

The current state of the German Economy

AIECE Meeting, The Hague, Spring 2019

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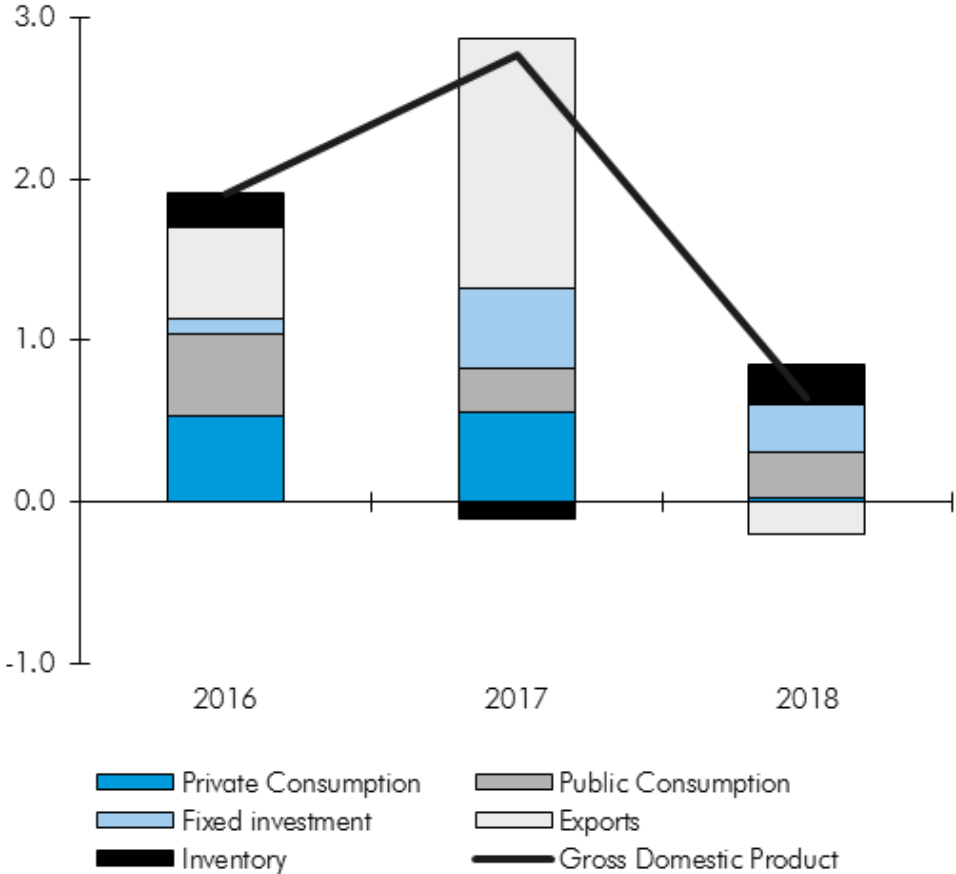
Joint Economic Forecast early in April 2019

- Cooling of the economy particularly in manufacturing in 2nd half of 2018
 - Deterioration of international environment
 - Low water level in the Rhine and difficulties of the car industry in switching over to the WLTP standard

- However, rising real disposable income should stimulate private consumption in 2019.
 - Favorable wage- und price dynamics, healthy employment growth
 - Fiscal policy: income tax relieves and higher pensions

- Industrial production will only slowly gain pace.
- Inflation stays moderate.
- Structural public balance still in surplus in 2019 and 2020

Aggregates of final demand: contributions to average quarterly growth of gross domestic production after adjusting for their import content



