

DIW Berlin – Department of Forecasting and Economic Policy

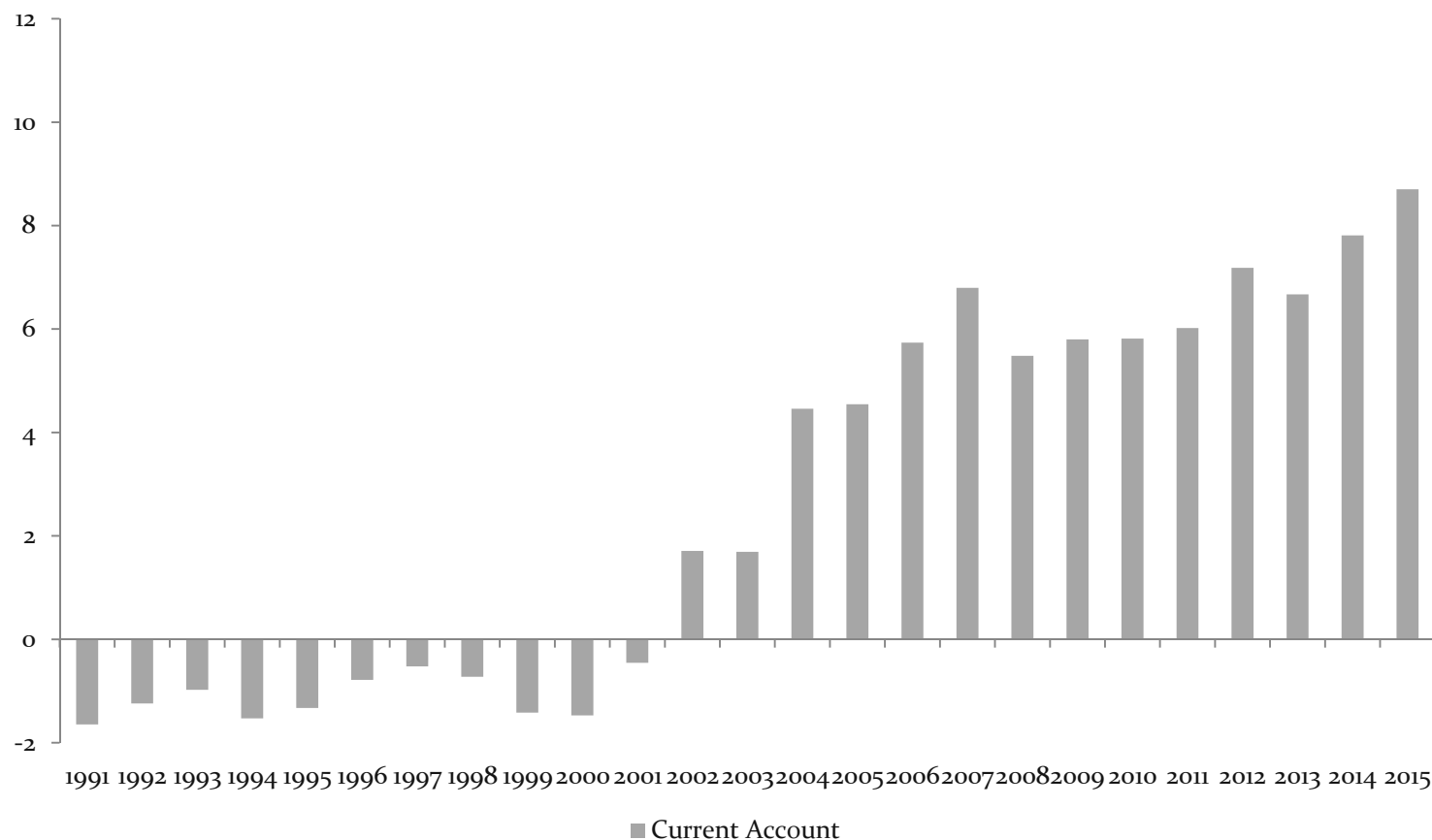
German economy: The current account surplus and the labour market: New challenges?

July, 7th 2016

Simon Junker

Franco-German Conference, 7-8th July 2016, Paris

German current account: huge and increasing



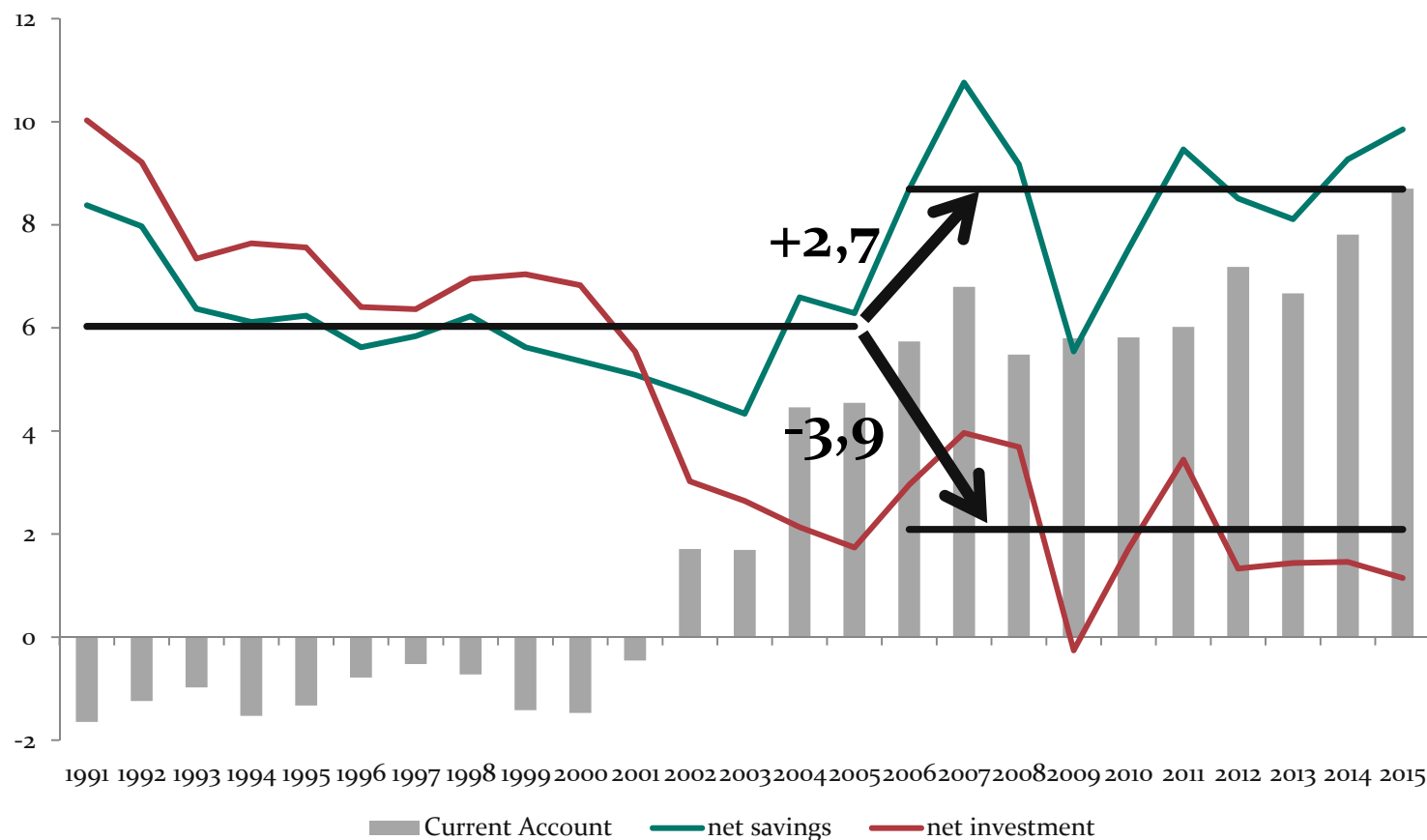
Net financial balance of the German economy in percent of GDP (corresponds to current account except for slight differences in statistical classification). Source: German Federal Statistical Office.

