

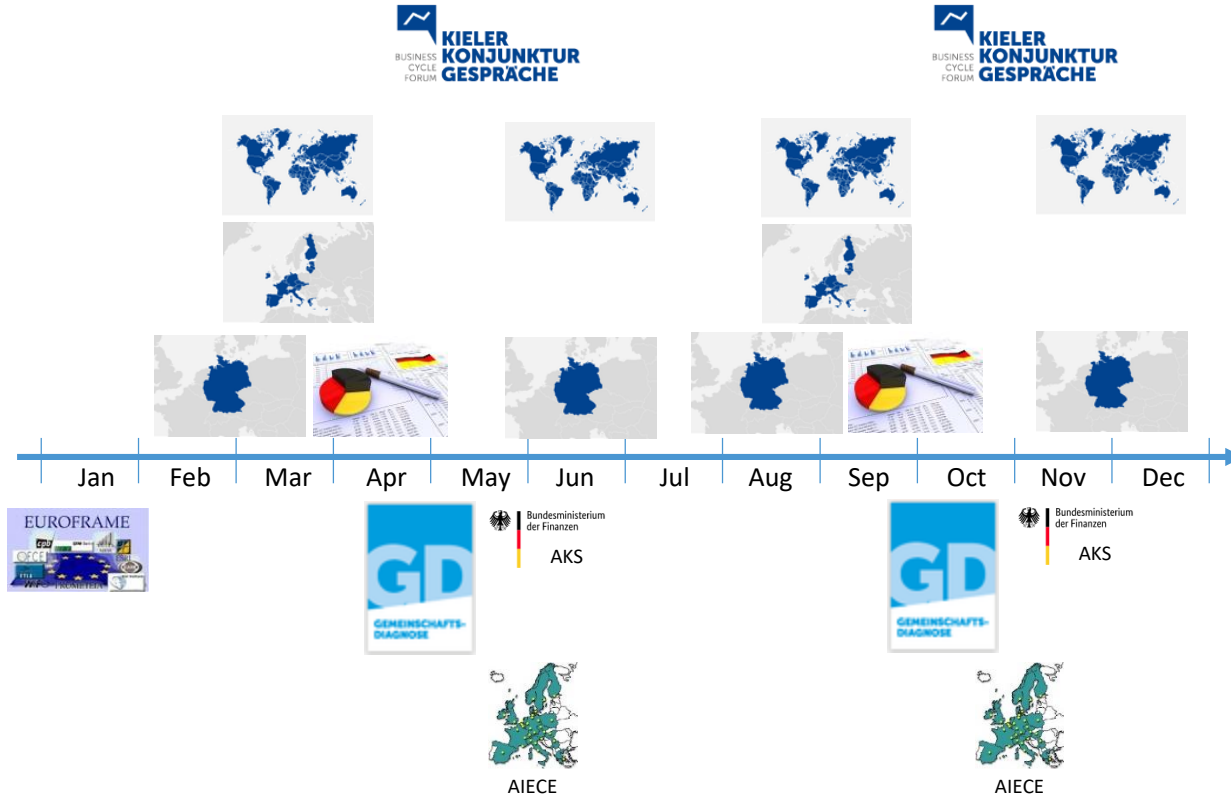
Kiel Institute for the World Economy | Kiel, 14th January 2020  
*Staff Seminar*

# Kiel Economic Outlook (Winter 2019)

Stefan Kooths  
Forecasting Center



# Forecasting calendar





World Economy  
picks up only slowly



Euro area economy  
robust, but with  
low momentum



Germany on the  
brink of recession



Potential growth  
is aging

# Winter 2019 (updates)



German economy overcomes  
slowdown only gradually

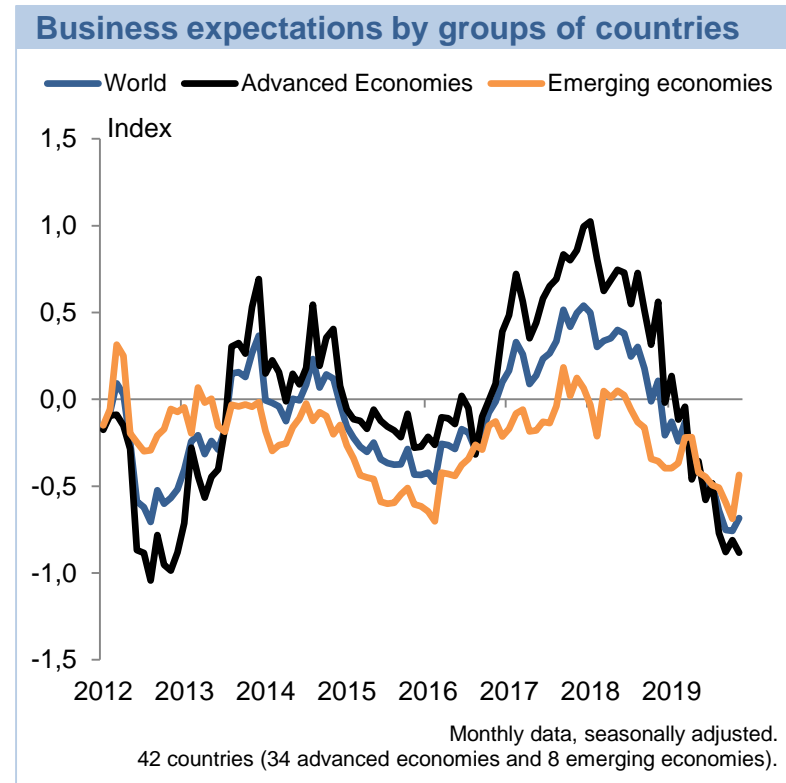
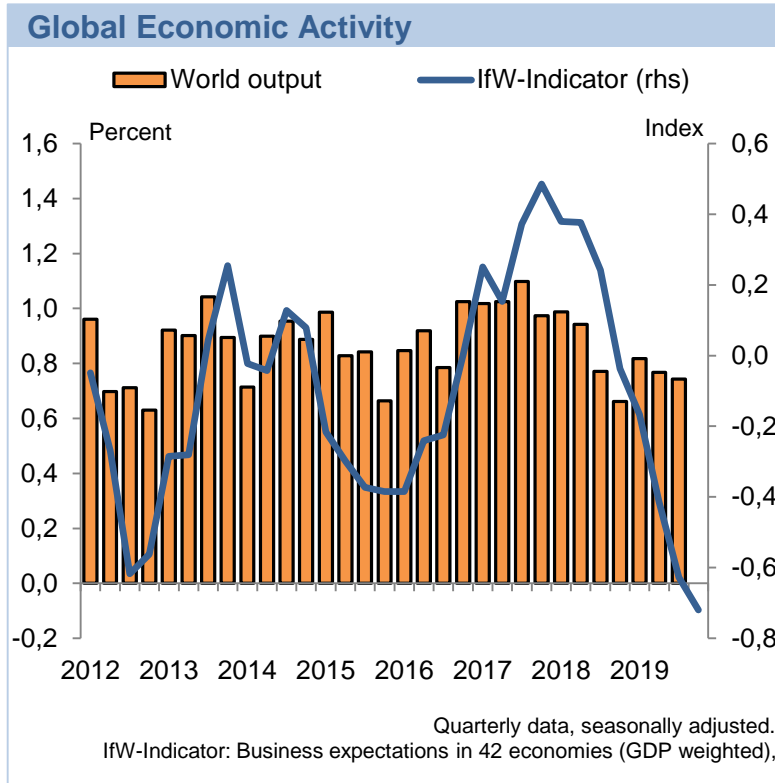


Global growth remains  
sluggish for the time being

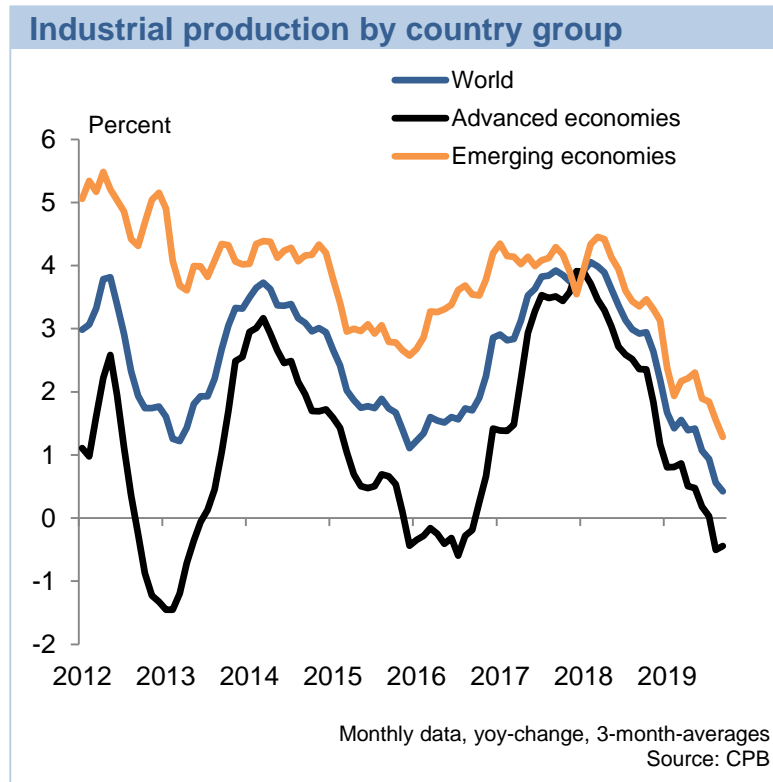
Mind the boxes.

