

## Press Release 16/2023

Halle (Saale), June 22, 2023

### Revival in service sectors, but industrial activity remains weak for the time being

After the recession during winter, the German economy will expand at a moderate pace in the coming quarters and despite higher interest rates, as private consumption will pick up again with slowly declining inflation and increased wage momentum. In its summer forecast, the Halle Institute for Economic Research (IWH) expects gross domestic product to decline by 0.3% in 2023, while growth of 1.7% is forecast for the coming year.

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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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#### Table

Forecast for Germany: Key Economic Indicators<sup>a</sup> for Germany, 2021–2024

	2021	2022	2023	2024
percentage change over previous year (price adjusted)				
Germany	2.6	1.8	-0.3	1.7
East Germany <sup>a</sup>	2.5	3.0	0.8	1.5
percentage change over previous year in %				
hours worked	1.7	1.3	0.0	0.1
hourly union wages	1.3	2.2	3.5	3.7
hourly actual wages	1.8	4.2	6.0	4.0
unit labour costs <sup>b</sup>	0.7	3.3	6.1	2.8
consumer price index	3.1	6.9	6.1	2.7
1,000 persons				
employment (domestic)	44 980	45 572	45 938	46 031
unemployment <sup>c</sup>	2 613	2 418	2 560	2 517
in %				
unemployment rate <sup>d</sup>	5.7	5.3	5.6	5.5
East Germany <sup>a</sup>	7.1	6.7	7.0	6.9
in % of nominal GDP				
general government overall balance	-3.7	-2.7	-2.0	-0.6
current account balance	7.4	3.7	5.3	6.9

<sup>a</sup> East Germany including Berlin. – <sup>b</sup> Per hour (IWH calculations). – <sup>c</sup> Federal Employment Agency (BA) concept. –

<sup>d</sup> Unemployment in % of civilian labour force (Federal Employment Agency (BA) concept).

Sources: Federal Statistical Office; 2023–2024: IWH forecast (as of June 21, 2023).

In summer 2023, sentiment indicators point to a global upswing in the service sectors, but they are still weak for manufacturing. In Europe, energy intensive producers as well as private households suffer from high energy prices. High inflation and rising key interest rates are dampening economic activity in most regions of the world. Inflation rates, however, are gradually declining, and key interest rates will rise only a bit more. Still, for the second half of 2023, US production is expected to be roughly stagnant. In the euro area, with wage momentum rising, real wages should stop falling from the second half of the year onwards, and production will start expanding. In China, the recovery continues, albeit with moderate momentum. Overall, the dynamics of the global economy will remain subdued in 2023.

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/](http://www.iwh-halle.de/en/)

The German economy was in recession during the winter, since private consumption shrank due to a decline in real disposable income caused by high inflation. In addition, government consumption fell sharply in the first quarter. Unlike gross domestic product (GDP), however, gross value added increased at the beginning of the year. The discrepancy can partly be explained by the weakness of private consumption, which dampens GDP more than value added via lower sales taxes. In the coming quarters, consumption should increase again. Tight labour markets give employees job security. While so far, labour shortages and high inflation have had little impact on collectively agreed wages, effective earnings are rising more strongly. In addition, many collective agreements are more favourable for workers than wage increases suggest because these are currently exempt from social security and wage taxes. Since at the same time price dynamics are slowly declining, real labour incomes will soon be increasing somewhat. Hardly any boost will come from exports, since the global economy remains sluggish, and some German exporters have lost competitiveness. Higher financing costs will dampen gross fixed capital formation, especially in buildings. Overall, production in Germany will increase moderately in the further course of the year. "For 2023 as a whole, production is 0.3% lower than last year," says Oliver Holtemöller, head of the Macroeconomics Department and vice president at the IWH. "For 2024, we forecast growth to be 1.7%." Inflation is expected to be 6.1% for 2023 and 2.7% for 2024.

A risk factor for the German economy is the uncertainty about potential growth. According to the current forecast, production will increase at rather healthy rates from the end of 2023, so that the economy will approach normal capacity utilisation at the end of 2024. However, labour shortages are widespread and capital is likely to have become obsolete in important manufacturing sectors, such as the chemical industry. It is therefore not certain that there is sufficient capacity for the expected expansion.

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

[Box 1: General conditions for the forecast](#)

[Box 2: On the estimate of potential output](#)

[Box 3: The IWH's PRIMA indicator suggests that the German economy might remain weak in 2024](#)

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**Scientific contact**

Professor Dr Oliver Holtemöller  
Tel +49 345 7753 800  
[oliver.holtemoeller@iwh-halle.de](mailto:oliver.holtemoeller@iwh-halle.de)

**Press contact**

Stefanie Müller-Dreifigacker  
Tel +49 345 7753 720  
[presse@iwh-halle.de](mailto:presse@iwh-halle.de)



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