Table

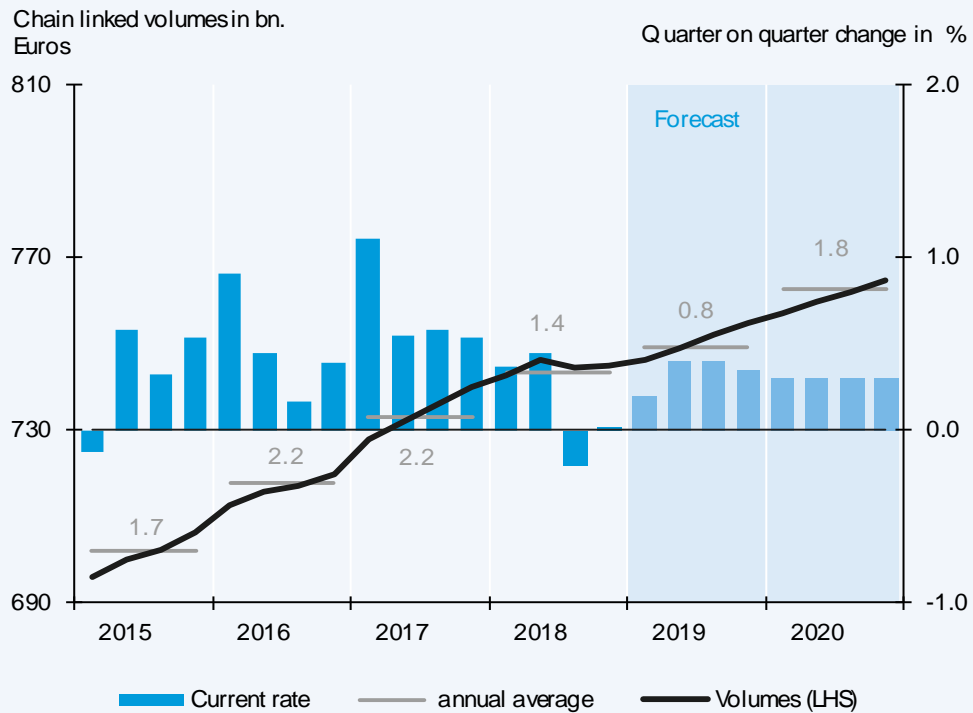
Key forecast figures for Germany

	2016	2017	2018	2019	2020
Real gross domestic product ¹	2,2	2,2	1,4	0,8	1,8
Employment ² (1 000 persons)	43 642	44 269	44 838	45 265	45 531
Unemployment (1 000 persons)	2 691	2 533	2 340	2 190	2 085
Unemployment rate BA ³ (in %)	6,1	5,7	5,2	4,8	4,6
Consumer prices ^{1, 4}	0,5	1,5	1,8	1,5	1,8
Unit labour costs ^{1, 5}	1,2	1,5	2,6	3,3	1,5
General government financial balance ⁶					
EUR billion	28,7	34,0	58,0	41,8	35,6
in % of GDP	0,9	1,0	1,7	1,2	1,0
Balance on current account					
EUR billion	265,5	261,9	246,4	225,4	230,2
in % of GDP	8,4	8,0	7,3	6,5	6,3

¹ Percent change over previous year. – ² Domestic concept. – ³ Unemployed persons in % of civilian labour force (Federal Employment Agency concept). – ⁴ Consumer price index (2015 = 100). – ⁵ Compensation of employees per hour worked by employees in relation to labour productivity. – ⁶ On national accounts definition (ESA 2010).

Sources: Federal Statistical Office; Federal Employment Agency; Deutsche Bundesbank; 2019 and 2020: forecast by the institutes.

Real Gross Domestic Product in Germany seasonnally and calender adjusted



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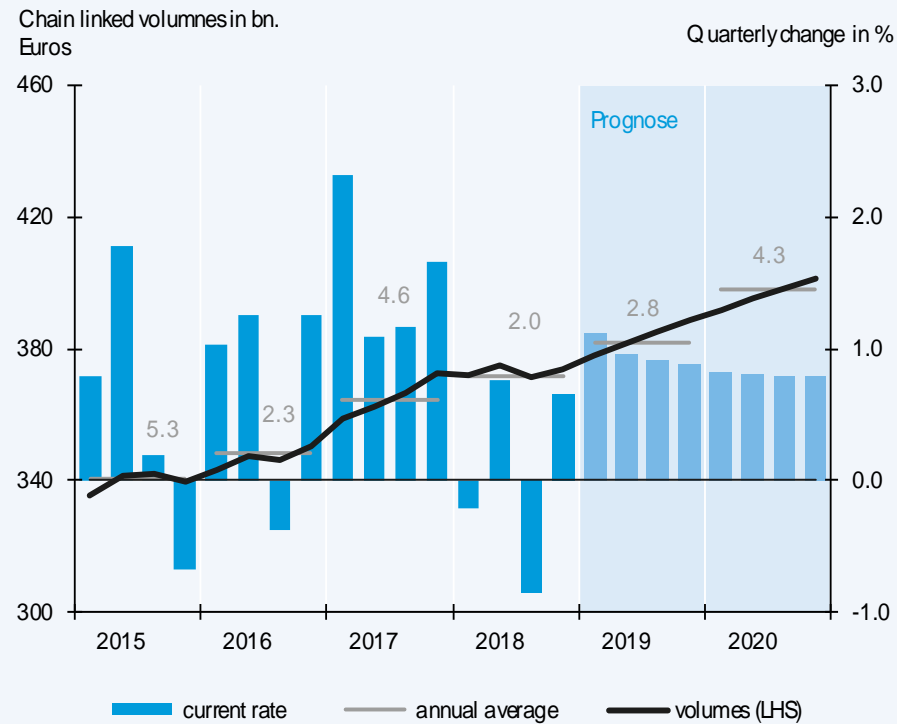
Exports