# World economy

# Advanced headwinds, emerging tail winds

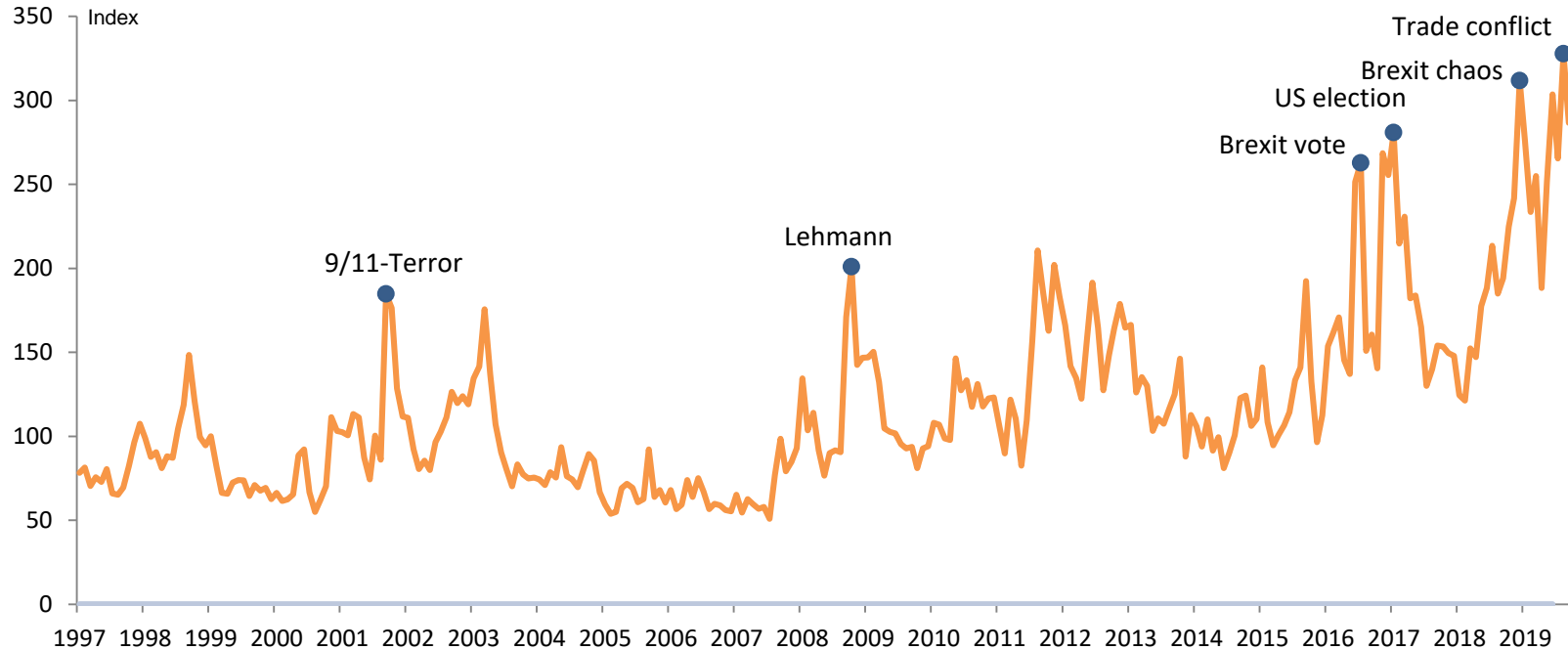


# Pronounced deceleration in manufacturing



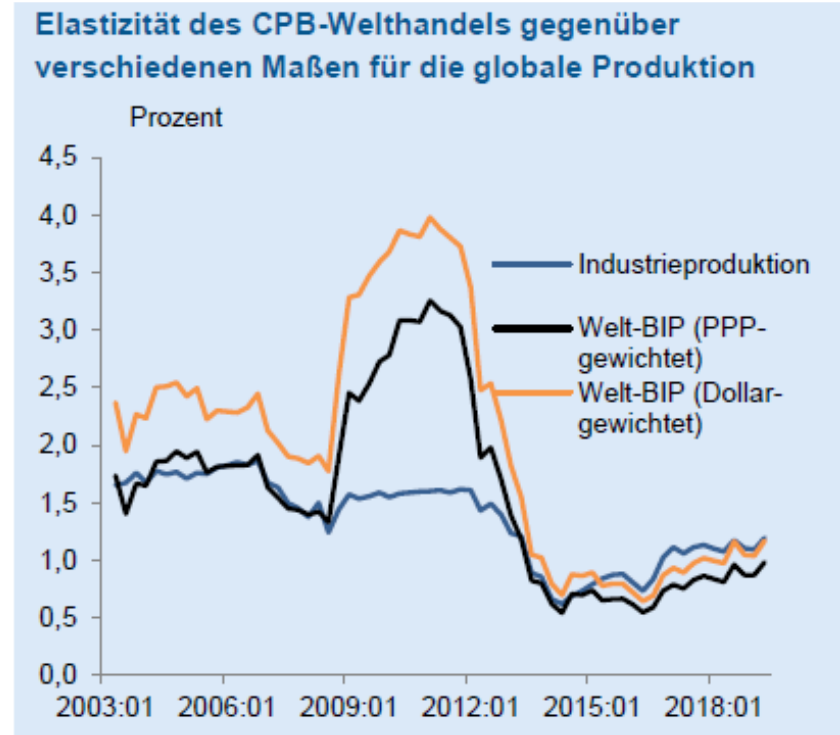
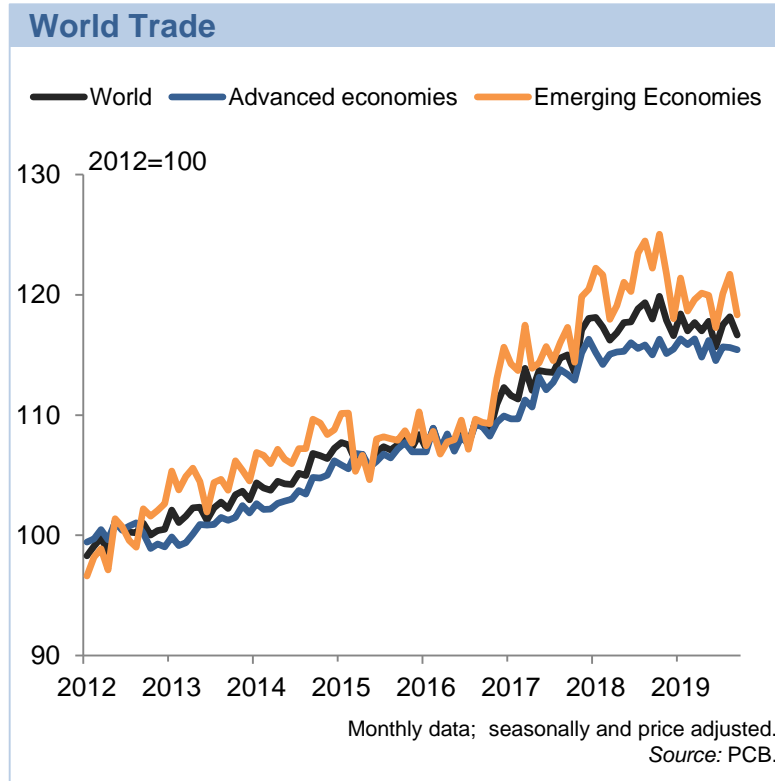
- Turning point 2018
  - » Forerunners: Euro area, UK
  - » Slowdown in China
  - » US production weakens in 2019
- Spill-overs to other sectors
- Policy uncertainty weighs on investor confidence

# Global policy uncertainty near historical highs



Monthly data.  
Source: [policyuncertainty.com](http://policyuncertainty.com)

# World trade follows in the wake of weak IP



# World economy: Key figures

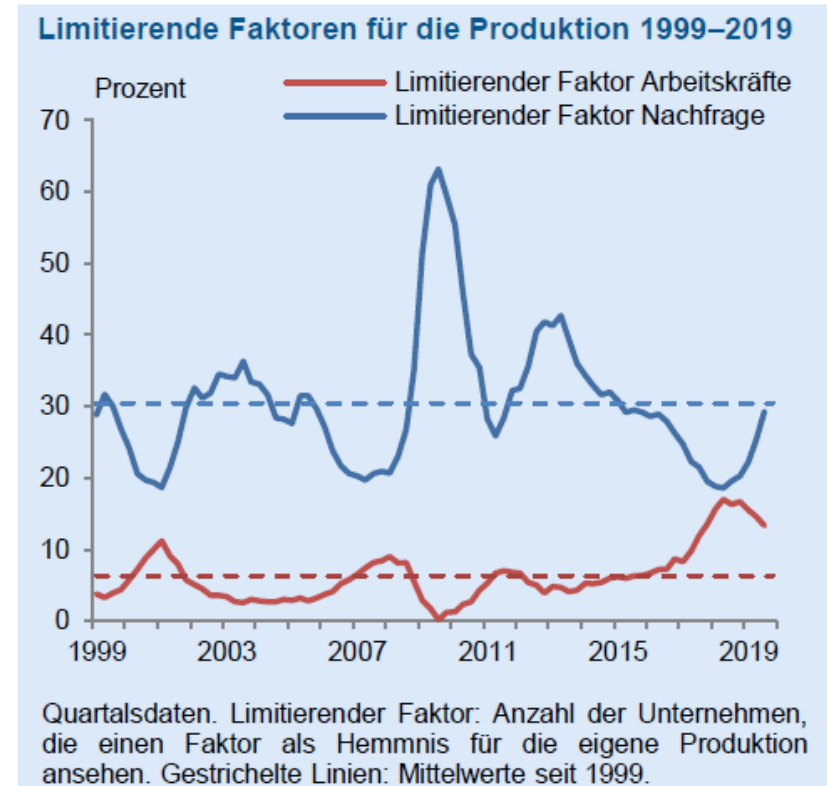
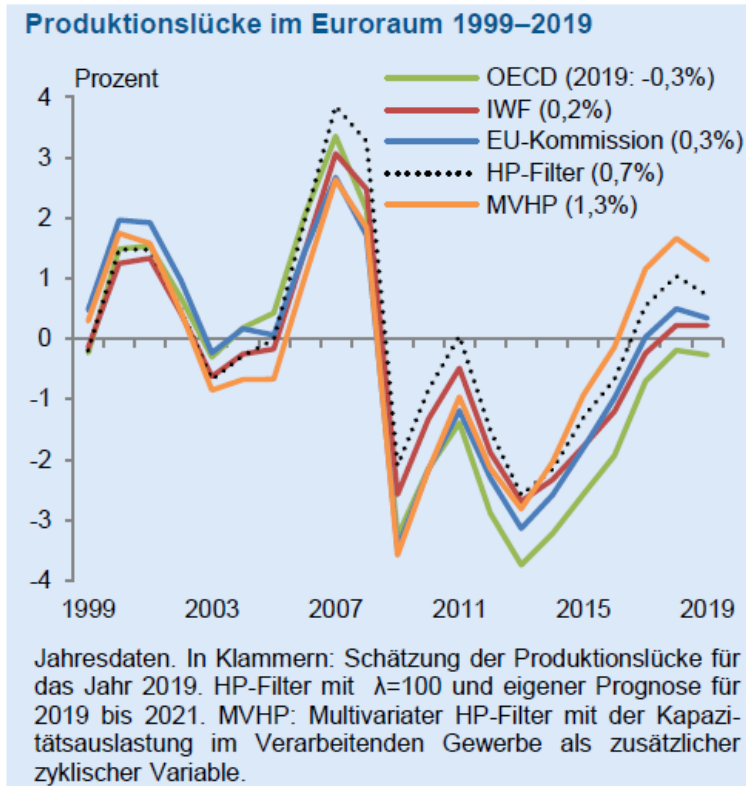
	Gross domestic product			Consumer prices		
	2019	2020	2021	2019	2020	2021
United States	2.3	1.5	1.7	1.8	2.2	2.2
Japan	1.0	0.6	1.1	0.8	1.4	0.9
Euro Area	1.2	1.2	1.5	1.2	1.2	1.3
United Kingdom	1.3	0.6	1.4	1.8	2.2	2.1
<b>Advanced economies total</b>	1.8	1.4	1.7	1.5	1.7	1.8
China	6.2	5.9	5.7	2.9	3.4	2.3
Latin America	-0.5	0.8	2.1	8.6	7.5	7.4
India	5.0	6.3	6.6	3.3	4.2	4.5
East Asia	4.5	4.7	4.7	2.2	2.6	2.9
Russia	0.8	1.3	1.8	4.4	3.5	3.5
<b>World economy total</b>	3.0	3.1	3.4	3.6	3.7	3.6
<i>Addendum:</i>						
World trade volume	-0.4	1.1	2.3	.	.	.
Oil price (Brent in US\$)	63.9	62.4	63.7	.	.	.
World economy total (weighted according to GDP at market exchange rates)	2.5	2.5	2.8	2.9	3.1	3.0

Weighted according to GDP at PPP rates. East Asia: Emerging Asia excluding China and India.

