

Growth pause rather than structure break – How robust is the recovery?

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Director of the Institut der deutschen Wirtschaft Köln
PK Hanover Fair, 19 April 2010

Agenda

- **Where we are today**
- Opportunities for industry
- Risk potential

A new quality of downturn

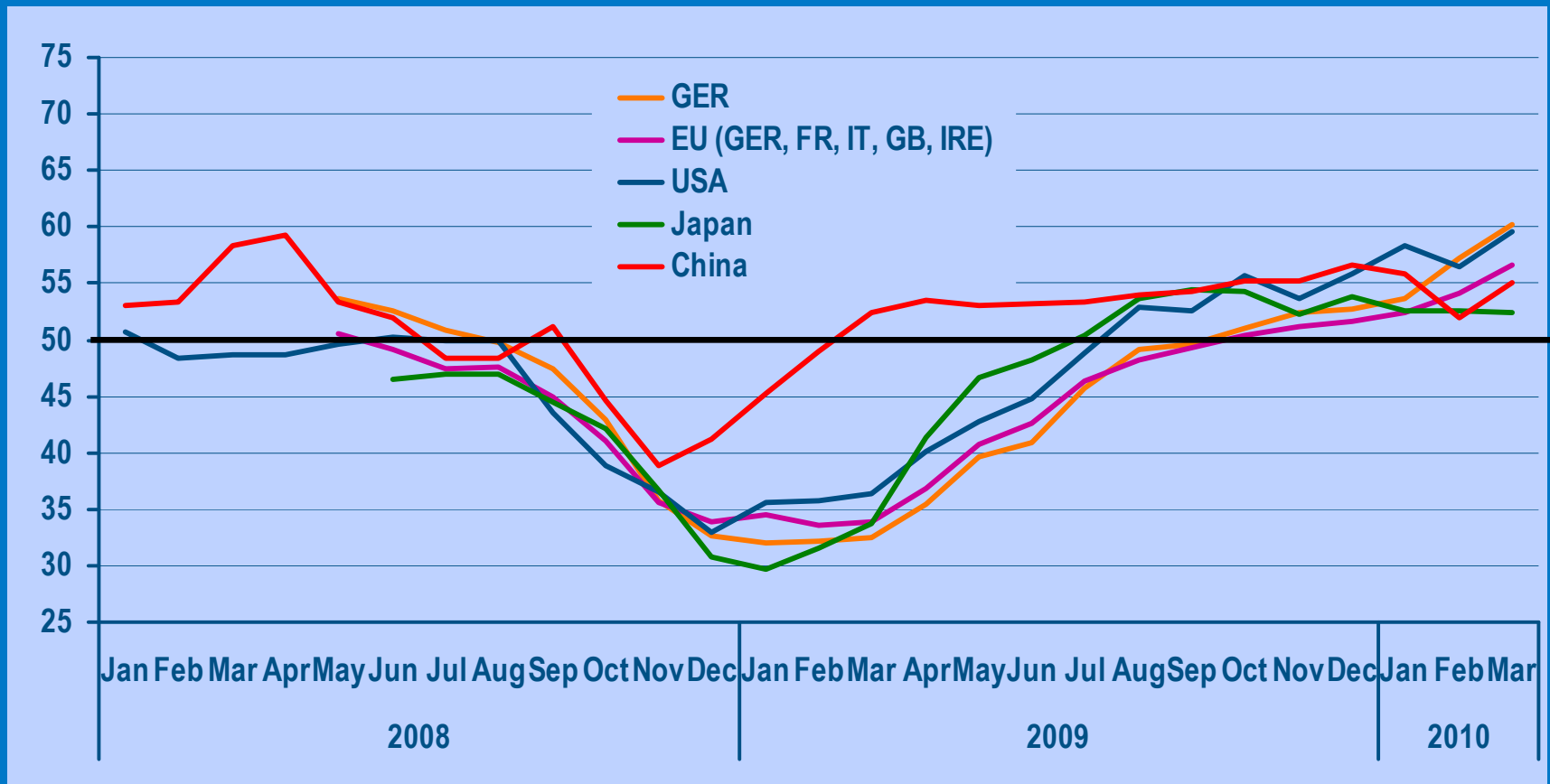
New orders for German industry in the 1992-94 / 2001-03 / 2008-10 recessions



The index value 100 corresponds to new orders for the first month of the respective recession. Source: Statistisches Bundesamt

Parallel global recovery takes place through industry!