WLTP

Low water in river Rhine

World economy

Real Exports in Germany
seasonally and calendar adjusted



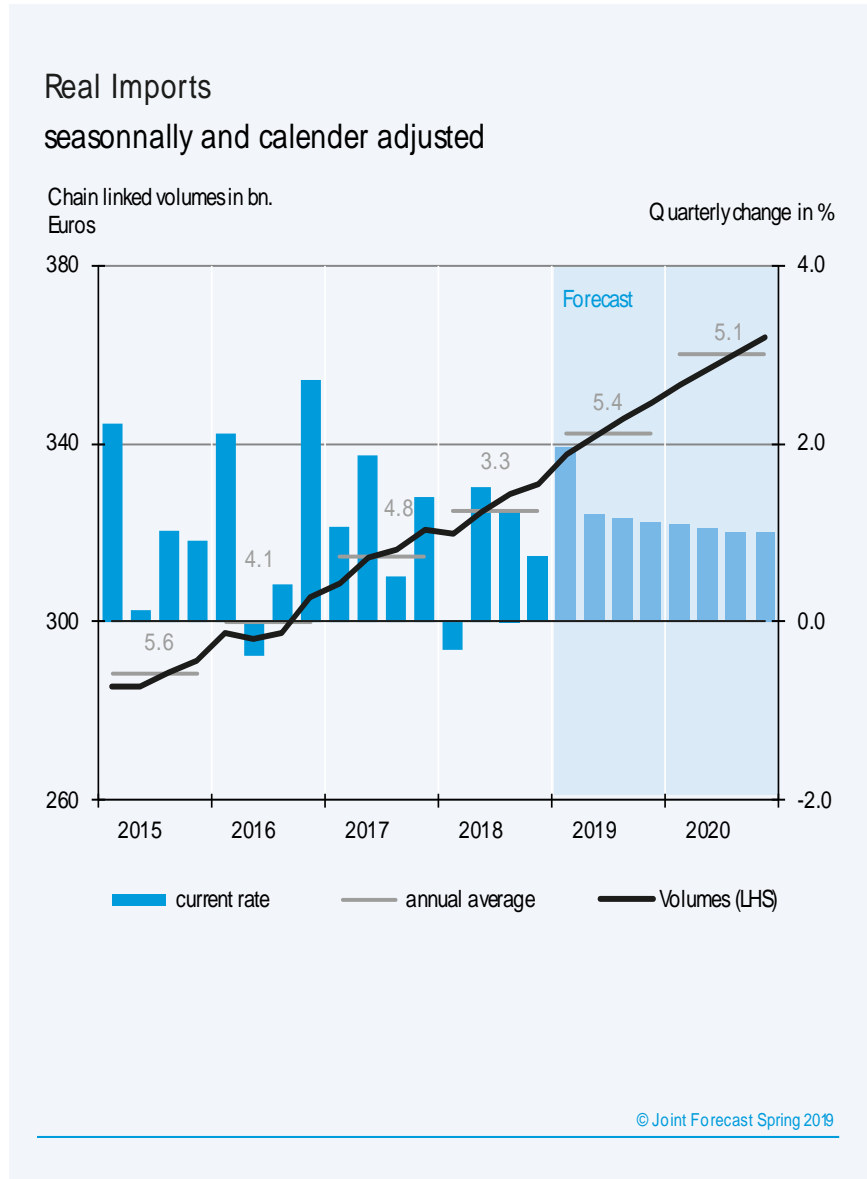
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Imports

