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Gas storages full – economic outlook less gloomy

The severe slump in the German economy expected last fall has not materialised because gas supply stabilises. However, due to high inflation, higher real interest rates and declining real incomes, the economy is likely to remain weak. In its spring forecast, the Halle Institute for Economic Research (IWH) expects production to grow by just 0.4% in 2023, and inflation to remain high at 5.8%.

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	2021	2022	2023	2024
percentage change over previous year (price adjusted)				
Germany	2.6	1.8	0.4	1.9
East Germany ^a	2.3	1.6	0.5	1.6
percentage change over previous year in %				
hours worked	1.7	1.4	-0.2	0.7
hourly union wages	1.3	2.2	3.6	3.5
hourly actual wages	1.8	4.7	5.7	4.1
unit labour costs ^b	0.7	3.8	5.4	3.2
consumer price index	3.1	6.9	5.8	3.5
1,000 persons				
employment (domestic)	44 980	45 570	45 832	45 896
unemployment ^f	2 613	2 418	2 494	2 473
in %				
unemployment rate ^d	5.7	5.3	5.4	5.4
East Germany ^a	7.1	6.7	6.8	6.8
in % of nominal GDP				
general government overall balance	-3.7	-2.6	-1.5	-0.3
current account balance	7.4	3.8	5.7	6.4

^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; 2023–2024: IWH forecast (as of March 14, 2023).

In spring 2023, opposing forces affect the global economy: The end of the pandemic and lockdowns in China will provide a boost for the Asian region in particular. However, continuing high inflation in most advanced economies is having a negative impact. Although rates of consumer price inflation are falling, this is mainly due to lower energy prices, and core rates remain high. Key interest rates will therefore be raised further. This will dampen demand in 2023, in particular in the construction sector. Supply bottlenecks, meanwhile, will become less important as a constraint on the supply side. Overall, the international economy will remain weak in 2023, with a stagnant first half in the euro area and a mild recession in the USA in the second half.

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In Germany, gross domestic product fell by 0.4% in the final quarter of 2022, but for the beginning of this year, leading indicators point to a slight increase, and firms have continued to expand employment. European energy and especially gas prices have fallen sharply from their record levels in late summer 2022. Thus, the terms-of-trade shock to the German economy was much milder than expected. There was no need to ration gas, partly because firms and private households significantly reduced their consumption of natural gas. In addition, not least because of the rapid installation of LNG terminals, the risk of an energy crisis for the winter of 2023/2024 has decreased significantly. Gas and electricity prices for private households are likely to be lower or only slightly higher on average than the prices guaranteed by the state for 80% of the volume last consumed by the individual household. Yet the economy is likely to remain weak, says Oliver Holtemöller, head of the Macroeconomics Department and vice president at the IWH. Despite its decline, the cost of energy is still significantly higher than it was before the gas shortage began in Europe in summer 2021. In the manufacturing sector, some energy-intensive goods are therefore currently not produced in Germany, but are imported instead. In addition, even without the energy and food components, inflation was at record highs at the beginning of 2023, and real disposable incomes of private households are falling. "To combat inflation, the European Central Bank (ECB) is tightening its monetary policy sharply, and higher financing costs are exacerbating the cost crisis in the German construction sector," Holtemöller says. According to the economic expert, demand from abroad is unlikely to provide much stimulus, as the global economy is in a downturn. While there is a chance that exports to China will pick up again in 2023 following the end of the lockdown there, another major destination for German exports, the USA, is likely to fall into recession.

The extended version of the forecast contains two boxes (all in German):

[Box 1: Cost crisis in the construction industry](#)

[Box 2: Estimation of potential output](#)

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