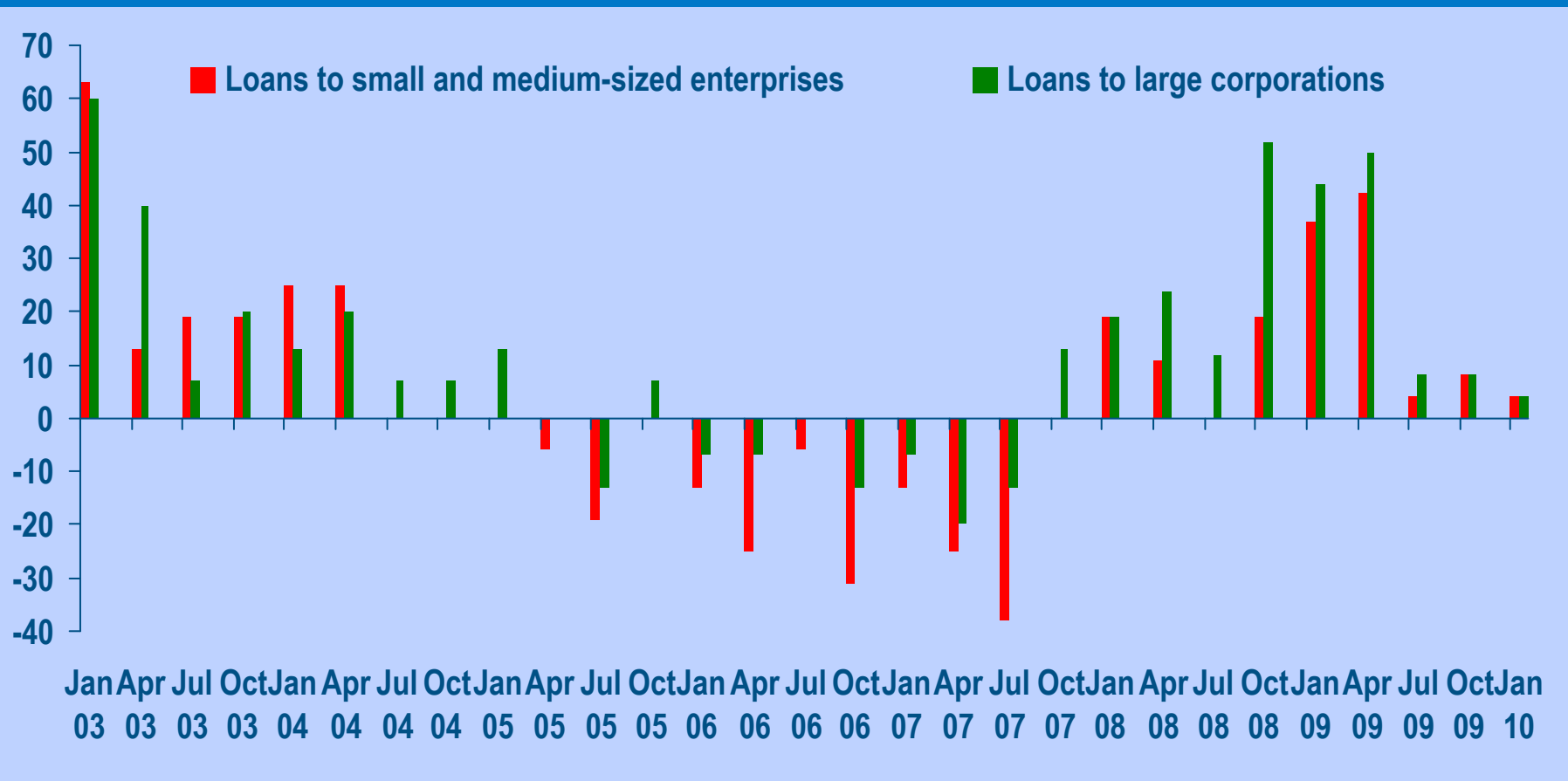
Purchase Manager Index for Industry, 50 = Expansion mark



Sources: IW Köln.