# Sluggish global growth

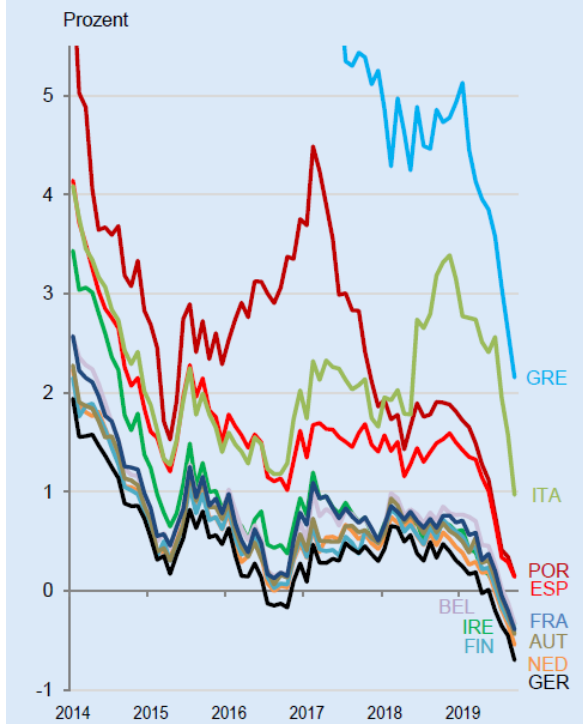
- Global growth picks up, but remains subdued (compared to prev. years)
  - » Bottoming-out in IP/global trade, improved sentiment
  - » Easy monetary policy around the globe
- Growth in advanced economies remains weak
  - » US economy continues to lose momentum as fiscal stimulus fades
  - » Euro area slightly stronger, supported by a strong labor market
  - » Eastern EU member states hit growth limits
  - » UK: Brexit + transition phase
- Expansion in emerging economies strengthens gradually
  - » Recovery in recently distressed countries (Brazil, Russia, Turkey)
  - » Gradual slowdown in China persists
- Risks
  - » Trade conflicts (upward and downward)
  - » Geopolitical tensions in the Middle East
  - » Monetary policy in uncharted territory

# Euro area: Operating at normal capacity utilization levels

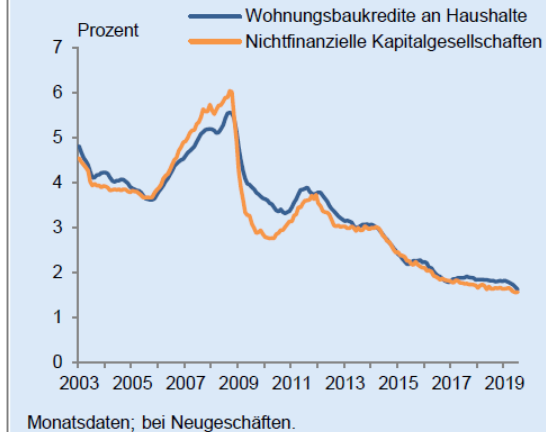


# Euro area: Revival of interest rates not in sight

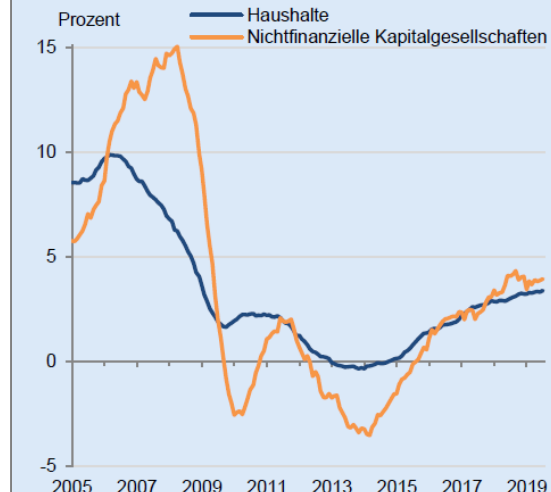
Zinsen auf Staatsanleihen 2014–2018



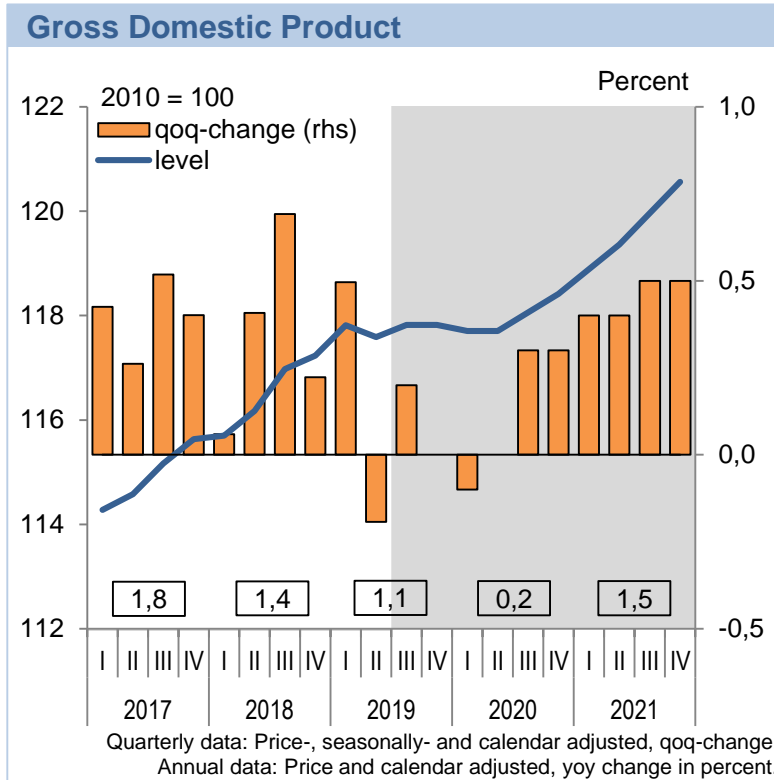
Kreditkosten 2003–2019



Kreditvergabe 2005–2019



# UK on the brink of recession



### Key Indicators United Kingdom, 2018–2021

	2018	2019	2020	2021
Gross Domestic Product	1.4	1.3	0.6	1.4
Domestic expenditure	1.4	1.6	-0.4	1.6
Private consumption	1.6	1.2	0.8	1.1
Government consumption	0.6	3.4	2.5	2.4
Gross fixed investment	-0.1	-0.3	-1.0	1.2
Inventories	0.3	0.4	-1.0	0.3
Net exports	-0.2	-0.7	0.7	-0.1
Exports	-0.9	-0.1	0.7	1.2
Imports	0.7	2.3	-1.5	1.5
Consumer prices	2.5	1.9	2.5	2.1
Unemployment rate	4.1	3.7	3.9	4.0
Current account balance	-3.9	-5.2	-3.5	-3.2
Government budget balance	-1.6	-2.3	-3.0	-3.0