Current account – split into savings and investment



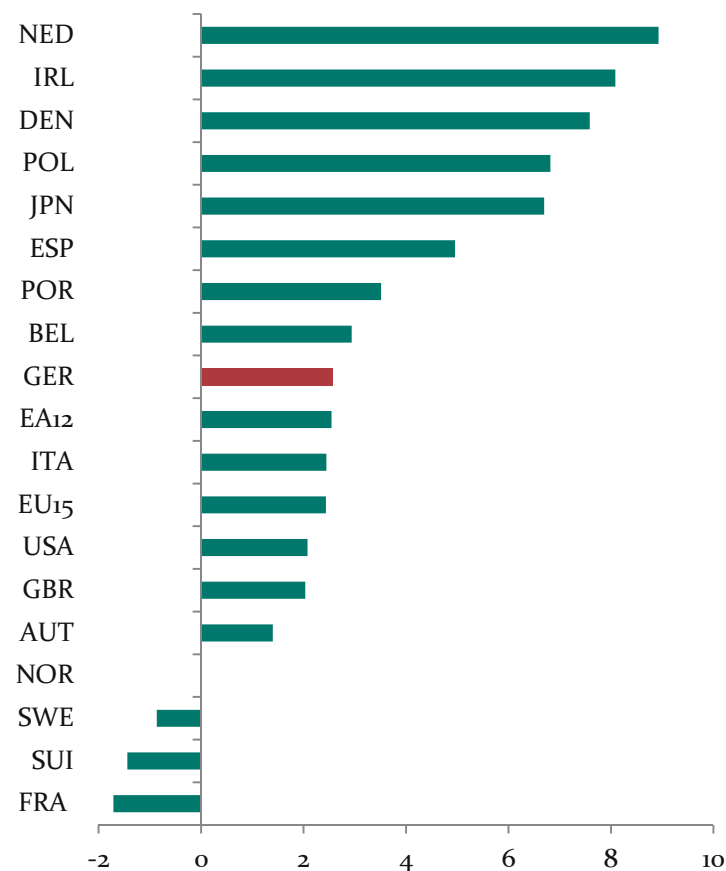
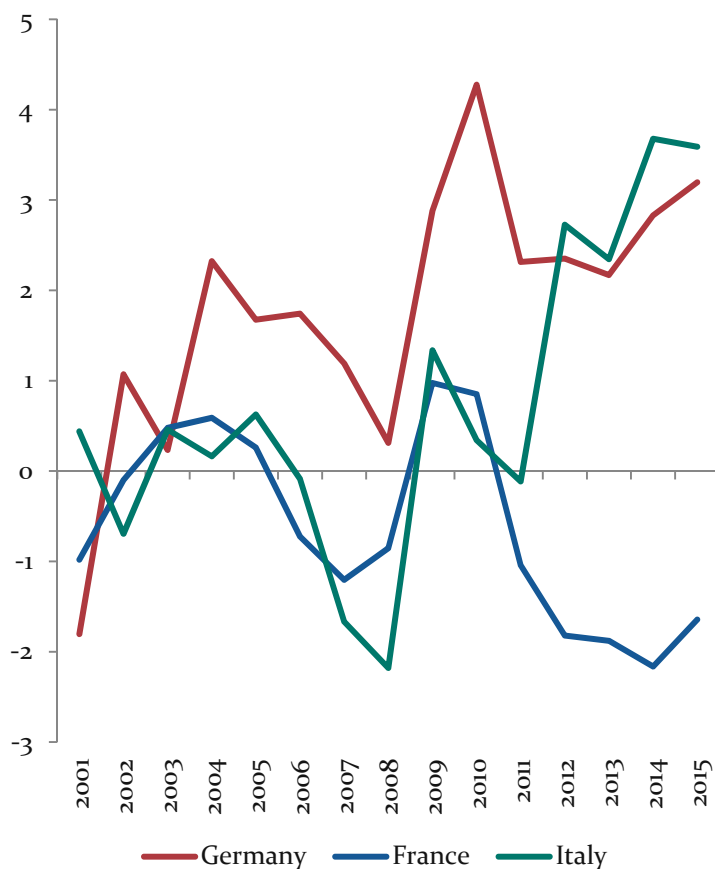
Net investment/savings and balance of the German economy, in percent of GDP.