Dynamic expansion

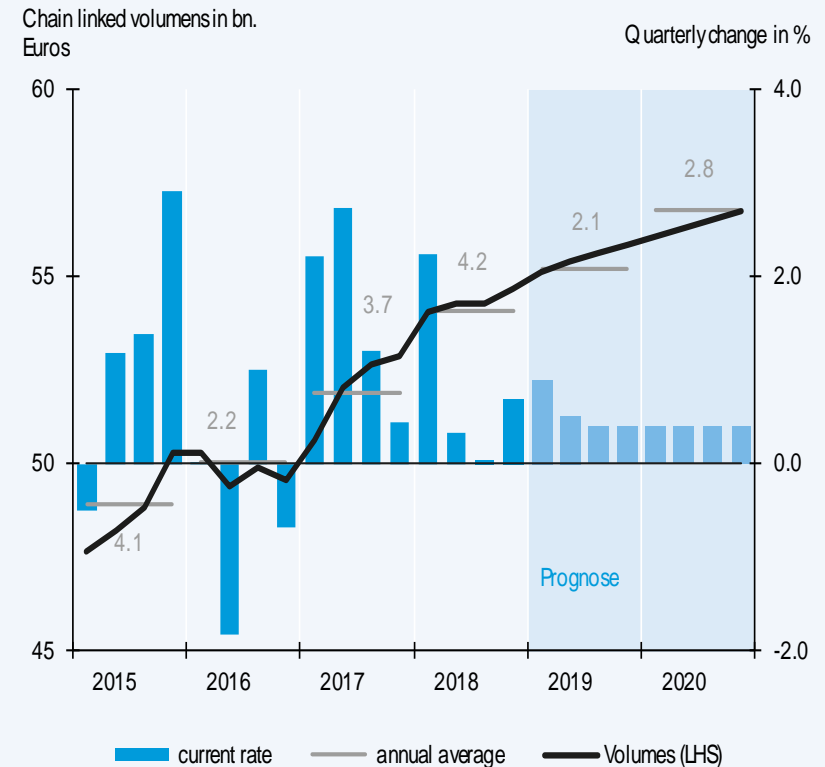
Current account surplus shrinking



Investment in Equipment

- Commercial car registrations collapsed in autumn of 2018; recovery appears to be only moderate.
- Capacity utilization still high
- Low financing costs

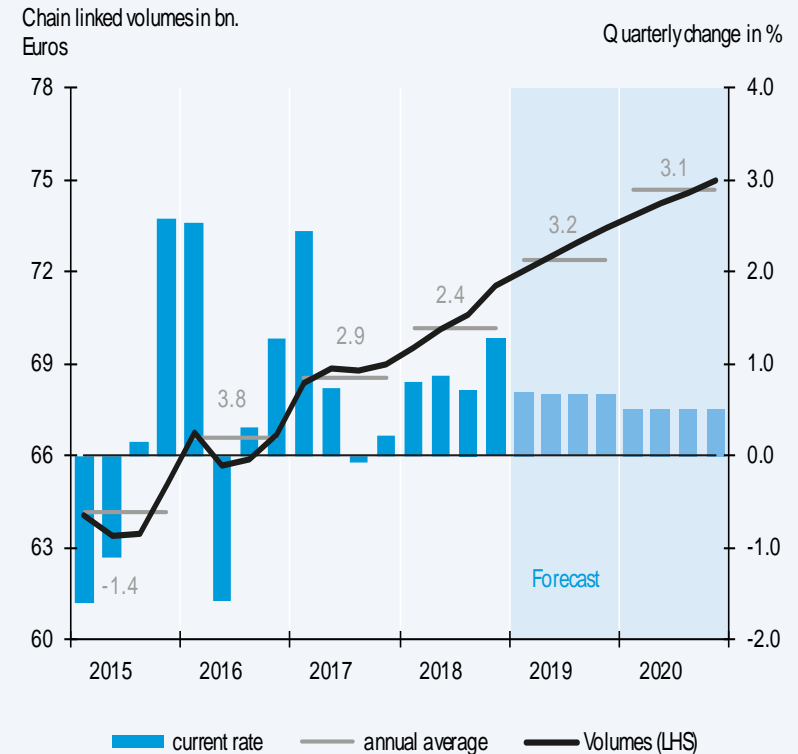
Real Investment in equipment
seasonally and calender adjusted



