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Increase in personal contacts spurs economic activity

This summer the economic outlook in Germany is bright. As the pandemic is in retreat, the restrictions that have hampered many service activities are likely to be gradually lifted, and a strong boost in private purchases can be expected. The Halle Institute for Economic Research (IWH) forecasts that gross domestic product will increase by 3.9% in 2021 and by 4.0% in 2022. Production in East Germany is expected to increase by 3% in both years, respectively.

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

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

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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	–4.8	3.9	4.0
East Germany ^a	1.2	–3.8	3.0	3.0
percentage change over previous year in %				
hours worked	0.6	–4.7	1.7	3.2
hourly union wages	3.1	2.2	1.5	2.0
hourly actual wages	3.1	3.6	0.3	1.4
unit labour costs ^b	3.2	4.2	–1.7	0.7
consumer price index	1.4	0.5	2.1	1.9
1 000 persons				
employment (domestic)	45 269	44 818	44 952	45 458
unemployment ^f	2 267	2 695	2 592	2 301
in %				
unemployment rate ^d	5.0	5.9	5.7	5.0
East Germany ^a	6.4	7.3	7.1	6.4
in % of nominal GDP				
general government overall balance	1.5	–4.5	–5.1	–1.4
current account balance	7.5	7.0	6.1	5.9

^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 June 15, 2021).

Global economic production expands strongly in the summer of 2021. The main reason is that the pandemic is in retreat from the advanced economies of the West, where vaccination campaigns are progressing rapidly. World industrial production, however, has recently stopped growing. This is due to a variety of bottlenecks in production and a lack of transport capacities. Higher prices, especially for raw materials, have recently caused inflation rates to rise significantly. Monetary policy, like fiscal policy, nonetheless remains expansive in the advanced economies. While economic momentum in these countries will be high in the coming quarters, the picture is more differentiated elsewhere: In China, the catch-up process is already com-

plete, and while commodity producers are benefiting from higher prices, the pandemic will continue to weigh on the economy of many emerging and developing countries throughout 2021.

In **Germany**, the pandemic severely dampened economic activity until April. However, registered unemployment did not rise, also due to short-time work regulations. Real disposable income was, in spite of the crisis, almost at the pre-crisis level already at the beginning of the year, while private consumption was 11% lower. It will pick up strongly in the course of the summer as economic life returns to normal. This will particularly benefit the retail trade, the hospitality industry and other providers of leisure activities. Foreign demand for manufacturing products will also provide a strong stimulus. However, supply bottlenecks in the manufacturing sector are slowing the pace of expansion in Germany as elsewhere. It will probably take until the end of 2022 before capacity utilisation is back to normal. The employment situation will start to improve in the second quarter of 2021, and registered unemployment will be declining in the course of 2021. Inflation will remain well above 2% in the coming months, mainly due to base effects in the oil price. Because fiscal policy is still expansionary in 2021, the general government budget deficit will rise from 4.5% in relation to gross domestic product (GDP) to 5.1% despite the economic recovering. In 2022, the deficit will decline significantly to 1.4%.

“A downside risk for the German economy is the possibility that life returns to normal at a time when herd immunity has not yet been reached and that the pandemic therefore flares up again in the summer,” says Oliver Holtemöller, head of the Department Macroeconomics and vice president at the IWH, “this could delay the catch-up process again.” In addition, supply bottlenecks could weigh even more heavily on the manufacturing sector than assumed in this forecast. An upside risk is the possibility that more of the income saved during the crisis will be spent. Higher output growth and stronger price dynamics would be the result.

The extended version of the forecast ([Konjunktur aktuell: Zunahme persönlicher Kontakte beflügelt wirtschaftliche Aktivität](#)) contains the following two info boxes:

[Box 1: Assumptions and forecasts regarding the general conditions \(in German\)](#)

[Box 2: Estimation of production potential \(in German\)](#)

Publication

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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

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 IWH on Facebook

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