# German economy

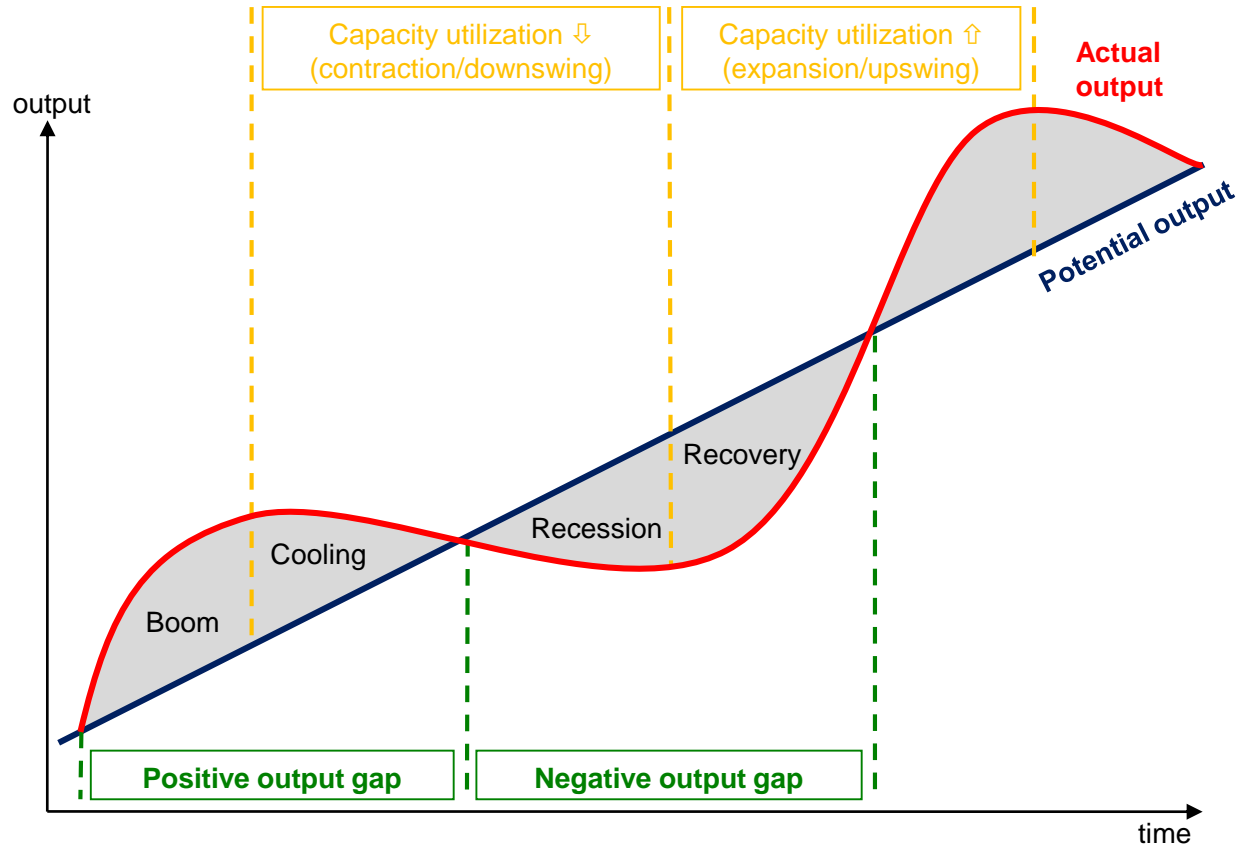
# International environment

	2018				2019				2020				2021			
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV
ECB key interest rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long-term interest rate	0.6	0.5	0.4	0.4	0.1	-0.1	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2
US-dollar/euro exchange rate	1.23	1.19	1.16	1.14	1.14	1.12	1.11	1.11	1.11	1.11	1.11	1.11	1.11	1.11	1.11	1.11
Price competitiveness	90.1	90.2	90.8	90.5	89.3	89.5	89.4	88.9	88.7	88.6	88.5	88.3	88.1	87.9	87.8	87.6
Export markets	0.7	0.6	0.5	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Oil price	66.9	74.5	75.1	68.8	63.2	68.9	61.9	61.6	61.9	62.2	62.6	62.9	63.2	63.5	63.8	64.1

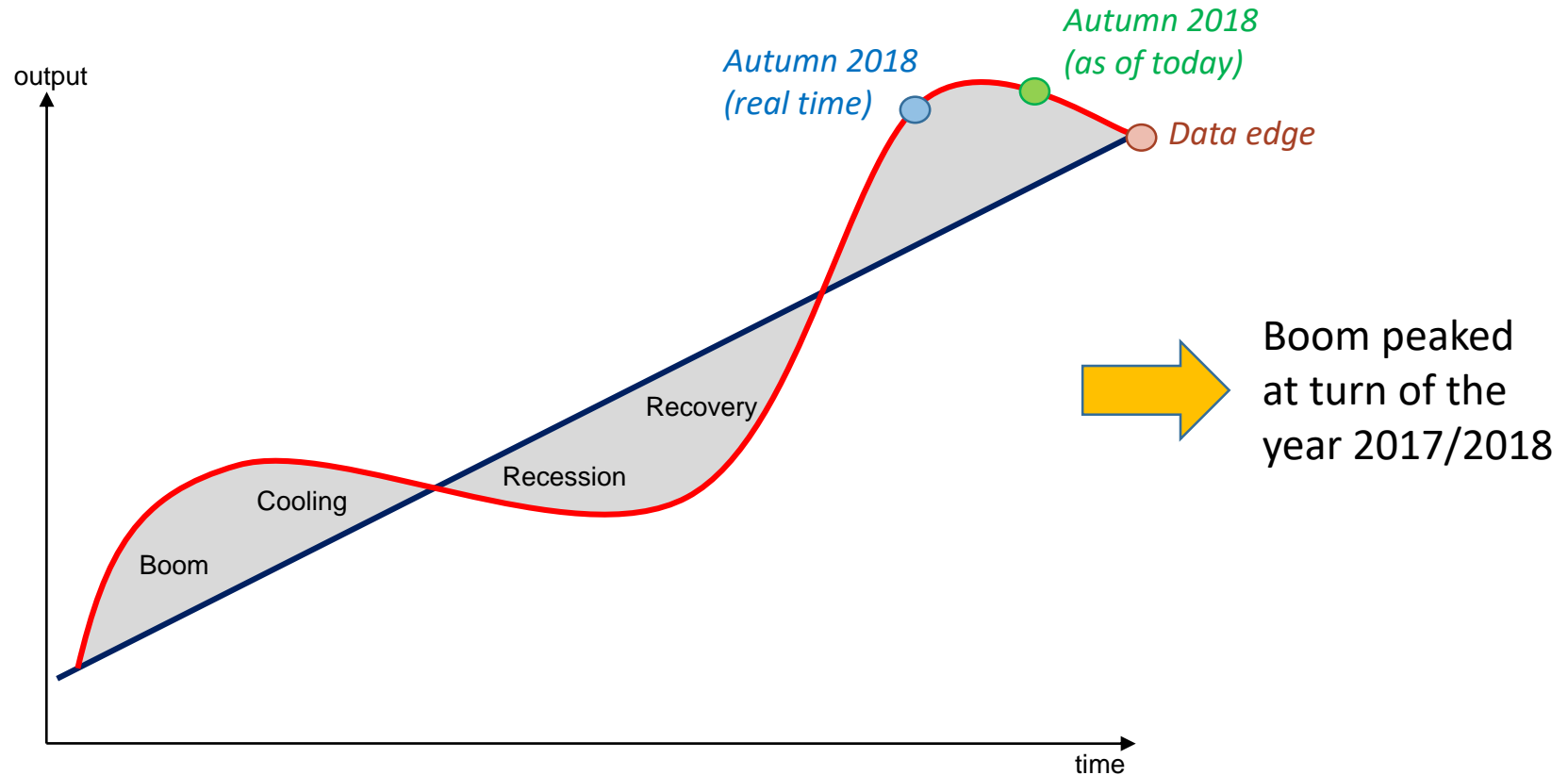
ECB key interest rate: main refinancing operations; long-term interest rate on 9–10 year bonds; price competitiveness: against 36 trading partners, based on the deflators of total sales, index: 1991:I = 100, increasing values indicate deterioration of price competitiveness; export markets: GDP growth in 41 countries, weighted with shares in German exports, change over previous quarter. Oil Price: US-Dollar per barrel North Sea Brent.

Source: ECB, *Monthly Bulletin*; Deutsche Bundesbank, *Monthly Bulletin*; IMF, *International Financial Statistics*; own calculations; shaded: IfW forecast or assumption.

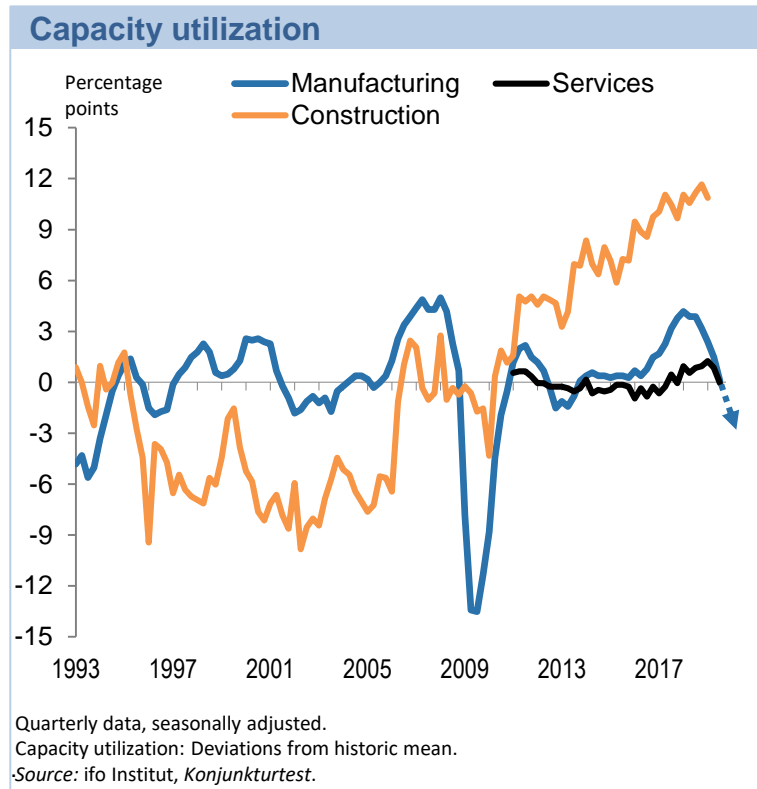
# Stylized picture



# Stylized picture: Recent turning point and cyclical position today

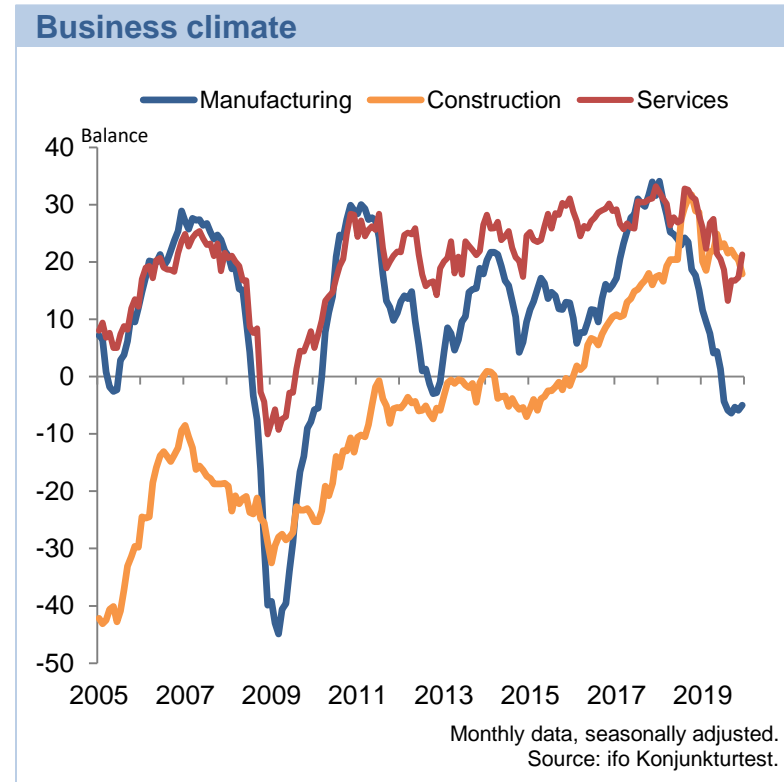


# Capacity utilization: Three-part picture



- Manufacturing
  - » Recession since mid-2019
  - » Recovery in 4 to 6 quarters
- Construction
  - » Booming (at record high levels)
  - » Ongoing strong activity
- Services
  - » Little momentum on average
  - » Consumer-related: Robust
  - » Business-related: Negative spill-overs from manufacturing