Changes to the credit guidelines

Results of the Bank Lending Survey (positive values: increased severity of guidelines)



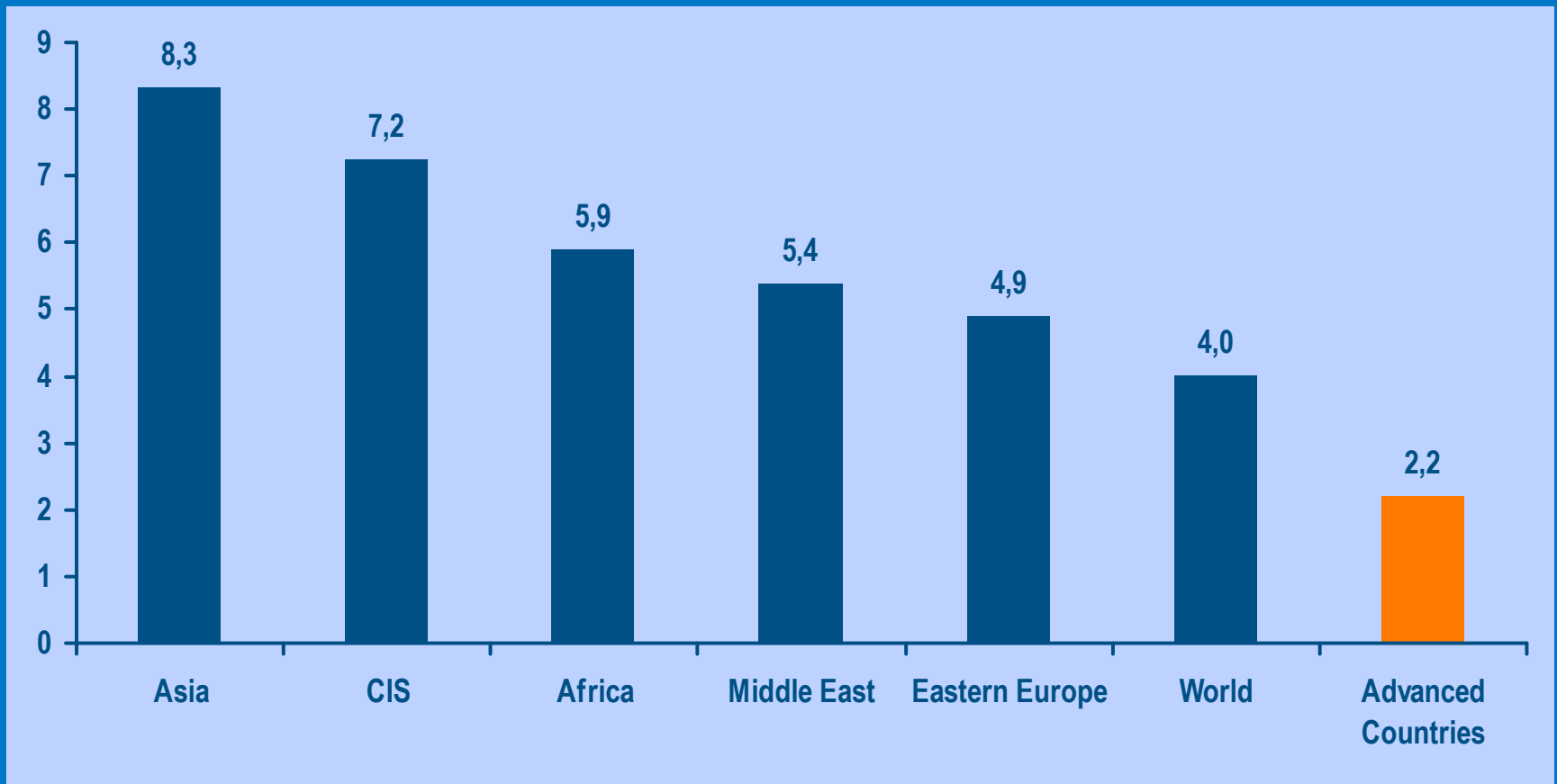
Source: Bundesbank

