The Perspectives for the European Economy in Times of High Geopolitical Uncertainty

Prof. Dr. Michael Grömling
European Growth in Comparison

Percent change of real GDP

Source: IMF
Current Growth and Unemployment in the European Union

Percent change of real GDP in second quarter 2019 against previous quarter and unemployment rate in July 2019 in per cent

Source: Eurostat
Corrections of Forecasts for 2019

GDP forecasts for 2019 according to Consensus Forecasts in per cent

Source: Consensus Forecasts
Interest Rates at the Zero-Bound

Main interest rates of Central Banks in per cent

Source: Bloomberg
Tailwinds from Cheaper Oil and from a Cheaper Euro

US dollar per euro and US dollar per barrel crude oil; quarterly values; III 19 = last value
Weakening of Global Growth Prospects

GDP growth in 2018 and forecasts for 2019 according to Consensus Forecasts (January and August 2019 in comparison) in per cent

Source: Consensus Forecasts
Policy Uncertainty at High Level

6-month moving average of the Economic Policy Uncertainty Index

Source: Economic Policy Uncertainty
Global Geopolitical Risks

Protectionism by the US administration and countermeasures

➢ Slowdown/recession in China
➢ Decline/restructuring of German export industries (e.g. automotive industry)
➢ Distortions in major emerging markets (South America, Turkey, Asia)

Financial market crisis due to a confrontation course of Italy and/or No-Deal Brexit

➢ Crash on the stock and real estate markets
➢ Deterioration of investment climate and slowdown/recession in Europe

Escalation in the Middle East / Russia

➢ Rising oil prices and accelerating inflation
➢ Monetary policy tightening/interest rate increase
Risk Profile of German Companies

Values as a percentage of all respondents (IW Business Survey spring 2019)

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<th>Risk Category</th>
<th>High risks</th>
<th>Low risks</th>
<th>No risks</th>
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<td>Climate risks</td>
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</table>

Source: Institut der deutschen Wirtschaft
German Exports and Manufacturing Production

Price and seasonal adjusted values, index: first quarter 2013 = 100

Source: Statistisches Bundesamt
German Sentiment Indicators in Freefall

Sources: ifo; BME
Investment in Germany

Price and seasonal adjusted values, index: first quarter 2005 = 100

Sources: Statistisches Bundesamt; Institut der deutschen Wirtschaft
Labour Market in Germany

Number of employed and unemployed persons in million

Sources: Statistisches Bundesamt; Institut der deutschen Wirtschaft
Private Consumption in Germany

Price and seasonal adjusted values; index: 2010 = 100

Sources: Statistisches Bundesamt; Institut der deutschen Wirtschaft
Long-term Global Economic Challenges

- Climate Change
- Demography
- Technology
- Resources
- Security

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Growth and Urbanisation of the World Population

Regional population in billion

- 2017: 7.7 billion
- 2050: 9.8 billion

Rural and urban world population in billion

- 1950:
  - Rural population: 1.8 billion
  - Urban population: 0.8 billion

- 2008:
  - Rural population: 3.4 billion
  - Urban population: 3.4 billion

- 2050:
  - Rural population: 3.1 billion
  - Urban population: 6.7 billion

Source: UN (UN-Medium Variant – 2017 Revision und World Urbanization Prospects 2018)
Determinants of the Supply Side

- Human capital
- Labour force
- Technology
- Capital / Infrastructure
- Natural capital
- Social capital / institutions
Tense Geopolitical Situation

Source: FAZ (No. 215, 15 September 2018, p. 19)
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