

JOINT ECONOMIC FORECAST 1/2020 PRESS RELEASE

Berlin, April 8, 2020

Economy in Shock – Fiscal Policy to Counteract

The coronavirus pandemic is triggering a severe recession in Germany. Economic output will shrink by 4.2% this year. This is what the leading economics research institutes expect in their spring report. For next year, they are forecasting a recovery and growth of 5.8%.

Gross domestic product is likely to have shrunk by 1.9% in the first quarter of 2020 alone. In the second quarter, it will slump by 9.8% as a result of the shutdown. This is the sharpest decline ever recorded in Germany since quarterly national accounts began in 1970; it is also more than twice as steep as the decline during the global financial crisis in the first quarter of 2009.

“The recession is leaving very clear marks on the labor market and the government budget,” says Timo Wollmershäuser, Head of Forecasts at ifo. “At its peak, the unemployment rate will jump to 5.9% this year and the ranks of short-time workers will swell to 2.4 million.” On average, the unemployment figures will rise by almost a quarter of a million to 2.5 million year over year.

“Germany is in a good position to cope with the economic slump and to return in the medium term to the economic level that it would have reached without the crisis,” Wollmershäuser says. Given its favorable financial situation, the government can afford to enact far-reaching measures to cushion the short-term negative consequences for companies and private households. This year, these measures will lead to a record deficit for the general government (federal government, states, municipalities, social security) of EUR 159 billion. General government gross debt is expected to increase to 70% of nominal GDP this year.

The downside risks associated with this forecast are considerable. For instance, the pandemic could abate much more slowly than anticipated. Efforts to restart the economy might also be less than successful and could trigger a new wave of infections. What’s more, additional infection control measures could come into force, which could lead to longer or more extensive production stoppages. This would increase the likelihood of distortions in the financial system as a result of increasing corporate insolvencies that could not be prevented by state support.



PRESS EMBARGO

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PRESS CONTACT

Harald Schultz
ifo Institute, Munich
Phone +49 89 9224 1218
Schultz@ifo.de

SCIENTIFIC CONTACT

Timo Wollmershäuser
ifo Institute, Munich
Phone +49 89 9224 1406
Wollmershaeuser@ifo.de

www.gemeinschaftsdiagnose.de

Table

Key Forecast Figures for Germany

	2016	2017	2018	2019	2020	2021
Real gross domestic product ¹	2.2	2.5	1.5	0.6	-4.2	5.8
Employment ² (1 000 persons)	43 655	44 248	44 854	45 251	44 969	45 232
Unemployment (1 000 persons)	2 691	2 533	2 340	2 267	2 503	2 391
Unemployment rate BA ³ (in %)	6.1	5.7	5.2	5.0	5.5	5.3
Consumer prices ⁴	0.5	1.5	1.8	1.4	0.6	1.2
Unit labour costs ⁵	1.1	1.2	2.5	3.4	3.4	-0.9
General government financial balance ⁶						
EUR billion	37.1	40.3	62.4	49.8	-159.1	-0.8
in % of GDP	1.2	1.2	1.9	1.4	-4.7	0.0
Balance on current account						
EUR billion	266.7	253.9	247.4	245.5	198.0	215.0
in % of GDP	8.5	7.8	7.4	7.1	5.9	6.0

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

Sources: Federal Statistical Office; Federal Employment Agency; Deutsche Bundesbank; 2020 to 2021: forecast by the institutes.

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

Appendix

Full-length version of the report (in German)

Joint Economic Forecast Project Group: Economy in Shock – Fiscal Policy to Counteract, Spring 2020. Munich 2020.

The full-length version of the report will be available on April 8, 2020 at 10:00 a.m.

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 report 2020:

- 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

Scientific Contacts

Dr Claus Michelsen
German Institute for Economic Research (DIW Berlin)
Phone +49 30 89789 458
CMichelsen@diw.de

Professor Dr Timo Wollmershäuser
ifo Institute – Leibniz Institute for Economic Research at the University of Munich
Phone +49 89 9224 1406
Wollmershaeuser@ifo.de

Professor Dr Stefan Kooths
Kiel Institute for the World Economy (IfW Kiel)
Phone +49 341 8814 579 oder +49 30 2067 9664
Stefan.Kooths@ifw-kiel.de

Professor Dr Oliver Holtemöller
Halle Institute for Economic Research (IWH) – Member of the Leibniz Association
Phone +49 345 7753 800
Oliver.Holtemoeller@iwh-halle.de

Professor Dr. Torsten Schmidt
RWI – Leibniz Institute for Economic Research
Phone +49 201 8149 287
Torsten.Schmidt@rwi-essen.de