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Regional growth

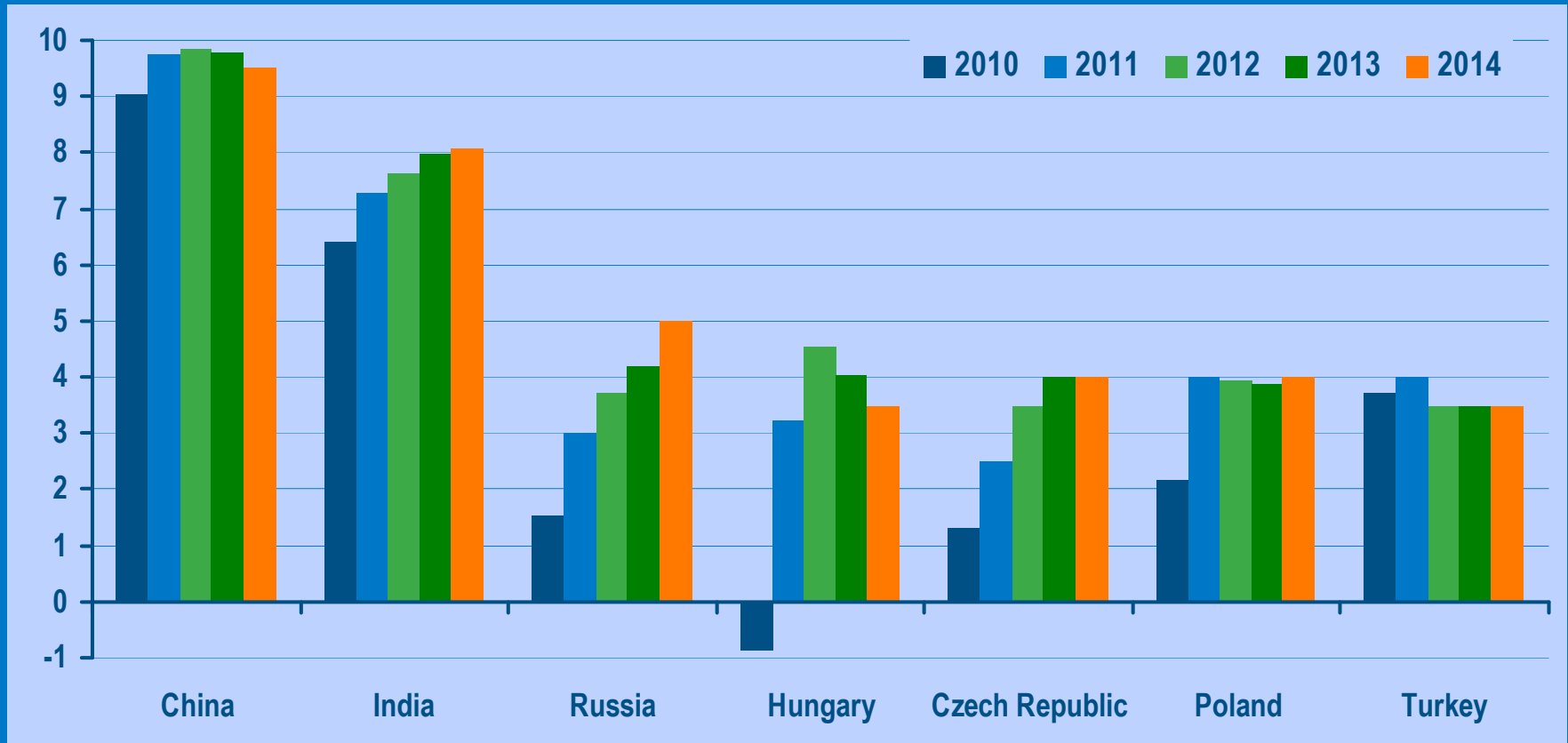
Average annual change of GDP from 2001 to 2008, as a percentage



