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A Nonlinear Markov Switching Approach to Characterize the Cyclical Asymmetric Dynamics of the German Manufacturing Industry

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ABSTRACT

The manufacturing industry has gained significant importance in creating sustainable growth and development policies, particularly after the devastating impacts of the recent global financial crisis on real sector. Especially advanced economies aim to strengthen their economies and achieve a more stable growth in a sustainable framework by eliminating the ongoing effects of the crisis. The study examines the asymmetric cyclical dynamics of the manufacturing industry for the German economy, which is one of the leading economies in the manufacturing sector across the world. This paper documents the presence of state-dependent asymmetric behaviors and heteroskedasticity across the cyclical phases in German manufacturing industry by employing Markov regime switching models. Besides, the empirical results provide the smoothed probabilities, the transition probability estimates along with identifying the different regime classifications. Revealing these results provides a further understanding for policy makers and investors in order to design more effective policies in the decision-making process.

KEYWORDS Markov Switching Models; Manufacturing Industry; German Economy

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