# Business climate: Signs of stabilization



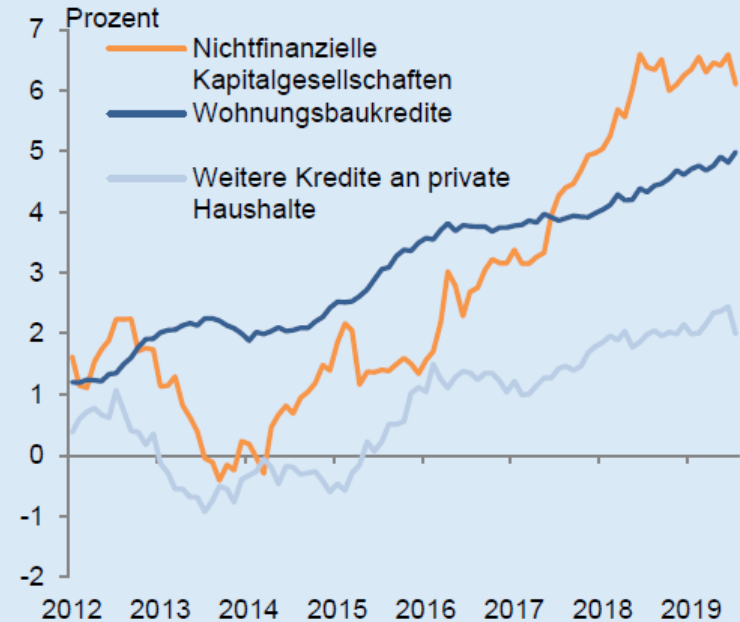
# Cheap financing, considerable credit growth

## Darlehenszinsen 2003–2019



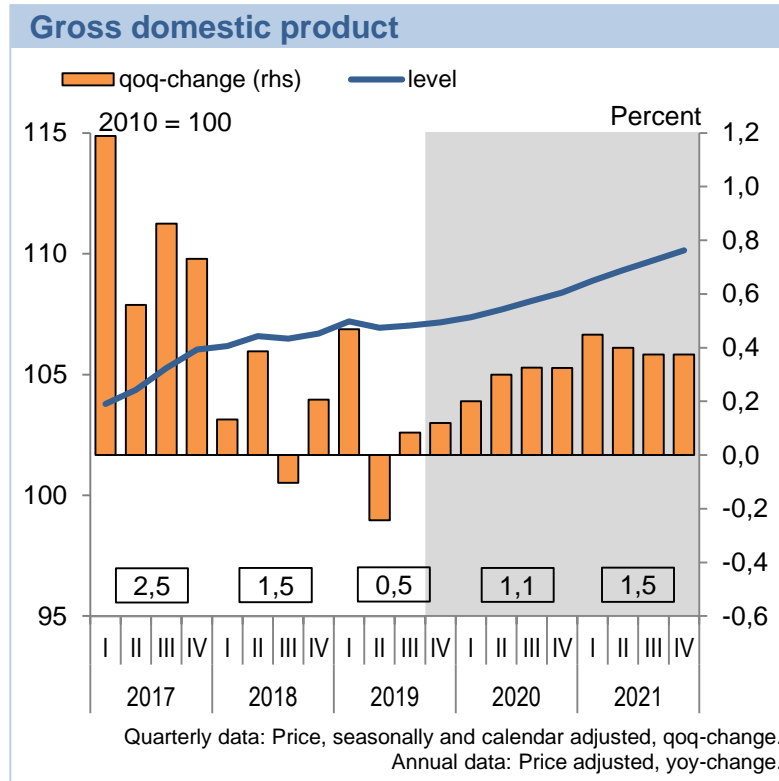
Monatsdaten; bei Neugeschäften, Laufzeit 1-5 Jahre, ohne Überziehungen.

## Kreditexpansion 2012–2019



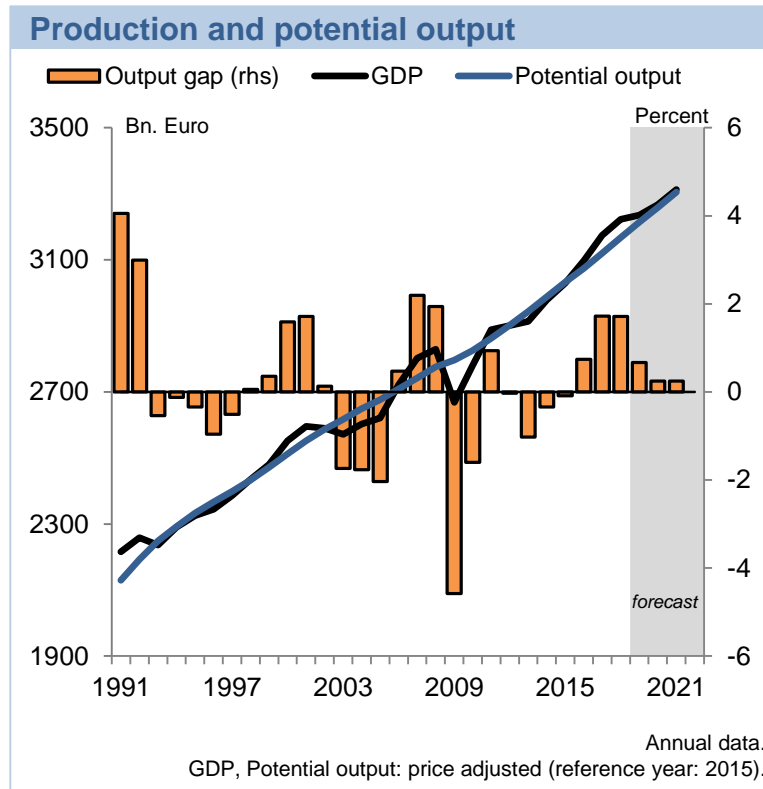
Veränderung gegenüber dem Vorjahresmonat; Monatsdaten.

# Downswing not over yet



- Benchmark revision of national accounts (autumn 2019)
  - » Downswing sets in 2 quarters earlier
  - » Real unit labor cost no longer supportive to employment growth
- Total economy
  - » No overheating any more
  - » Sluggish performance 2019/2020
- Manufacturing in recession since mid-2010
- Calendar-effect in 2020
  - » 0.4 percentage points
- Fiscal stimulus (in relation to GDP)
  - » 2019: 0.5 percent
  - » 2020: 0.3 percent
  - » 2021: 0.4 percent

# Output gap back to zero



- 2020 f.
  - » +/- normal capacity utilization
- Fading cyclical pattern?
  - » Ultra-easy monetary stance
  - » No global recession

# Pronounced slump in German manufacturing

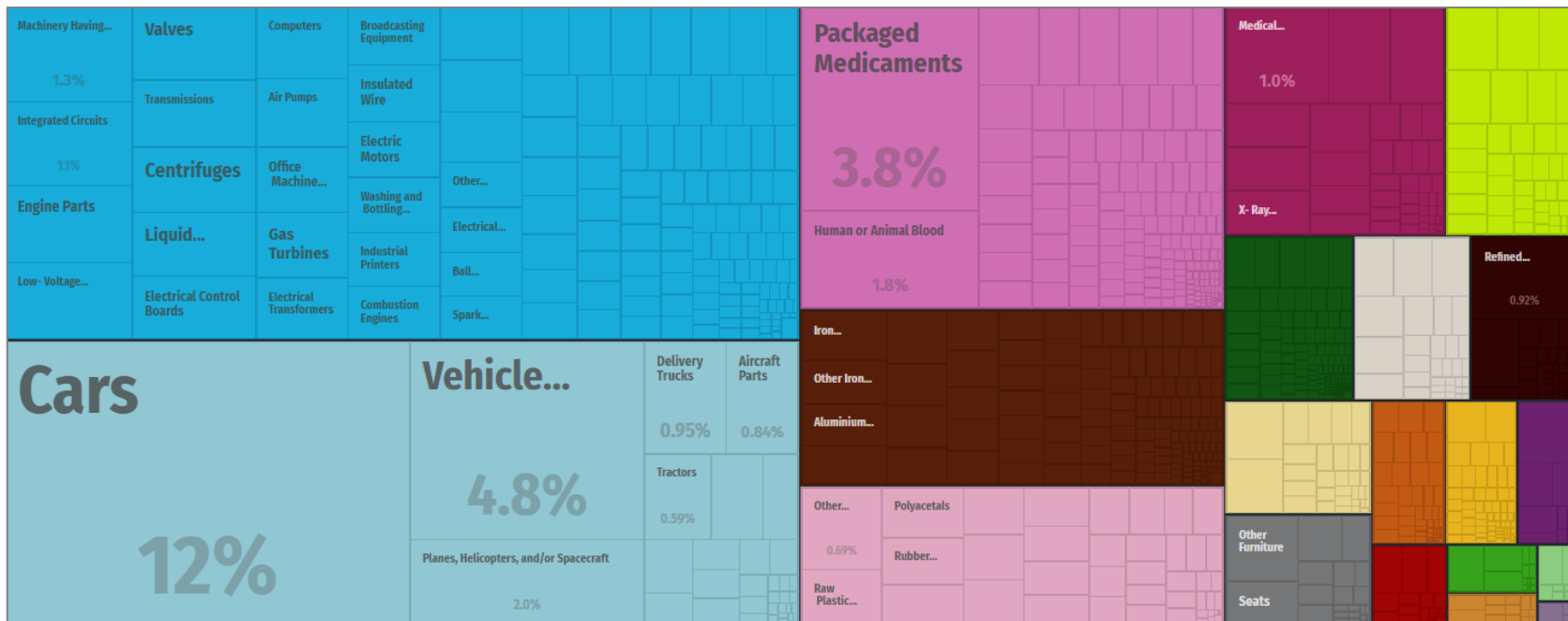


Quarterly data, year over year growth rate. Q3: average of available monthly data.  
Source: Deutsche Bundesbank; OECD; IfW calculations.

