Helaba Research

Chief Economist's Comment

21 June 2010

Germany in an updraft

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Publisher:

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Whether the German team will continue the positive trend following the first game against Australia is not something I can judge. When it comes to the economy, though, the signs for a strong upswing this year are clear.

Germany as outperformer

After the concerns about the severe debt in the Euro zone receded into the background somewhat, the good economic indicators are receiving more attention. Not only the German bond market is proving a safe haven compared to its European counterparts and thus an outperformer, the German stock market, too, has most recently set itself markedly apart in a positive way.

Strong growth in spite of structural problems

A high level of debt is a burdensome factor also in Germany. The budget deficit this year will presumably rise above 5 % and lift the debt level to nearly 80 %. However, this does not contradict a strong cyclical recovery. After the first quarter was still relatively weak because of the cold weather, it is already apparent that economic growth in the second quarter will be clearly in the positive range. A rate of 1 % on a quarter-over-quarter basis – or of more than 4 % using the American annualized notation – is therefore not unlikely. The result of the upswing that is currently expanding will be that GDP growth of around 2 % can be achieved for the year 2010 as a whole.

German labour market characterized by a shortage of skilled workers

Against this background it also comes as no surprise that the German labour market is already in an uptrend again. In spite of the deepest recession of the postwar period, the labour market has barely worsened. In addition to the regulations pertaining to short-time work, this was due especially to the shortage of skilled workers resulting from the demographic trend. Already in 2009, the supply of workers dropped by 163,000 individuals for demographic reasons.

Euro supports the economy

The high competitiveness of German businesses is surely one factor for the favourable development. But the Euro has also contributed its part. Especially countries with a high ratio of foreign trade have benefited from the Euro depreciation. Moreover, the more a country exports to regions outside of the Euro zone, the more the Euro depreciation offers opportunities. In this regard, as well, Germany is ahead, since 57 % of its exports of goods leave the common currency region. Italy is not far behind with 56 %, and France also sends no less than 51 % of its exports outside of the Euro zone. In Spain this ratio is only at 43 %. While it is therefore to be expected that Germany will benefit the most also because of its competitive strength, the development of the currency also helps the other member states.

Double dip unlikely

Precisely this cyclical environment offers the chance to reduce the high level of national debt without choking off the economy in the process. The cost-cutting plans currently proposed by the German government are not especially ambitious, which means that the danger of a relapse into recession, that is, the risk of a "double dip," is fairly low.

Flattening of the growth trend

However, what is already apparent now is a flattening of the growth path over the medium term. Thus, the declining population reduces not only the labour potential and thus the growth potential, but it also boosts the debt load per capita. It is therefore high time to begin with savings in the public budgets.

Sparing use of fiscal policy

With GDP growth of about 2 % this year, we are above the employment threshold of about 1.5 %. In other words, jobs are being created. Although the leading indicators are pointing to a weakening of the economy for next year, but even with growth of around 1.5 % there is not reason for an activist fiscal policy. Keynes already emphasized that an expansionary demand policy is necessary over the short term in the case of a banking crisis in order to escape the investment and liquidity trap. However, the measures should be limited in time so as not to fall into the debt trap. A "simple" cyclical weakening does not immediately call for additional fiscal impulses.

Commentary published in *Die Welt*, 19 June 2010. ■