Investment in Construction

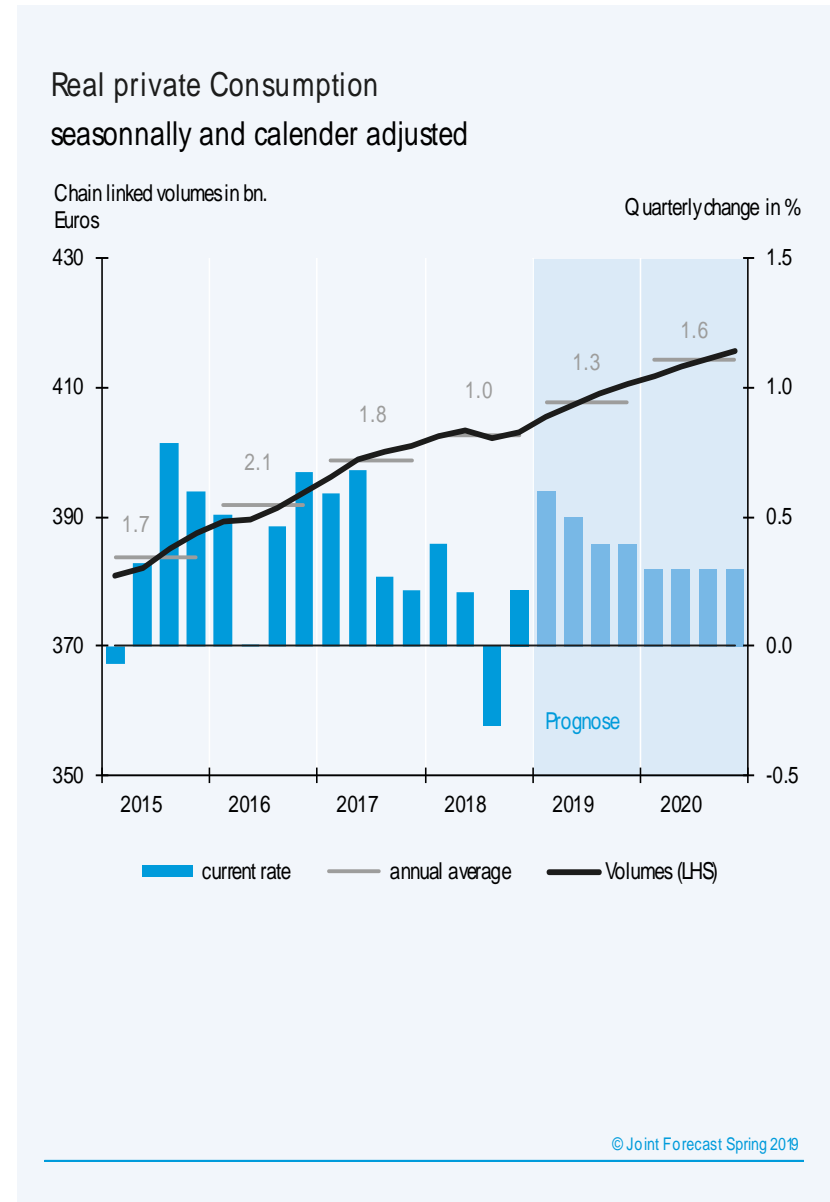
- Booming, full order books
- Rising house prices, increasing incomes, low financing costs
- Production costs go up strongly
 Deflator of investment in construction increased by 4.8% in 2018
 (GDP deflator: 1.9%)

Real Investment in Construction
 seasonally and calendar adjusted



Private Consumption

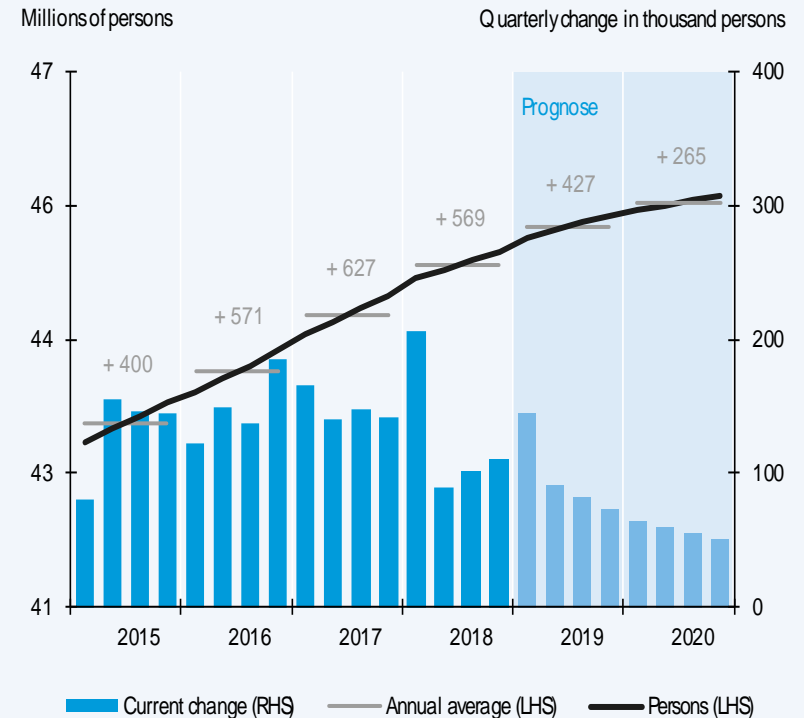
- Car sales fell, but are now recovering.
- Favorable labor markets (compensation of employees up by 4.2% in 2019)
- Pensions increase as well (“Mütterrente”)
- Consumption not so strong because households spend more on home building?



