

AIECE | via Video, 26th November 2021
Autumn Meeting 2021

Outlook for the German economy in the context of a new government being formed

Stefan Kooths

Research Center Business Cycles and Growth



Joint Economic Forecast, Autumn 2021

14th October



Crisis is Gradually Being
Overcome

—

Acting in Accordance with Lower
Growth Perspectives

Kiel Economic Outlook, Autumn 2021

23rd September



Stumbling blocks
on the road to recovery



Recovery temporarily
at slower pace



Protracted
catching-up process



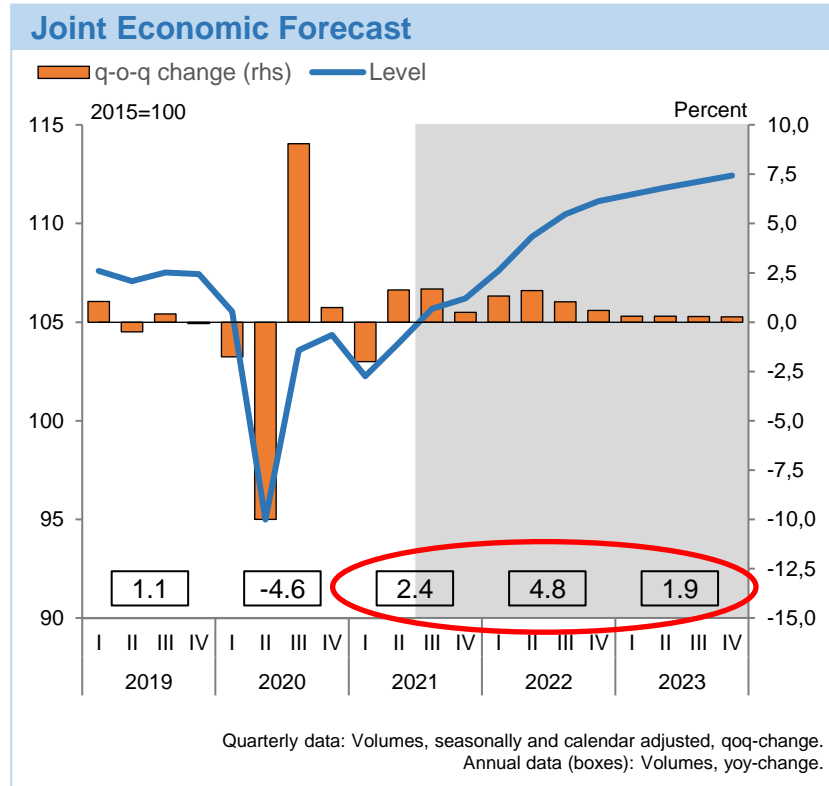
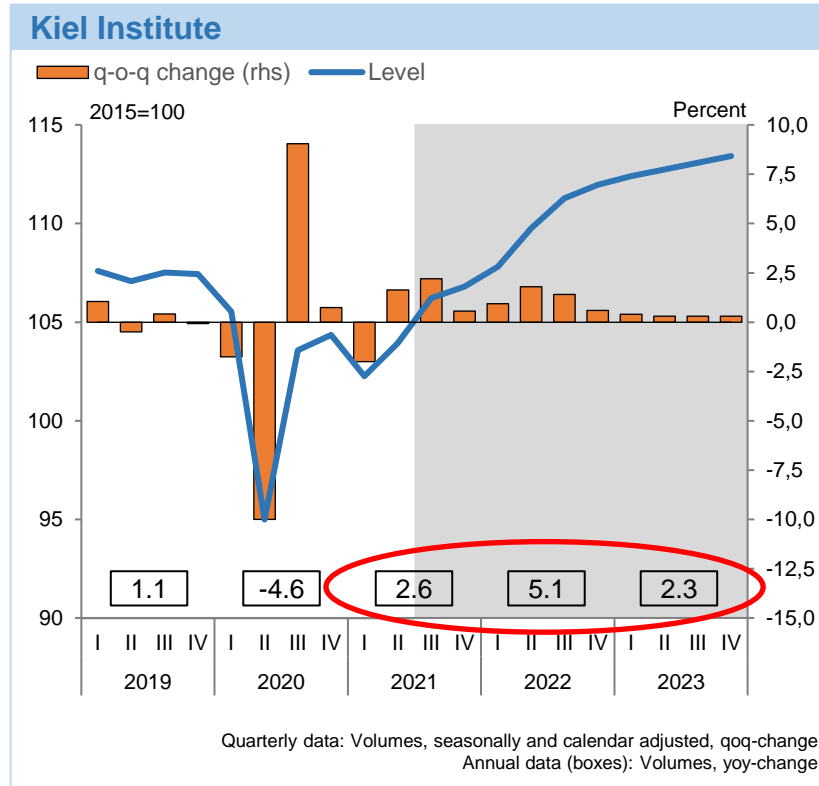
Demographics weigh
more and more on
potential growth

Key assumptions

- Covid-19
 - » Weighs on the economic recovery in autumn and winter
 - » Negative impact fades as of spring 2022

- Supply bottlenecks
 - » Gradually ease starting by beginning of 2022 ...
 - » ... but dampen industrial production until the end of 2022.