- Boom 2017/2018
- Strong focus on investment goods
- Strong stance in Asia
- Car industry
  - » Cyclical and structural factors
  - » Introduction of new types for cars „made in Germany“

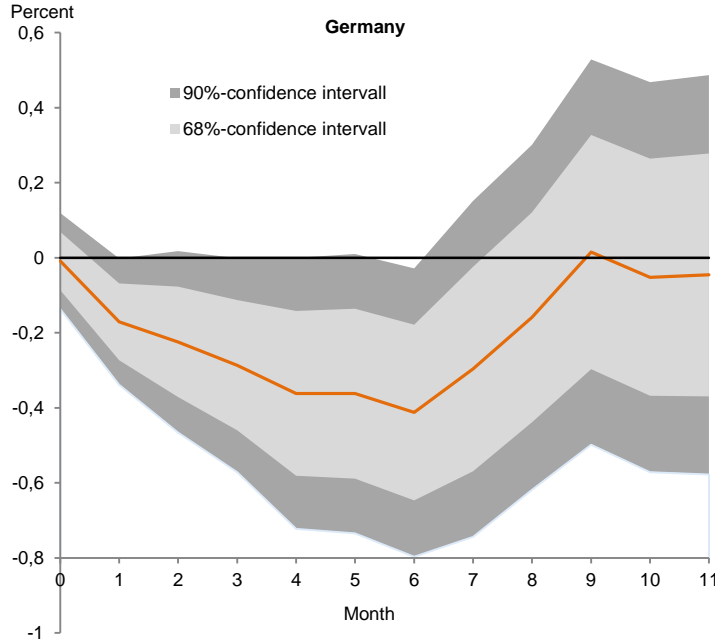
# Germany: The world's M&E supplier

German export portfolio 2017 (trade in goods)



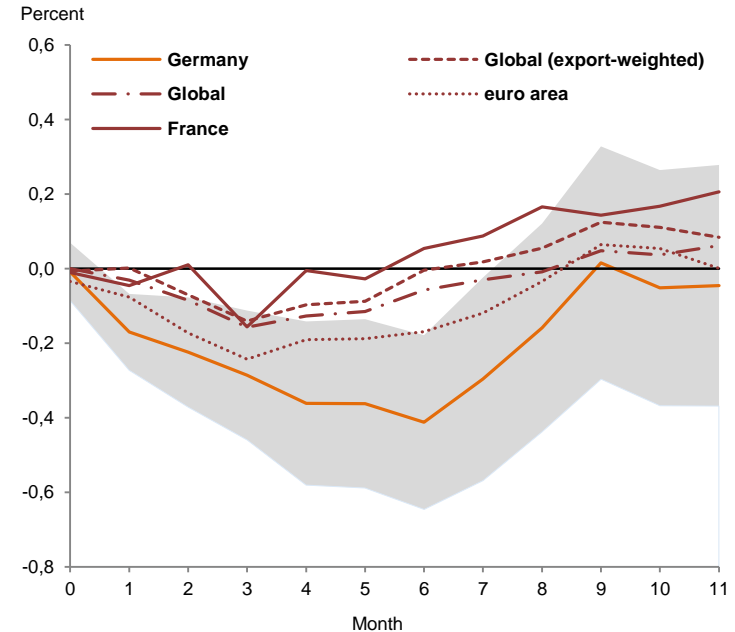
Quelle: Observatory of Economic Complexity

# Policy uncertainty hits German manufacturers more strongly than others



Monthly data. Impact of a global policy uncertainty shock that is associated with an increase of global policy uncertainty by one standard deviation.

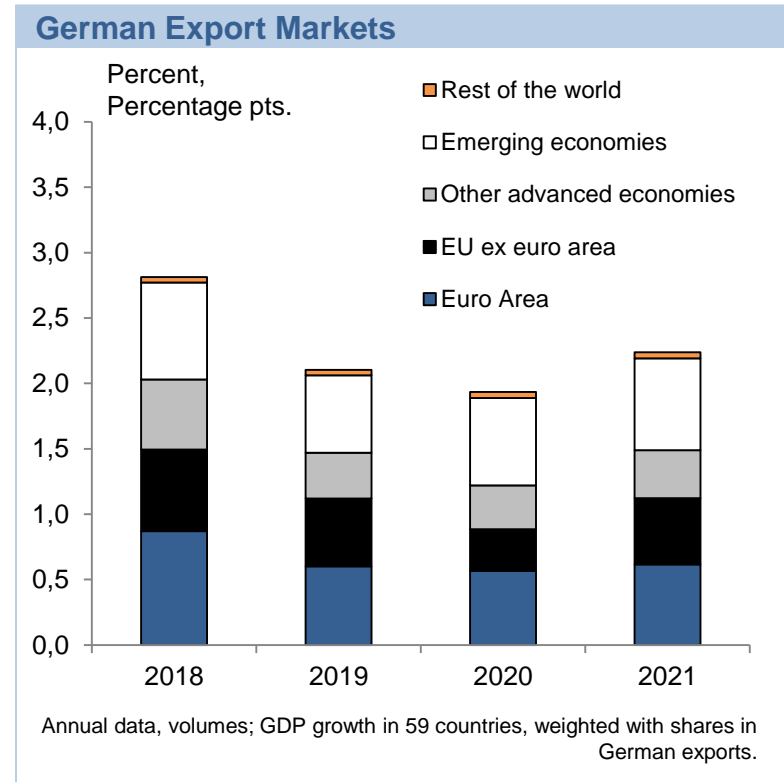
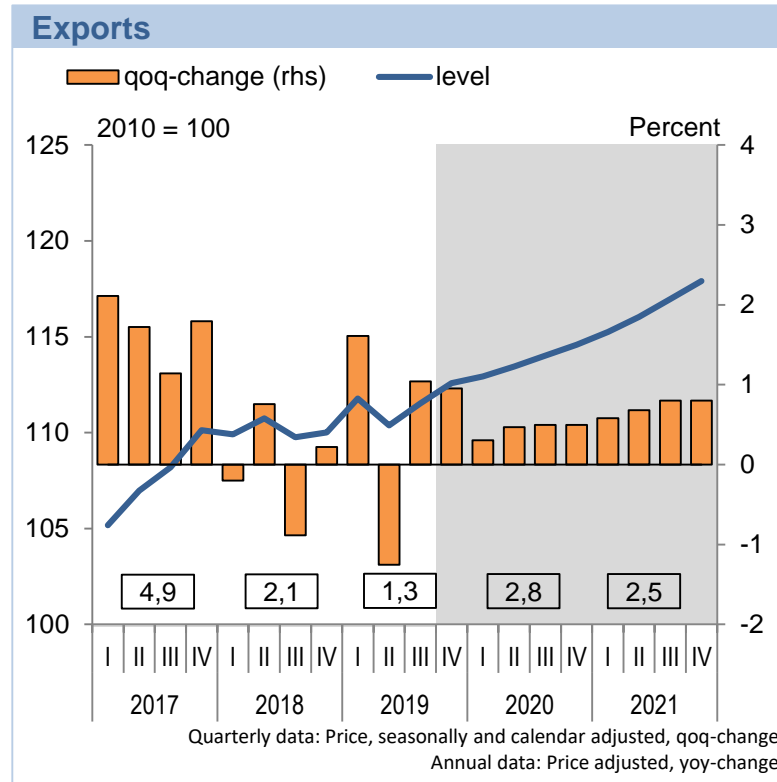
Source: Deutsche Bundesbank; Economic Policy Uncertainty; National Statistical Office; IfW calculations.



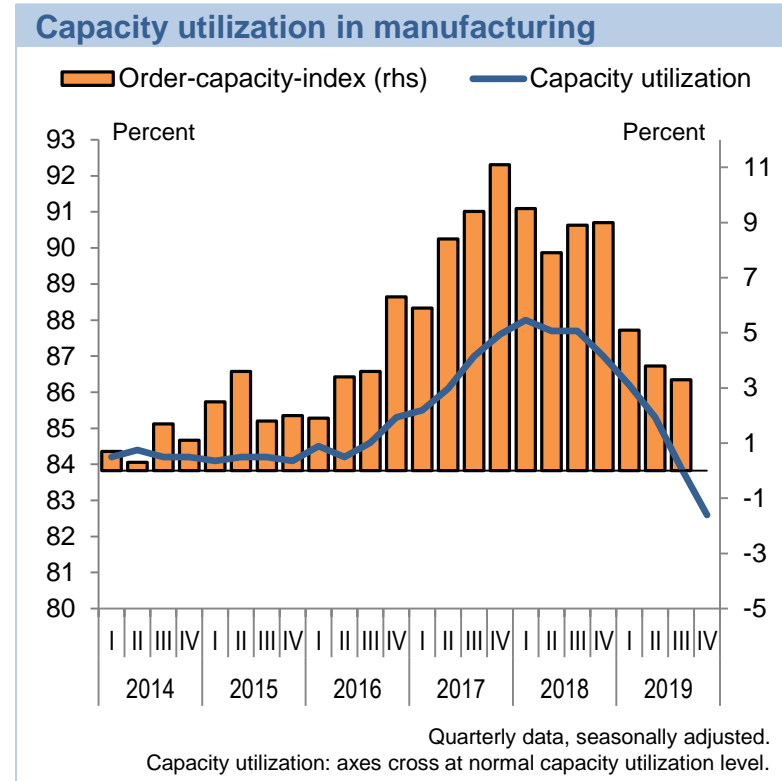
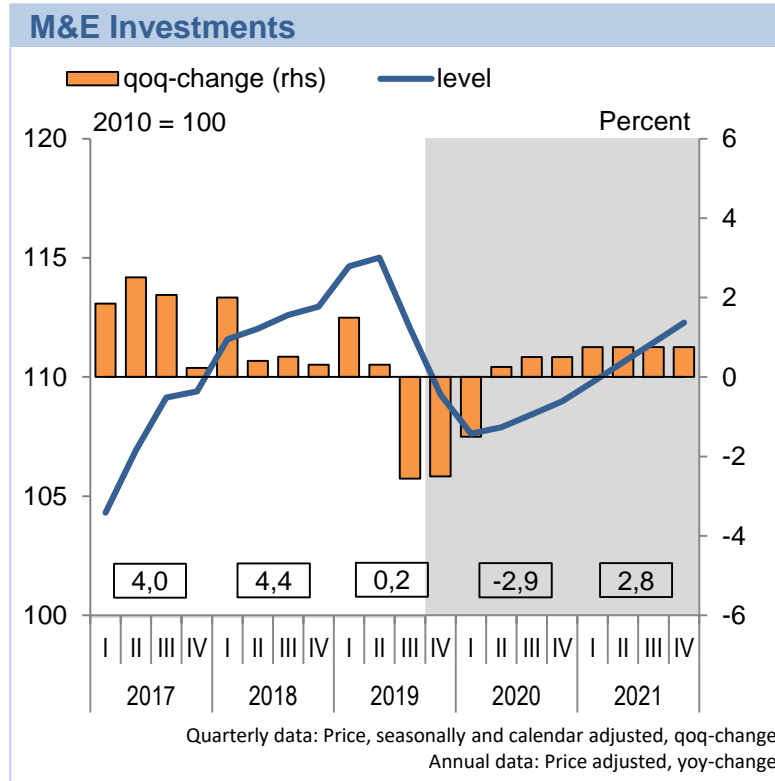
Monthly data. Grey area: 68%-confidence interval for Germany. See IfW-Box 2019.7 and IfW-Box 2019.8 for details.