Weak investment drives German current account surplus



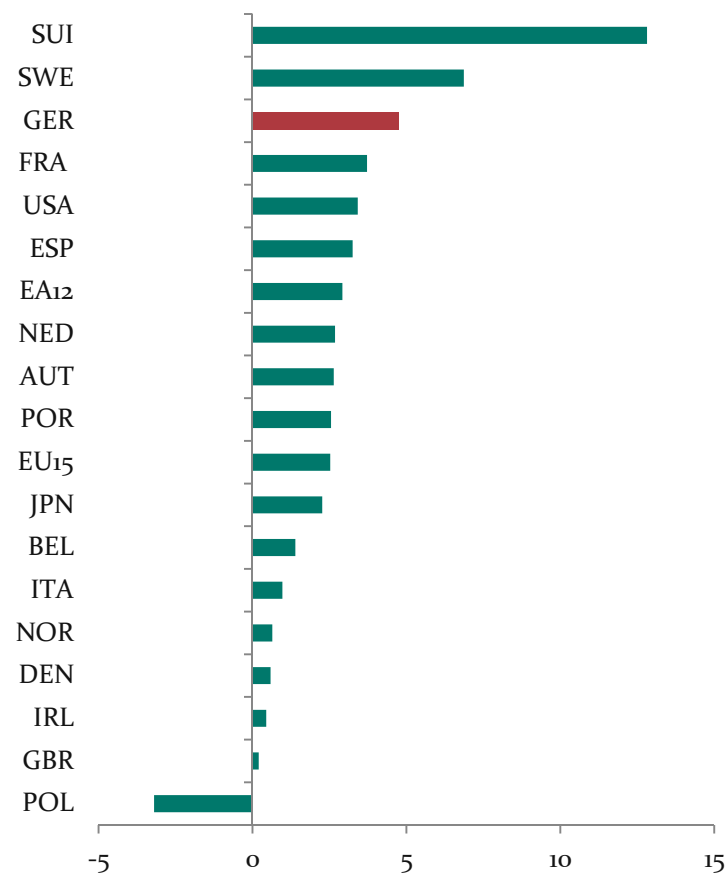
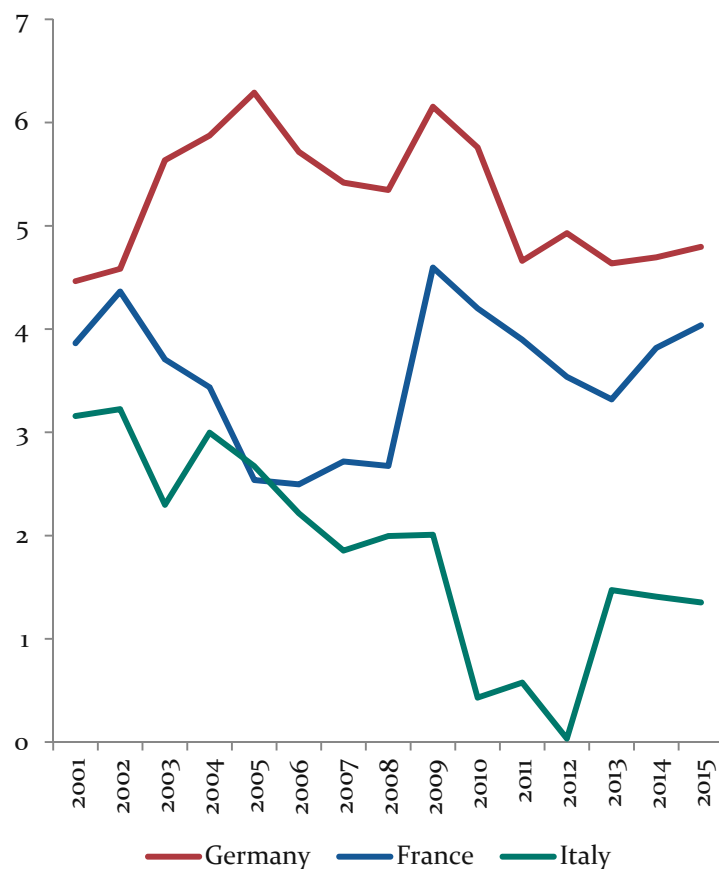
Net investment/savings and balance of the German economy, in percent of GDP; horizontal lines indicate period averages.

Positive firm balances across many countries



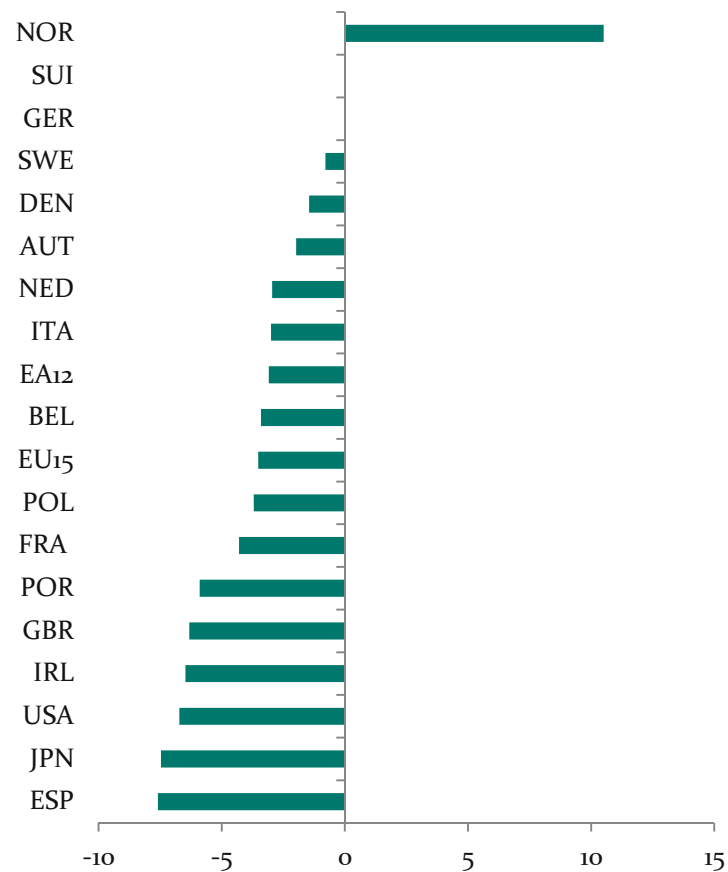
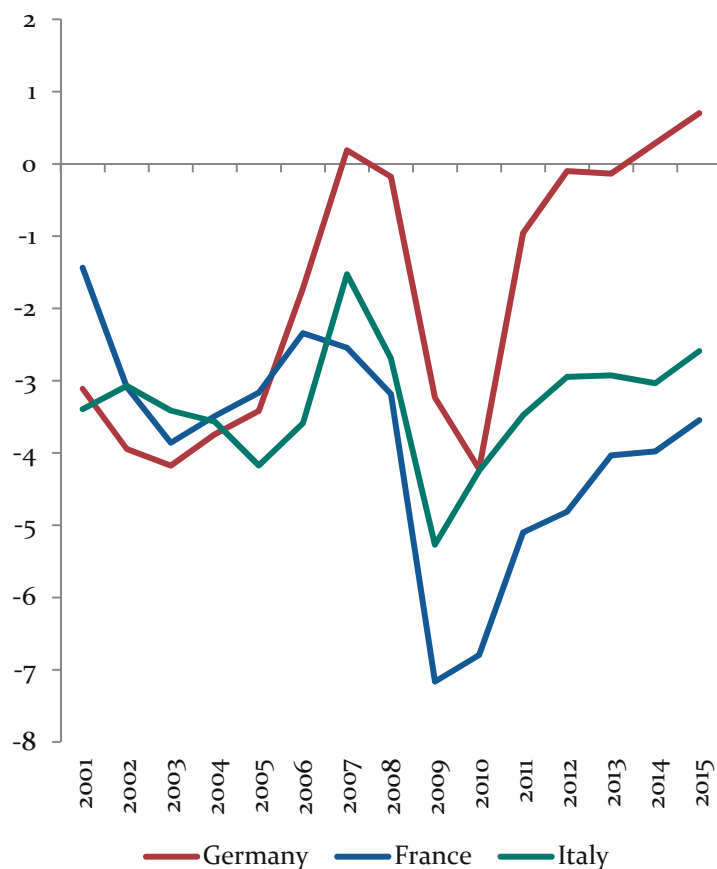
Left: Net financial balances of the corporate sector in selected countries (in percent of GDP); source: AMECO.
 Right: Corresponding country averages over 2011-15.

