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German economy 2015: The best forecasters

by Thomas Fricke and Hubert Beyerle



When the wise professors of the Council of Economic Experts presented their forecast for 2015 a year ago, they were deeply worried. The mere announcement of the minimum wage and other good deeds had been enough to undermine the economy. The burden for the economy was too large. At the time, the Federal Chancellor, Angela Merkel, at least found this remarkable. How could something which had not even come into force wreak such harm, she mocked.

One year on and it is clear: by comparison, the physicist Angela Merkel's intuition was better. In 2015 the economy performed better than widely expected. In the end those prophets who saw a return to a genuine upturn in consumption proved correct – thanks to tumbling energy prices; and not least because the minimum wage bestowed some people with more money. So much for wise.

The best economic forecasts duly came from the consumption bulls: from Stefan Kooths from the *Kiel Institut für Weltwirtschaft* and Gustav Horn from the *IMK-Institut* in Düsseldorf. And from Michael Heise and his team of economists at Allianz who, at the end of the day, were a shade better than their colleagues, as revealed by the evaluation of our Forecaster of the Year 2015 award.

As the year draws to a close, economic output looks set to grow by around 1.7 percent – not a boom, but the best performance since 2011. A dozen of the 50 forecasters in our analysis had been expecting growth of only around one percent, including the Council of Economic Experts as well as the EU Commission and the Bundesbank.

Disposable income was up, inflation was extremely low

Almost half of the forecasters were already penciling in at least 1.4 percent a year ago – once again pretty exact for the much chided guild. The quality of the forecasts is also illustrated by the fact that the majority of experts performed fairly well in forecasting German export growth. At the end of 2014 almost one in two predicted that German firms would sell between 4.5 and 6.5 percent more around the world this year, thanks not least to the substantially weaker euro which makes German goods cheaper abroad. Among the Top 13 in our analysis, ten were spot on with their forecast for exports.

What separates the very best from the rest is something else. Most of the experts were too downbeat in their predictions for investment. Especially in the early months of the year firms were funneling substantially more money into machinery and equipment for the first time in years. In 2015 investment looks poised to grow by no less than four percent on 2014. Twelve months ago only nine of the 50 experts had expected such a high rate.

Eurozone demand returned as a driver of German exports

Much the same is true for the accuracy with which the experts predicted consumption dynamics in Germany. For the first time in many years people splashed out almost two percent more than a year earlier in real terms. Disposable income rose by almost three percent, while inflation slid towards zero on the back of the oil price collapse. The vast majority of forecasters had expected a rise in consumption of only 1 to 1.5 percent. Only the top three forecasters in 2015 managed to predict exactly the pace of economic growth in Germany within a remaining margin of error and also had a pretty good idea what would drive growth. Although at the end of last year the three economists did not anticipate the dramatic deterioration in the Greek crisis – nor the slowdown in China, both of which have probably contributed to a renewed cutback in investment in Germany as well since the summer. And no one foresaw the massive influx of war refugees; so far, however, this has had little impact on the German economy, serving only to push up consumption slightly more.

But all three top experts predicted fairly precisely how much the economy would benefit from plummeting energy prices and the cheaper euro. And that eurozone demand would return as a driver of German exports – “the former crisis countries will be back on a clear upwards trajectory,” Allianz Chief Economist Heise said a year ago. Correct. With the exception of Greece, where Grexit jitters, taxes and cuts meant that the crisis dragged on.

In the final selection Heise and his team were within the margin of error with their consumption forecast of +1.9 percent, along with the expected increase in exports of 4.9 percent. Their forecast of a 3.2 percent rise in equipment investment was only marginally wide of the mark.

By comparison: both colleagues from Kiel and Düsseldorf were significantly wider of the mark on one of the three potential growth drivers.

What is striking among the frontrunners: for all three economists it is not the first time that they have headed the ranking. The Kiel Institut and the IMK have already topped the table once, Michael Heise actually twice, in the upswing years 2006 and 2010 – an expert for good times.

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