Source: Deutsche Bundesbank; Economic Policy Uncertainty; OECD; IfW calculations.

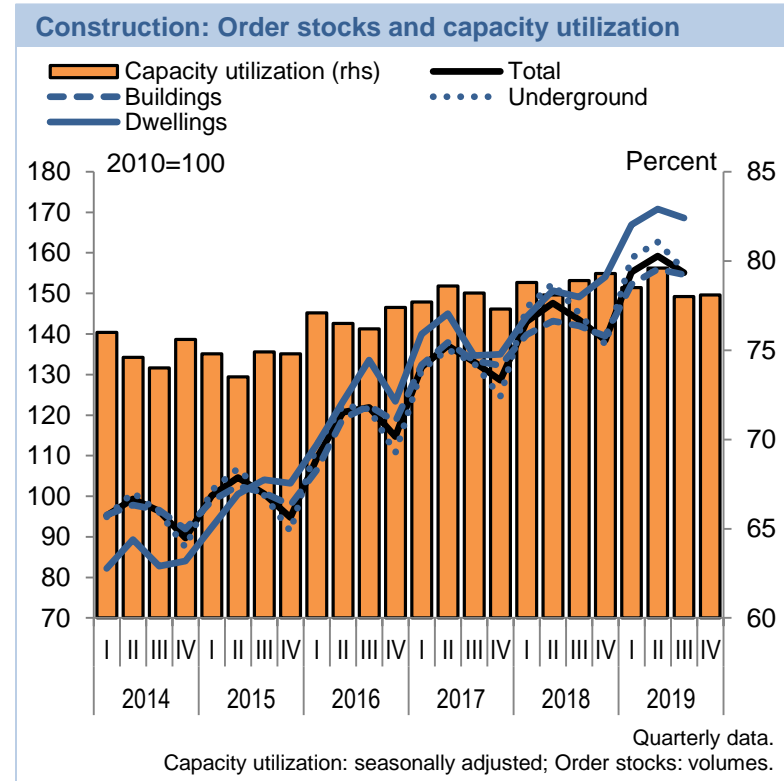
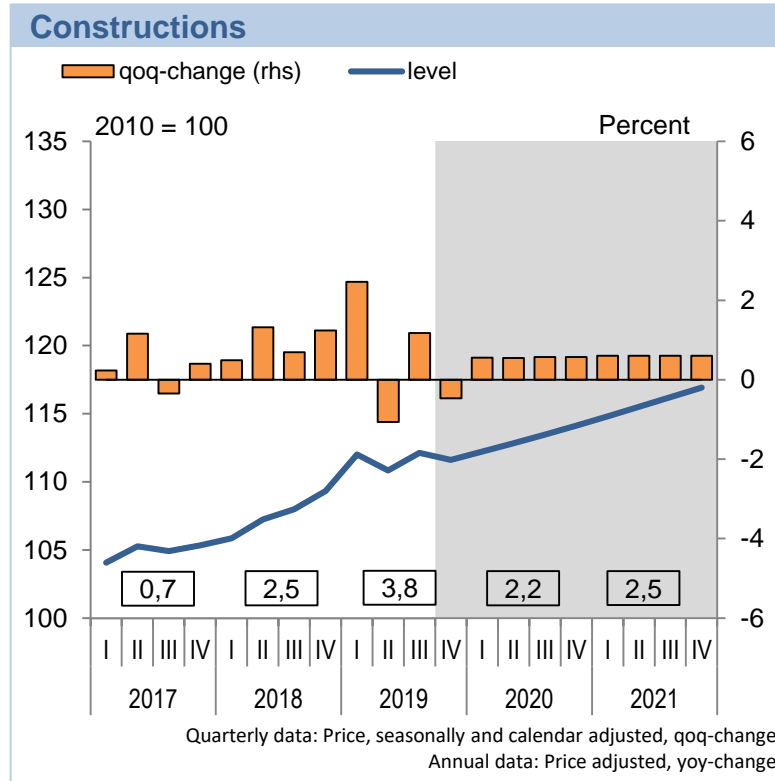
# Gradual recovery of exports



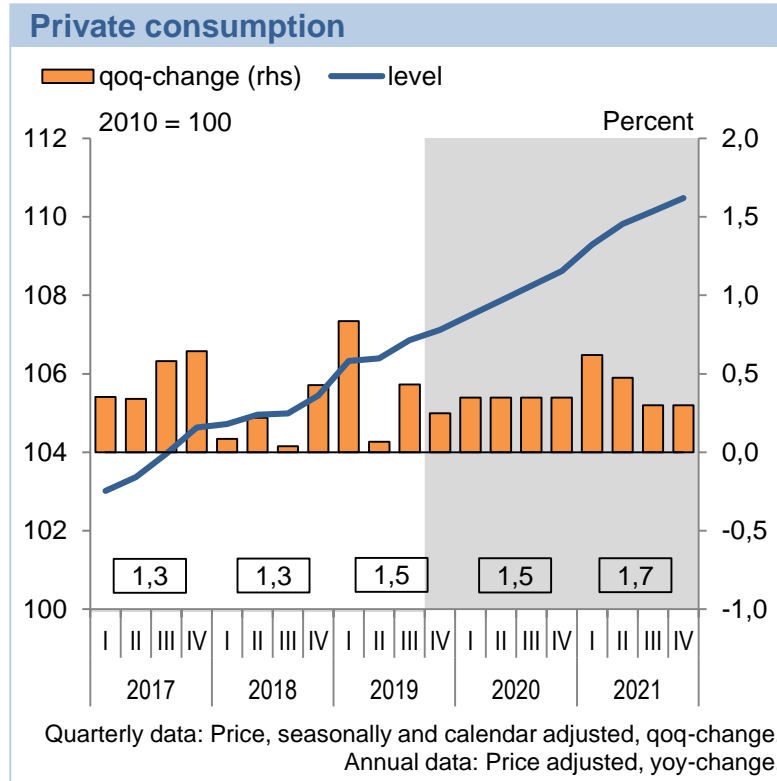
# M&E expenditures: The accelerator at work



# Ongoing boom in constructions



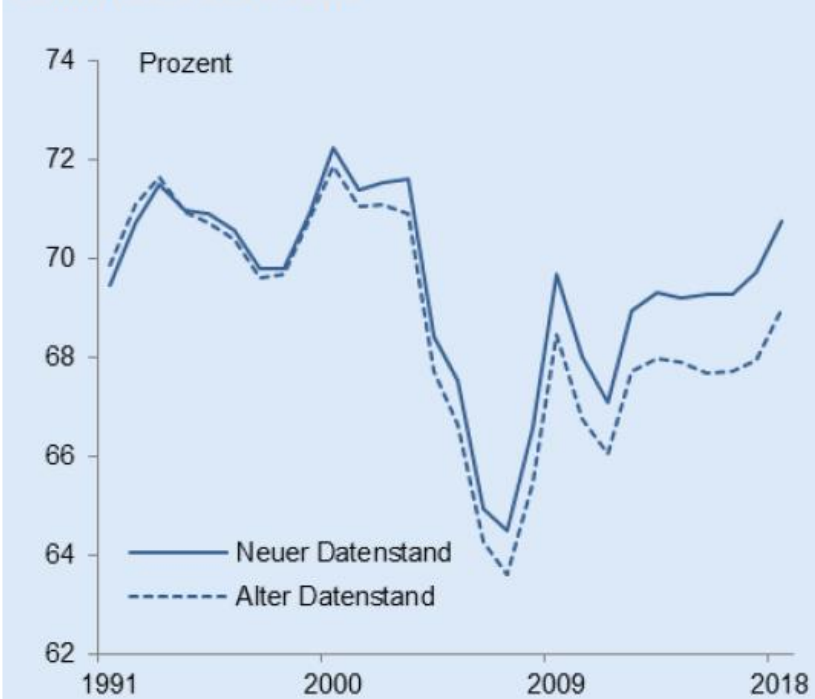
# Robust private consumption expenditure



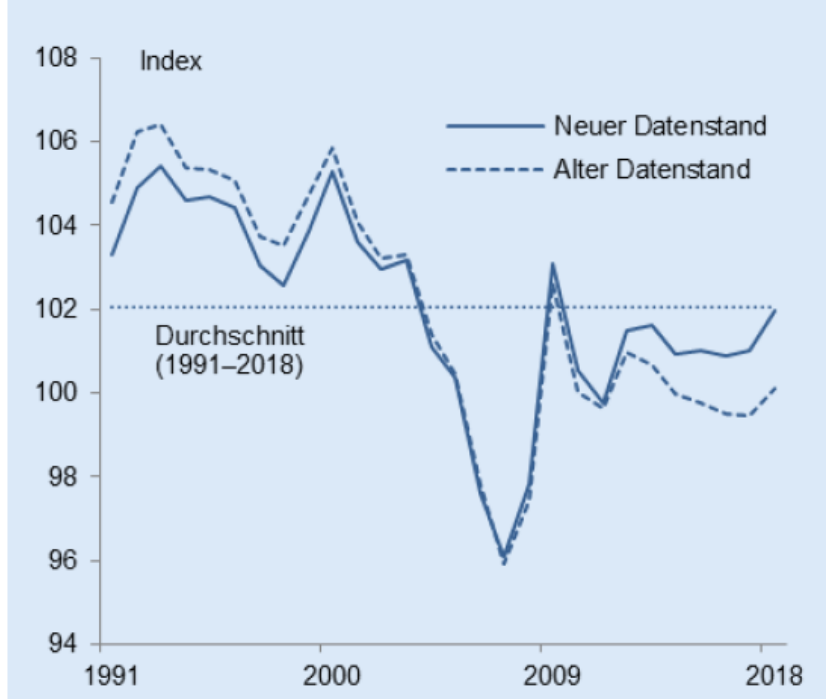
- Net wages
  - » 2019: +5.1 Prozent
  - » 2020: +3.6 Prozent
  - » 2021: +4.3 Prozent
  