Kiel Institute and Joint Economic Forecast: GDP

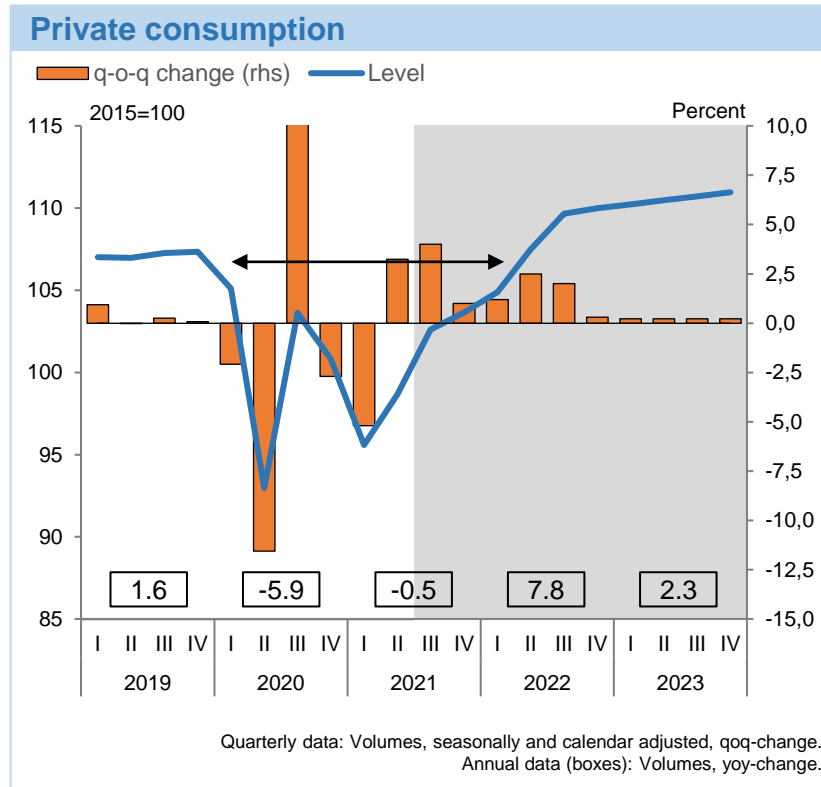


Business sentiment declining



Recovery loses momentum

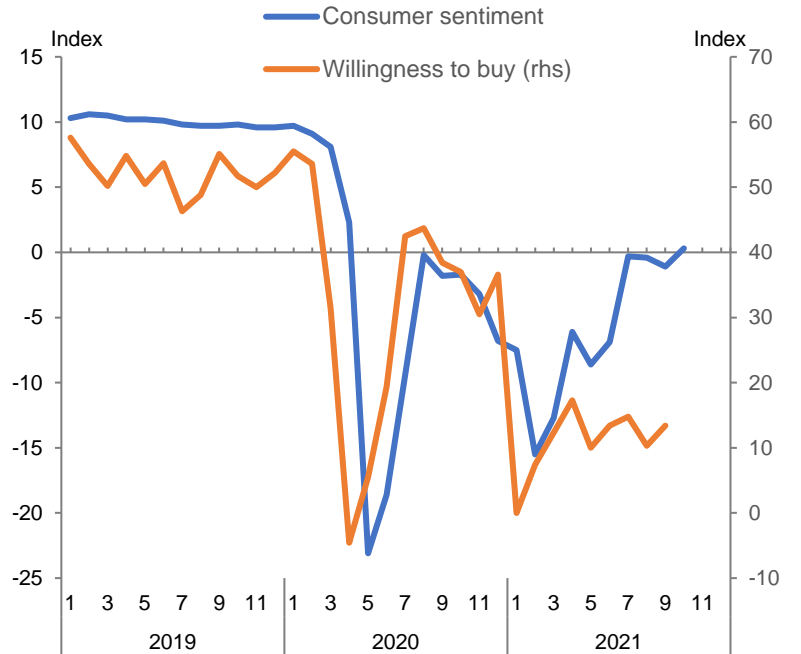
Private consumption normalizes



- Assumptions:
 - » recovery temporarily slows down due to Covid-19
 - » Private consumption normalizes (= savings rate reaches pre-crisis level) in Spring 2022
- Recovery in consumer-related services

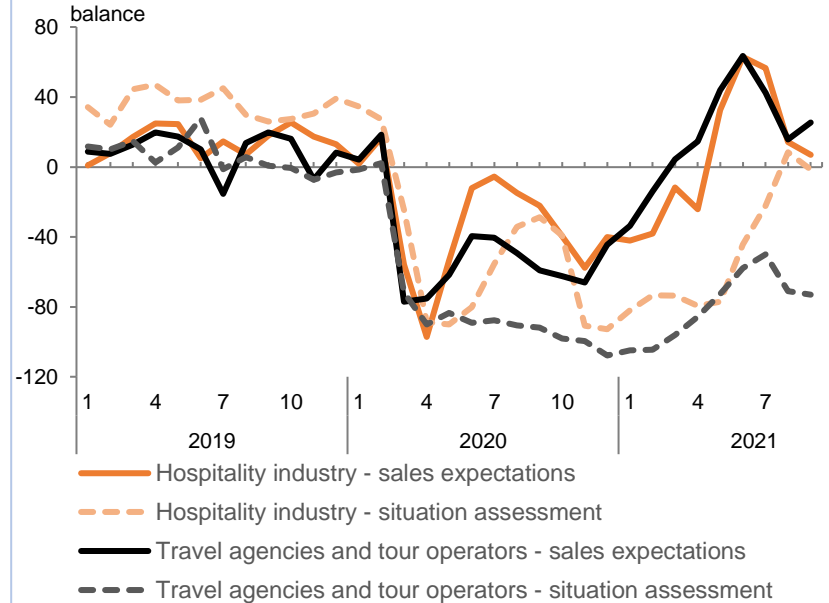
Consumer-related sentiment indicators: Still subdued/more gloomy

GfK Consumer sentiment



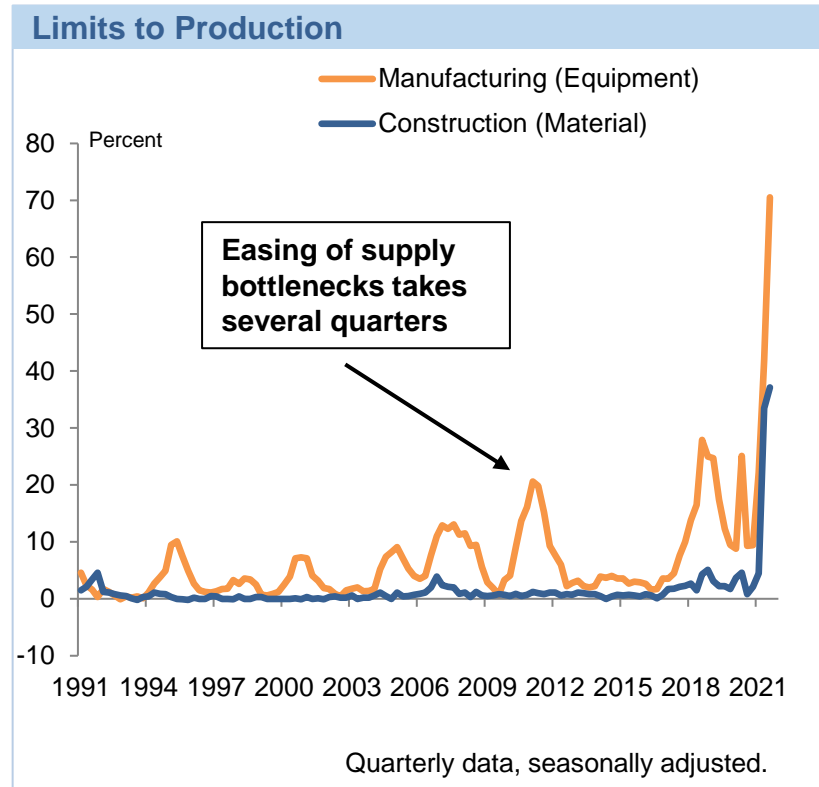
Monthly data; seasonally adjusted.

Situation and expectations in service industries



Monthly data; seasonally adjusted. Balance: Share of firms that assess their situation as good or assume higher sales expectations and firms that assess their situation as poor or assume lower sales expectations.

