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The German Economy: Strong Economic Activity in Germany and in the World

In the early summer of 2017, economic momentum in the world is quite strong. Important general conditions for the global economy are likely to remain favourable: Interest rates will continue to be low almost everywhere, and low inflationary pressure suggests that there are hardly any constraints from the supply side.

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Forecast for Germany: Key Economic Indicators

	2016	2017	2018
percentage change of price-adjusted GDP over previous year in %			
Germany	1.9	1.6	1.8
for information: East Germany ^a	2.1	1.8	1.8
percentage change over previous year in %			
hours worked	0.9	0.8	0.9
hourly union wages	2.1	2.3	2.3
hourly actual wages	2.8	3.2	2.6
unit labour costs ^b	1.6	2.5	1.7
consumer price index	0.5	1.7	1.7
in 1 000 persons			
employment (domestic)	43 595	44 219	44 609
unemployment ^c	2 691	2 555	2 537
in %			
unemployment rate ^d	6.1	5.8	5.7
for information: East Germany ^a	8.5	7.7	7.3
in % of nominal GDP			
general government overall balance ^e	0.8	1.0	0.8
current account balance	8.3	7.8	7.8

^a East Germany including Berlin. – ^b Per hour (IWH calculations). – ^c Federal Employment Agency (BA) concept. – ^d Unemployment in % of labour force (domestic). – ^e This forecast does not regard the judgement of the German Constitutional Court on the nuclear fuel tax from 7th June 2017. This judgement reduces the budgetary surplus by 6.3 Billion Euro in 2017.

Source: Federal Statistical Office; 2017 and 2018: forecast (as of June 8, 2017).

At the beginning of 2017, the global economy appears rather strong. Business sentiment has risen in many places, and both industrial production and world trade increased at the end of last year. In the U.S. as well as in the euro area, domestic demand further strengthened at the end of 2016.

Since spring 2013, the German economy has been in a long-lasting upswing. Oliver Holtemöller, Head of the Department Macroeconomics and IWH vice president, expects it to continue. Domestic demand and in particular private consumption are strong, due to the favourable labour market situation. Construction activities of private households will continue to expand, as will those of the local authorities, not least because tax revenues are high. "However, the growth rate of gross do-

mestic product will be 1.6% this year and thus slightly lower than in 2016, due to the lower number of working days. Growth is expected to reach 1.8% in 2018", Holtemoeller says. At 1.7% both in this year and in the next, the rise in consumer prices will be moderate, though stronger than in the previous three years. Unemployment will decline a bit further. Public budgets continue to generate substantial surpluses, also in cyclically-adjusted terms. The East German economy is, as in the previous year, expected to grow faster than Germany as a whole by two tenths of a percentage point.

Risks to the German economy mainly come from the international political environment.

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