German households' balance amongst the highest



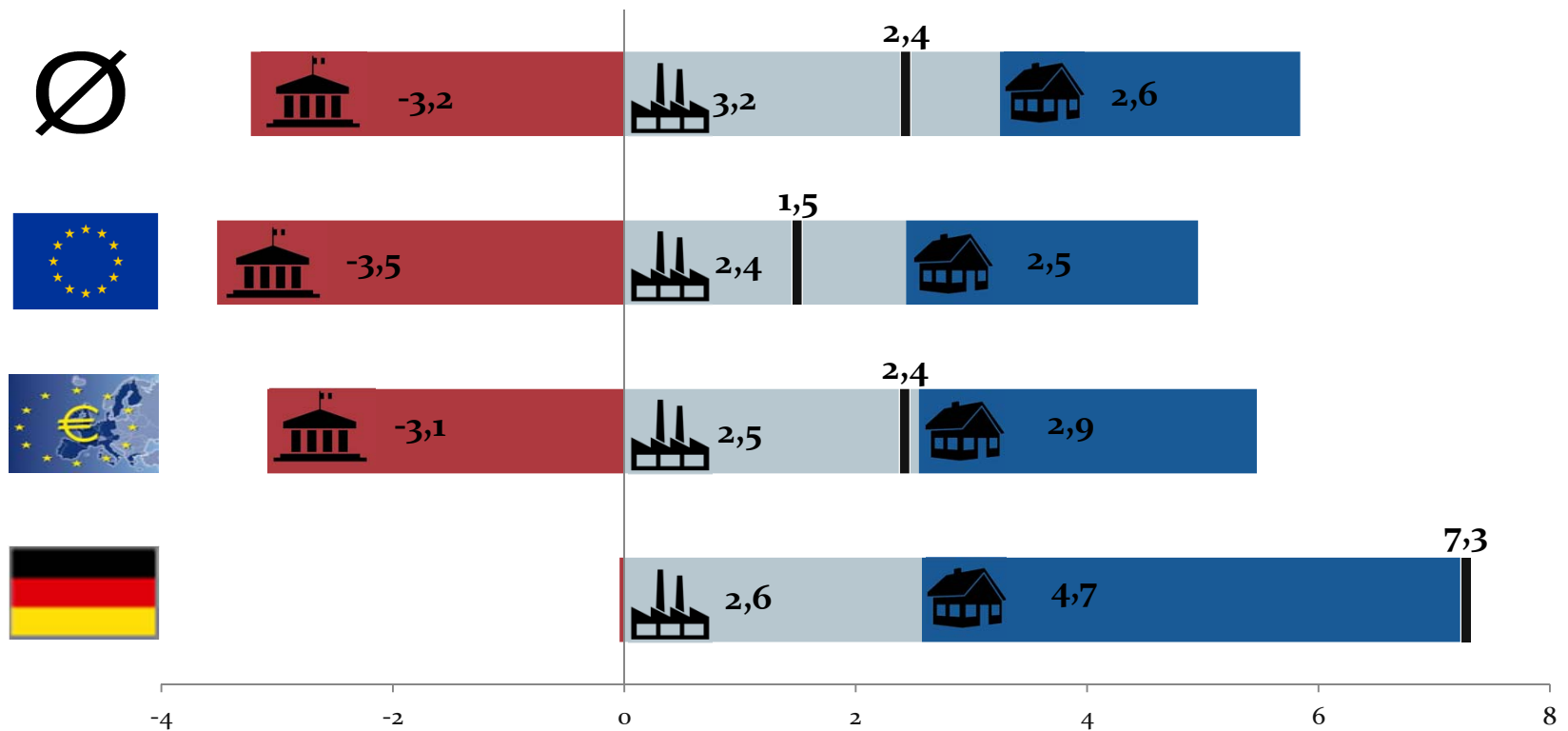
Left: Net financial balances of the household sector in selected countries (in percent of GDP); source: AMECO.
 Right: Corresponding country averages over 2011-15.

Public deficits remain high – for now



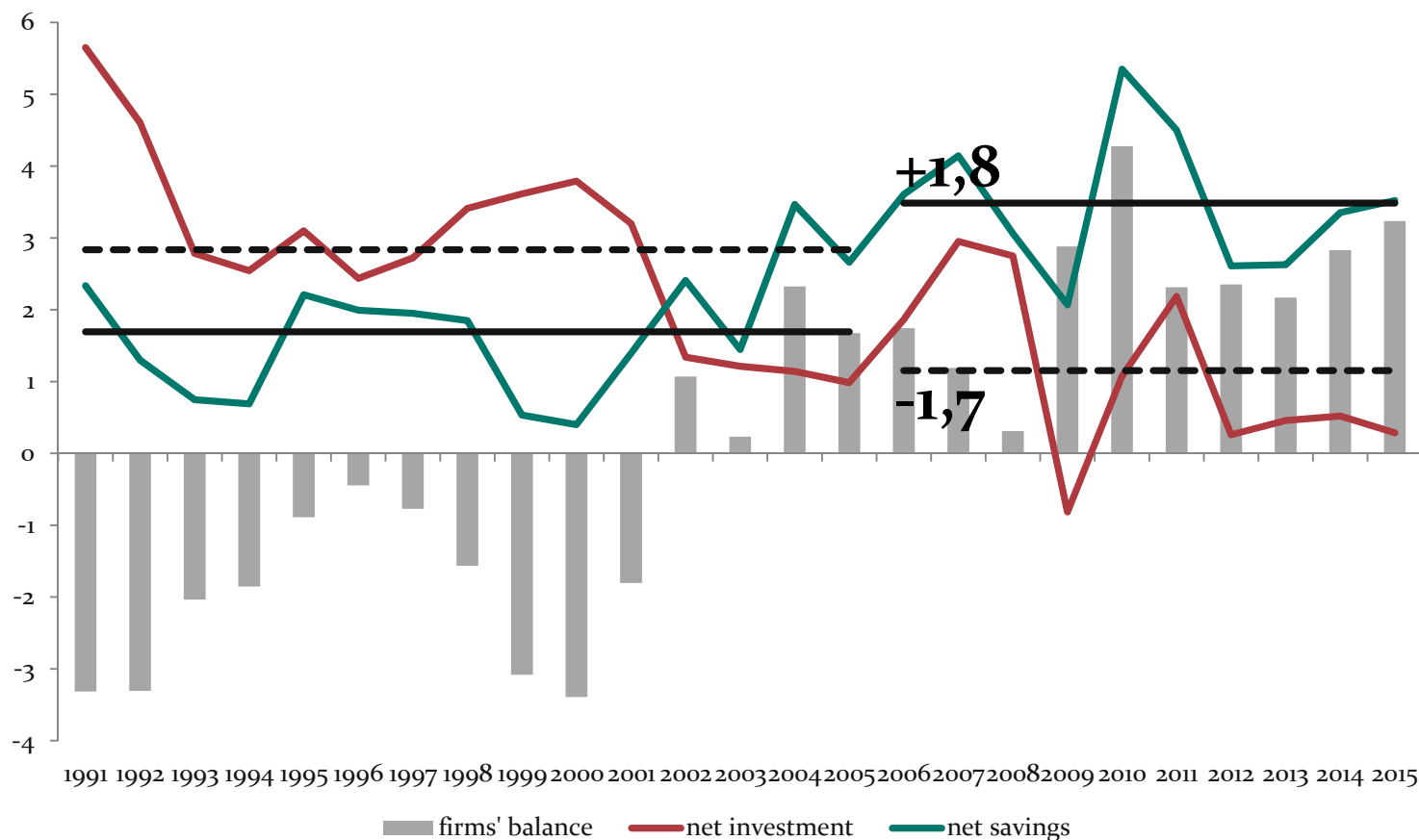
Left: Net financial balances of the public sector („deficit“ if negative) in selected countries (in percent of GDP); source: AMECO.
 Right: Corresponding country averages over 2011-15.

