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German economy not yet immune to COVID 19 – outlook clouded again

The current pandemic wave and supply bottlenecks cause the German economy to stagnate in winter. When infection rates go down in spring, private consumption will increase significantly. In addition, supply restrictions will be gradually reduced. As a result, the economy will regain momentum. The Halle Institute for Economic Research (IWH) forecasts that German gross domestic product will increase by 3.5% (East Germany: 2.7%) in 2022, after 2.7% (East Germany: 2.1%) in the current year. Inflation is expected to decline only slowly.

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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	2.7	3.5	1.8
East Germany ^a	-3.8	2.1	2.7	1.5
percentage change over previous year in %				
hours worked	-4.9	2.1	2.5	0.8
hourly union wages	2.2	1.3	2.6	2.2
hourly actual wages	3.3	1.5	2.0	2.4
unit labour costs ^b	3.4	0.9	0.7	1.5
consumer price index	0.5	3.1	3.1	2.5
1 000 persons				
employment (domestic)	44,898	44,864	45,115	45,335
unemployment ^c	2,695	2,623	2,435	2,369
in %				
unemployment rate ^d	5.9	5.7	5.3	5.1
East Germany ^a	7.3	7.1	6.7	6.5
in % of nominal GDP				
general government overall balance	-4.3	-4.1	-2.4	-0.6
current account balance	7.0	6.5	5.7	6.3

^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 December 14, 2021).

At the end of 2021, a new wave of infections is weighing on economic activity in Europe; in addition, the emergence of the new Omicron virus variant has dampened the economic outlook. In most other regions of the world, the number of COVID-19 deaths has been declining since the summer, and accordingly, sentiment in the services sector rose globally in autumn. However, the manufacturing sector continues to suffer from shortages of intermediate goods and high commodity prices everywhere. High inflation will prompt the US Federal Reserve, but not the European Central Bank (ECB) for the time being, to tighten monetary policy significantly, since wage growth has accelerated strongly in the USA, unlike in the euro area. In the first

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and the second quarter of 2022, the global economy is likely to gain some momentum as supply bottlenecks ease. However, the uncertain progress of the pandemic remains a major risk for the global economy in 2022.

During the summer, the recovery of private consumption triggered a strong expansion of German production, although production in the manufacturing sector declined, since German producers suffer particularly from the global supply bottlenecks. The pandemic wave in winter is a setback for the hospitality industry and, to a lesser extent, for the retail sector. However, containment measures will presumably not reach the extent of the lockdown of last winter, and the dampening effect on the economy is likely to be less than a year ago. Moreover, some indicators point to an end of the decline in manufacturing production in the final quarter of 2021. "From spring onwards, infection rates are likely to go down due to seasonal factors, and private consumption will again expand significantly", says Oliver Holtemöller, head of the Department Macroeconomics and vice president at the IWH. In addition, very low financing costs continue to favour investment, especially in buildings, although the rapidly rising building costs show that the construction industry continues to produce at the limits of its capacity. Consumer price inflation, which is currently high as well, will decrease somewhat after the turn of the year, but will remain significantly higher than before the pandemic. This is because firms in the manufacturing sector will continue to have room for price increases and because wage dynamics will pick up, driven by the high number of vacancies and by the planned increases in the minimum wage.

According to Holtemöller, the uncertain course of the pandemic is still the main risk for the German economy. Restrictions will be gradually tightened until the infection figures drop significantly. In case of a severe winter lockdown such as a year ago, a similarly significant drop in production would have to be expected. "Economic developments for the rest of the year will largely depend on how controllable the Omikron virus variant will be", says the economist, "and finally there is the possibility of new variants spreading."

The extended version of the forecast ([Deutsche Wirtschaft noch nicht immun gegen COVID-19 – Ausblick erneut eingetrübt](#)) contains a [box on the estimation of potential output](#) (in German).

Publication




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