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Global economy slowly gains momentum – but Germany still stuck in a downturn

In 2020, the global economy is likely to benefit from the recent thaw in trade disputes. Germany's manufacturing sector, however, will recover only slowly. "In 2020, the German economy will probably grow at a rate of 1.1%, and adjusted for the unusually high number of working days the growth rate will only be 0.7%", says Oliver Holtemöller, head of the Department Macroeconomics and vice president at Halle Institute for Economic Research (IWH). With an estimated growth rate of 1.3%, production in East Germany will outpace total German production growth.

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Forecast for Germany: Key Economic Indicators^a for Germany, 2019–2021

	2018	2019	2020	2021
percentage change over previous year (price adjusted)				
Germany	1,5	0,5	1,1	1,6
East Germany ^a	1,6	1,0	1,3	1,6
percentage change over previous year in %				
hours worked	1,3	0,6	0,5	0,6
hourly union wages	2,9	3,2	2,2	2,2
hourly actual wages	3,0	3,2	2,4	2,2
unit labour costs ^b	2,5	3,5	1,8	1,2
consumer price index	1,8	1,4	1,3	1,4
1 000 persons				
employment (domestic)	44 854	45 249	45 407	45 588
unemployment ^c	2 340	2 265	2 253	2 235
in %				
unemployment rate ^d	5,2	5,0	4,9	4,9
East Germany ^a	6,9	6,5	6,3	6,2
in % of nominal GDP				
general government overall balance	1,9	1,6	0,6	0,0
current account balance	7,4	7,3	7,5	7,5

^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 December 12, 2019).

The international economy

Since autumn 2019, there have been signs of easing trade tensions, and the risk of a hard Brexit has reduced markedly. Despite these developments, recent production data do not yet indicate substantial improvements in the international economy. Also owing to below-target inflation rates in many advanced economies, central banks have shifted to a more expansionary monetary policy stance. Without further flare-ups in trade tensions, the downturn in the manufacturing sector will probably bottom out until early 2020. The political framework underpinning international

trade, however, will remain fragile. Indeed, the lasting uncertainty with respect to international trade is a major factor preventing the world economy from a strong rebound over the forecast period. In addition, the contributions to global growth from the economic powerhouse China are likely to diminish further.

The German economy

The German economy is still in a downturn, struggling with weak foreign demand for manufacturing products due to protectionist policies in the US and due to the immanent Brexit. The shift in Chinese demand from industrial goods to services also weighs particularly heavy on German exporters. Another factor straining the German economy is the pending transition from combustion to electric engines in the automotive industry. In 2020, a slight upturn in the international economy will probably lead to increased demand for industrial goods benefitting German exports. Due to rising unit labour costs, the increase in German exports will however be limited. On the other hand, the already sizeable wage increases aid in stabilising the German economy in the current downturn through bolstering domestic demand. Furthermore, fiscal policy continues to be expansionary, and the favorable financing conditions accompanied by a housing shortage in urban areas are likely to sustain the current construction boom. "Overall, the German economy is expected to pick up pace slowly in the course of 2020", Holtemöller adds. Consumer price inflation is expected to remain moderate throughout the forecast period, and employment will increase only slightly.

A renewed escalation of the trade conflicts between the US and China or the European Union poses the greatest downward risk to the current outlook. Additionally, a deterioration in asset prices, particularly in the US and in Japan, could quickly erode global financing conditions. A specific risk to the German economy remains the transition of the automotive industry towards electric propulsion. The associated structural change may prove to be a higher burden to the economy than assumed here. The decline in purchasing power, which would accompany a crisis in the automotive sector, could noticeably dampen aggregate demand in Germany.

Extended version of this forecast: "**Konjunktur aktuell: Weltwirtschaft wieder etwas kräftiger – aber Deutschland zunächst weiter im Abschwung**".

Publication

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