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Thanks to robust domestic demand, the impact of the manufacturing sector on East Germany is less severe than in the west – Implications of the Autumn 2019 Joint Economic Forecast and official regional data for the eastern German economy

In its autumn report, the Joint Economic Forecast Project Group states that the German economy has cooled further in the current year. The manufacturing sector is the main reason for the economic weakness. This affects the economy in East Germany as well.

This is shown by monthly data for exports of goods at regional levels and production in East Germany's manufacturing sector in the first quarter. However, East Germany's manufacturing sector accounts for only 16% of value added, which is lower than in Germany as a whole (23%), and domestic demand, which is largely directed to services, plays a more important role. This demand is likely to remain robust, partly because disposable incomes in East Germany have recently expanded more strongly than in the west: In 2018, they were 9.8% higher in the east than in 2014, and 7.2% higher in the west. Oliver Holtemöller, head of the Department Macroeconomics and vice president at the Halle Institute for Economic Research (IWH) explains: "One reason for this is that East German labour markets did particularly well recently. In addition, pensions are rising faster in the east than in the west."

All this explains why economic output in East Germany in the first half of the year expanded more strongly than in the west: According to official data, it was 0.8% higher than in the first half of 2018 in the east, but only 0.4% higher in the west. What made the difference was strong expansion by 1.9% in Berlin, where services dominate the economy. For 2019 as a whole, economic output in eastern Germany is expected to grow by 1%, which is significantly more than in West Germany (0.5%). At 1.3%, growth in 2020 is likely to be only slightly higher than in western Germany. According to the Federal Employment Agency's definition, the unemployment rate will fall from 6.9% in 2018 to 6.5% in 2019 and 6.3% in 2020.

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