

Press Release 9/2020

Halle (Saale), 16th June 2020

The economy adapts to the pandemic

In the first half of 2020, the pandemic has exacted a heavy toll on the German economy, causing a slump in production that will not be fully recovered within the next year. According to IWH summer economic forecast, gross domestic product is expected to contract by 5.1% in 2020 and to increase by 3.2% in 2021. The decline in production in Eastern Germany is likely to be less pronounced compared to Germany as a whole and estimated at 3.2% in 2020.

Press embargo:
16th June 2020,
12:00 p.m. CEST

Press contact
Stefanie Müller
Tel +49 345 7753 720
presse@iwh-halle.de

Scientific contact
Oliver Holtemöller
Tel +49 345 7753 800
ohr@iwh-halle.de

Keywords
global economy, Germany, business cycle, financial markets, monetary policy, financial policy, forecast, labour market, production

Halle Institute for Economic Research (IWH) – Member of the Leibniz Association
Tel +49 345 7753 60
Fax +49 345 7753 820

Kleine Maerkerstrasse 8
D-06108 Halle (Saale)
Germany

P.O. Box 11 03 61
D-06017 Halle (Saale)
Germany

www.iwh-halle.de/en/

Table

Forecast for Germany: Key Economic Indicators^a for Germany, 2018–2021

	2018	2019	2020	2021
percentage change over previous year (price adjusted)				
Germany	1.5	0.6	-5.1	3.2
East Germany ^a	1.3	1.3	-3.2	2.4
percentage change over previous year in %				
hours worked	1.3	0.6	-3.7	1.5
hourly union wages	2.9	3.2	1.9	1.6
hourly actual wages	3.0	3.2	2.0	0.0
unit labour costs ^b	2.5	3.3	3.6	-1.8
consumer price index	1.8	1.4	0.4	1.7
1 000 persons				
employment (domestic)	44 854	45 236	44 721	44 432
unemployment ^c	2 340	2 267	2 860	2 930
in %				
unemployment rate ^d	5.2	5.0	6.3	6.4
East Germany ^a	6.9	6.4	7.8	7.9
in % of nominal GDP				
general government overall balance	1.9	1.5	-6.7	-3.0
current account balance	7.4	7.1	3.8	4.2

^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; 2020-2021: IWH forecast (as of June 16, 2020).

As governments around the world have restricted mobility and human interaction to contain the spread of COVID-19, the global economy was sent into a deep recession. Since May, many governments have started to lift some of the imposed measures. While the dynamics of the pandemic have decreased sharply in Asia and noticeably in the European Union, the United States are still grappling with rising infection numbers in some regions. Underpinned by the massive fiscal policy responses in advanced economies, financial markets have proven quite resilient so far. Nevertheless, the global production slump in the first half of 2020 will likely be

considerably more severe than the decline in production following the financial crisis in the winter half of 2008/2009.

The German economy was hit hard by the pandemic. However, neighbouring countries in the euro area have often fared worse, while at the same time exhibiting higher infection and death rates. The trough of the recession is likely to be reached in the second quarter, says Oliver Holtemöller, head of the Department Macroeconomics and vice president at the Halle Institute for Economic Research (IWH): The epidemic receded in May and June, prompting restrictions to be relaxed successively. This forecast assumes an approximately constant number of active corona cases. Supported by economic policy measures, the economy is likely to recover, albeit slowly given the persistent high levels of uncertainty and anemic exports in the medium term. Gross domestic product is expected to fall by 5.1% in 2020 and increase by 3.2% in the coming year. The unemployment rate will increase sizably this year, from 5.0% in 2019 to 6.3%. Consumer prices in 2020 are likely to be only 0.4% higher than in the previous year. Although a number of measures to combat pandemics are currently increasing production costs, the lower energy prices and the reduction of VAT rates are more important. The strongly expansionary fiscal policy, together with the slump in production, will reduce the general government balance in 2020 to -6.7%.

Holtemöller expects the contraction of the economy to be likely less pronounced in East Germany than in Germany as a whole, not least because the number of infections is markedly lower here. "The relatively low exposure of economic activity in East Germany to the overall business cycle is also likely to contribute to a relatively moderate decline in economic activity", he explains.. The main risk for this forecast is a second sharp rise in Corona infections in the northern hemisphere in autumn.

The full version of this forecast ([Konjunktur aktuell: The Economy adapts to the pandemic](#), only available in German) contains three boxes:

[Box 1: Effects of the Stimulus Package \(German\)](#)

[Box 2: Estimation of Potential Output \(German\)](#)

[Box 3: Implications of Public Finance Debt Rules during the Pandemic \(German\)](#)

Publication

Brautzsch, Hans-Ulrich; Claudio, João Carlos; Drygalla, Andrej; Exß, Franziska; Heinisch, Katja; Holtemöller, Oliver; Kämpfe, Martina; Lindner, Axel; Müller, Isabella; Schultz, Birgit; Staffa, Ruben; Wieschemeyer, Matthias; Zeddies, Götz: *Konjunktur aktuell: Wirtschaft stellt sich auf Leben mit dem Virus ein. Konjunktur aktuell, Jg. 8 (2), 2020.* Halle (Saale) 2020.

Scientific contact

Professor Dr Oliver Holtemöller
Tel +49 345 7753 800
Oliver.Holtemoeller@iwh-halle.de

Press contact

Stefanie Müller
Tel +49 345 7753 720
presse@iwh-halle.de

 IWH on Twitter
 IWH on Facebook

The IWH [list of experts](#) provides an overview of IWH research topics and the researchers and scientists in these areas. The relevant experts for the topics listed there can be reached for questions as usual through the IWH [Press Office](#).

The Halle Institute for Economic Research (IWH) – Member of the Leibniz Association was founded in 1992. With its three research departments – Macroeconomics, Financial Markets, and Structural Change –, IWH conducts economic research and provides economic policy recommendations, which are founded on evidence-based research. With the IWH's guiding theme "From Transition to European Integration", the institute's research concentrates on the determinants of economic growth processes with a focus on efficient capital allocation in a national and European context. Particular areas of interest for the institute are macroeconomic dynamics and stability, microeconomic innovation processes, productivity and labour markets, the dynamics of structural adjustment processes, financial stability and growth and the role of financial markets for the real economy.

The Leibniz Association connects 96 independent research institutions that range from the natural, engineering and environmental sciences via economics, spatial and social sciences to the humanities. Leibniz institutes address issues of social, economic and ecological relevance. They conduct knowledge-driven and applied basic research, maintain scientific infrastructure and provide research-based services. For further information see <http://www.leibniz-gemeinschaft.de/en/home/>.