„Typical“ current account 5-5½ % (except for public debt)



Sectoral financial balances; cross country average for 18 countries listed above (except Germany), EU, Euro area and Germany.

Firms refrain from investing – despite improving finances

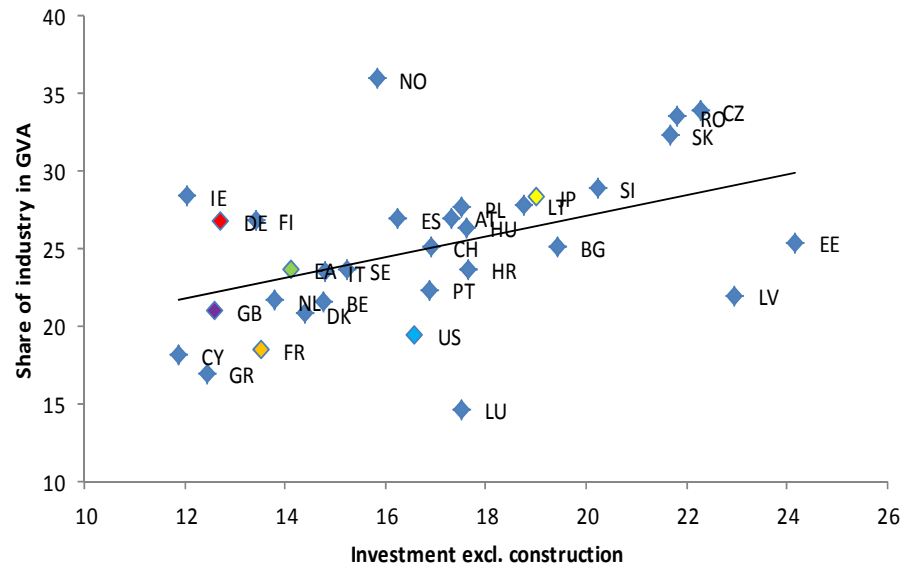


Net investment/savings and balance of German corporations, in percent of GDP; lines indicate period averages.

German investment weakness

Industry share vs. investment in equipment & machinery

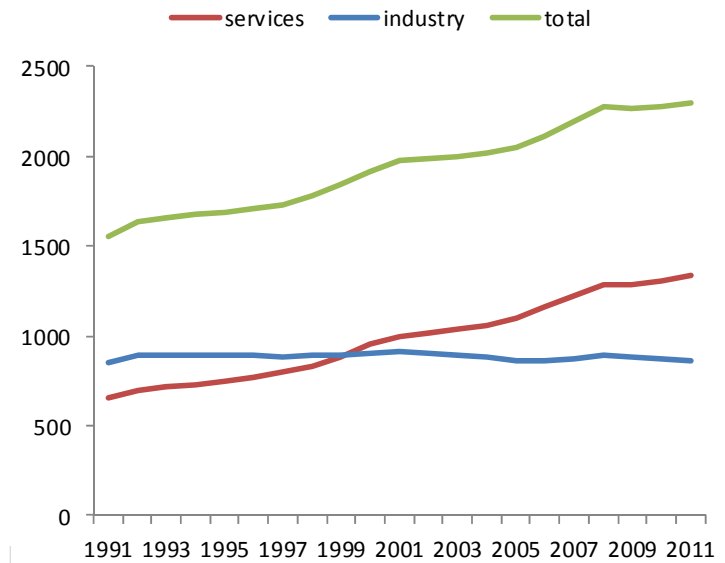
Average share of industry in total value added, Fixed investment excl. construction 1991-2013



Source: DIW Berlin

Real net physical capital stock

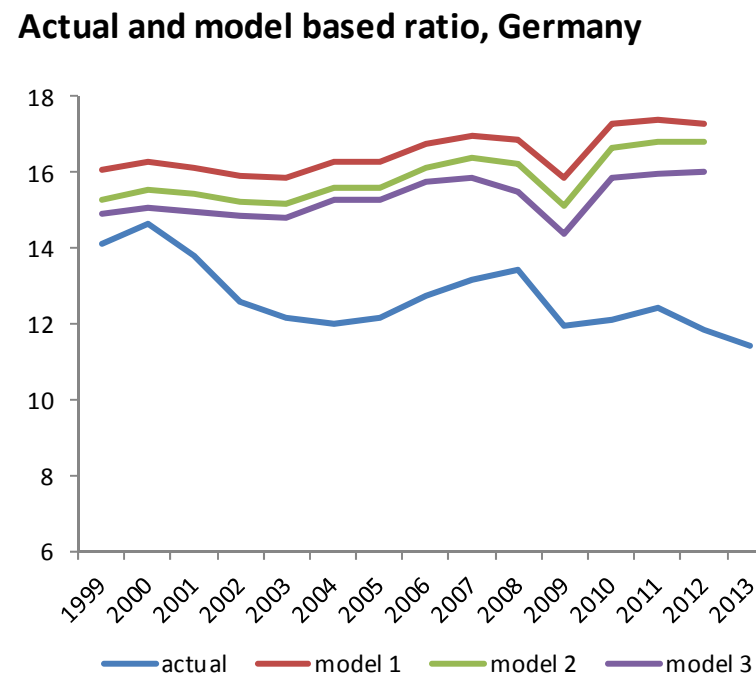
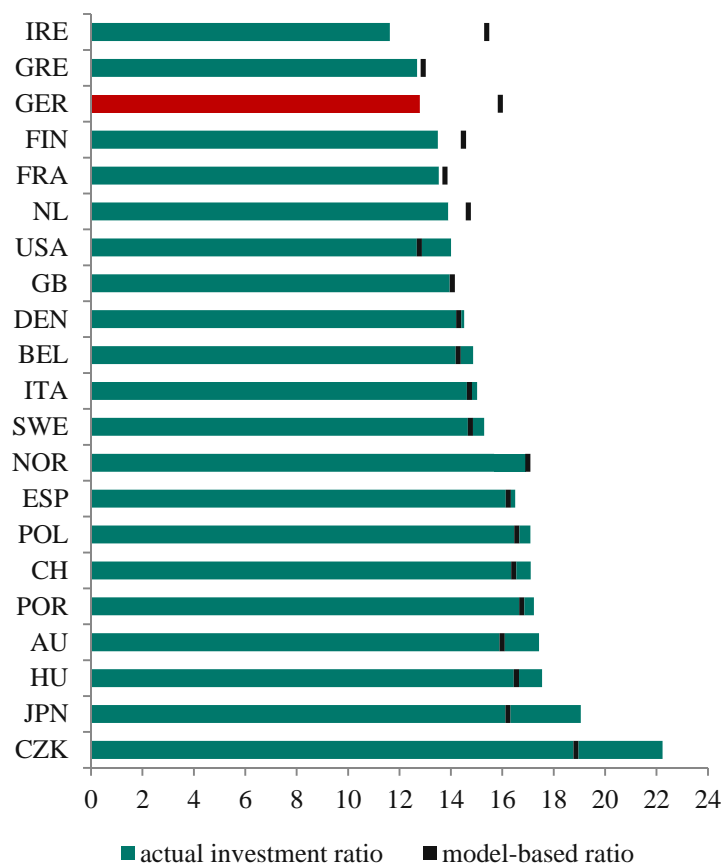
Equipment & machinery, in bln EUR, 1991-2011, 2005=100



