

JOINT ECONOMIC FORECAST 1/2019 PRESS RELEASE

Berlin, April 4, 2019

Significant cooling of the economy – Political risks high

Berlin, April 4 – Germany’s leading economics research institutes have revised their forecasts for economic growth in 2019 significantly downward. They expect Germany’s gross domestic product to increase by 0.8%. This is more than one percentage point less than in autumn 2018, when the forecast was still for 1.9% growth. In contrast, the institutes confirm their previous forecast for the year 2020: gross domestic product is expected to increase by 1.8%. These are the results of the Joint Economic Forecast for spring 2019, which will be presented in Berlin on Thursday.

“The long-term upswing of the German economy has come to an end,” says Oliver Holtemöller, head of the Department of Macroeconomics and Vice President of the Halle Institute for Economic Research (IWH), which coordinated this spring’s report. The report concludes that political risks have further clouded the global economic environment. However, the economic slump in the second half of 2018 is due primarily to obstacles to production in industry. “We still consider the chance of a pronounced recession to be slight,” Holtemöller adds. The forecast was completed as of March 29, 2019, when it still seemed that a hard Brexit would be avoided. This has now become less likely, but is still possible. However, if a no-deal Brexit occurs, economic growth this year and the next is likely to be significantly lower than indicated in this forecast.



EMBARGO

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Table

Key forecast figures for Germany

	2016	2017	2018	2019	2020
Real gross domestic product ¹	2.2	2.2	1.4	0.8	1.8
Employment ² (1,000 persons)	43,642	44,269	44,838	45,265	45,531
Unemployment (1,000 persons)	2,691	2,533	2,340	2,190	2,085
Unemployment rate BA ³ (in %)	6.1	5.7	5.2	4.8	4.6
Consumer prices ^{1,4}	0.5	1.5	1.8	1.5	1.8
Unit labor costs ^{1,5}	1.2	1.5	2.6	3.3	1.5
General government deficit/surplus ⁶					
EUR billion	28.7	34.0	58.0	41.8	35.6
in % of GDP	0.9	1.0	1.7	1.2	1.0
Balance on current account					
EUR billion	265.5	261.9	246.4	225.4	230.2
in % of GDP	8.4	8.0	7.3	6.5	6.3

¹ Percent change over previous year. – ² Domestic concept. – ³ Unemployed persons in % of civilian labor force (Federal Employment Agency concept). – ⁴ Consumer price index (2015 = 100). – ⁵ Compensation of employees per hour worked by employees in relation to labor productivity. – ⁶ On national accounts definition (ESA 2010).

Sources: Federal Statistical Office; Federal Employment Agency; Deutsche Bundesbank; 2019 and 2020: forecast by the institutes.

Employment growth is expected to lose momentum, but the number of people in employment will rise from 45.3 million this year to 45.5 million next year. Over the same period, the number of registered unemployed people will decline from 2.2 million to 2.1 million. This will bring the unemployment rate down from 4.8% to 4.6%. Consumer price inflation is projected to rise from an average of 1.5% this year to 1.8% in 2020. Domestic inflation will increase. The institutes expect the government to see significant fiscal surpluses over the entire forecast period, although they will shrink considerably: while last year's surplus reached a record high of 58 billion euros, this year's is likely to be down to 41.8 billion euros and next year's, 35.6 billion euros.

In view of the economic slowdown, fiscal policy should let the automatic stabilisers do their job. It should not seek to consciously save for the sake of Germany's "black zero"; after all, both the German debt brake and the European fiscal policy framework explicitly permit cyclical deficits.

The risks for the German and the global economy have grown since autumn 2018. At the international level, there are threats posed by the trade dispute between the US and China and by the still unresolved Brexit process. At the national level, the economic situation is weighed down by supply bottlenecks, a shortage of skilled workers, and difficulties in the automotive industry.

The Joint Economic Forecast was prepared by DIW (Berlin), the ifo Institute (Munich), IfW (Kiel), IWH (Halle), and RWI (Essen).

Appendix

Full-length version of the report

Joint Economic Forecast Project Group: Significant Cooling of the Economy – Political Risks High, Spring 2019. Halle (Saale) 2019.

The full-length version of the report will be available on April 4, 2019 as of 10:00 a.m. at

www.gemeinschaftsdiagnose.de/category/gutachten/.

About the Joint Economic Forecast

The Joint Economic Forecast is published twice a year on behalf of the German Federal Ministry for Economic Affairs and Energy. The following institutes participated in the spring 2019 report:

- German Institute for Economic Research (DIW Berlin)
- ifo Institute – Leibniz Institute for Economic Research at the University of Munich in cooperation with the KOF Swiss Economic Institute at ETH Zurich
- Kiel Institute for the World Economy (IfW Kiel)
- Halle Institute for Economic Research (IWH) – Member of the Leibniz Association
- RWI – Leibniz Institute for Economic Research in cooperation with the Institute for Advanced Studies Vienna

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