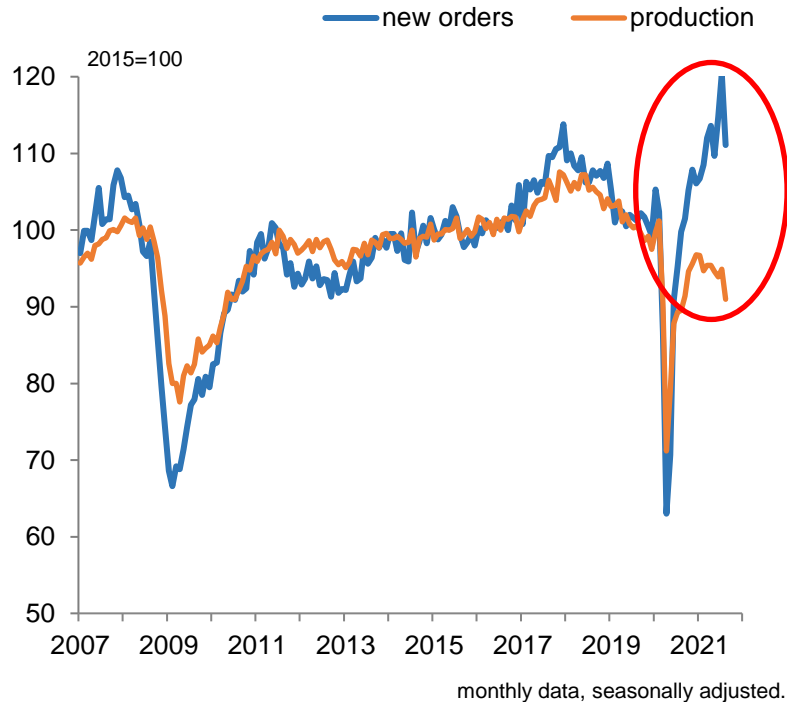
Unprecedented record-high supply bottlenecks



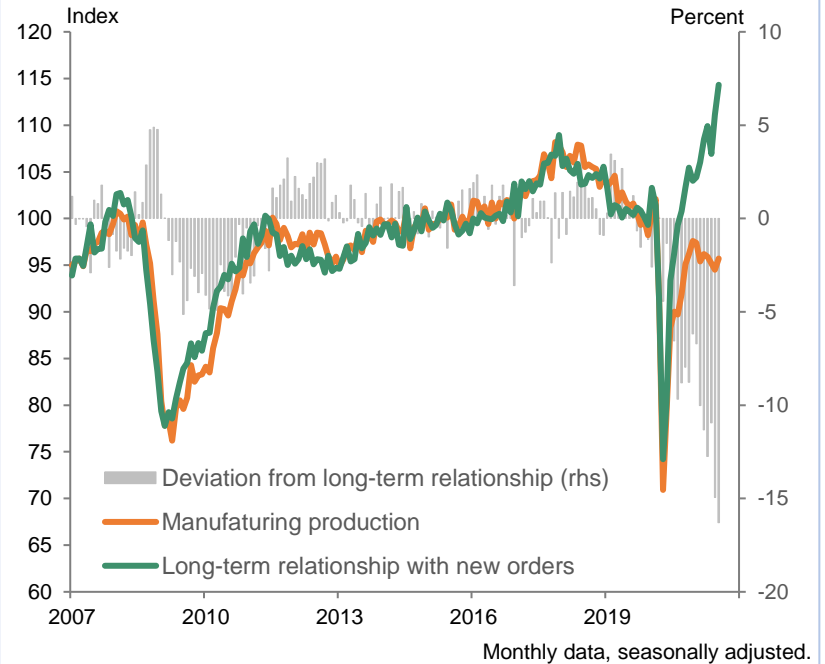
- **Manufacturing**
 - » Most firms report production-limiting supply bottlenecks
 - » Problems intensified in August and September
- **Construction**
 - » Shortages less severe
 - » Problems already easing

