

Press Release 21/2018

Halle (Saale), 13th December 2018

Economic activity in the world and in Germany is losing momentum

In the second half of 2018, the upturn of the German economy has stalled. Production of the automotive industry declined because of delays in switching production to WLTP compliant cars. Irrespective of this, the German export business has been weakening since the beginning of the year, since the global economy, burdened by the political uncertainties surrounding trade conflicts, the impending Brexit and the conflict over the Italian budget, was unable to keep up with the high momentum of 2017. “It is to be expected that the less benign external environment will not only dampen exports, but will also impact on companies’ investment and hiring decisions”, says Oliver Holtemöller, head of the Department Macroeconomics and vice president at Halle Institute for Economic Research (IWH). Gross domestic product is expected to increase by 1.5% in 2018 and by 1.4% in 2019, which is roughly equal to the growth rate of economic capacity in Germany.

Press embargo:
13th December 2018,
01:00 p.m. CEST

Press contact
Stefanie Müller
Tel +49 345 7753 720
presse@iwh-halle.de

Scientific contact
Oliver Holtemöller
Tel +49 345 7753 800
ohr@iwh-halle.de

Keywords
global economy, Germany, business cycle, financial markets, monetary policy, financial policy, forecast, labour market, production

Halle Institute for Economic Research (IWH) – Member of the Leibniz Association
Tel +49 345 7753 60
Fax +49 345 7753 820

Kleine Maerkerstrasse 8
D-06108 Halle (Saale)
Germany

P.O. Box 11 03 61
D-06017 Halle (Saale)
Germany

www.iwh-halle.de

Forecast for Germany: Key Economic Indicators^a for Germany, 2018–2020

	2017	2018	2019	2020
percentage change over previous year (price adjusted)				
Germany	2.2	1.5	1.4	1.8
East Germany ^a	1.9	1.6	1.4	1.7
percentage change over previous year in %				
hours worked	1.3	1.4	0.6	0.5
hourly union wages	2.5	2.9	2.6	2.1
hourly actual wages	2.4	2.9	3.2	2.8
unit labour costs ^b	1.5	2.6	2.6	1.5
consumer price index	1.8	2.0	1.7	1.6
1 000 persons				
employment (domestic)	44 269	44 842	45 142	45 355
unemployment ^f	2 533	2 341	2 236	2 163
in %				
unemployment rate ^d	5.7	5.2	4.9	4.7
East Germany ^a	7.6	6.9	6.6	6.4
in % of nominal GDP				
general government overall balance	1.0	1.8	1.2	1.0
current account balance	8.0	7.2	6.9	7.0

^a East Germany including Berlin. – ^b Per hour (IWH calculations). – ^c Federal Employment Agency (BA) concept. – ^d Unemployment in % of civilian labour force (Federal Employment Agency (BA) concept).
Source: Federal Statistical Office; 2018–2020: IWH forecast (as of December 13, 2018).

The international economy

At the end of the year 2018, many things point to a gentle end to the global economic upturn. Since the beginning of the year, companies have been less upbeat on average, and share prices have fallen worldwide. The main reasons for the increasingly skeptical views of companies and financial market participants for the year 2019 are the expiration of expansive impulses from the monetary and financial policy in the US and the continuation of trade conflicts. Though the US agreed with China on a three-month standstill agreement at the end of November, the dispute, similar to the one with the European Union, can soon escalate again. Overall, economic policy in the advanced economies will be less expansionary in 2019 than it was in 2018. However, the European Central Bank (ECB) is unlikely to raise its key interest rates to above 0% before the end of 2019, partly because of the continued low price pressure. Fiscal policy will be expansive in the Euro area in 2019, but only slightly so when abstracting from Italy. Due to trade conflicts and also because the expansion of production often reaches capacity limits, especially in the construction industry, global production will expand by 3.0% in 2019, more slowly than in previous years.

