

Press Release 18/2020

Halle (Saale), 16th September 2020

Economy recovers from the shutdown – but a quick return to pre-crisis normality is unlikely

The German economy has bounced back strongly over the summer, recovering a considerable part of the production slump caused by the shutdown in spring. Nevertheless, real gross domestic product in 2020 is likely to contract by 5.7%. In 2021, growth is expected to average 3.2% according to IWH autumn economic forecast. The decline in production in 2020 is likely to be less pronounced in East Germany compared to Germany as a whole.

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

Press contact
Stefanie Müller-DreiBigacker
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, corona

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, 2019–2022

	2019	2020	2021	2022
percentage change over previous year (price adjusted)				
Germany	0.6	-5.7	3.2	2.5
East Germany ^a	1.3	-3.0	2.9	2.2
percentage change over previous year in %				
hours worked	0.6	-5.6	3.1	0.6
hourly union wages	3.2	2.0	1.5	2.2
hourly actual wages	3.1	3.2	-2.2	2.0
unit labour costs ^b	3.2	3.6	-2.2	0.1
consumer price index	1.4	0.5	1.2	1.2
1 000 persons				
employment (domestic)	45 269	44 762	44 833	45 187
unemployment ^c	2 267	2 732	2 727	2 421
in %				
unemployment rate ^d	5.0	6.0	5.9	5.3
East Germany ^a	6.4	7.4	7.3	6.7
in % of nominal GDP				
general government overall balance	1.5	-5.4	-4.1	-3.2
current account balance	7.1	4.6	3.9	4.6

^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; 2020-2022: IWH forecast (as of September 16, 2020).

The corona pandemic caused the global economy to collapse dramatically in the first half of 2020. However, as activity picked up strongly again in the summer, a large part of the decline will likely be recovered in the second half of the year. The fiscal support mustered in response to the pandemic by advanced economies has been unprecedented in scale, even if not all the measures take effect in the current year. However, the pandemic is not yet under control. The number of infections and deaths has increased in recent months, especially in South America, India, and the

USA, but also in Spain and France. Economic activities, such as tourism or transport services, will continue to be affected all over the world in 2021.

“Germany’s gross domestic product fell much more sharply in the first half of 2020 than during the Great Recession, and it seems likely that the pandemic will leave lasting changes,” says Oliver Holtemöller, head of the Department Macroeconomics and vice president at the Halle Institute for Economic Research (IWH). While activity has risen sharply again since May, production in the manufacturing sector has not returned to pre-crisis levels. The recession has also reached the labour market: The number of employees fell by 1.5% between February and July 2020. Propped up by expansive fiscal policy measures and automatic stabilisers, disposable incomes have remained stable and private consumption is expected to grow strongly in the second half of the year. However, the structural changes forced by the pandemic will likely weigh on the economy over the forecasting period. Production capacities are likely to remain underutilised until 2022.

According to Holtemöller, East Germany seems less affected by the economic fallout from the pandemic than Germany as a whole. A lower number of infections has likely attributed to this trend. People’s mobility in East Germany has not receded as strongly during the pandemic as in Western Germany. Moreover, public service providers, whose production is expected to remain quite stable this year, have a higher share of total gross value added in the east than in Germany as a whole.

The general government balance will be –5.4% in relation to gross domestic product in 2020 and will then slowly decline. The main risk for the German economy is still the course of the pandemic. The current sharp rise in the number of infections in France and Spain may also jeopardise the recovery in Germany, as the economies are closely intertwined.

The long version of the forecast ([Wirtschaft erholt sich vom Corona-Schock – aber keine schnelle Rückkehr zur alten Normalität](#)) contains the following info boxes:

[Box 1: General Assumptions \(German\)](#)

[Box 2: VAT reduction only partially passed on to consumers \(German\)](#)

[Box 3: On the latest revision of the national accounts \(German\)](#)

[Box 4: Estimation of the potential output \(German\)](#)

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: *Wirtschaft erholt sich vom Corona-Schock – aber keine schnelle Rückkehr zur alten Normalität*. *Konjunktur aktuell*, Jg. 8 (3), 2020. Halle (Saale) 2020.

Scientific contact

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

Press contact

Stefanie Müller-Dreißigacker
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/>.