

## Press Release 30/2023

Halle (Saale), December 14, 2023

### Exports and private consumption weak – Germany is waiting for an economic upturn

In the winter of 2023/2024, the German economy is still in a downturn. Parts of industry have lost competitiveness, real incomes have fallen in 2023 due to inflation, and there is uncertainty about the course of fiscal policy. However, rising real incomes and a slight increase in exports should cause a pickup from spring onwards. The Halle Institute for Economic Research (IWH) expects gross domestic product (GDP) to fall by 0.3% in 2023 and to expand by 0.5% in 2024 (East Germany: +0.5% and +0.7%). In September, the IWH forecast had assumed a decline of 0.5% for Germany in 2023 and expected growth of 0.9% for the coming year.

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**Table**

Forecast for Germany: Key Economic Indicators<sup>a</sup> for Germany, 2023–2025

	2022	2023	2024	2025
percentage change over previous year (price adjusted)				
Germany	1.8	-0.3	0.5	1.2
East Germany <sup>a</sup>	3.0	0.5	0.7	1.2
percentage change over previous year in %				
hours worked	1.3	0.7	0.3	-0.1
hourly union wages	2.2	4.3	3.4	3.2
hourly actual wages	4.3	6.5	3.5	3.3
unit labour costs <sup>b</sup>	3.5	7.2	3.5	2.5
consumer price index	6.9	6.0	3.0	2.1
1,000 persons				
employment (domestic)	45 596	45 953	46 048	45 998
unemployment <sup>c</sup>	2 418	2 609	2 673	2 557
in %				
unemployment rate <sup>d</sup>	5.3	5.7	5.8	5.5
East Germany <sup>a</sup>	6.7	7.1	7.2	6.9
in % of nominal GDP				
general government overall balance	-2.5	-2.0	-1.3	-0.6
current account balance	4.4	6.9	7.2	7.1

<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 December 13, 2023).

The global economy continues to lose momentum towards the end of 2023. The phase of recovery from the pandemic is largely complete, and the restrictive monetary policy shift triggered by the global surge in inflation is depressing demand for goods in many places due to higher financing costs. The European and the Chinese economy are facing special burdens: In Europe, these are the Russian war against Ukraine and the high energy costs related to it. In China, it is the structural crisis in the property sector, which is of particular importance in this country. However, there are also reasons to expect the global economy to pick up again somewhat in the coming year. In particular, the recently

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steep decline in inflation rates in the US and the euro area has increased the likelihood that monetary policy will be loosened somewhat in the course of 2024.

The German economy has not returned to its previous growth path since the end of the pandemic. In real terms, gross domestic product is barely higher than before the outbreak of the pandemic; this is 4% below the level expected for 2023 in the IWH's medium-term projection from December 2019. There are several reasons for this: Important areas of the manufacturing industry have lost competitiveness, particularly the automotive industry in the wake of the shift from combustion engines to electric motors and the chemical industry due to higher energy prices in Europe. In addition, global demand for industrial goods is currently weak. Moreover, inflation in Germany is still high, and real incomes have been falling for some time. The tightening of monetary policy has worsened the previously very favorable financing conditions, which is having a particularly negative impact on the construction industry. In addition, the economy has to prepare for new burdens because of the Federal Constitutional Court's ruling on the second supplementary budget 2021 in November. "There are no signs of an improvement in the economy over the winter," says Oliver Holtemöller, head of the Macroeconomics Department and vice president at the IWH. "Over the course of 2024, however, rising real wages will support consumption, and the German export industry should benefit from international demand for manufacturing gradually picking up."

A particular risk for this forecast is that details of the government's reaction to the ruling of the Federal Constitutional Court are still unknown. "Funding once promised for a large number of investment projects might be cancelled or significantly reduced," says Holtemöller. In addition, confidence in the carbon-neutral renewal of the economy could be lost, since the path propagated by policy up to now has primarily involved state subsidies for green investments. "Even in the short term, such a loss of confidence could have a negative impact on the willingness to consume and invest in Germany," the economist says.

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

[Box 1: On the effects of the Constitutional Court ruling of 15 November](#)

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

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*Drygalla, Andrej; Exß, Franziska; Heinisch, Katja; Holtemöller, Oliver; Kämpfe, Martina; Kozyrev, Boris; Lindner, Axel; Mukherjee, Sukanya; Sardone, Alessandro; Schult, Christoph; Schultz, Birgit; Zeddies, Götz: Konjunktur aktuell: Exports and private consumption weak – Germany is waiting for an economic upturn. IWH, Konjunktur aktuell, Jg. 11 (4), 2023. Halle (Saale) 2023.*




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