

## Press Release 14/2018

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### Current economic outlook: German upswing is slowing down

In summer 2018, the world economy is still rather strong. Dynamics in the euro area, however, have declined markedly, and the cyclical upswing in Germany has almost stalled, due to weaker exports. "Gross domestic product will, according to this forecast, expand by 1.7% in 2018 and by 1.6% in 2019. Growth in East Germany will be about as strong as in Germany as a whole, says Oliver Holtemöller, head of the Department Macroeconomics and vice president at IWH.

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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	1.7	1.6
East Germany <sup>a</sup>	1.9	1.9	1.7	1.5
percentage change over previous year in %				
hours worked	0.6	1.3	0.9	0.7
hourly union wages	2.1	2.2	2.7	2.4
hourly actual wages	3.2	2.6	3.2	2.8
unit labour costs <sup>b</sup>	1.6	1.5	2.3	2.1
consumer price index	0.5	1.7	1.8	1.9
1 000 persons				
employment (domestic)	43 638	44 271	44 790	45 122
unemployment <sup>f</sup>	2 691	2 533	2 350	2 250
in %				
unemployment rate <sup>d</sup>	6.1	5.7	5.2	5.0
East Germany <sup>a</sup>	8.5	7.6	7.0	6.8
in % of nominal GDP				
general government overall balance	1.0	1.2	1.2	0.6
current account balance	8.5	8.0	7.9	7.4

<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 June 14, 2018).

The recent escalation of trade disputes raised by the U.S. government poses a significant risk to world trade and to the world economy. That said, the global economic outlook is still quite favourable. This is in particular the case for the U.S. economy, where growth is expected to be strong due to the massive fiscal stimulus. The euro area economy, however, has weakened significantly since the beginning of the year, and concerns about the fiscal stance of the new Italian government since May might further depress economic expectations in Europe.

For the German economy, key conditions remain favourable: Financing costs are extremely low, employment continues to expand vigorously, and the unemployment rate is at its lowest level since German unification. Nevertheless, the upturn in Germany in the first half of 2018 has stalled because exports decreased. Elevated risks for exporters are likely to dampen companies' willingness to invest as the year progresses. All in all, economic expansion is likely to moderate. Real gross domestic product is expected to be 1.7% higher in 2018 than in the previous year

and to expand by 1.6% in 2019. This year's general government budget surplus will, with 1.2% in relation to gross domestic product, be about as high as in 2017. In the next year it will decrease to 0.6% due to an increasingly expansionary fiscal policy. The East German economy is expected to expand by 1.7% this year and by 1.5% in 2019.

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