Production detached from order inflow

New orders and production in manufacturing

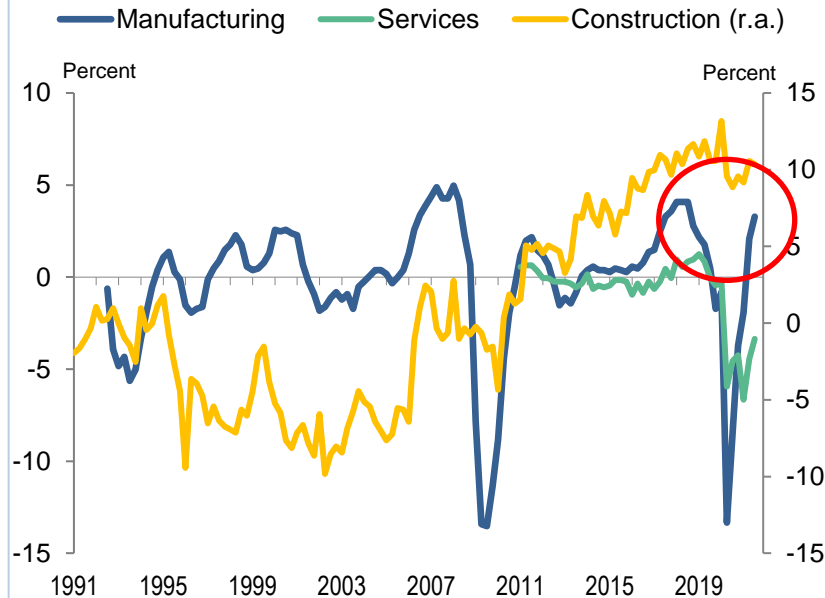


Actual and order-consistent manufacturing output

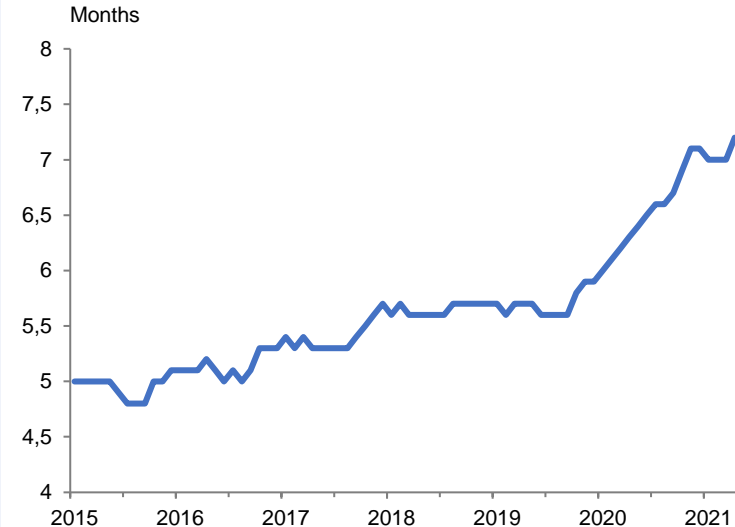


Distorted picture of capacity utilization

Capacity utilization

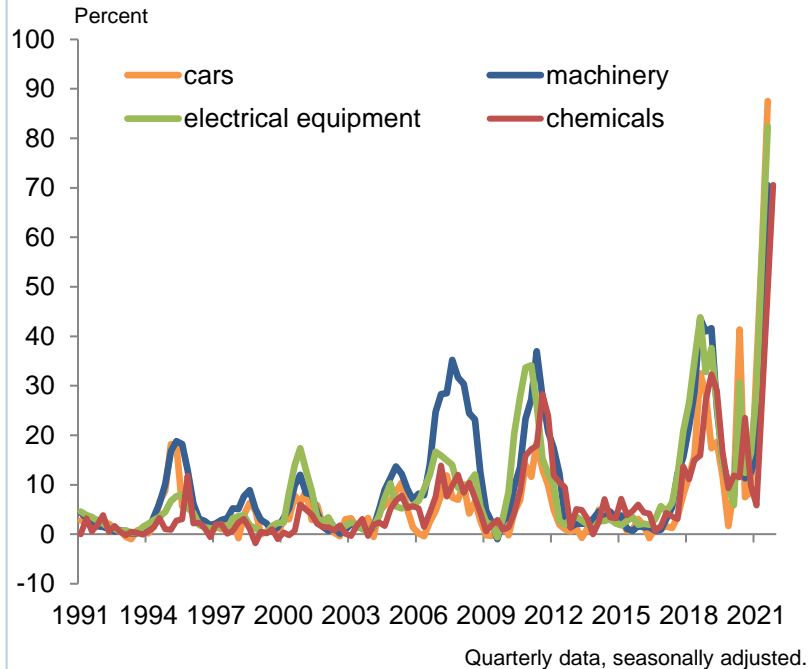


Order reach in manufacturing



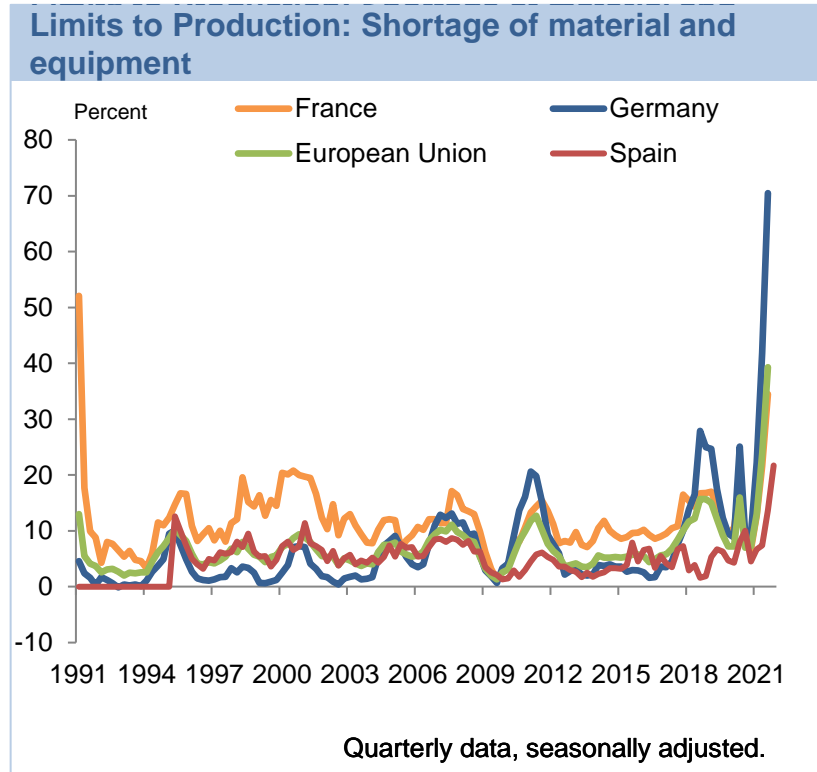
Shortages: Broad based, car industry suffers most

Limits to production: Shortage of material and equipment



Differences across industries
are larger when measured by
gap between production and
new orders

German economy most affected



- Particularly sensible industries (e.g., premium car production) have a higher share in manufacturing production than in many other countries
- German manufacturing more dependent on scarce electrical equipment

Kiel Trade Indicator: Global trade is stabilizing, but yet no sign of lasting relief

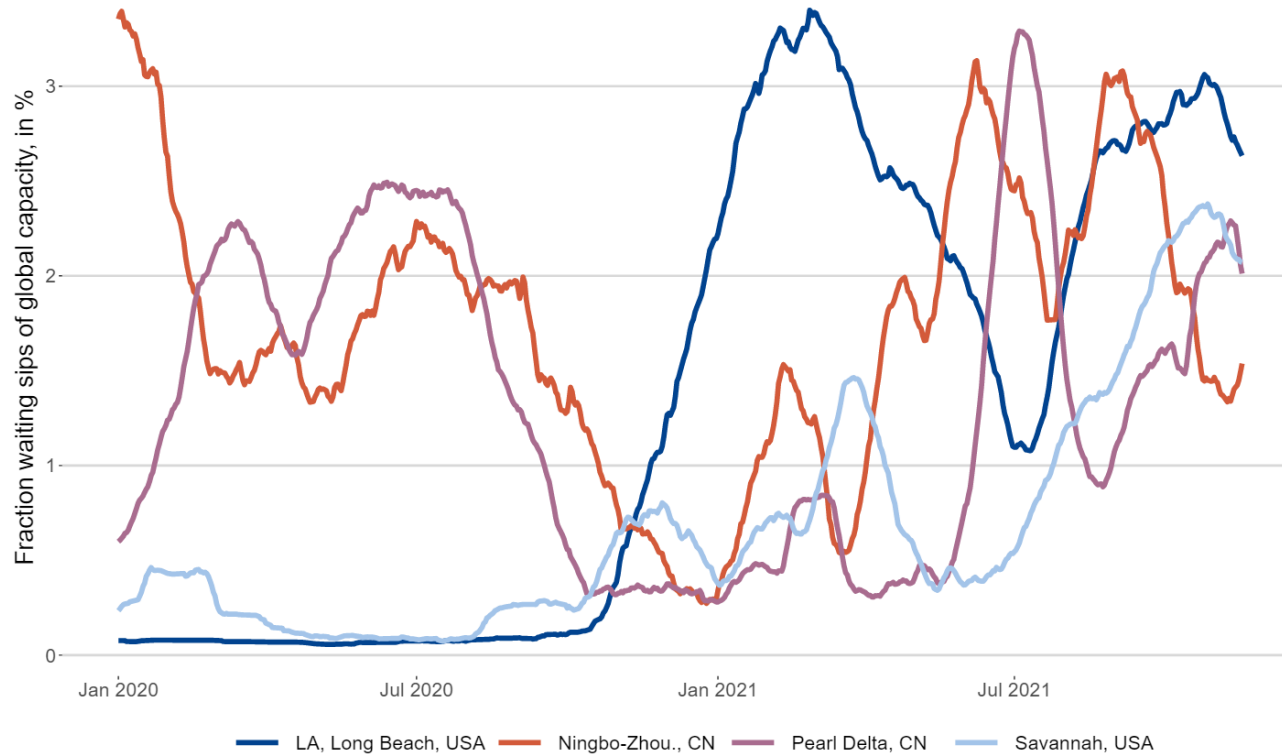
	Export	Import
Germany	+ 0.1 %	- 0.2 %
EU	+ 1.5 %	+ 1.1 %
USA	- 0.1 %	- 0.6 %
China	+ 2.9 %	- 0.4 %
Global trade	+ 0.2 %	

