

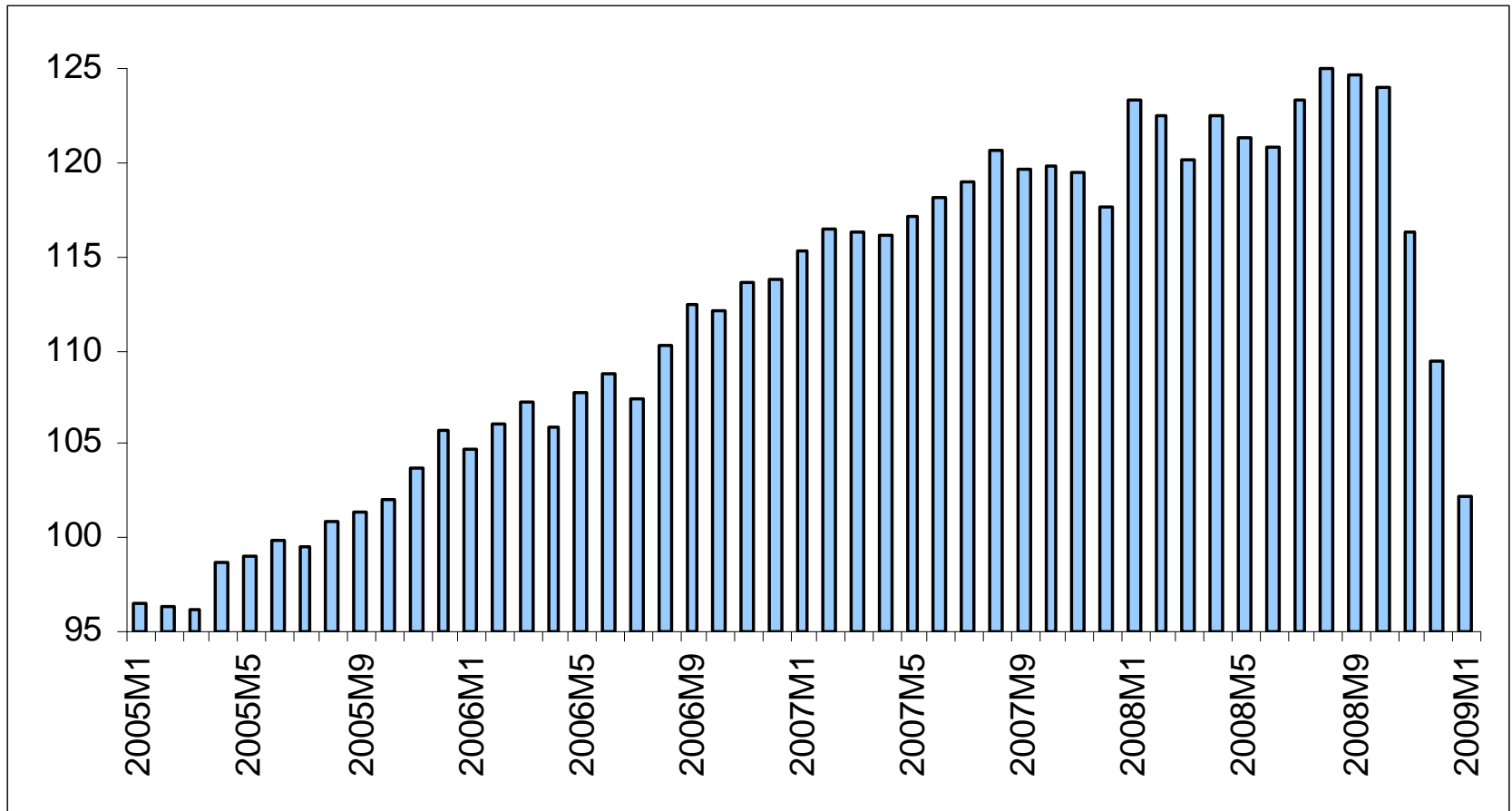
# Economic forecasts for the European economy

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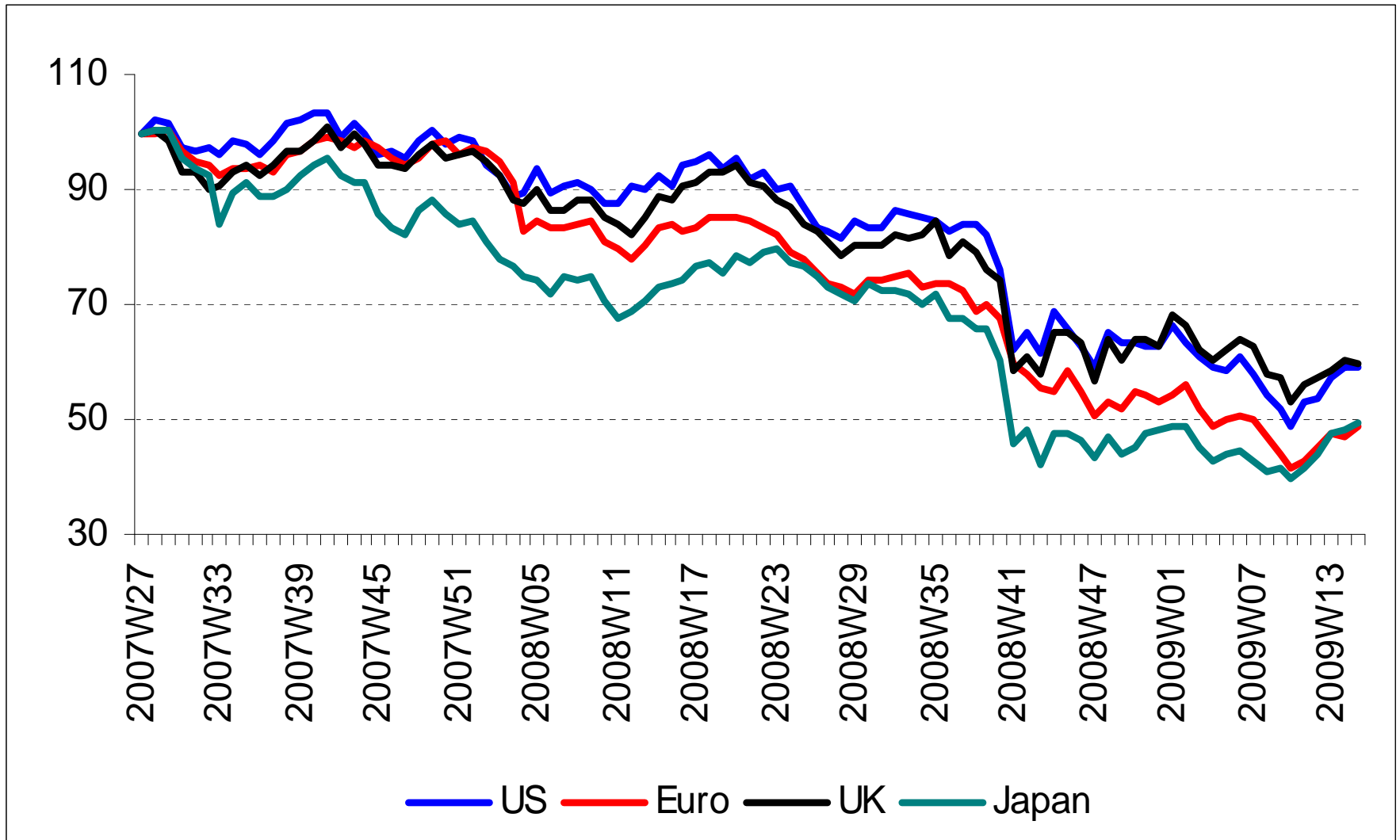
# Worldwide recession

