Nowcasting Income Inequality in Germany

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1. Motivation
- Household (labor) income distribution shapes business cycle & policy transmission
- Economic crisis → higher volatility of labor income → importance of policy measures
- Lag in availability of micro data (Germany: ca. 16 months)

2. Research aim
Nowcast labor income distribution → with macroeconomic indicators → in state-of-the-art model

3. Literature contribution
1. Nowcasting inequality (1) in standard macro nowcasting model with readily available data
2. Including micro-data in macro-framework (2)

4. Data
Data
Target: Mean monthly income
- Lower 40 percent
- Middle: 41st-70th / 71st-90th
- Top 10 percent

Predictors:
- National accounts data
- High-frequency GDP indicators
- Labor market & sector-specific data

5. Methodology
- Dynamic Factor Model (3)
  → Two, four, five or six factors; with & without block structure
- Pseudo-real time estimation
- Generalized Pareto distribution

6a. Results: Forecast errors (RMSFE)

6b. Nowcast for 2022/23

7. Conclusion
- High-frequency macro data has predictive power for income distribution
- Model performs well at center (& top) of distribution
- Inequality increases after Covid-19 pandemic

References