

## Press Release 3/2018

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### Consistently strong economy, but risks are increasing

The global upswing continues in 2018. The German economy is currently in a boom and is increasingly coming up against capacity limits. “According to our forecast, gross domestic product will expand by 2.2% in 2018; the general government surplus will amount to 1.1% in relation to gross domestic product. Economic growth in East Germany is likely to be slightly below the German growth rate”, says Oliver Holtemöller, head of the Department Macroeconomics and IWH vice president.

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Forecast for Germany: Key Economic Indicators<sup>a</sup> for Germany, 2017–2019

	2016	2017	2018	2019
percentage change over previous year (price adjusted)				
Germany	1,9	2,2	2,2	1,6
East Germany <sup>a</sup>	2,1	1,9	2,0	1,5
percentage change over previous year in %				
hours worked	0,6	1,1	1,3	0,8
hourly union wages	2,1	2,1	2,5	2,4
hourly actual wages	3,2	2,8	2,8	2,8
unit labour costs <sup>b</sup>	1,6	1,6	1,9	2,1
consumer price index	0,5	1,8	1,5	1,7
1 000 persons				
employment (domestic)	43 638	44 291	44 900	45 326
unemployment <sup>c</sup>	2 691	2 533	2 328	2 166
in %				
unemployment rate <sup>d</sup>	6,1	5,7	5,2	4,8
East Germany <sup>a</sup>	8,5	7,6	7,1	6,8
in % of nominal GDP				
general government overall balance	0,8	1,1	1,1	0,6
current account balance	8,2	7,9	8,0	7,9

<sup>a</sup> East Germany including Berlin. – <sup>b</sup> Per hour (IWH calculations). – <sup>c</sup> Federal Employment Agency (BA) concept. – <sup>d</sup> Unemployment in % of civilian labour force (Federal Employment Agency (BA) concept).  
Source: Federal Statistical Office; 2018–2019: forecast (as of March 14, 2018).

The international economy has been strong since the autumn of 2016, and global production will continue to expand healthily in 2018 by 3.3%. Contributing to this is the US tax reform, which gives the US economy an additional boost. The tax cuts, however, have contributed to concerns that higher US interest rates may soon weigh on valuations on stock markets and increase financing costs worldwide. Against this background, volatility on financial markets jumped significantly at the beginning of February 2018. In addition, the possibility of spiraling protectionist measures has clouded the global outlook since the US imposed tariffs on steel and aluminum imports in March.

The German economy is currently in a boom. However, companies assessed their outlook much more cautiously in January and especially in February than before. It

is doubtful whether the German economy has the capacities to keep up its current growth path for much longer. Although price dynamics are still moderate at present, they are picking up. The record numbers for vacancies show that even by now, significantly more could be produced if capacities were available. All in all, the German gross domestic product (GDP) is expected to grow quite vigorously again by 2.2% in 2018, and to expand more moderately by 1.6% in 2019. The general government surplus in 2018 will amount to 1.1% of GDP. In the coming year, it will decline to 0.6% due to a more expansive fiscal policy. The increase in production in East Germany is expected to be 2.0% in 2018, slightly below the rate for Germany as a whole.

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