Source: Destatis

- Given its high industry share, Germany should invest more
- Physical capital stock stagnates, in industry, it even declines

Panel regressions support weak investment hypothesis



Source: DIW

- Models accounting for country specifics imply: Germany should invest more
- Investment weakness persists for more than a decade

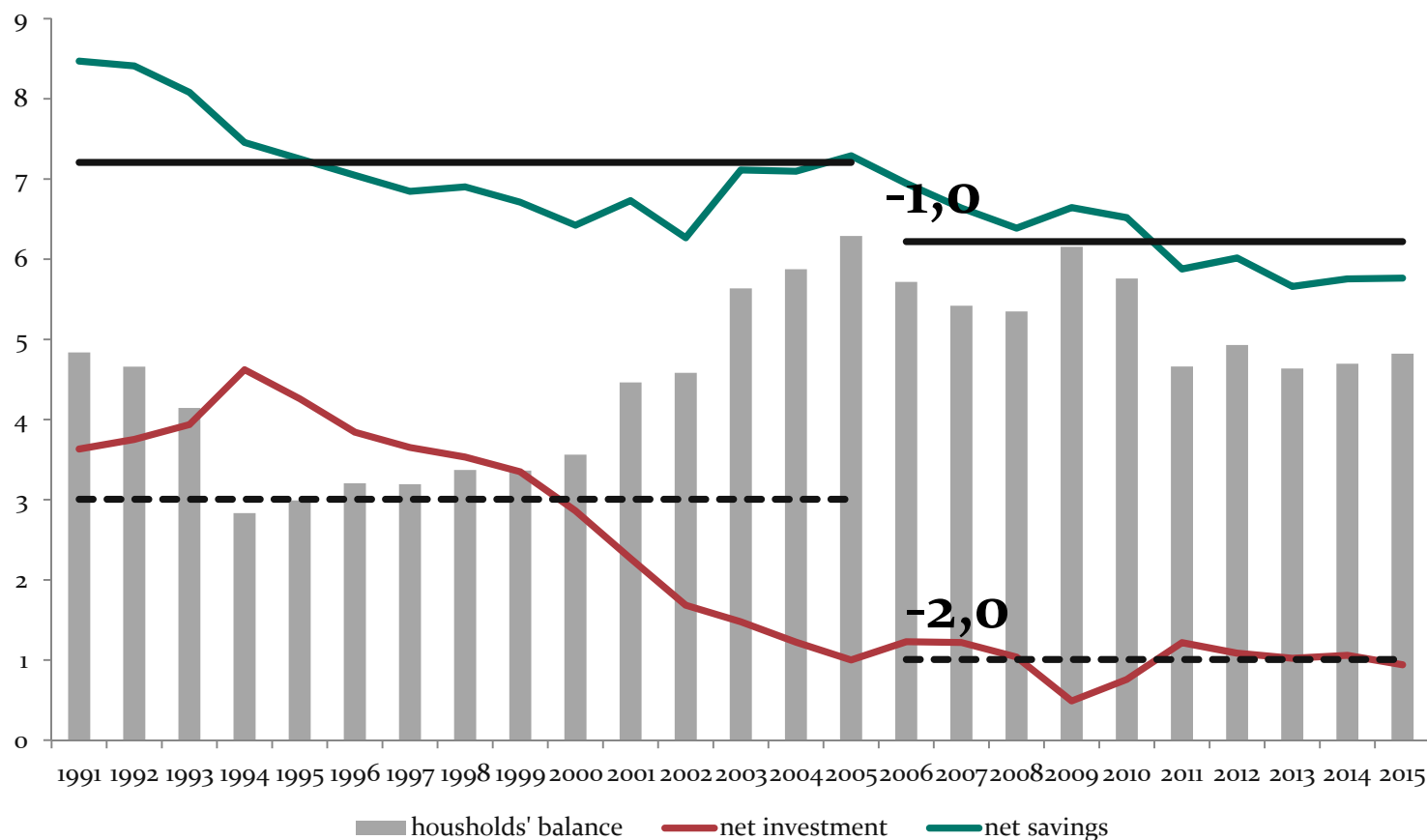
Weak business investment requires action

- Globalization justifies surplus, still: investment too weak
- Improve business conditions, e.g. warrant projectable costs (energy change)
- Provide (tax) incentives (degressive depreciation scheme)
- Surveys indicate shortage of skilled workers; foster labor market participation

