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Production bottlenecks delay recovery

The German recovery made good progress over the summer 2021. However, bottlenecks in sea transport and the production of intermediate goods are weighing on world trade. The rise in raw material prices has prompted inflation rates to spike, and an increase in new infections is clouding the outlook again. A weak final quarter is therefore to be expected. The Halle Institute for Economic Research (IWH) forecasts that German gross domestic product (GDP) will increase by 2.2% in 2021 and 3.6% in 2022 (East Germany: 1.8% and 2.8%).

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Table

Forecast for Germany: Key Economic Indicators^a for Germany, 2020–2023

	2020	2021	2022	2023
percentage change over previous year (price adjusted)				
Germany	-4.6	2.2	3.6	2.2
East Germany ^a	-3.8	1.8	2.8	1.8
percentage change over previous year in %				
hours worked	-4.9	1.6	1.6	0.5
hourly union wages	2.2	1.8	2.0	2.1
hourly actual wages	3.3	1.6	2.3	2.5
unit labour costs ^b	3.4	1.1	0.4	0.8
consumer price index	0.5	2.9	2.6	1.7
1 000 persons				
employment (domestic)	44 898	44 890	45 171	45 344
unemployment ^c	2 695	2 636	2 490	2 439
in %				
unemployment rate ^d	5.9	5.7	5.4	5.3
East Germany ^a	7.3	7.1	6.8	6.7
in % of nominal GDP				
general government overall balance	-4.3	-4.5	-1.3	-0.6
current account balance	6.9	6.7	6.1	6.5

^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; 2020-2022: IWH forecast (as of September 14, 2021).

Keywords

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

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Global economic production is likely to have increased strongly over the summer. Economic activity, however, is buoyant only in the advanced economies of the West. Waves of infections have recently weighed heavily on economic activity in large parts of Asia, where most of the people still lack full vaccination protection. In addition, the rise in commodity prices has caused rates of consumer price inflation to soar. Nevertheless, the U.S. Federal Reserve and the European Central Bank (ECB) will not abandon their expansionary courses any time soon. Thus, economic policy is still propping up Western economies. In other regions of the world, including East

Asia, conditions are less favourable. In addition, constrained production capacities are likely to limit supply in the manufacturing sector into the year 2021.

In Germany, many restrictions on services have been eased during summer thanks to the vaccination campaign, and private household consumption picked up markedly in the second quarter. But private consumption is still well below pre-crisis levels, and a rapid recovery is not in sight given persisting supply restrictions in the manufacturing sector and rising infection rates. "However, it is likely that the recovery will gain momentum in 2022 again, partly because the situation on the labour markets is steadily improving," says Oliver Holtemöller, head of the Department Macroeconomics and vice president at the IWH. Capacity utilisation is expected to return to normal by the end of 2022, especially as potential output is growing more slowly than before the crisis. Inflation will remain strong in the coming quarters, as CO₂ prices are set to rise in 2022 and current shortages on the international markets are likely to ease only slowly. A sharp increase in the minimum wage will also put upward pressure on prices. Inflation is expected to reach 2.9% this year. With base effects waning, inflation will fall to 2.6% in 2022. The general government budget deficit is expected to be 4.5% of GDP this year and 1.3% in 2022.

One risk to the German economy arises from the dependence of German manufacturers on international value chains. According to Holtemöller, current disruptions are thus hitting the German economy particularly hard, and it is difficult to estimate when they will be resolved. The relative success in containing the pandemic, if compared to other European countries, is also posing a risk, as it implies low numbers of people who have achieved immunity after a contraction of the disease. The portion of vaccinated people in the population is probably too low to prevent a Corona wave in fall.

The extended version of the forecast ([Konjunktur aktuell: Produktionsengpässe verzögern Erholung](#), in German) contains the following four info boxes (all in German):

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

[Box 2: Latest revision of the national accounts](#)

[Box 3: Estimation of potential output](#)

[Box 4: Flood disasters and regional economic development in Germany](#)

Publication

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