Employment

- Over half of the increase comes from non-German employees.
- Leading indicators for the labor market have stopped improving or are heading down, but are still at high levels.

Employment
Domestic concept, seasonally adjusted

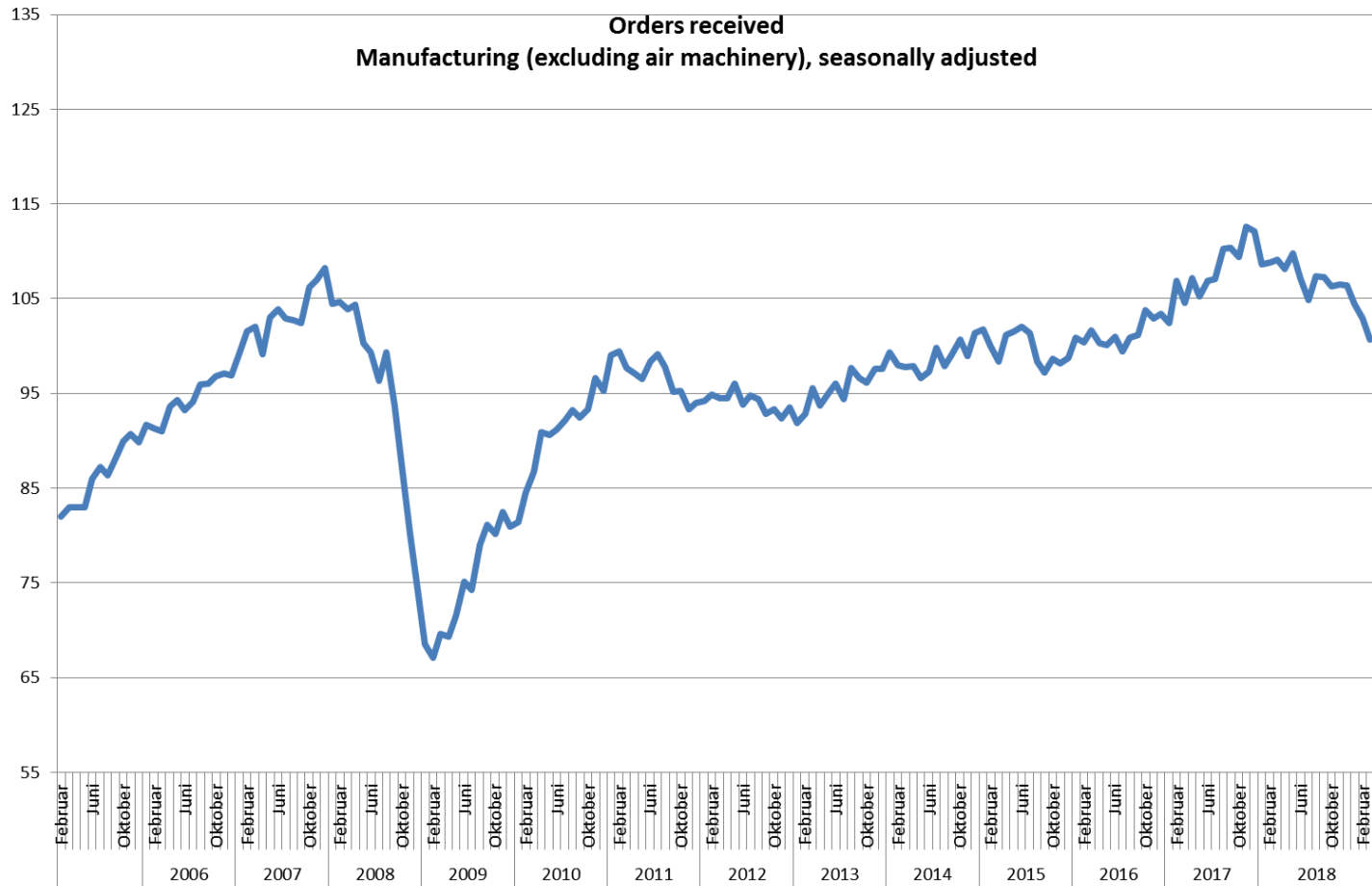


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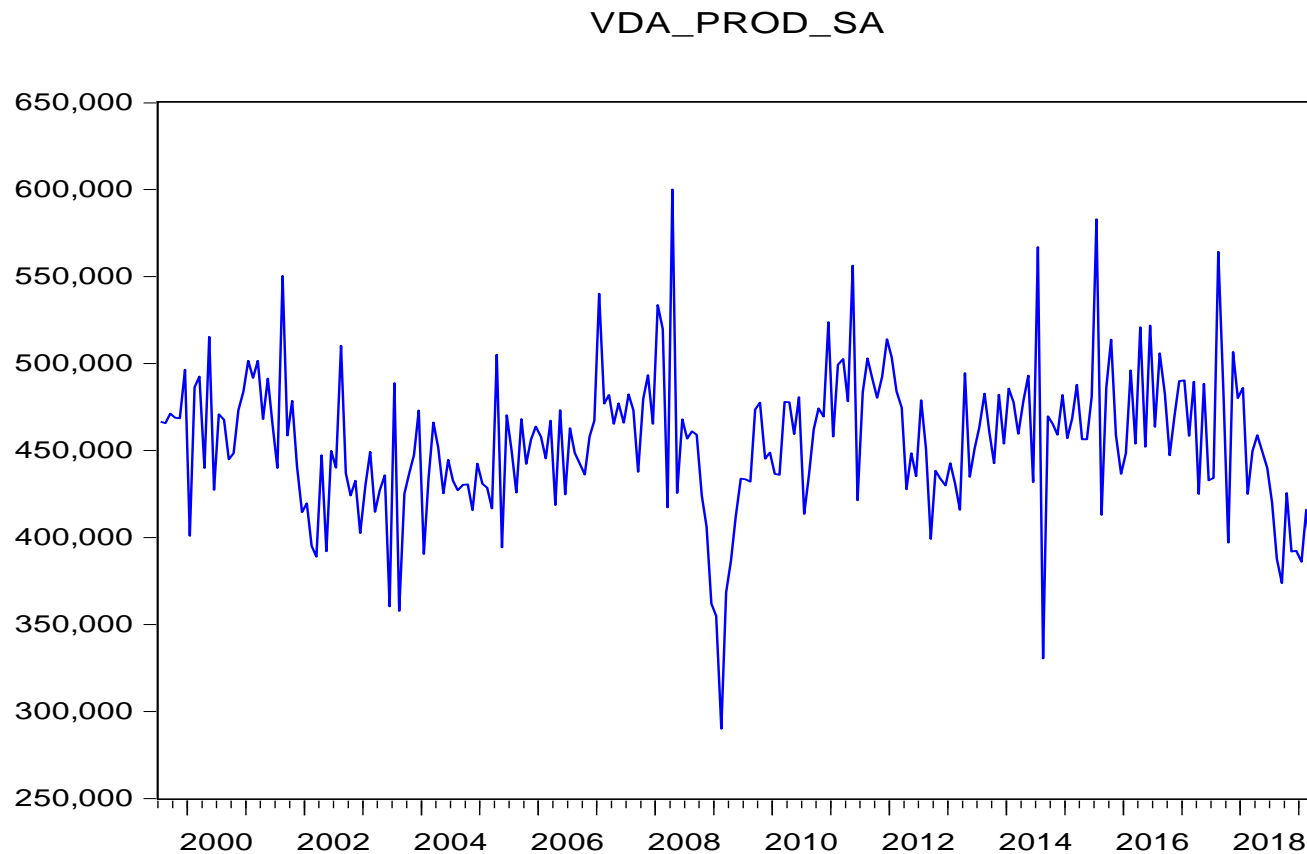


In light of most recent data, the institutes' forecast of 0.8% growth for German GDP in 2019 looks (to me) even a bit optimistic.