——— (selected) literature ———

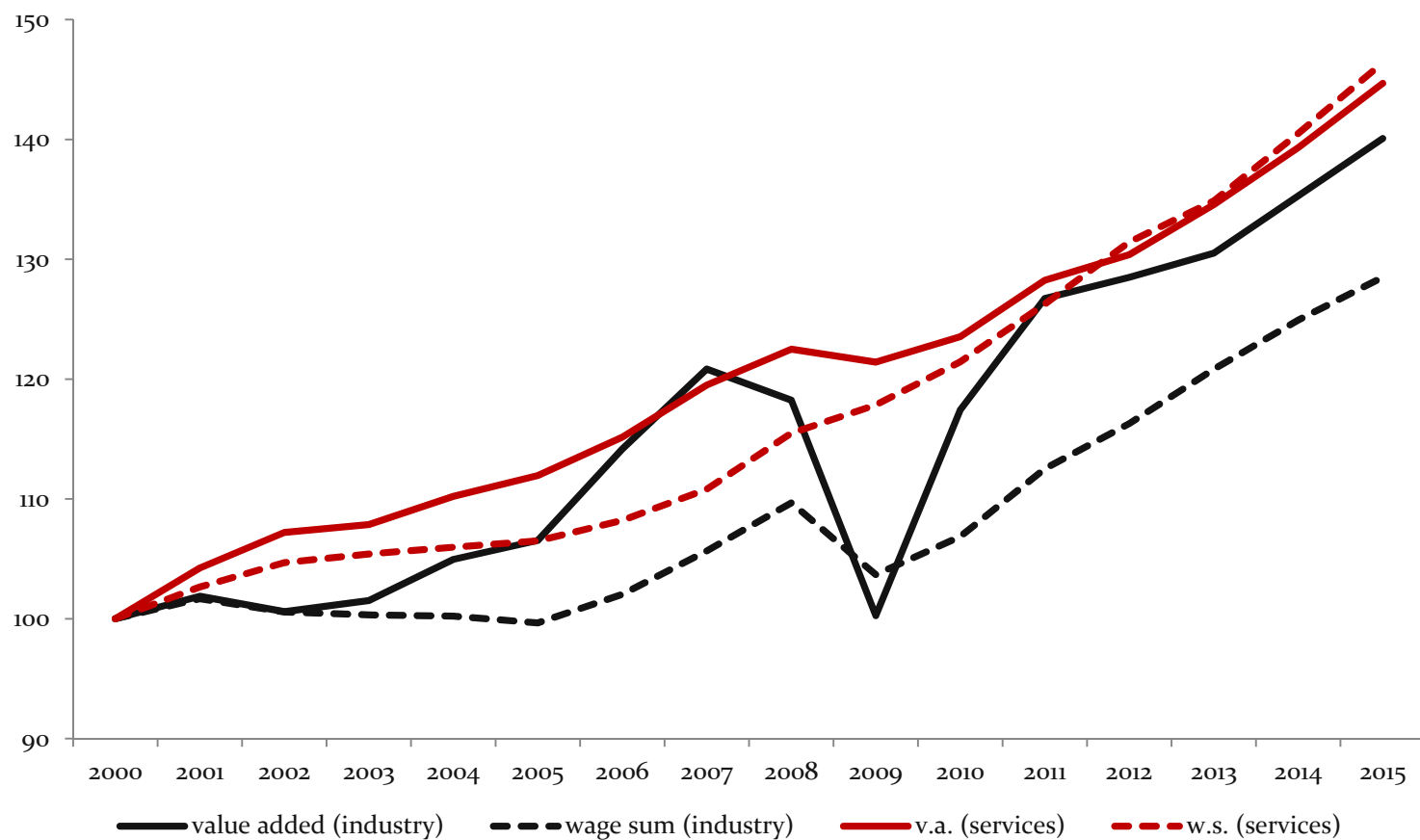
- on **investment weakness**: ▶ Fratzscher/Gornig/Schiersch, DIW EB 15 / 2016: Weak Corporate Investment Requires Immediate Action; ▶ Fratzscher et al., DIW 27 / 2014: „Wirtschaftliche Impulse für Europa“; ▶ Fratzscher et al., DIW WB 26 / 2013: „Investitionen für mehr Wachstum – eine Zukunftsagenda für Deutschland“; ▶ Belitz/Fichtner/Gornig/Heilmann/Junker/Michelsen/Schiersch (2014): „Studie im Auftrag des Gemeinschaftsausschuss der Deutschen Gewerblichen Wirtschaft: Private Investitionen in Deutschland“
- on **child-care**: ▶ Schober/Spieß, DIW WB 21 / 2014: „Die Kita-Qualität ist für das Erwerbsverhalten von Müttern mit Kleinkindern relevant“
- on **marital tax splitting**: ▶ Bonin/Fichtl/Rainer/Spieß/Stichnoth/Wrohlich, DIW WB 40 / 2013: „Zentrale Resultate der Gesamtevaluation familienbezogener Leistungen“

Surplus of German households relatively high



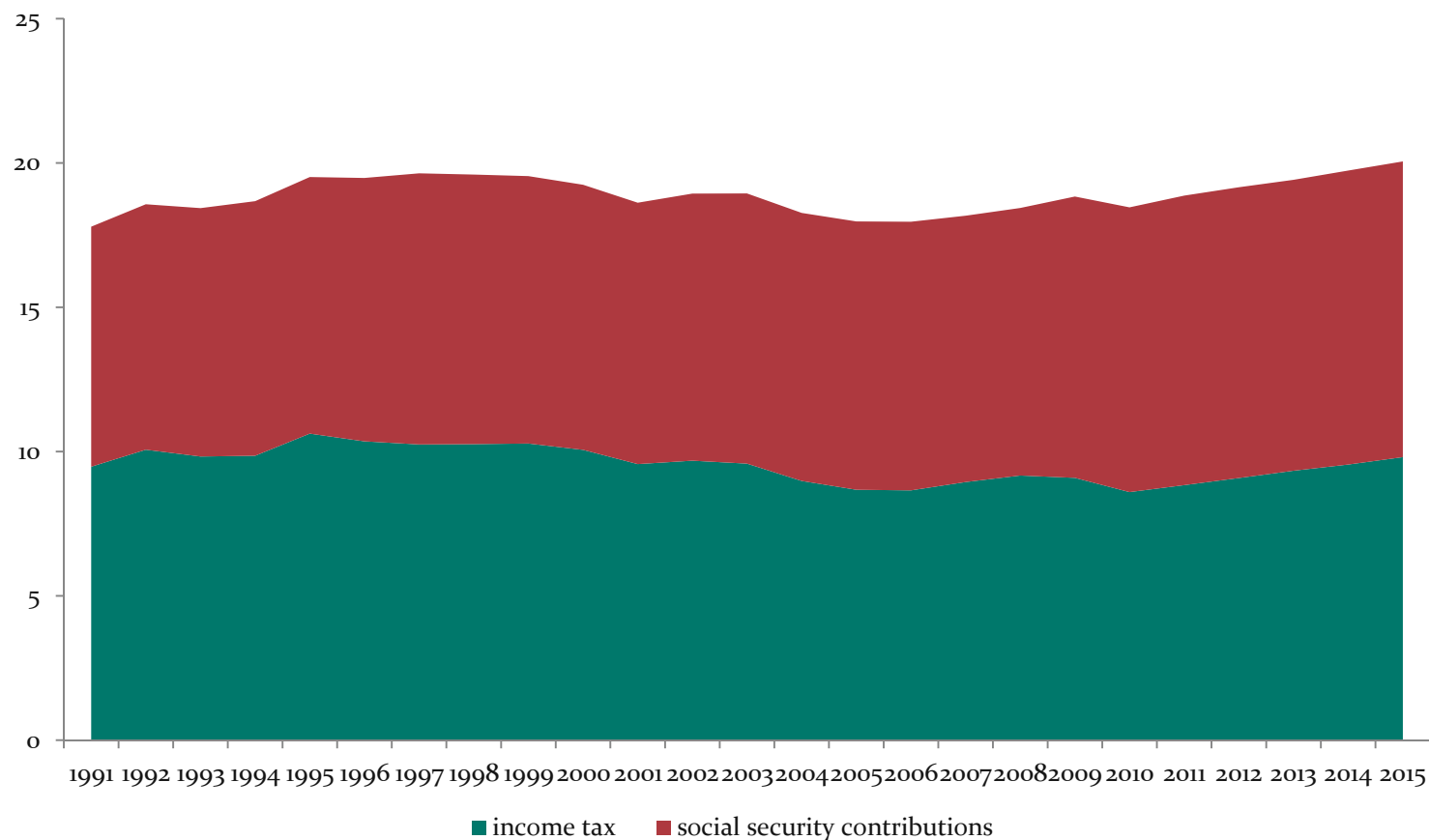
Net investment/savings and balance of German households, in percent of GDP; lines indicate period averages.