- Rapid decline of GDP in all major regions of world economy
  - Probably huge impact of financial turmoil on real economic development
  - No decoupling of emerging markets from evolution in advanced economies
- Clustering of negative shocks unparalleled in recent past
  - Cyclical downswing started in 2007/8
  - Structural crises in key economic sectors, automotive
  - Expectations spillovers, investment plans postponed

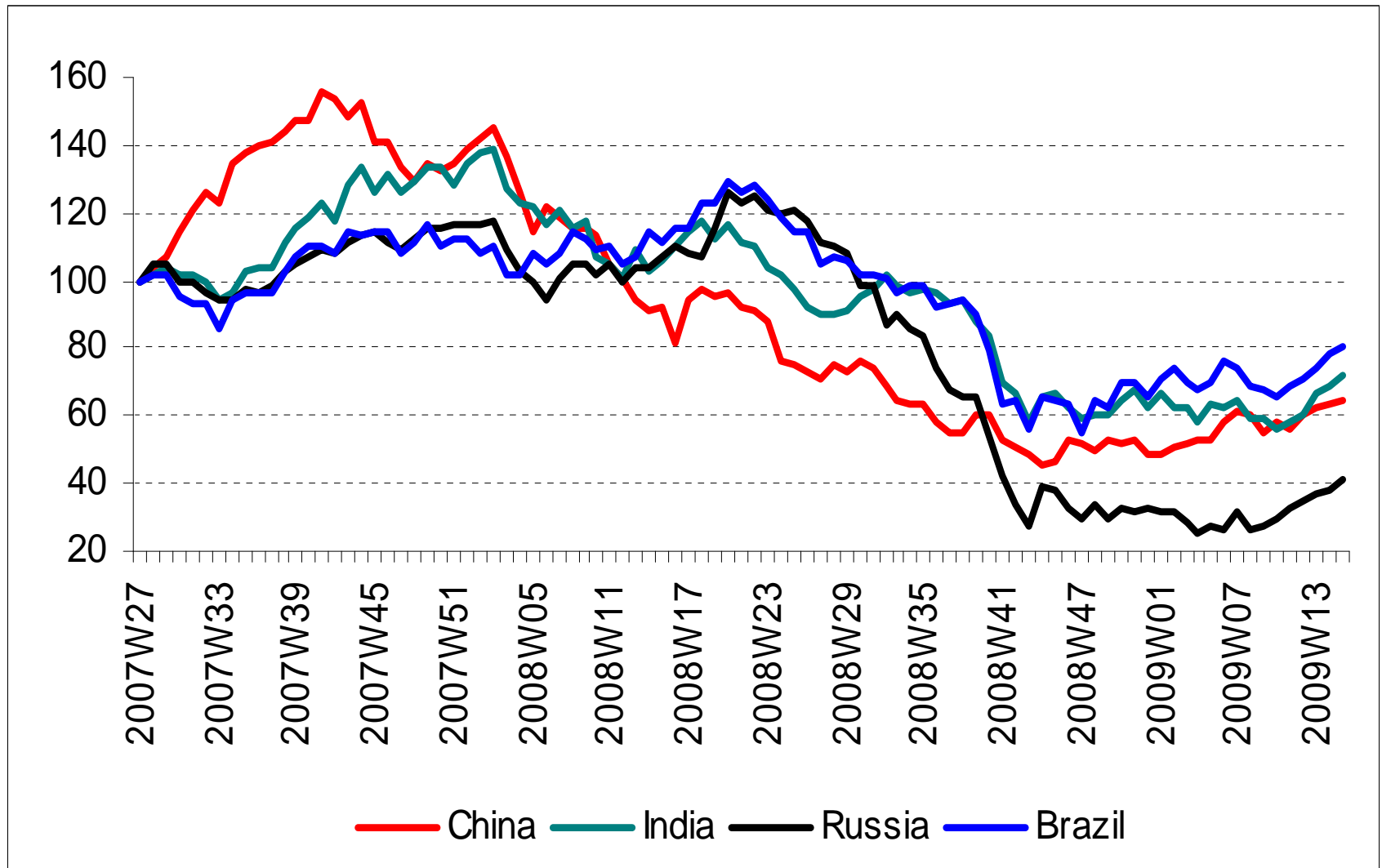
# Collapse of world trade



# Decline in share prices (ICs)



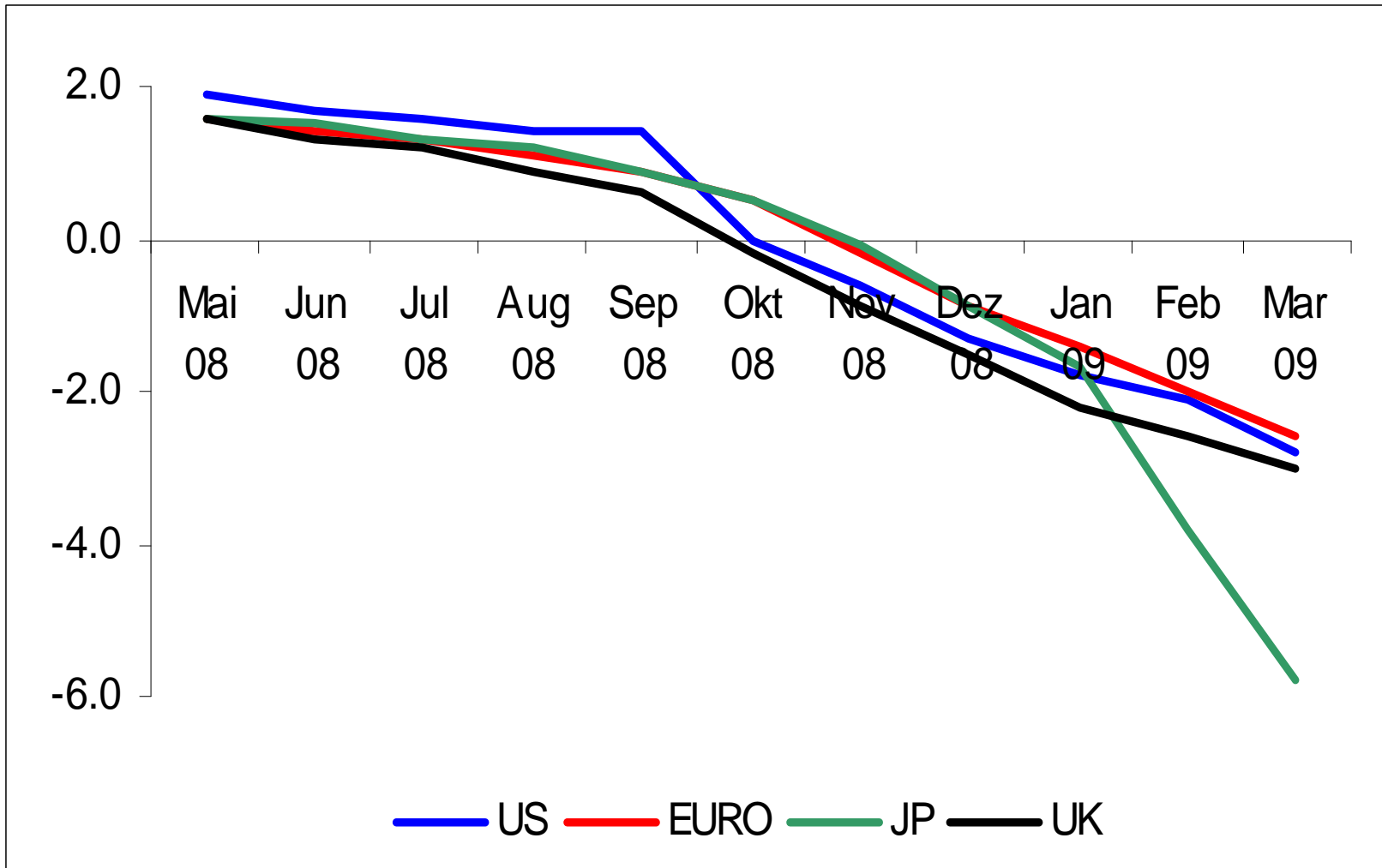
# Decline in share prices (EMs)