The German economy

In the second half of 2018, the upturn in the German economy has stalled. In the third quarter, production dropped for the first time in three and a half years. The setback is mainly due to problems in the automotive industry: Many vehicle types were not available because they were not certified according to the new emission test method. However, production growth would probably have slowed even without these dampers. Export business has been weakening since the beginning of the year, as the international economy was unable to keep up with the strong momentum of 2017. Domestically, however, the upturn in Germany seems not to have slowed down over the course of the year. One main reason for this is that financing conditions continue to be favourable, and they will remain attractive in 2019 due to the expansionary monetary policy of the ECB. However, it is expected that the less benign external environment dampens exports and will soon affect companies' investment and hiring decisions – initially in the manufacturing industry, later in the service sector. The shortage of skilled workers in construction, but also in other sectors, has an additional damping effect. All together, it is expected that production in 2019 will only increase at about the same rate as the production capacity. All in all, according to this forecast, gross domestic product in Germany will increase by 1.5% in 2018 and by 1.4% in 2019.

The factors that dampen the overall German economy apply to East Germany as well, since shortages of skilled labour are even more serious here than in the West. However, a significant expansion in disposable incomes is likely to cause East German households to expand their consumption significantly. We expect production in East Germany to expand by 1.6% in 2019 and the unemployment rate to fall from 6.9% in 2018 to 6.6% in 2019.

The risks to the German economy are essentially the same as those for the global economy. The uncertainties associated with Brexit and the conflict over the Italian budget are of particular importance to Germany, since it is a close trading partner of both economies. In addition, the introduction of high US tariffs on automobile imports would probably hit the German economy particularly hard because the motor industries are of great importance in Germany. There are other risks associated with the automotive sector: The decline in production might not solely have

been due to certification problems, since diesel-powered vehicles, a product class that is particularly important for German suppliers, apparently have lost much of their appeal. More generally speaking, a structural change in the automotive industry expected by many experts could rather soon become reality and might weigh on the German economy in the coming years.

The [extended version of this forecast \(“Konjunktur in der Welt und in Deutschland verliert an Dynamik“\)](#) includes a box on the effects of introducing WLTP on motor vehicle production from a European perspective and a box on estimating the production potential in Germany.

Publication

Brautzsch, Hans-Ulrich; Claudio, João Carlos; Drygalla, Andrej; Exß, Franziska; Heinisch, Katja; Holtemöller, Oliver; Kämpfe, Martina; Lindner, Axel; Müller, Isabella; Schultz, Birgit; Staffa, Ruben; Wieschemeyer, Matthias; Zeddies, Götz: Konjunktur aktuell: Konjunktur in der Welt und in Deutschland verliert an Dynamik. Konjunktur aktuell, Jg. 6 (4), 2018. Halle (Saale) 2018, forthcoming.

Scientific contact

Professor Dr Oliver Holtemöller
Tel +49 345 7753 800
Oliver.Holtemoeller@iwh-halle.de

Press contact

Stefanie Müller
Tel +49 345 7753 720
presse@iwh-halle.de

 IWH on Twitter
 IWH on Facebook

The Halle Institute for Economic Research (IWH) – Member of the Leibniz Association was founded in 1992. With its three research departments – Macroeconomics, Financial Markets, and Structural Change –, IWH conducts economic research and provides economic policy recommendations, which are founded on evidence-based research. With the IWH’s guiding theme “From Transition to European Integration”, the institute’s research concentrates on the determinants of economic growth processes with a focus on efficient capital allocation in a national and European context. Particular areas of interest for the institute are macroeconomic dynamics and stability, microeconomic innovation processes, productivity and labour markets, the dynamics of structural adjustment processes, financial stability and growth and the role of financial markets for the real economy.

The Leibniz Association connects 95 independent research institutions that range from the natural, engineering and environmental sciences via economics, spatial and social sciences to the humanities. Leibniz institutes address issues of social, economic and ecological relevance. They conduct knowledge-driven and applied basic research, maintain scientific infrastructure and provide research-based services. For further information see <http://www.leibniz-gemeinschaft.de/en/home/>.