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Downturn in Germany continues

Trade disputes are causing international trade in goods to decline this year. The manufacturing industry in Germany is particularly affected by this. However, a robust labour market is supporting the economy. According to IWH autumn economic forecast, German gross domestic product (GDP) will increase by 0.5% in 2019. At 1%, output growth in East Germany is likely to be significantly higher than in West Germany.

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Forecast for Germany: Key Economic Indicators ^a for Germany, 2019–2021				
	2018	2019	2020	2020
percentage change over previous year (price adjusted)				
Germany	1.5	0.5	1.1	1.4
East Germany ^a	1.6	1.0	1.3	1.4
percentage change over previous year in %				
hours worked	1.3	0.7	0.5	0.7
hourly union wages	2.9	3.1	2.1	2.3
hourly actual wages	3.0	2.9	2.3	2.5
unit labour costs ^b	2.5	3.3	1.8	1.7
consumer price index	1.8	1.5	1.6	1.6
1 000 persons				
employment (domestic)	44 854	45 242	45 478	45 836
unemployment ^f	2 340	2 274	2 254	2 154
in %				
unemployment rate ^d	5.2	5.0	4.9	4.7
East Germany ^a	6.9	6.5	6.3	6.0
in % of nominal GDP				
general government overall balance	1.9	1.5	0.7	0.2
current account balance	7.3	6.8	6.5	6.4

^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).

Sources: Federal Statistical Office; 2019-2021: IWH forecast (as of September 5, 2019).

The global economy has continued to cool down in the middle of 2019. Industrial production stagnated in the first half of the year and trade in goods has been on the decline already since autumn 2018, mainly due to US trade conflicts. However, because services almost everywhere expanded quite markedly, overall production growth slowed only moderately. Against this background, financial markets expectations have deteriorated significantly. A number of central banks have already cut interest rates or are planning such moves for the near future. Financial markets expect very low interest rates over the long term as well, both in nominal and in real terms. In the coming quarters, US gross domestic product (GDP) will probably expand at a slower rate than its growth potential. Chinese growth momentum will slow further while the euro area downturn is expected to continue. The present forecast assumes that there will be a Brexit without an accompanying agreement

at the end of October. However, pragmatic regulations will prevent a collapse of economic transactions between the UK and the EU, and the European financial system is expected to remain stable.

German GDP fell by 0.1% in the second quarter of 2019. “The recession in the manufacturing sector has continued due to weak demand for German export goods. Domestic demand has so far lost only moderate momentum”, says Oliver Holtemöller, head of the Department Macroeconomics and vice president at the Halle Institute for Economic Research (IWH). However, lower orders for investment goods indicate that investment in equipment is likely to be subdued. “A severe recession, however, remains unlikely given the very favourable financing conditions and still healthy labour markets that cause workers’ incomes to rise significantly”, Holtemöller adds. In addition, fiscal policy this year provides an expansionary impulse to the economy that amounts to 0.7% in relation to GDP. The fiscal stimulus will be lower in the coming year. All things considered, the German economy will expand by 0.5% in the current and by 1.1% in the coming year, partly also due to a higher number of working days. The East German economy will expand by 1.0% this year and by 1.3% in 2020, slightly more than the West German economy.

The economic risks are substantial. An introduction of high tariffs on German car exports to the US cannot be ruled out. Moreover, the recession in the manufacturing sector could lead to a wave of bankruptcies and to high numbers of redundancies and layoffs, which would weigh heavily on domestic demand. Furthermore, the economic consequences of a Brexit without an accompanying agreement are difficult to quantify.

Publication

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