# Crisis of forecasting

- Magnitude and simultaneity of recession not expected from standard models
  - Huge uncertainty on drivers of development
  - Lack of tough evidence to predict turning points
- Forecast revisions to integrate actual figures
  - Forecasts provide no robust information
  - Herding behaviour, low bandwidth of forecasts
  - Deterioration of negative expectations
- Crisis examined by tons of papers in years ahead

# Consensus forecasts

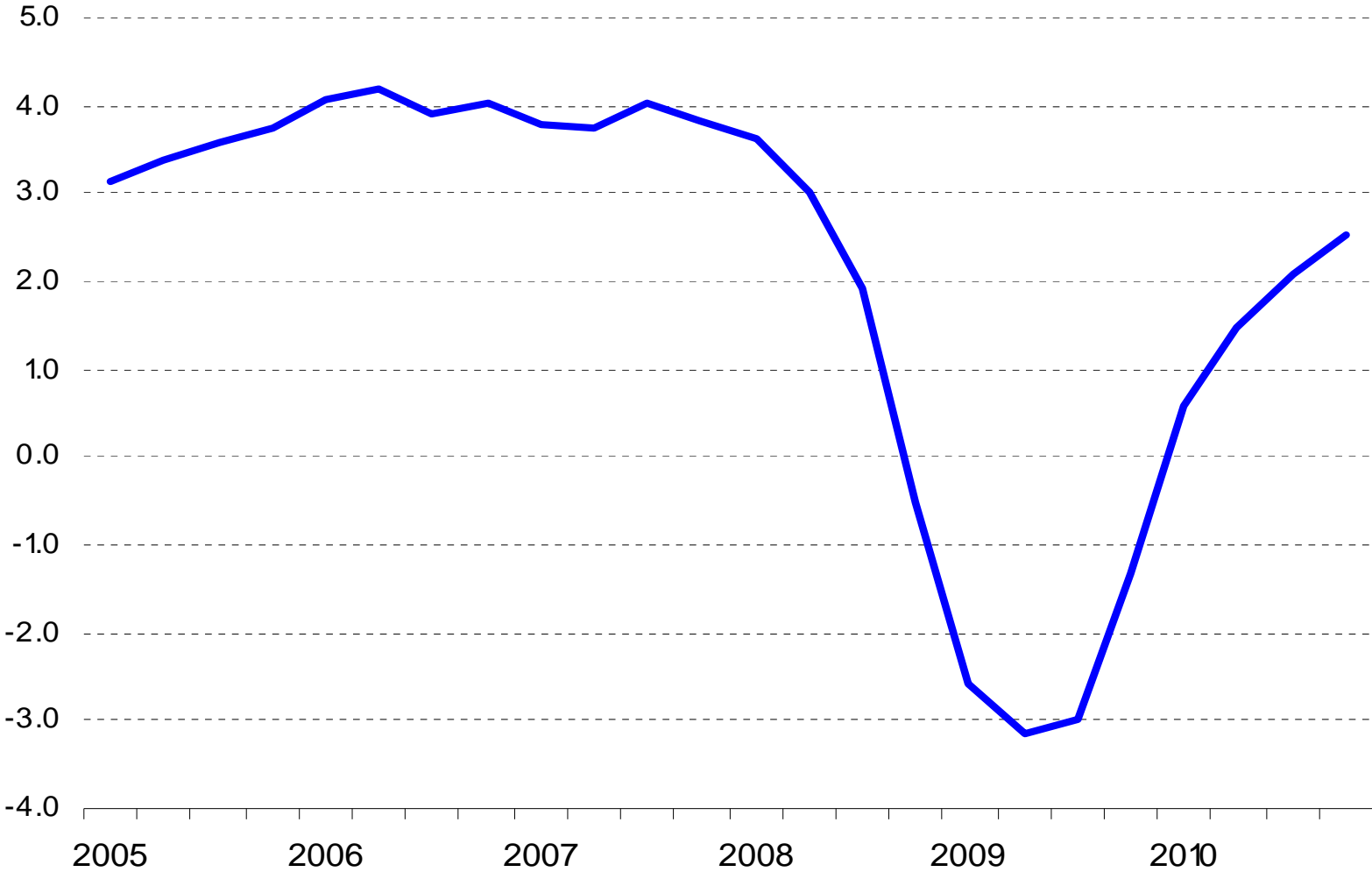


# Outlook 2009/10

- Recovery from recession starting in 2nd half of 2009
  - Asset prices far below fundamental values
  - Low inflation increases purchasing power of households, moderate path of consumption
  - Monetary and fiscal policy measures stimulate
  - Rise in confidence in financial markets; regulation, bad banks for toxic assets
- Deflation for some periods, driven by energy prices



# Global Output (y-o-y)



# World economic growth

	2007	2008	2009
Euro area	2.7	0.7	-3.0
UK	3.0	0.7	-3.5
US	2.0	1.1	-3.7
Japan	2.4	-0.7	-6.7
Russia	8.1	5.6	-2.5
China	13.0	9.0	5.7
India	9.0	6.0	4.3

# Driving forces in the US

- Huge decline in private consumption, residential construction, business investment
- Unemployment almost doubled since the break-out of the crisis
- Consumer confidence at all time lows
- Most indicators point to further slowdown
  - New car registrations, housing starts improved from very low levels
- Impact of fiscal packages is modest
  - Pre-crisis development was driven by speculative bubbles
  - Adjustment processes lead to significant leakages
- Modest growth over the next years, mainly driven by net exports