*CHANGE MONTH-ON-MONTH. NOMINAL, SEASONALLY ADJUSTED. SOURCE: OWN
CALCULATIONS BASED ON DATA FROM FLEETMON.COM; UPDATED AS OF 19 NOVEMBER 2021

IFW-KIEL.DE/TRADEINDICATOR

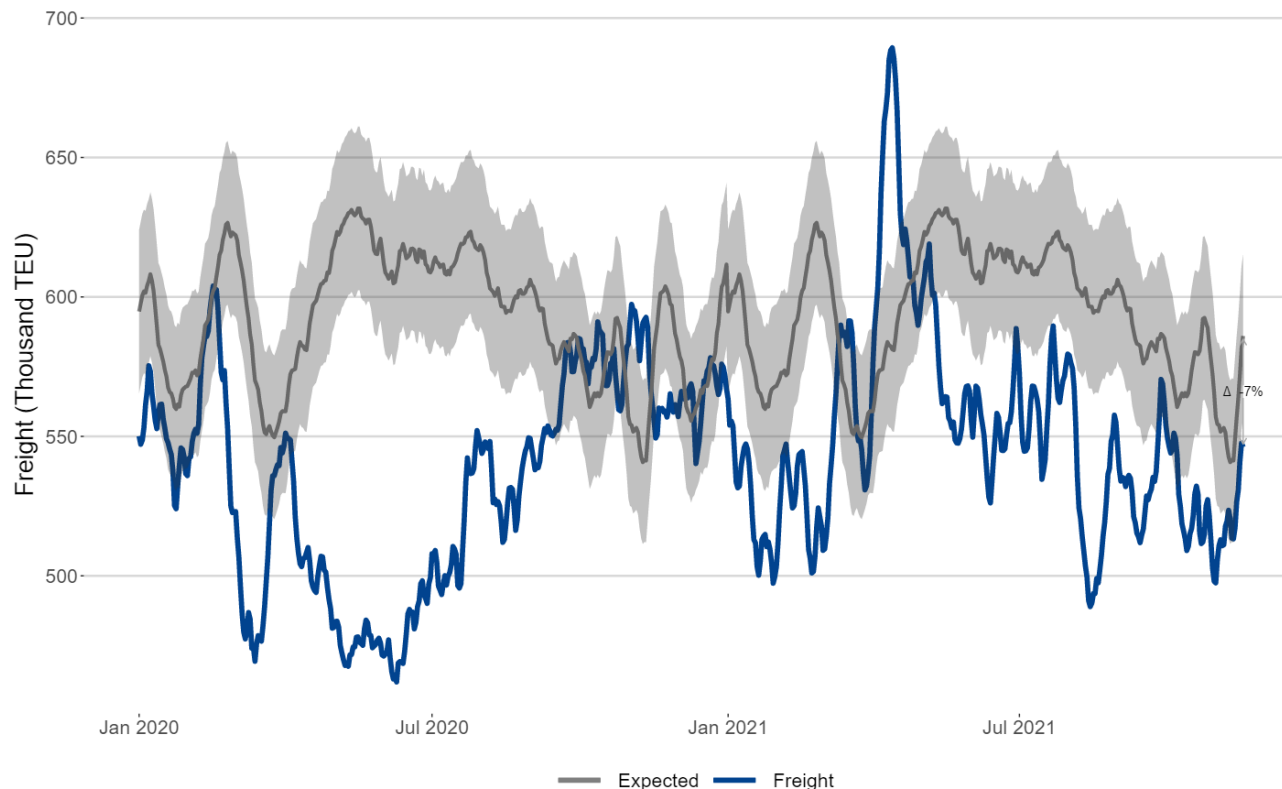
Container ship congestion at four major ports

