2016	2017	2018
GDP (%)	+ 1.7	+ 1.9	+ 1.7	+ 2.0
GDP deflator (%)	+ 2.0	+ 1.4	+ 1.3	+ 1.9
Consumer prices (%)	+ 0.2	+ 0.5	+ 1.5	+ 1.8
Unit labor cost, hourly (%)	+ 1.5	+ 1.2	+ 1.6	+ 1.8
Employment (1000 persons)	43,058	43,495	43,881	44,390
Unemployment (1000 persons)	2,793	2,691	2,643	2,547
Public net lending (% of GDP)	0.7	0.5	0.4	0.5
Current account balance (% of GDP)	8.4	8.7	8.2	8.2

- Ultra-expansionary monetary policy: Time matters!
 - » Distortion of price and production structures
 - Capital stock
 - Exchange rate
 - » Financial stability
 - Depressed risk premia (too few insolvencies, delayed structural change)
 - Overstretched maturity transformation
- Over-estimating potential output growth
 - » Data edge problem (procyclical distortion)
 - » Demographics: interim relief (integration of refugees?)
- Hardly any vigor in terms of growth policies
- Call for stimulus programs within the EMU context
- Neo-protectionist tendencies in the world economy

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