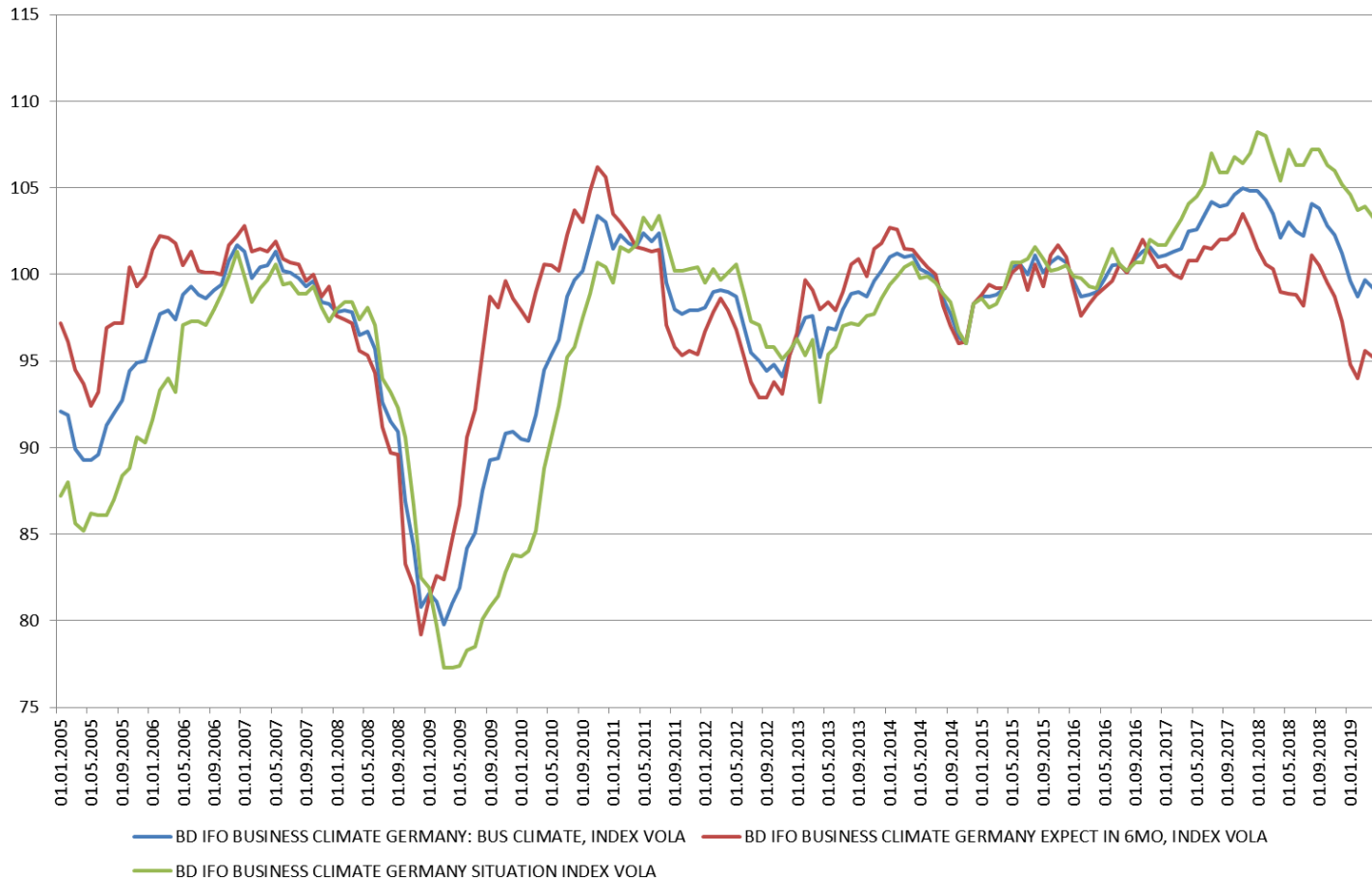
A recovery of manufacturing in the near future appears unlikely.



Production numbers up to March do not show a rebound of the car industry. Have effects of new emissions standard been overrated?



Sentiment among managers has, according to the ifo survey, weakened a lot and does not appear to become stronger.



Thank you!