Last update: 19 November 2021

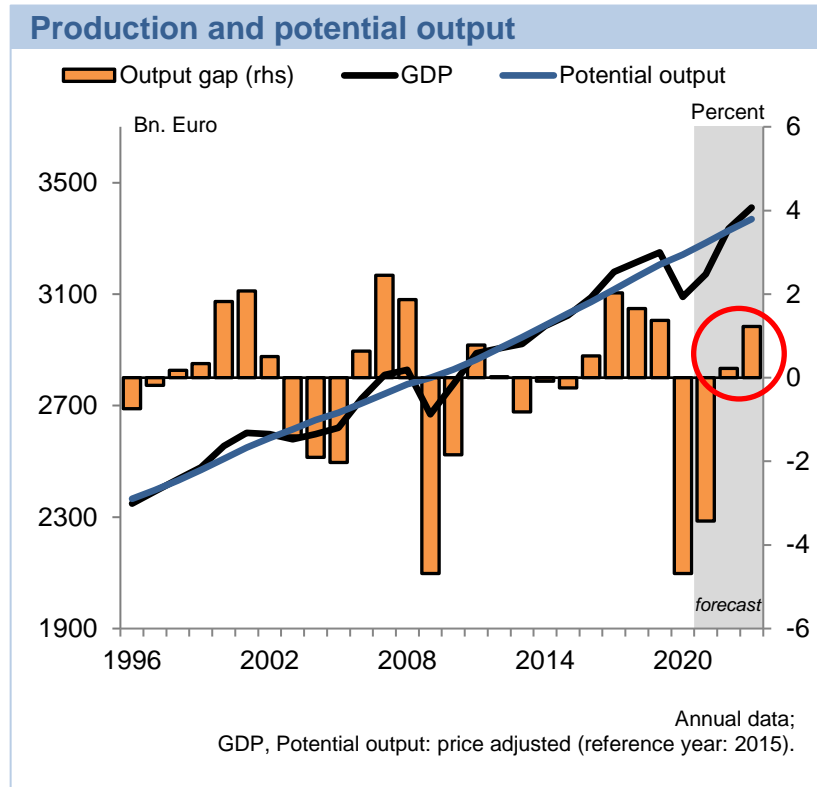


Red Sea: Daily freight capacity

Last update: 19 November 2021

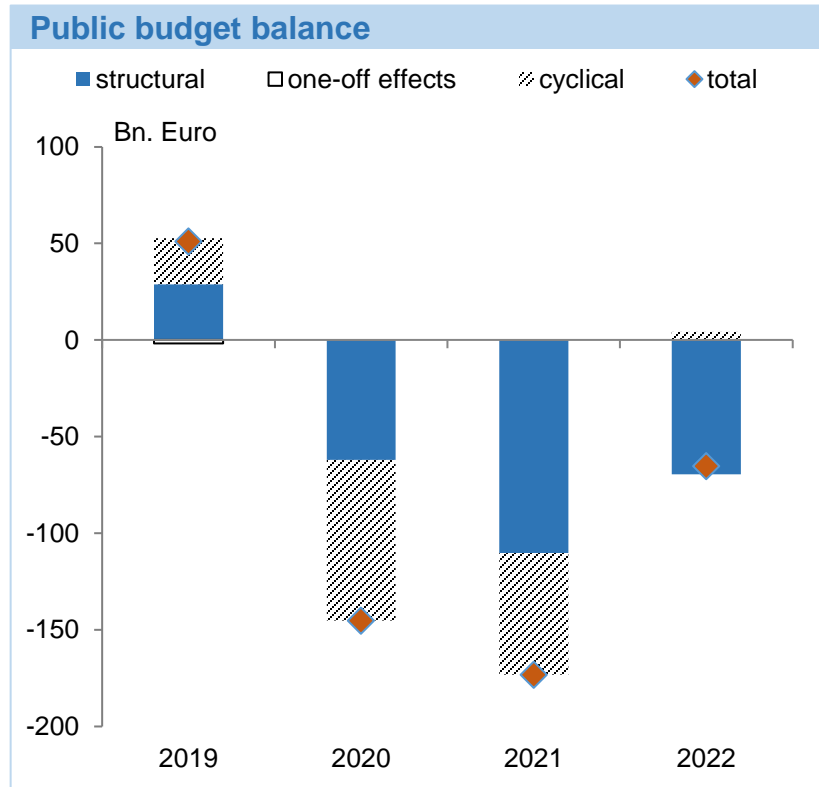


Post-pandemic overshooting



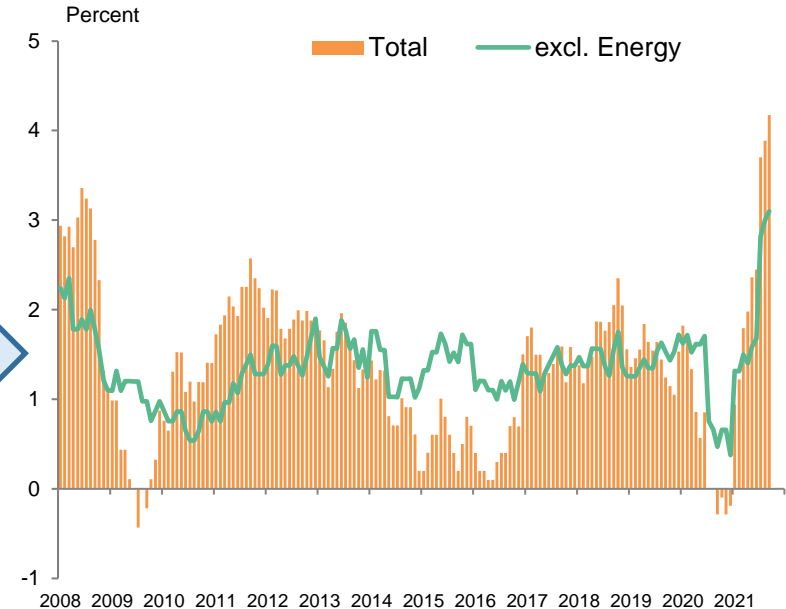
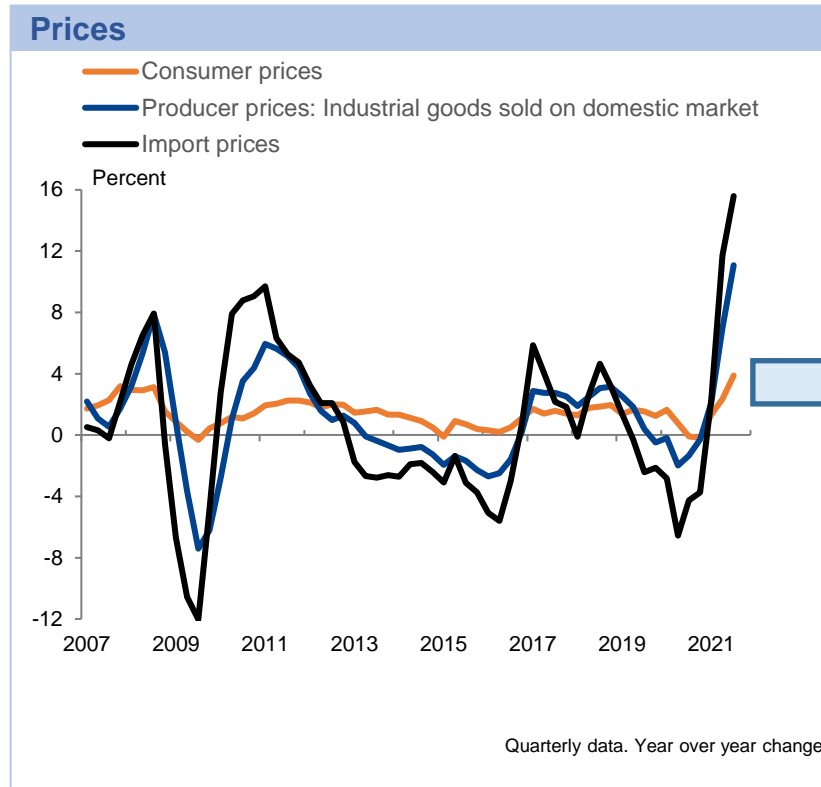
Catching-up following supply
bottlenecks and excess
savings