Source: IMF

Asia and Eastern Europe set for growth also in the future

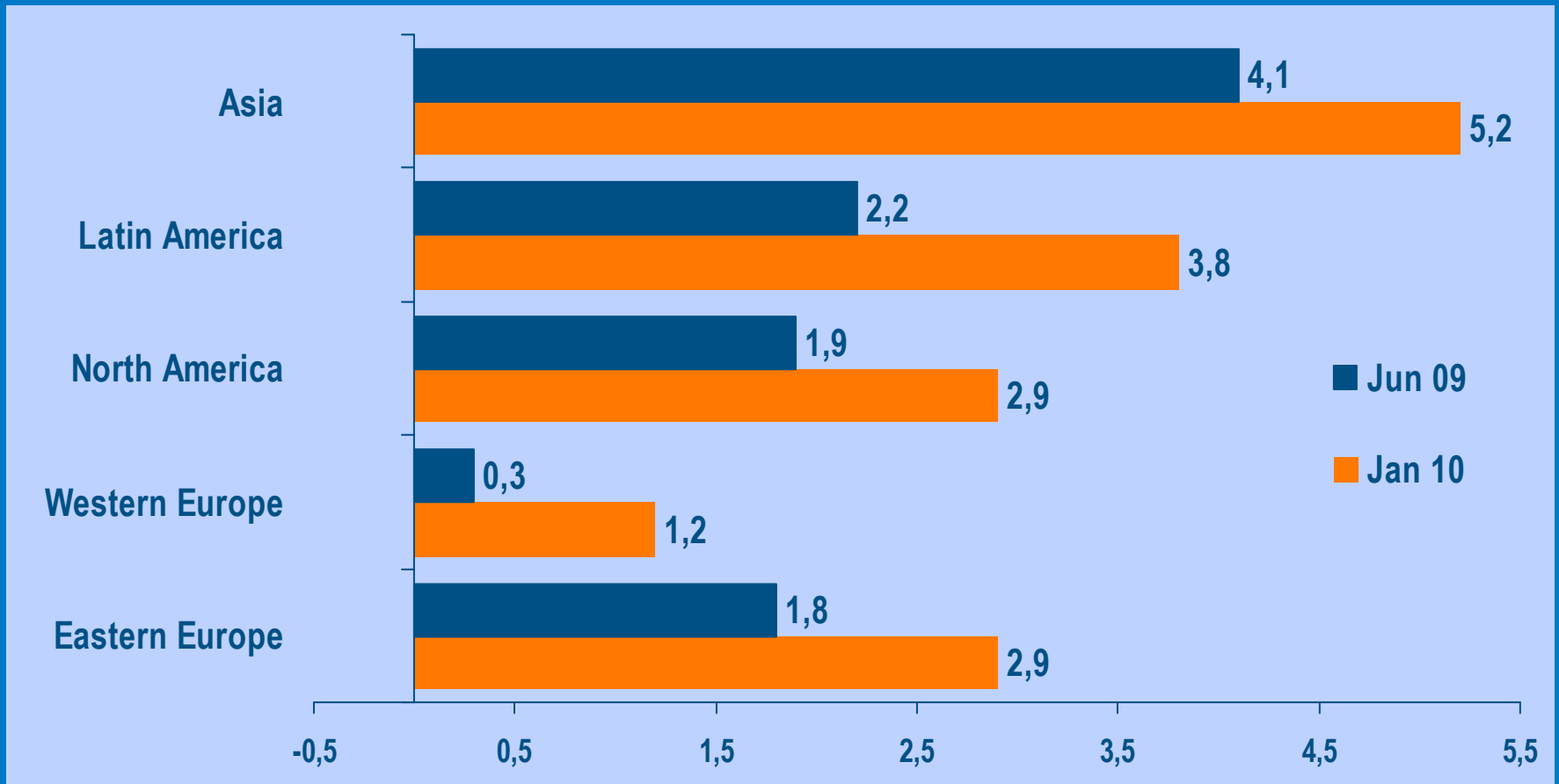
Forecast change of the GDP from 2010 to 2014 as a percentage



