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Upswing in East Germany has slowed, but continues – implications of the joint forecast of the German economic research institutes in autumn 2018 and of official data for the Eastern German economy in the first half of 2018

The German institutes forecast a slowdown in the cyclical upswing in Germany. Foreign demand, in particular from other euro area countries, has eased, and capacity constraints make it increasingly difficult for companies to expand production. Both arguments apply to East Germany as well: high vacancy rates indicate that labour may be even scarcer than in the West despite higher unemployment. Moreover, a particularly high proportion of East German exports go to other European countries. Important drivers of growth in the East, however, are still intact: unlike the manufacturing sector, services have been rising a bit faster in recent years in East Germany than in the West. Providers of services benefit from significantly rising disposable incomes of private households, as employment is currently expanding healthily and at only a slightly slower pace than in West Germany, despite poorer demographic conditions. Retirement pensions in East Germany have also been increased considerably.

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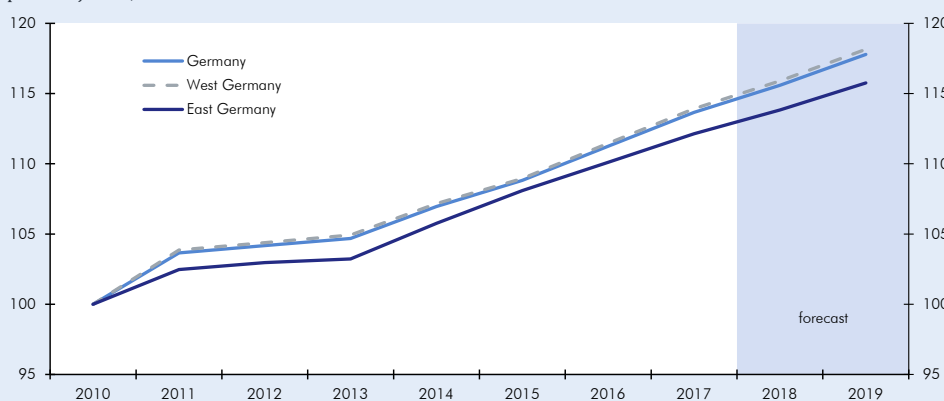
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Figure

Gross domestic product in East and West Germany

price-adjusted, chain index 2010 = 100



Source: Arbeitskreis „Volkswirtschaftliche Gesamtrechnungen (VGR) der Länder“

All in all, the Halle Institute for Economic Research (IWH) – Member of the Leibniz Association predicts an increase in East German gross domestic product by 1.5% for the year 2018 (Germany as a whole: 1.7%), after 1.9% in 2017. In 2019, East German production is likely to expand at a slightly different rate (1.7%). The unemployment rate is expected to fall from 7.6% in 2017 to 6.9% in 2018 and 6.6% in 2019 (Germany in 2017: 5.7%, 2018: 5.2 %, 2019: 4.8%).

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