Massive deficit spending



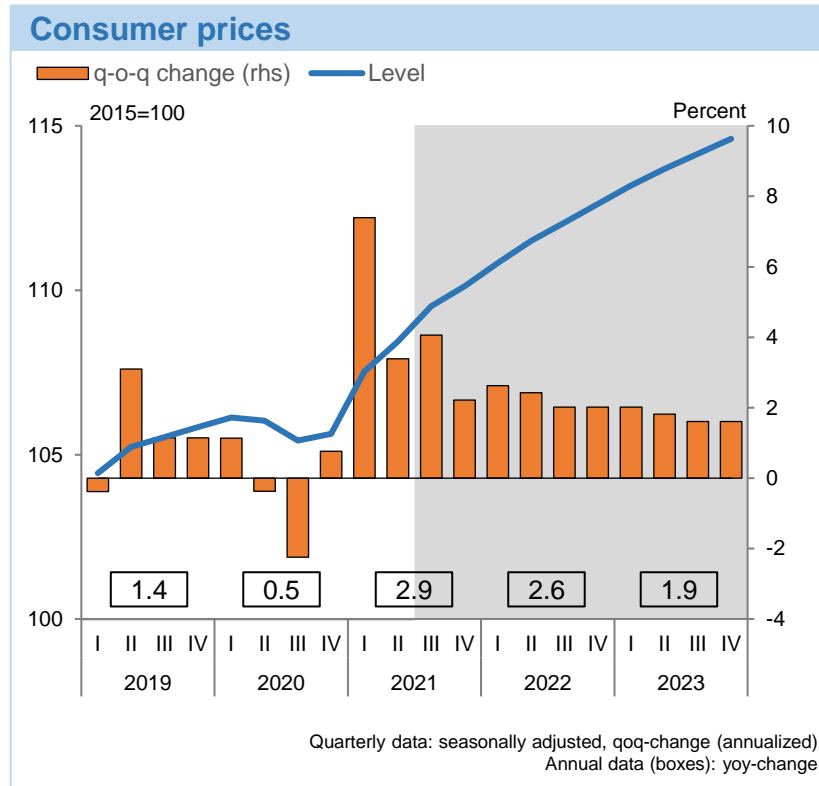
- Record-high sequence of structural budget deficits
- Public finances are now in a worse position (than before the pandemic) when increasing negative impact of demographic change sets in

Strong price pressure



Monthly data; year-on-year change.
Source: Deutsche Bundesbank, *Time series databases*; Kiel Institute calculations.

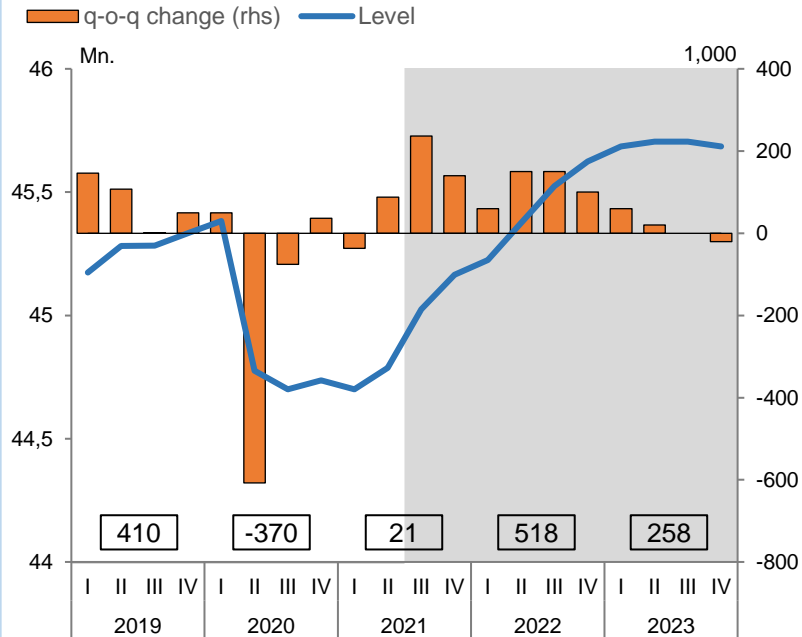
Inflation remains high for the time being



- Supply bottlenecks will persist for some time
- Higher producer prices are passed-through with some delay
- High willingness to pay due to excess savings and restrictions due to the pandemic
- Higher pass-through of firms with weaker financial health

