

JOINT ECONOMIC FORECAST 1/2023 PRESS RELEASE

Berlin, 5 April 2023

Stubborn Core Inflation – Time for Supply Side Policies

The leading economic research institutes have raised their forecast for growth in German economic output in the current year to 0.3%. In the fall, they were still expecting a decline of 0.4%. “The economic setback in the winter half-year 2022/2023 is likely to have been less severe than feared in the fall. The main reason for this is a smaller loss of purchasing power as a result of a significant drop in energy prices,” says Timo Wollmershäuser, Head of Forecasts at ifo. Nevertheless, the rate of inflation will fall only slowly from 6.9% last year to 6.0% this year.

Government relief measures and foreseeably high wage increases in Germany are strengthening domestic demand and keeping domestic inflation high. Only next year will this aspect of inflationary pressure also ease, bringing the inflation rate down noticeably to 2.4%. Gross domestic product is then expected to grow more strongly again by 1.5%.



PRESS EMBARGO

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PRESS CONTACT

Harald Schultz
ifo Institute
Tel +49 89 9224 1218
Schultz@ifo.de

SCIENTIFIC CONTACT

Timo Wollmershäuser
ifo Institute
Tel +49 89 9224 1406
Wollmershaeuser@ifo.de

www.gemeinschaftsdiagnose.de

Table Key Forecast Figures for Germany					
	2020	2021	2022	2023	2024
Price adjusted GDP ¹	-3.7	2.6	1.8	0.3	1.5
Persons in employment ² (1 000 persons)	44 915	44 980	45 570	45 900	45 963
Unemployment (1 000 persons)	2 695	2 613	2 418	2 483	2 405
Unemployment rate ³ (in %)	5.9	5.7	5.3	5.4	5.3
Consumer prices ^{1,4}	0.5	3.1	6.9	6.0	2.4
Unit labour costs ^{1,5}	2.8	0.7	3.3	6.4	4.0
General government financial balance ⁶					
EUR billion	-147.6	-134.3	-101.3	-90.8	-39.9
in % of GDP	-4.3	-3.7	-2.6	-2.2	-0.9
Balance on current account					
EUR billion	238.7	265.0	145.1	232.2	257.5
in % of GDP	7.0	7.4	3.8	5.7	6.0

¹ % change over previous year. ² Domestic employment. ³ Federal Employment Agency concept. ⁴ Consumer price index (2020=100). ⁵ Per hour. ⁶ On national accounts definition (ESA 2010).

Sources: Federal Statistical Office; Federal Employment Agency; Deutsche Bundesbank; 2023 to 2024: forecasts by the institutes.

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There is good news for the labour market: The number of people in employment is likely to increase again, from 45.6 million in 2022 to 45.9 million in 2023 and 46.0 million in 2024. This year, the number of unemployed will rise temporarily from 2.42 million to 2.48 million as it will take Ukrainian refugees a little time to

enter the labour market. In the coming year, however, unemployment is expected to fall again to 2.41 million people.

The government will reduce its deficit only slightly to 2.2% of nominal GDP in the current year, since fiscal policy will remain expansionary for the time being. Only next year will policy be tightened more significantly, bringing the deficit down to 0.9%. A large share of the previous year's terms-of-trade losses, which measure the loss of purchasing power in the overall economy due to the sharp rise in the price of energy imports, will be recovered by the end of 2024. As a result, the current account balance will rise again to 6.0% of economic output, after temporarily falling to 3.8% last year.

Appendix

Full-length version of the report (German):

Projektgruppe Gemeinschaftsdiagnose: Inflation im Kern hoch – Angebotskräfte jetzt stärken. Frühjahr 2023. Munich 2023.

The full-length version of the report will be available on 5 April 2023 as of 10:00 a.m. at www.gemeinschaftsdiagnose.de/category/gutachten/.

About the Joint Economic Forecast

The Joint Economic Forecast is published twice a year on behalf of the Federal Ministry for Economic Affairs and Climate Action. The following institutes participated in the spring report 2023:

- ifo Institute – Leibniz Institute for Economic Research at the University of Munich in cooperation with the Austrian Institute of Economic Research (WIFO) Vienna
- Kiel Institute for the World Economy (IfW Kiel)
- Halle Institute for Economic Research (IWH) – Member of the Leibniz Association
- RWI – Leibniz Institute for Economic Research in cooperation with the Institute for Advanced Studies Vienna

Scientific contacts

Professor Dr Timo Wollmershäuser
ifo Institute – Leibniz Institute for Economic Research at the University of Munich
Tel +49 89 9224 1406
Wollmershaeuser@ifo.de

Professor Dr Oliver Holtemöller
Halle Institute for Economic Research (IWH) – Member of the Leibniz Association
Tel +49 345 7753 800
Oliver.Holtemoeller@iwh-halle.de

Professor Dr Stefan Kooths
Kiel Institute for the World Economy (IfW Kiel)
Tel +49 431 8814 579 oder +49 30 2067 9664
Stefan.Kooths@ifw-kiel.de

Professor Dr Torsten Schmidt
RWI – Leibniz Institute for Economic Research
Tel +49 201 8149 287
Torsten.Schmidt@rwi-essen.de