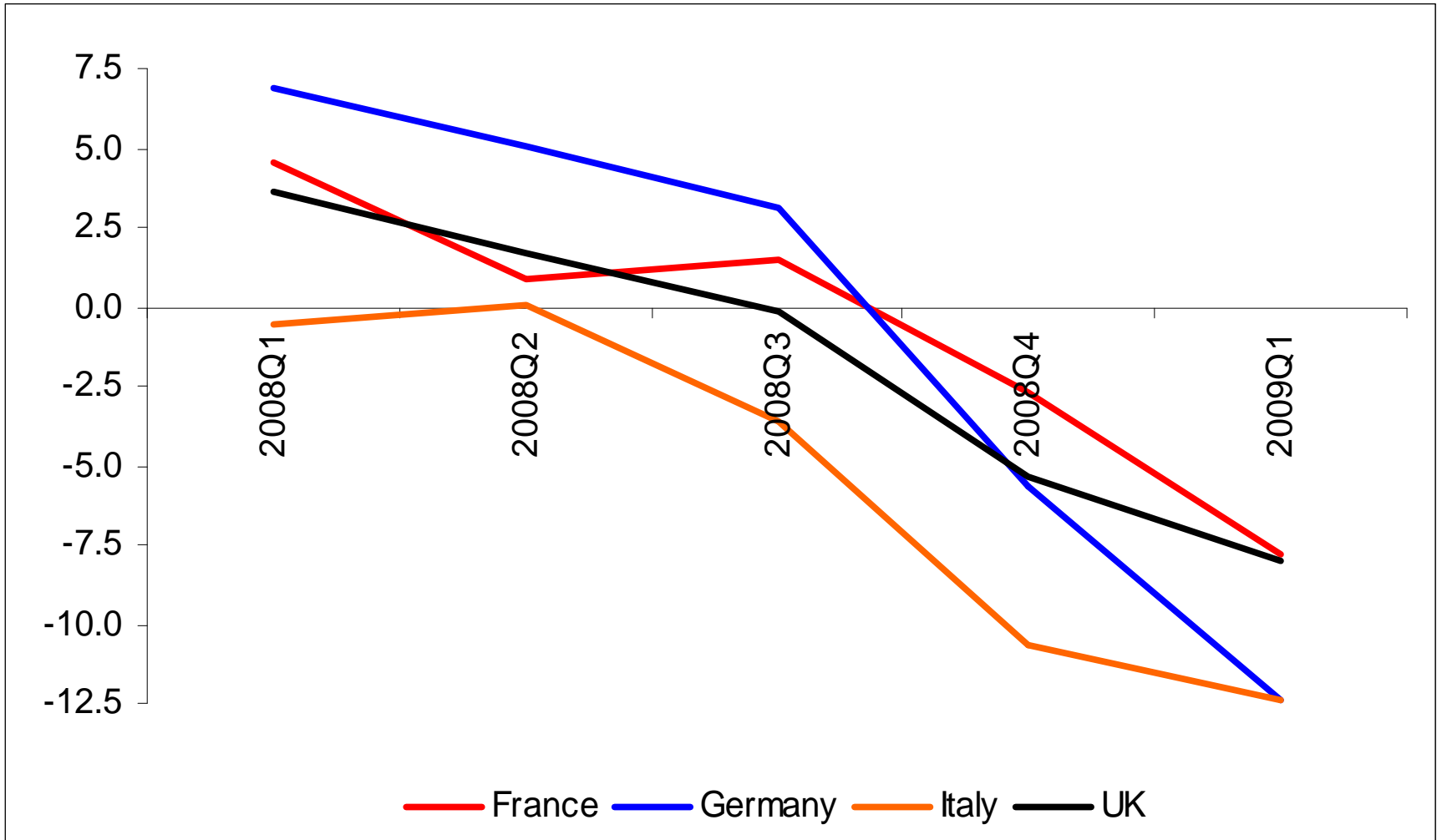
# Driving forces in China

- Growth slowdown, below 8 percent
  - Threshold to avoid unemployment
- Vast decline in world demand
  - Strong export orientation: Export share in GDP 35 percent, 20 percent a decade ago
- Poor financial markets bound domestic demand
  - Savings rates still at 50 percent
- Fiscal stimulus package shifts drivers of growth towards domestic sources
- Package increases imports, stimulating impact on world trade

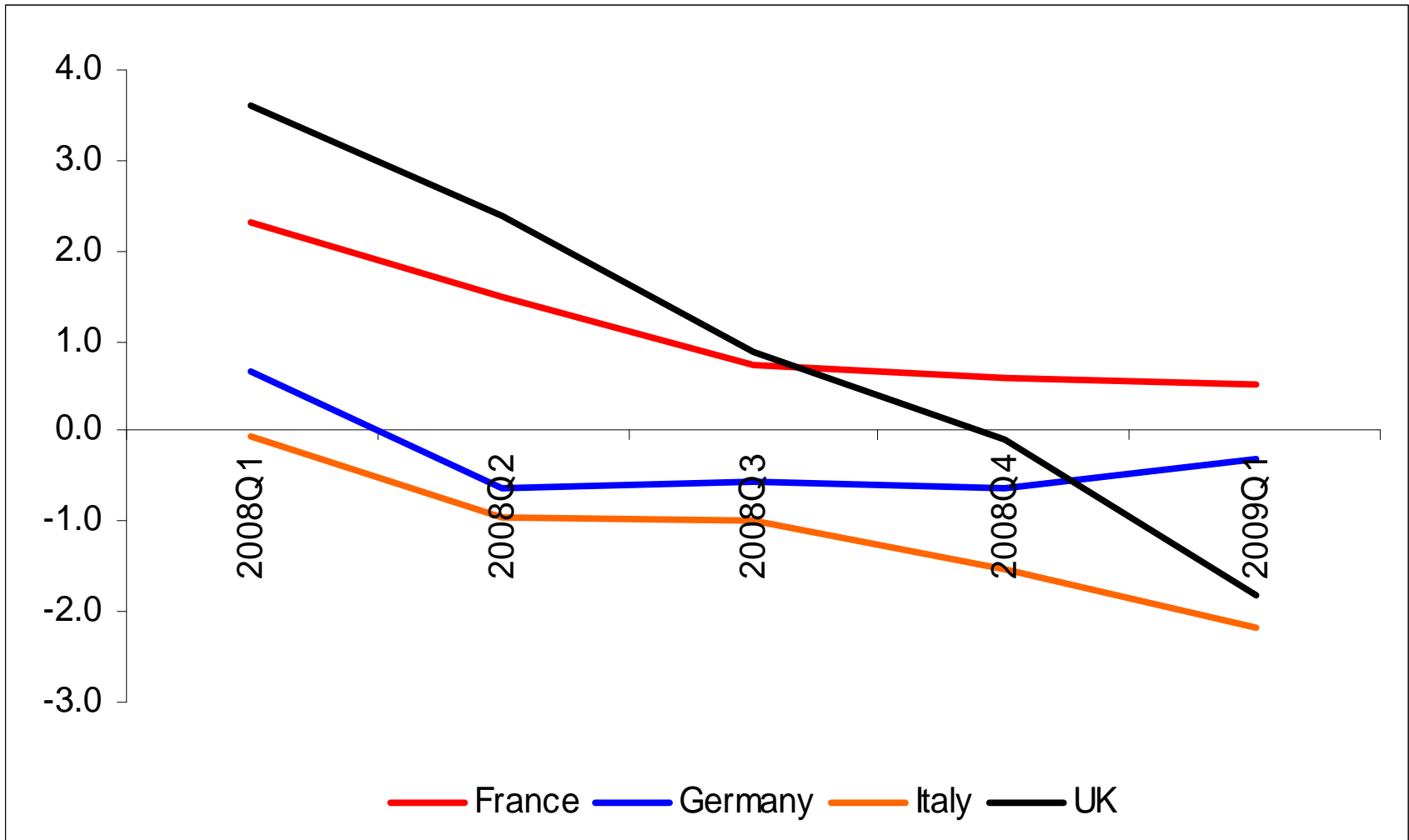
# Driving forces in the euro area

- Euro area strongly affected by the decrease in world demand
  - In Feb, German exports declined by 23 percent on a (y-o-y)-base
- Decline in exports and business investment, but private consumption rather stable
  - Only moderate increase in unemployment
  - Income losses partially compensated by transfers
  - Decline in inflation
- Industrial share declines, services will become more important