- Monetary transfers
  - » 2019: +4.5 Prozent
  - » 2020: +3.8 Prozent
  - » 2021: +3.7 Prozent
  
- Constant saving rate, stable inflation

# Benchmark revision of national accounts 2019: Re-assessment of income distribution

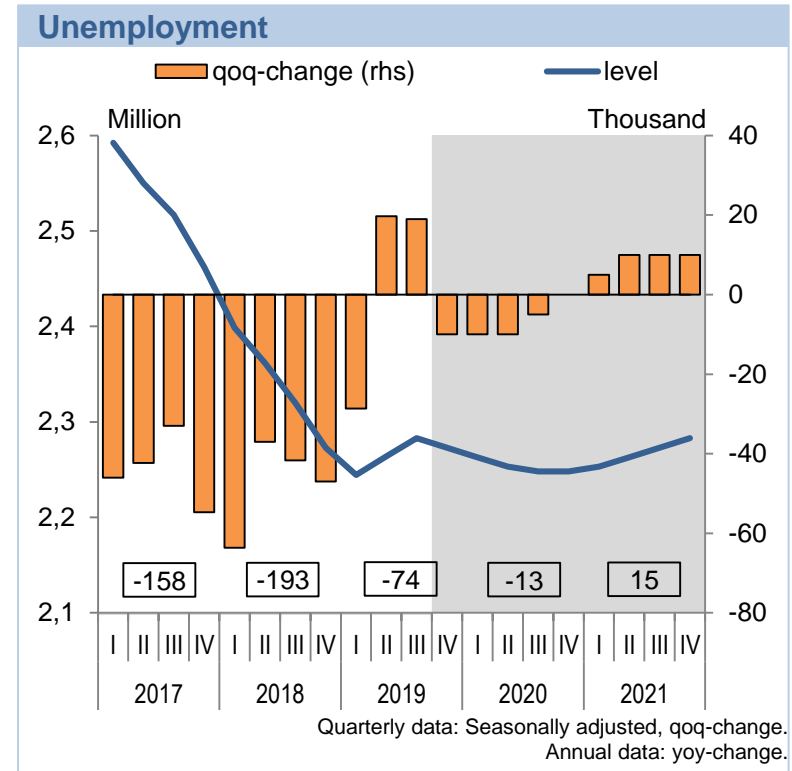
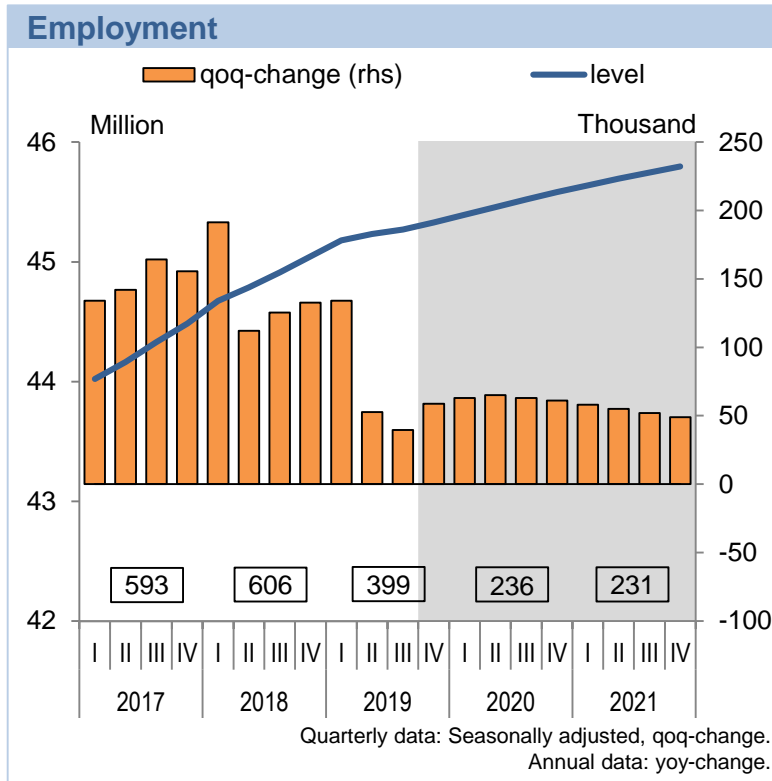
## Lohnquote 1991–2018



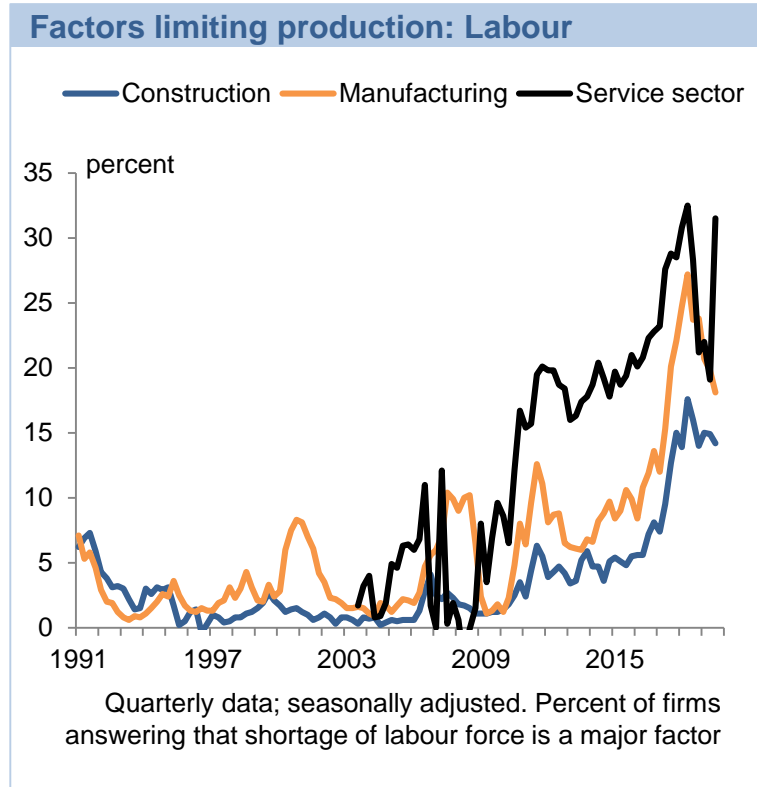
## Reale Lohnstückkosten 1991–2018



# Labor market: Near the turning point



# (Skilled) labor scarcity persists



- Bottlenecks less sensitive
- Construction
  - » Mirror image to capacity utilization
- Manufacturing
  - » More relaxed, but still above normal
  - » Labor hoarding

# Labor market: Key figures

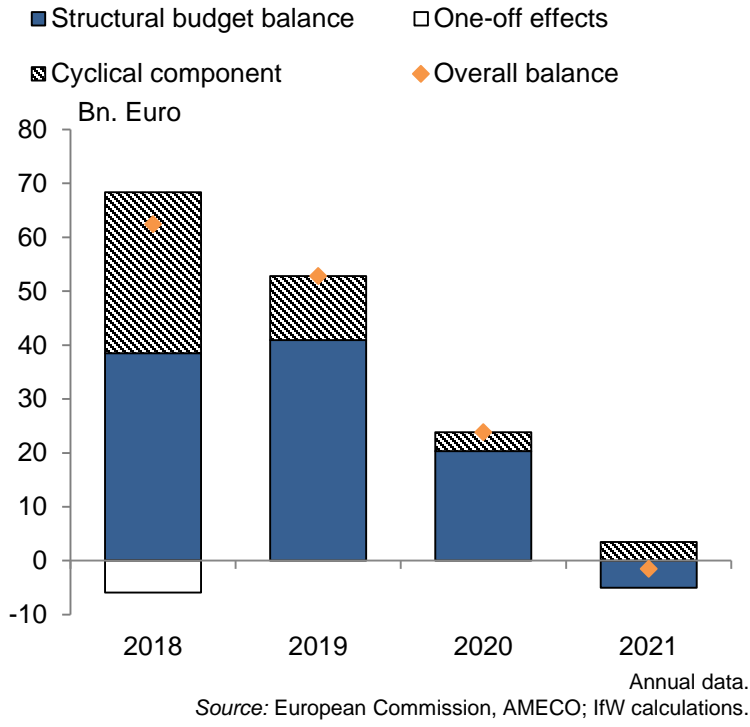
	2017	2018	2019	2020	2021
Hours worked (domestic concept, million hours)	61,564	62,344	62,727	63,235	63,456
Persons in employment (domestic concept)	44,248	44,854	45,253	45,488	45,719
Self-employed	4,273	4,224	4,158	4,095	4,048
Employees (domestic concept)	39,976	40,631	41,094	41,393	41,671
Employees subject to social security contributions	32,234	32,964	33,515	33,836	34,174
Minijobs	4,742	4,671	4,588	4,532	4,472
Net commuting	121	144	156	159	159
Persons in employment (national concept)	44,127	44,710	45,097	45,329	45,560
Employees (national concept)	39,855	40,486	40,939	41,234	41,513
Unemployed persons (registered)	2,533	2,340	2,266	2,253	2,268
Unemployment rate (registered; percent)	5.7	5.2	5.0	4.9	4.9
Unemployment rate (ILO; percent)	3.5	3.2	2.9	2.7	2.6

Self-employed: including family workers; unemployed persons (registered): definition of the Federal Employment Agency (BA).

Source: Federal Statistical Office, *Fachserie 18, Series 1.2*; Federal Employment Agency, *Monthly Bulletin*; Federal Employment Agency, *Employment Statistics*; shaded: IfW forecast.

# Fiscal policy uses up structural surpluses

## Public budget balance



- Revenue ratio
  - » 2019: 46.9 percent
  - » 2021: 46.3 percent
- Expenditure ratio
  - » 2018: 45.3 percent
  - » 2021: 46.4 percent
- Infrastructure expenditure (prices)
  - » 2018: +10.0 percent (+5.5 percent)
  - » 2019: +11.6 percent (+5.3 percent)
  - » 2020: +9.1 percent (+3.7 percent)
  - » 2021: +8.4 percent (+3.5 percent)

German economy has cooled down,  
but does not freeze yet.

# Hot topics for the years to come

- Demographics  $\Rightarrow$  Potential growth, distribution conflicts
- Black zero and debt break  $\Rightarrow$  Fiscal policy stance
- Energy and climate change policies  $\Rightarrow$  Potential growth, structural change
- Monetary policy  $\Rightarrow$  Exit-strategies? Impact of side-effects?

# Potential output: Growth perspectives

**1.6 percent**  
(2018)



**0.8 percent**  
(2023)

# Q&A



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