Source: IMF

Global perspectives for growth in 2010

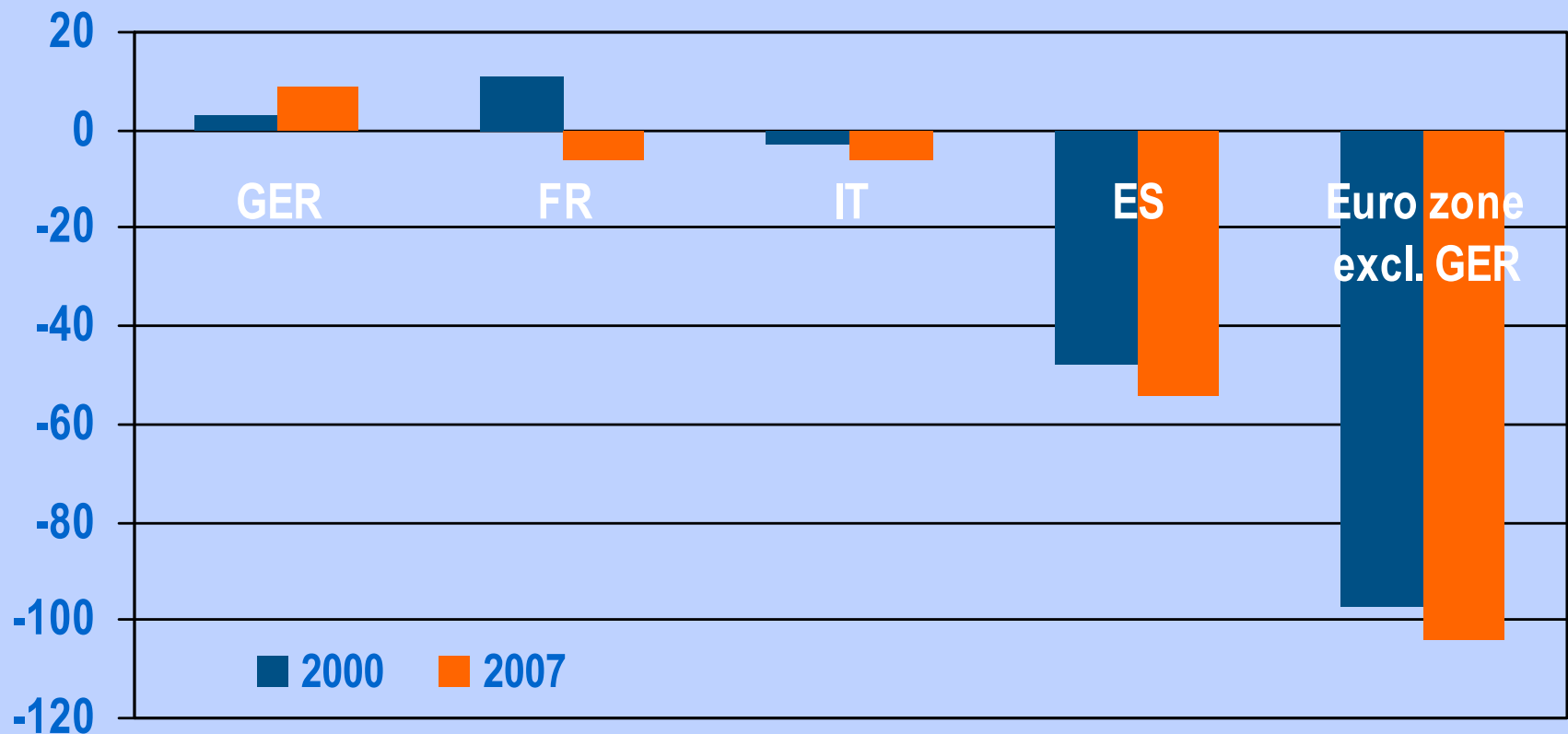
Change in the real gross domestic product compared to the previous year as a percentage