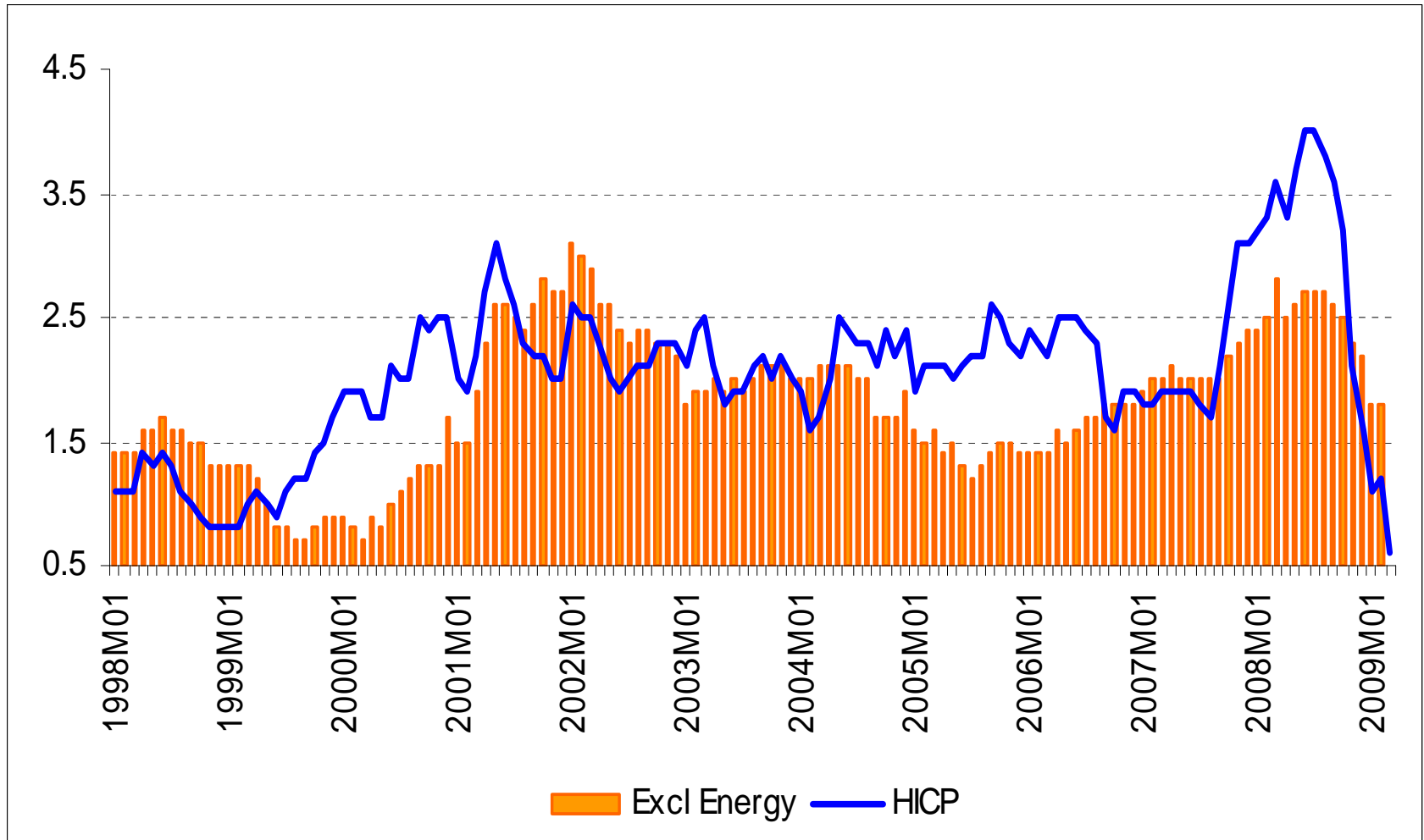
# Sharp slowdown in exports



# Resilience in consumption



# Disinflation, but no deflation

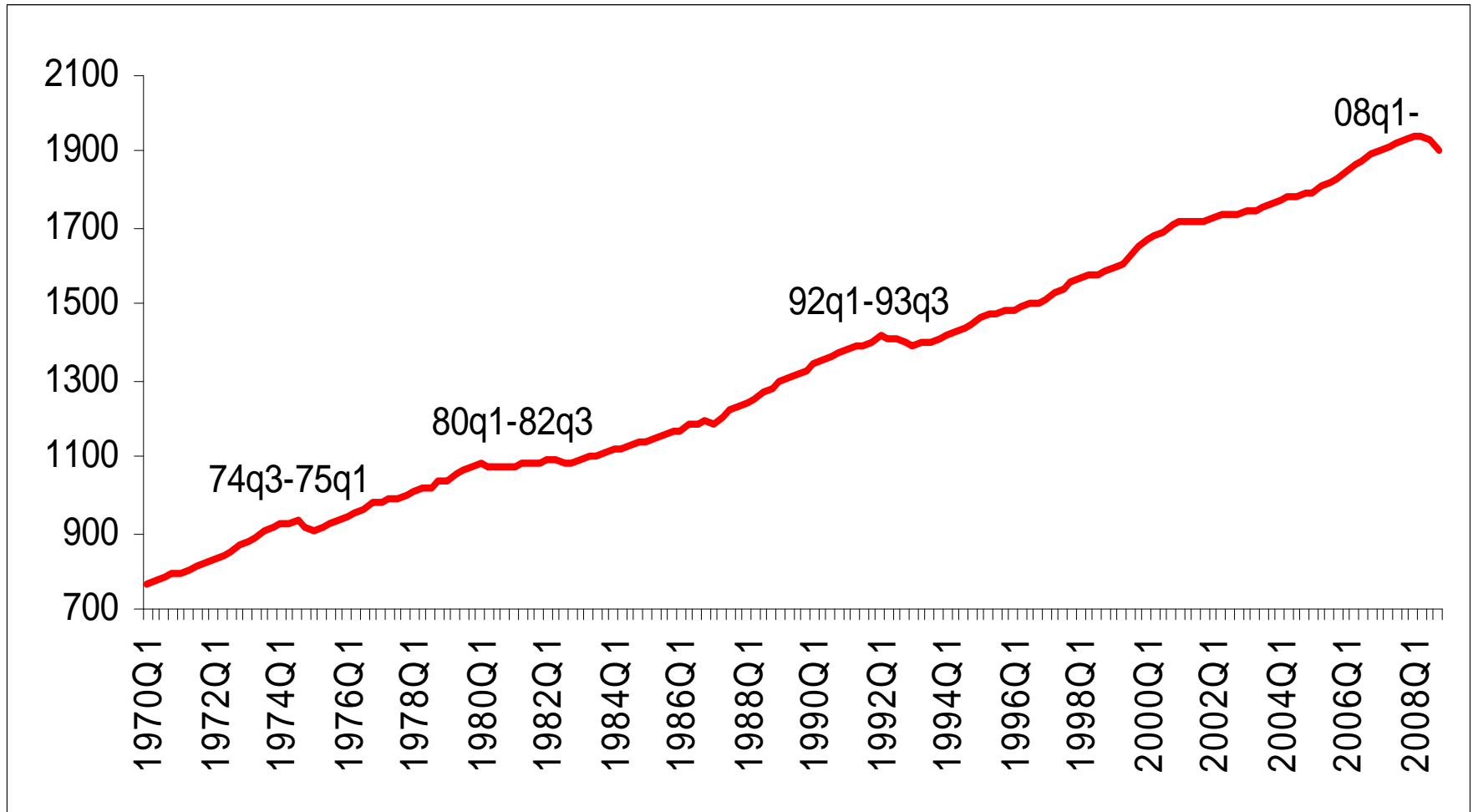




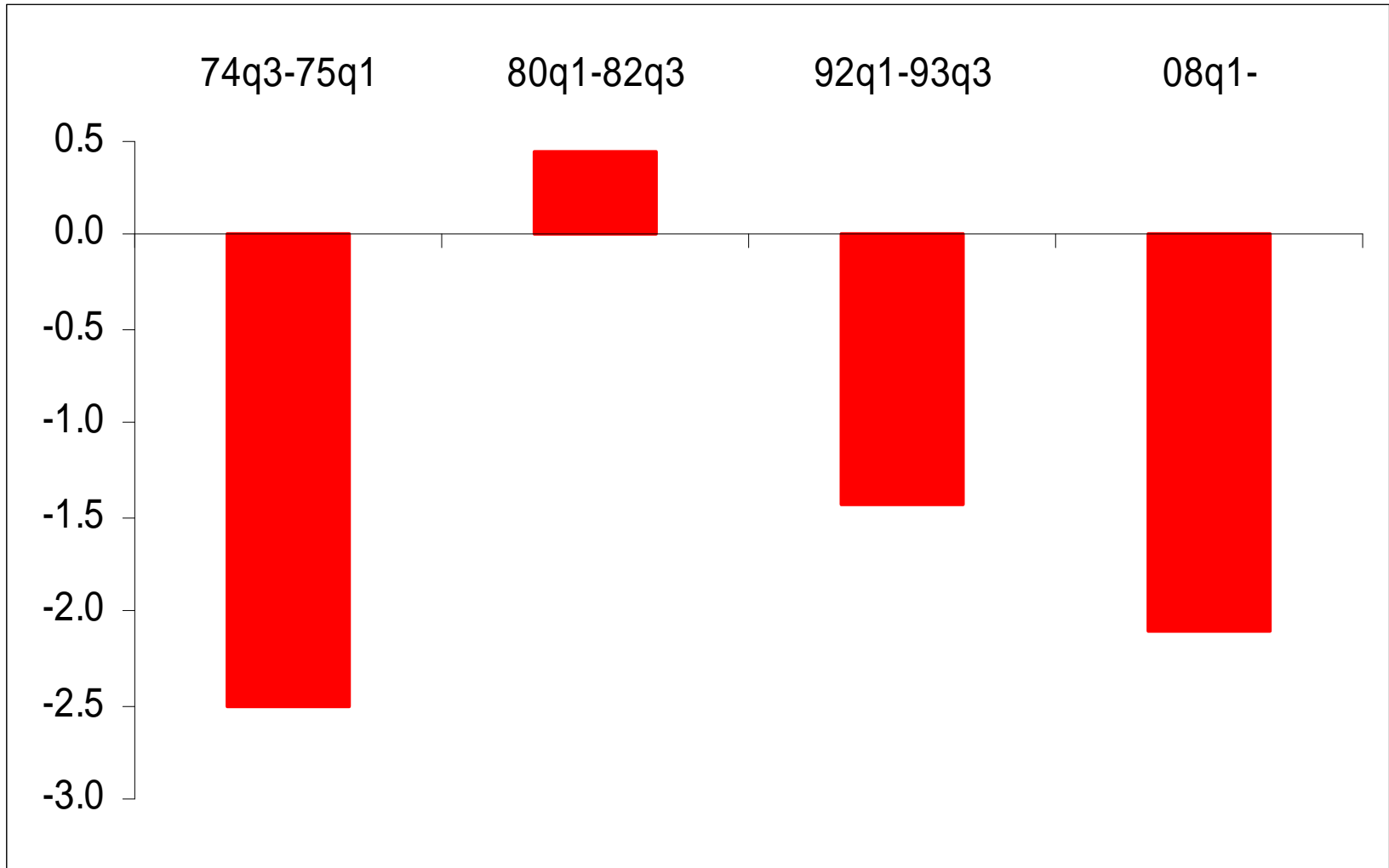
# Euro area business cycle

- CEPR dating committee, similar NBER in the US
- Peak in euro area in 2008.1, most probably in January
  - No delay to US cycle, at most 1 month
  - Last expansion started 1993.3, lasted 57 quarters
- Cyclical pattern smoother than in US
  - Periods of slow growth and stagnation after new economy bubble, not a recession