Industry wages relatively weak



Nominal value added and wage sum (including social contribution payments), 2000 = 100.

Transfers are quite high



Household income tax plus social security contributions by employees in relation to household primary income

Spur dynamics of households' wage income

- Unequal income distribution may weigh on consumption: savings are high, but households don't participate in growth equally. Low income households have low savings rate
- Higher income for low and middle income households could boost consumption
- Dynamics of disposable income could be higher, in particular wage income
- Higher gross wage growth (in particular in industry)
- Higher net wage growth: government benefited from transfers in recent years
- Adjust cold progression; lower social contribution rates

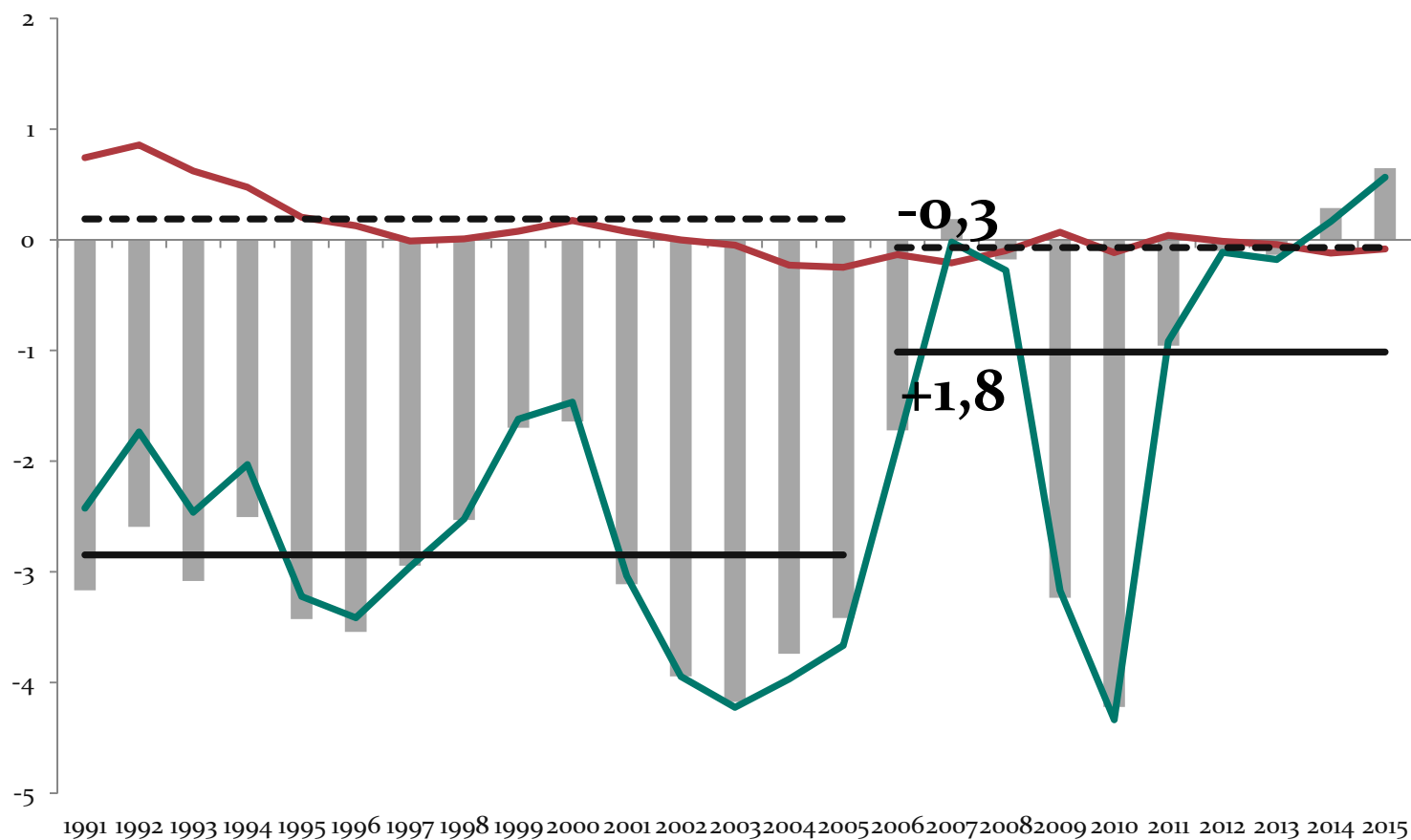
——— (selected) literature ———

on **gross wages**: ▶ Brenke, DIW WB 33 / 2014: „Sektorale Lohnentwicklung: der Schlüssel zu stärkeren Lohnsteigerungen liegt in der Industrie“

on **social contribution rates**: ▶ van Deuverden, DIW WB 26 / 2015: „Finanzpolitik: der richtige Mix von Steuern und Sozialabgaben hat Priorität!“

on **inequality/consumption nexus**: ▶ Fichtner/Junker/Schwäbe, DIW EB 7 / 2012: “Income Distribution: An Important Factor for Economic Forecasts.”

Public finances: net disinvestment despite surplus



Net investment/savings and balance of the German public sector, in percent of GDP; lines indicate period averages.

Use public surplus

- Use surplus: improve business conditions (e.g. degressive depreciation scheme)
- ...invest in public infrastructure (complimentary to private investment: leverage)
- ...invest in digital infrastructure
- ...invest in education
- ...boost household income (possibly focus on low/middle income groups)

——— *(selected) literature* ———

on **low public investment**: ▶ Gornig/Michelsen/van Deuverden, DIW EB 42/43 / 2015:
“Local Public Infrastructure Showing Signs of Wear and Tear”

on **public/private investment nexus**: ▶ Dreger/Reimers, DIW 18 / 2016: „Welcher
Zusammenhang besteht zwischen öffentlichen und privaten Investitionen?“

Vielen Dank für Ihre Aufmerksamkeit.
Thank you for your attention.



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