Source: Consensus Forecasts

Specialization in the export of investment goods

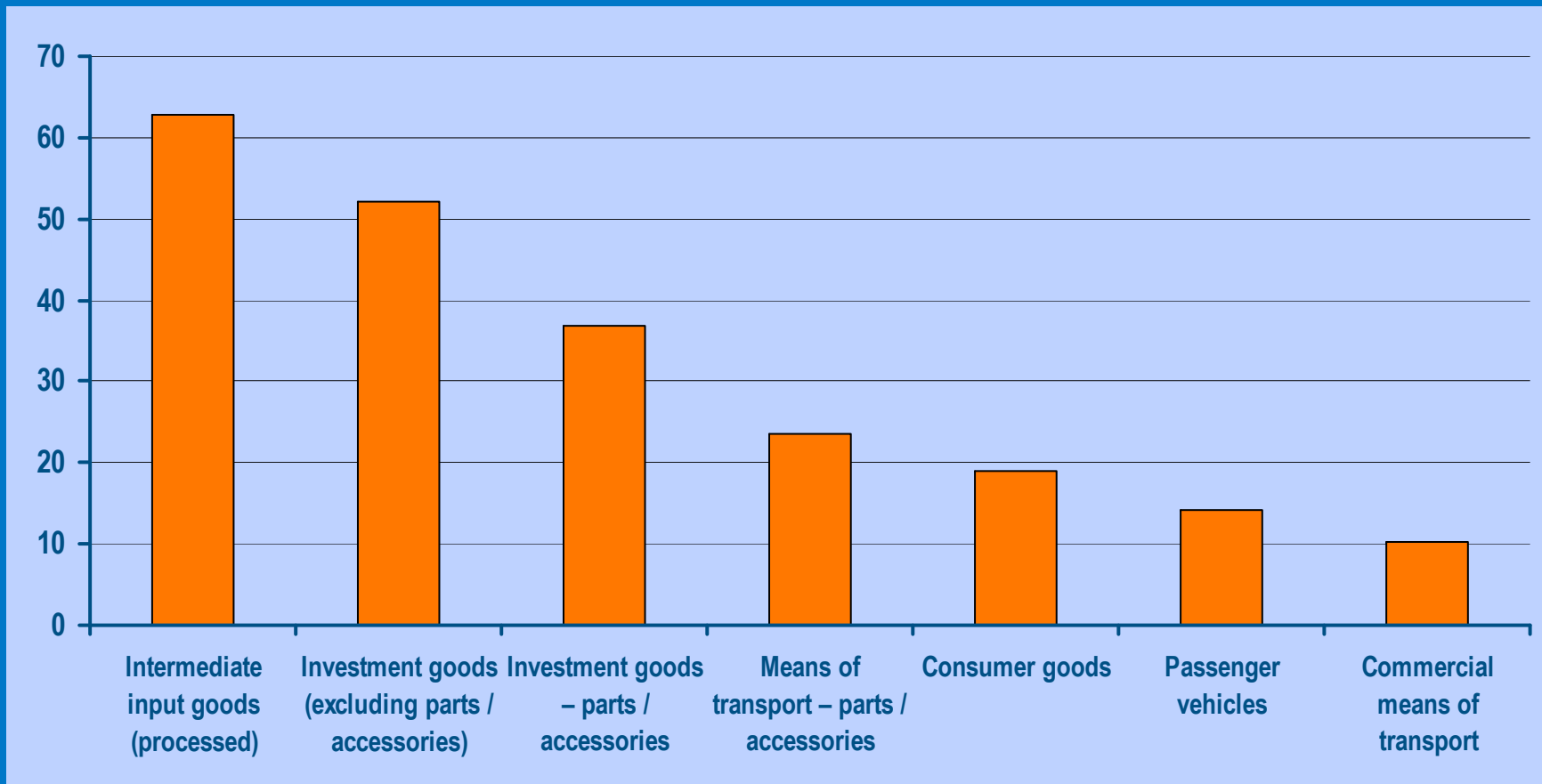
Relative world market share in the export of investment goods to the emerging markets