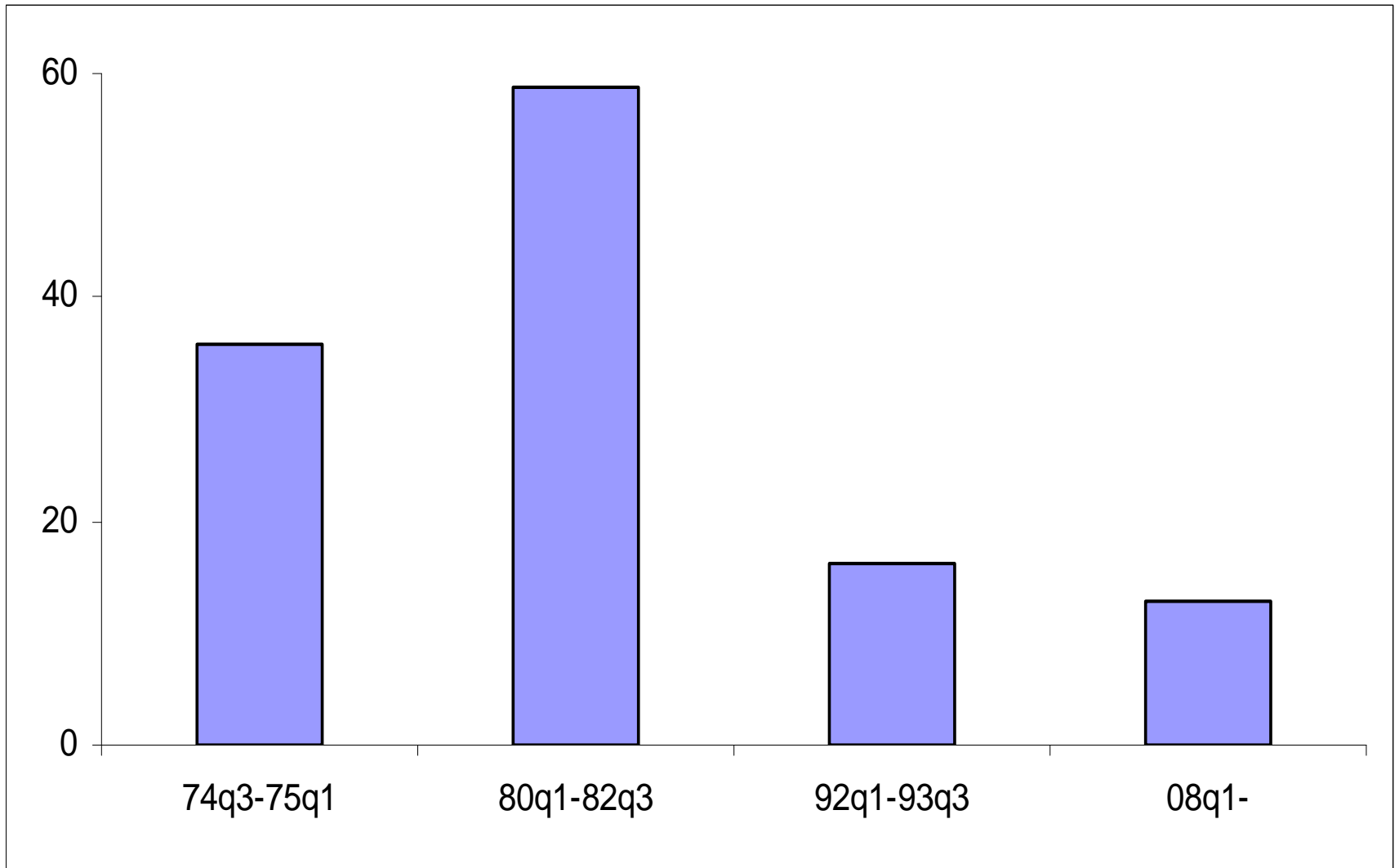
# Recessions in the euro area



# Output losses in recessions



# Unemployment in recessions



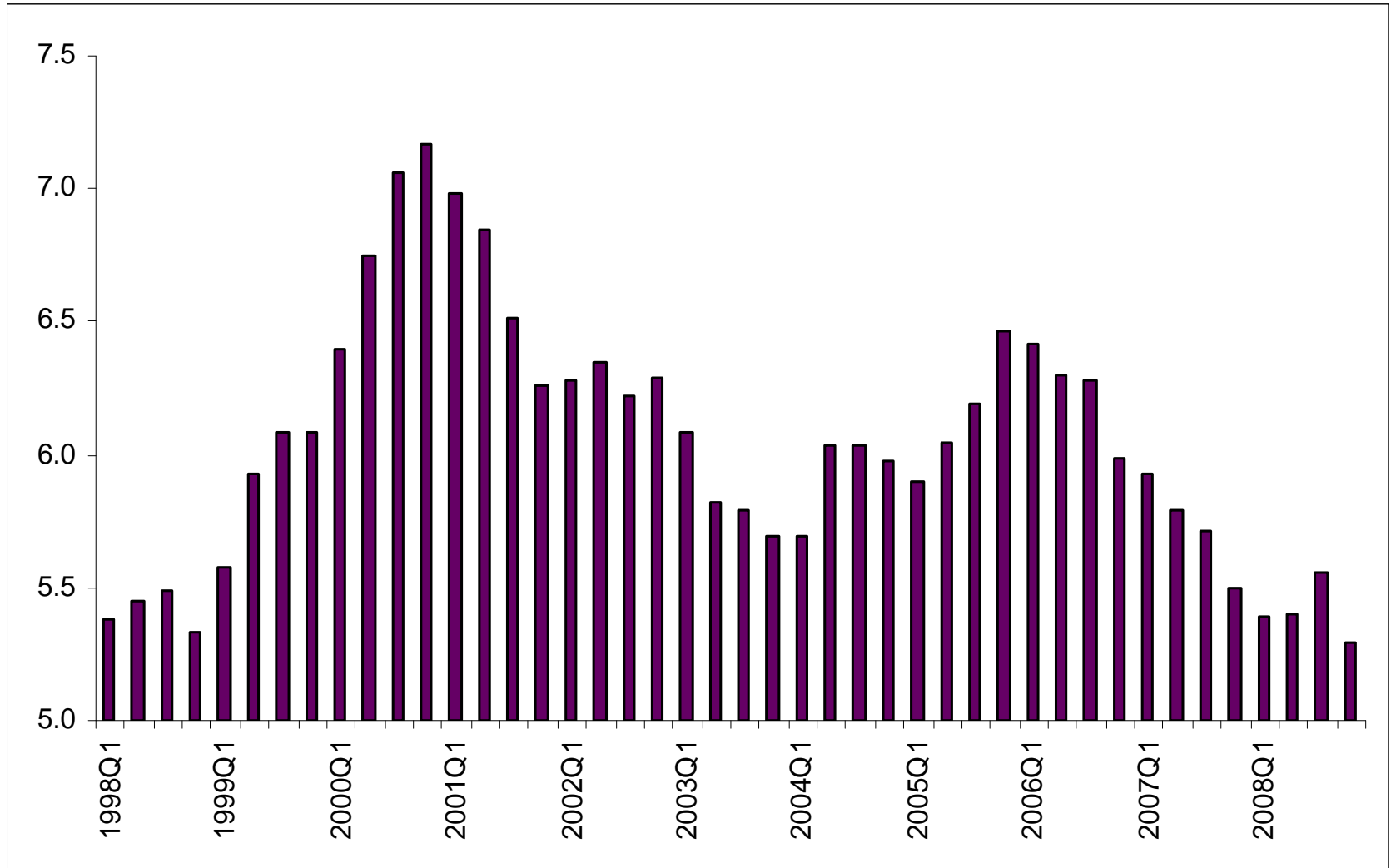
# Resilience of labour market?

- Despite large fall in GDP, labour markets have remained quite robust
  - Increases in unemployment, especially Ireland, Spain and Italy
- So far, firms have kept skilled workers, increase in hidden unemployment
  - Financial conditions often improved in recent years
  - Risk of shortages of human capital in a later recovery
- Layoffs can increase in the later part of the year
  - Lower consumption could widen the crisis