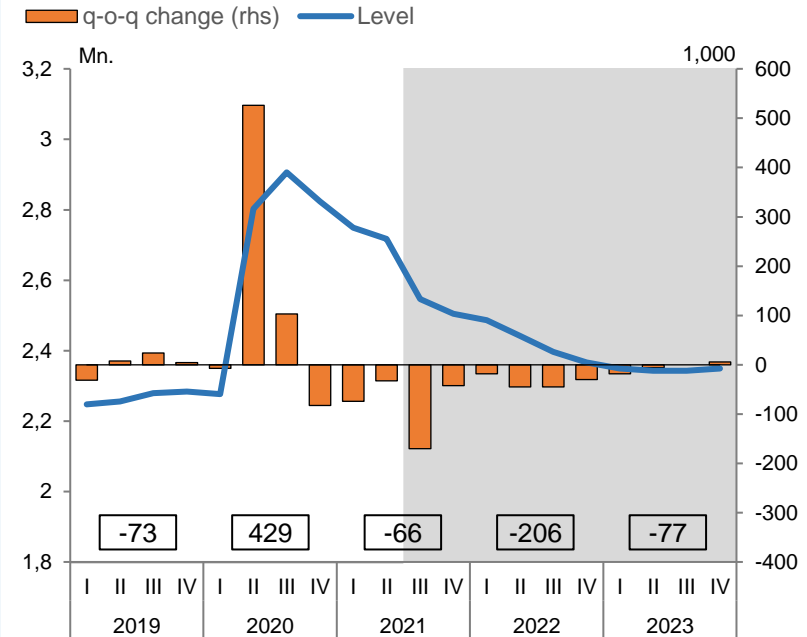
Labour market recovers

Persons employed



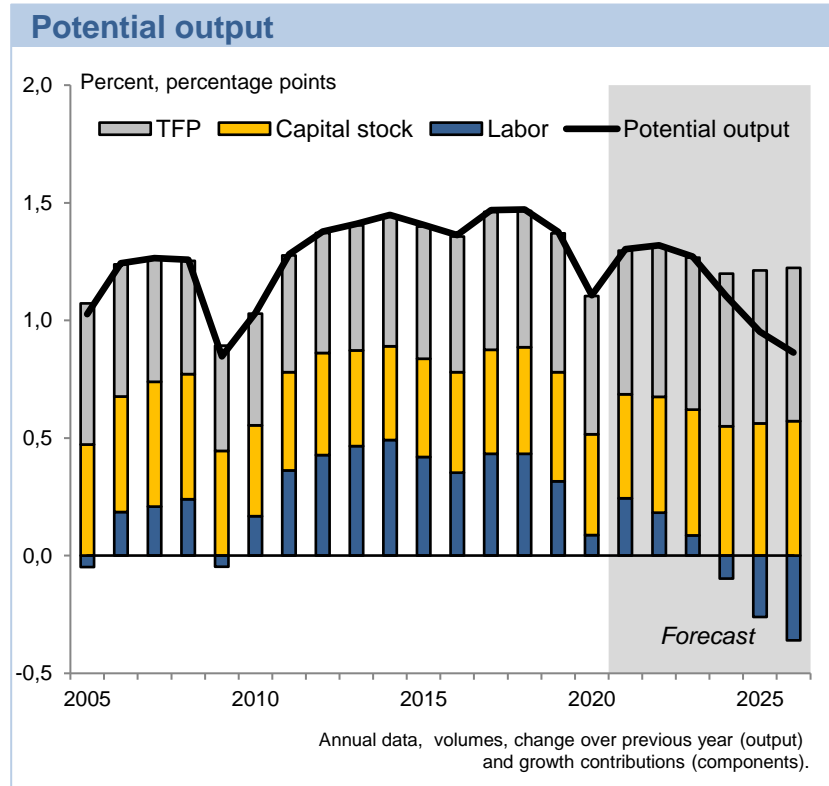
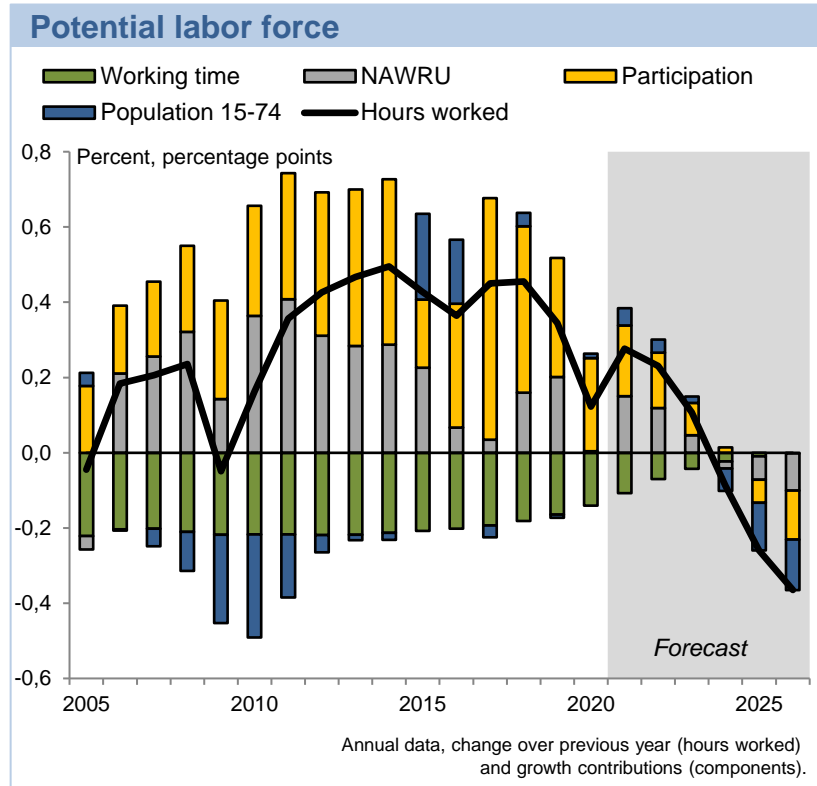
Quarterly data: seasonally adjusted.
Annual data (boxes): yoy-change in 1,000.

Unemployed persons (registered)



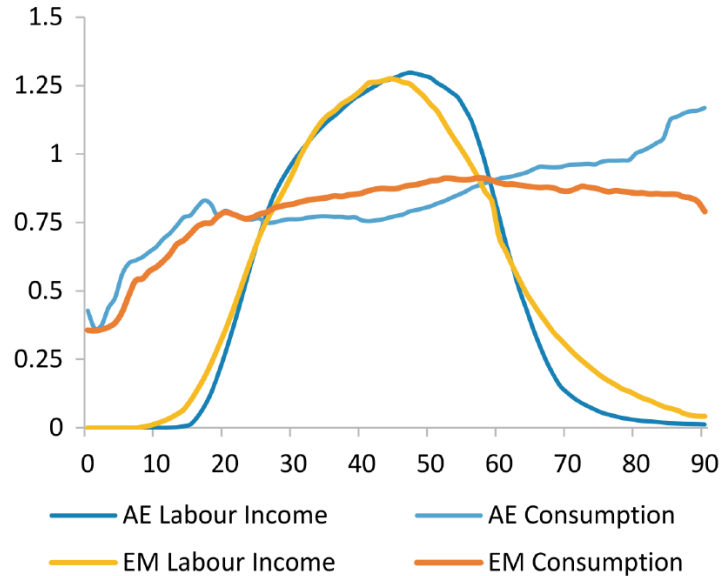
Quarterly data: seasonally adjusted.
Annual data (boxes): yoy-change in 1,000.

Ageing weighs more and more on potential growth

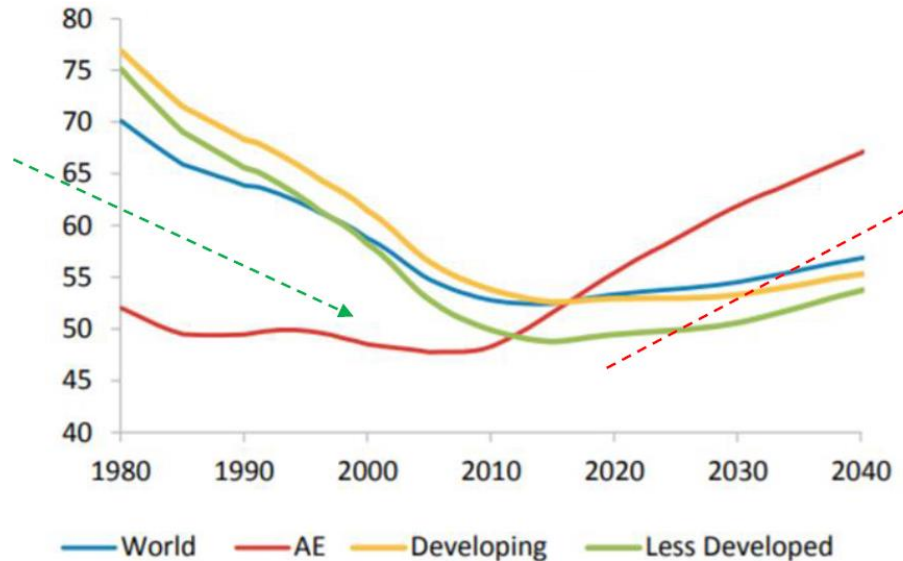


The Great Demographic Reversal (Goodhart/Pradhan)

Life Cycle Labour Income and Consumption



Dependency Ratio (per 100)

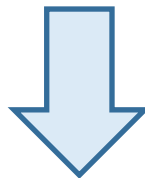


Source: M. Pradhan, Kieler Konjunkturgespräche, Autumn 2021.

Medium-term inflation risks

Demographics / decarbonization

High public debt positions



Monetary policy still independent?

New government agenda

- Massive transformation spending, but no program volumes yet
- Mobilizing extra fiscal space
 - » Front-loaded higher borrowing to outwit German debt brake (liabilities today, deficits later)
 - » Prolonged redemption of Corona-debt
 - » Investment agencies (e.g. KfW)
 - » Temporary: Reform of cyclical adjustment in debt brake formula
- Pension reform postponed (again)
- No free market attitude, but addressing labor market disincentives

Q&A



Prof. Dr. Stefan Kooths

Research Director

Business Cycles and Growth

T +49 431 8814-579

M stefan.kooths@ifw-kiel.de

 @StefanKooths

  @kielinstitute

www.ifw-kiel.de