Source: Institut der deutschen Wirtschaft Köln

Export success: investment goods / intermediate input

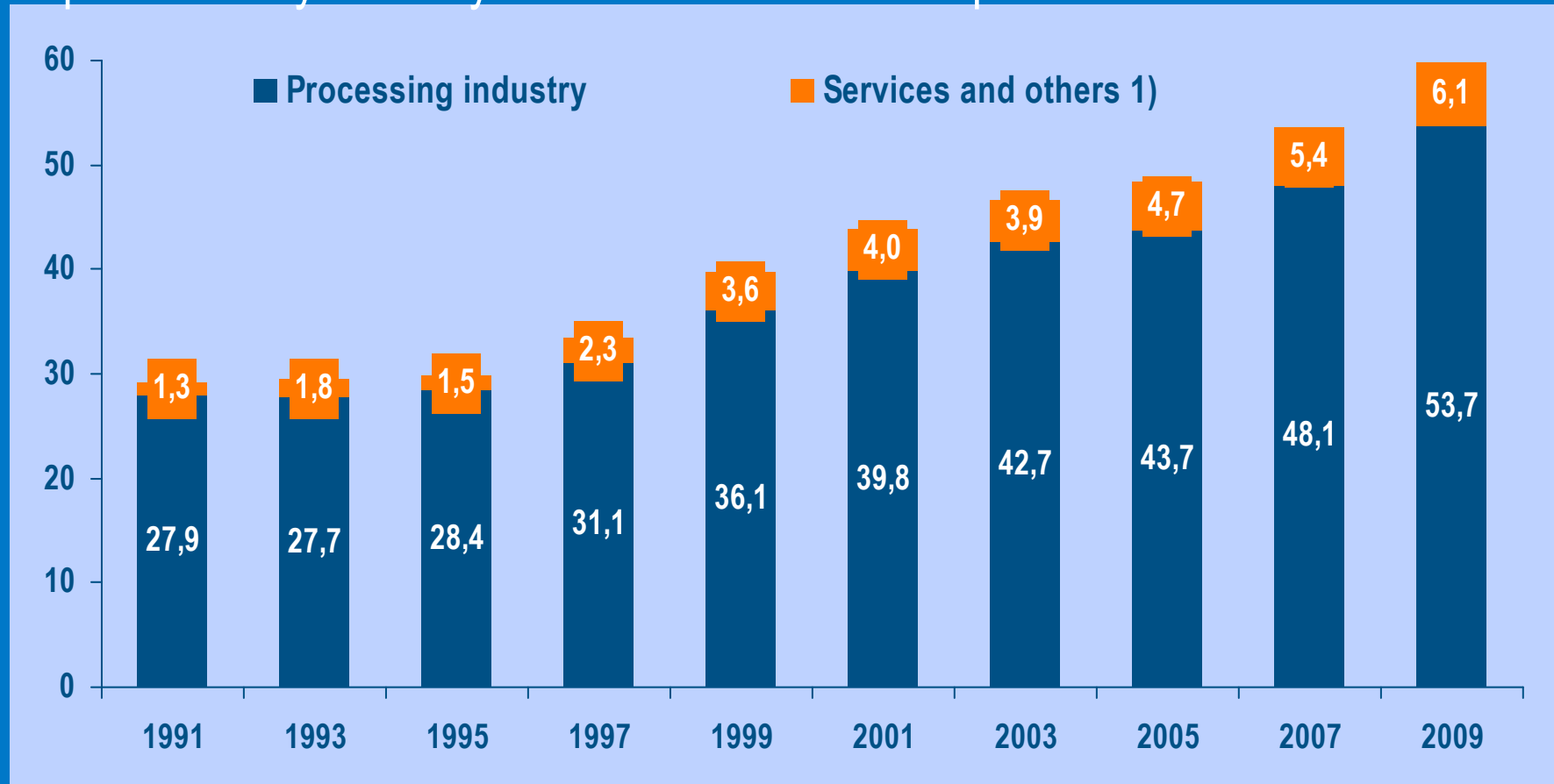
German goods exports to the emerging markets (2007, in bill. euro)



Source: Institut der deutschen Wirtschaft Köln

Research as an industrial domain

Expenditure by industry in research and development in billion euro



1) Agriculture, energy, building sector. Sources: Stifterverband für die deutsche Wissenschaft; Institut der deutschen Wirtschaft Köln

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Temporary lack of investment poses an increased challenge for supply side policy

- A continued lack of investment in equipment (2009: -22 % and 2010: +0.5 %) will make the “sunk cost” argument less significant.
- This provokes that, in times of economic recovery, the decision where to produce becomes a more important part of the investment decision.
- In terms of economic policy, supply conditions take centre stage:
 - Taxes and duties (structure, transparency)
 - Tax concessions to promote R&D
 - Bureaucracy
 - Lack of skilled workforce
 - Availability of resources

Challenge: Reliable availability of resources

Features	Raw materials
Availability	germanium, indium, baryte, silver, gold, tin, zinc, lead; (fluorite, niobium, nickel, molybdenum, manganese, copper)
Market power	niobium, platinum group, rare earth minerals, tantalum, magnesium, graphite
Political risk	rare earth minerals, cobalt, lithium, phosphate, tungsten, magnesium, chromium; (platinum group)
Future relevance	rare earth minerals, phosphate, tungsten, magnesium, lithium, cobalt, platinum, selenium; (gallium, germanium)
Non-substitutability	rare earth minerals, phosphate, selenium, indium, gallium, germanium, potash salt, graphite, platinum group, chrome, manganese, molybdenum, cobalt

The turkey

or: how awareness of risk diminishes



- A turkey is fed every day for a thousand days. Every day, its brain registers that humans take care of its needs, and this realization becomes more entrenched with each passing day.
- One fine Wednesday afternoon, just one day before Thanksgiving, the turkey is dealt a nasty surprise.
- Experiences from the past influence our expectations, even though they actually do not apply to the future.

The Millennium Bridge London

or: How people lose their individuality



- Opened on June 10, 2000. Only two days later, it had to be closed due to serious and uncontrolled swaying motion.
- People do not walk in step (uncorrelated risks). If transverse vibrations occur by coincidence, they adjust to each other and attempt to cancel each other out through their own movement.
- This means that they unconsciously move synchronously and in doing so exacerbate the swaying motion.