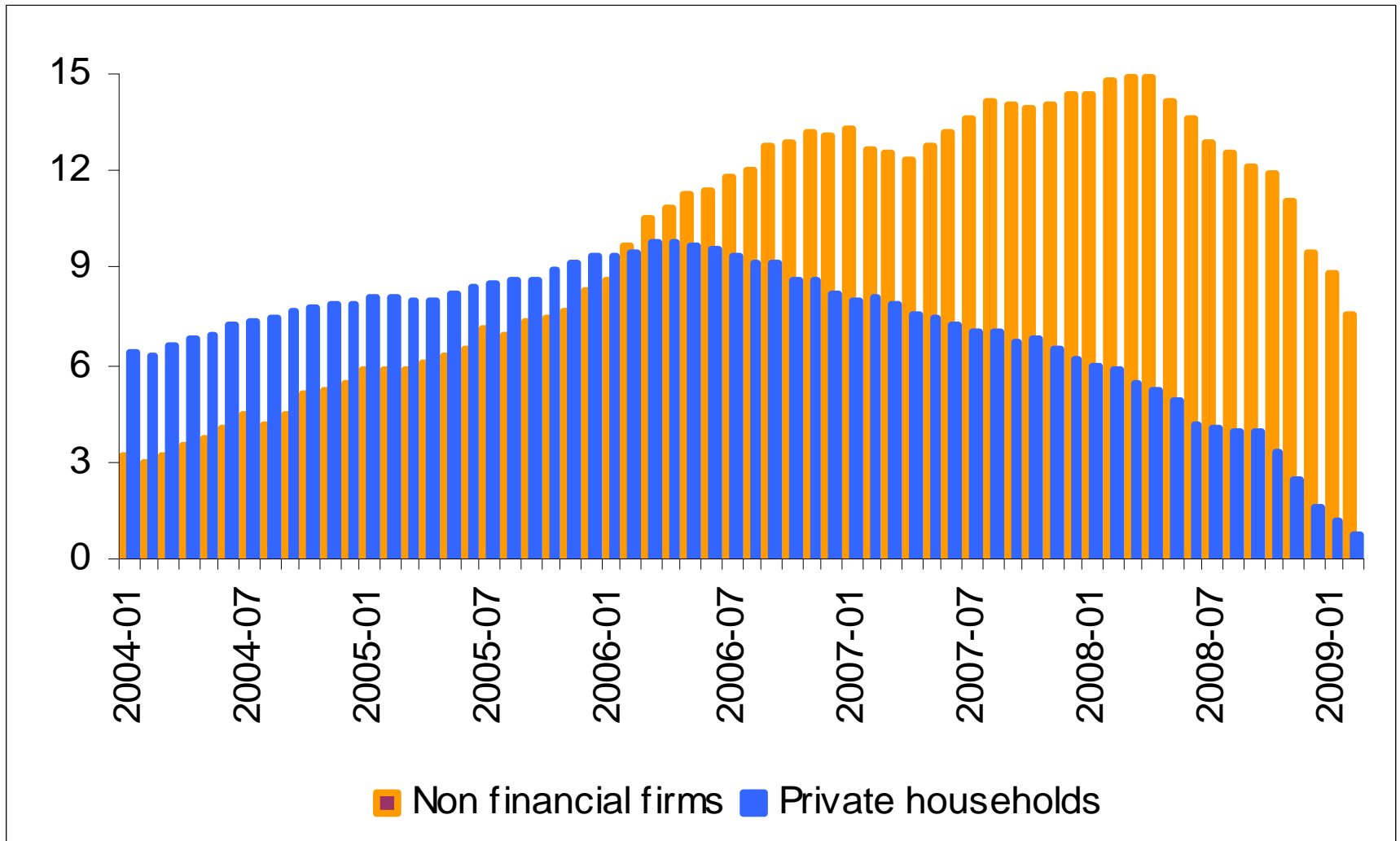
# Transmission of shocks

- Slowdown in the US cannot explain vast decline in world output via trade channel
  - In recent years, rise in world trade was largely driven by regional integration
- Financial and housing crisis, but no global credit crunch
  - Procyclical behaviour of credit supply: tighter credit lines in recessions
  - Wealth effects relevant in US and UK, but almost no impact in continental Europe
- Synchronization of (industrial) confidence, low investment activity

# US Imports / World GDP

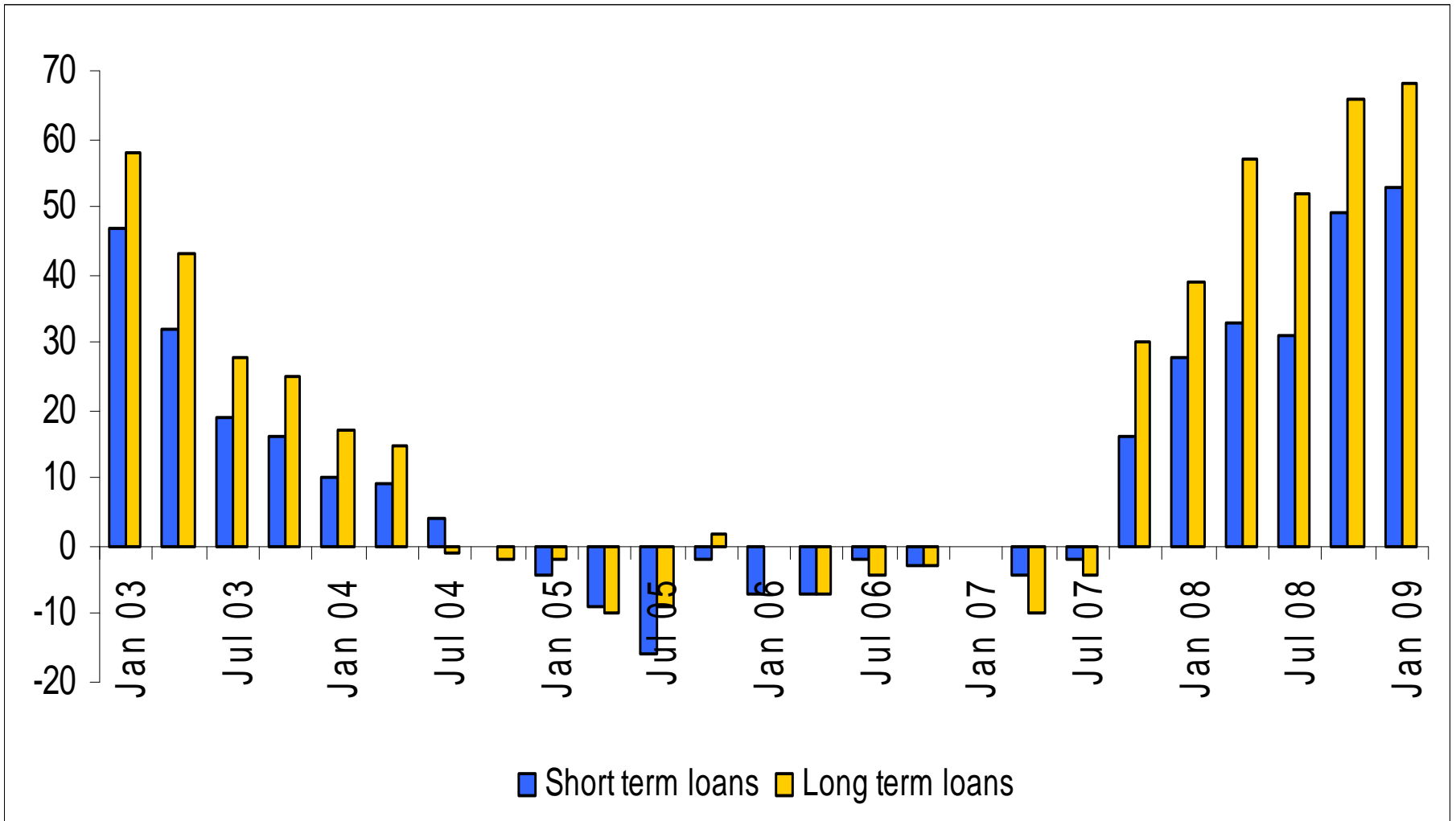


# Credit growth in euro area





# Tightening of credit lines



# Crisis in the euro area

- Euro area more robust than US?
  - Housing and financial crisis not widespread
  - Asset markets play a smaller role
- High vulnerability due to collapse in exports
- Financial meltdown in Eastern Europe
  - Risk of further depreciations, large increases in foreign debt
- Growing tensions within the euro area
  - Ireland, Greece, Austria, Portugal
- Uncoordinated policies and lack of bailout plans can prevent faster recovery

# Recovery ahead, but modest

- No V-shaped recovery, growth path lower than in pre-crisis period
  - Higher share of public sector in GDP
  - US consumption does no longer stimulate
  - Risk of protectionism and overregulation in financial markets
  - Current policies not sustainable, need to be more restrictive
  - Ongoing structural crisis in key sectors, financial and automotive