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Germany stuck in stagnation – private consumption remains below pre-pandemic levels

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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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Weak consumption and investment in Germany are partly due to inflation-induced losses in real income and declines in energy-intensive production. However, concerns about the competitive strength of the German economy are also weighing on the willingness of private households and companies to spend. In its spring forecast, the Halle Institute for Economic Research (IWH) expects gross domestic product to expand by just 0.2% in 2024, while the forecast for 2025 includes growth of 1.5% (eastern Germany: 0.5% and 1.4%). Last December, the IWH forecast had assumed an increase of 0.5% for Germany in 2024 and of 1.2% for 2025.

Table
Forecast for Germany: Key Economic Indicators[a] for Germany, 2022–2025

	2022	2023	2024	2025
	percentage change over previous year (price adjusted)			
Germany	1.8	–0.3	0.2	1.5
East Germany[a]	3.0	0.5	0.4	1.4
	percentage change over previous year in %			
hours worked	1.3	0.4	–0.2	0.1
hourly union wages	2.2	3.7	4.0	2.7
hourly actual wages	4.3	6.3	4.3	3.0
unit labour costs[b]	3.5	6.7	4.1	2.2
consumer price index	6.9	5.9	2.6	1.8
	1,000 persons			
employment (domestic)	45 596	45 933	46 097	46 071
unemployment[c]	2 418	2 609	2 682	2 569
	in %			
unemployment rate[d]	5.3	5.7	5.8	5.6
East Germany[a]	6.7	7.2	7.3	7.1
	in % of nominal GDP			
general government overall balance	–2.5	–2.1	–1.3	–1.2
current account balance	4.4	6.8	7.2	7.3

[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; 2024–2025: IWH forecast (as of March 7, 2024).

At the beginning of 2024, sentiment indicators show a slightly brightening outlook for the international economy. Global production momentum had still been declining until the end of 2023. This was due to high inflation, restrictive monetary policy, for Europe the Russian war against Ukraine, and for China the crisis of its housing sector. Against this backdrop, financial markets are remarkably optimistic, partly due to the anticipation of key interest rate cuts starting next summer. In addition, investors are expecting growth stimuli from innovations in the field of artificial intelligence. For the USA, the fact that the restrictive monetary policy has so far had surprisingly little dampening effect

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/

can give cause for optimism. In Europe, however, momentum is likely to remain fairly weak. Reasons for this include higher energy costs in the manufacturing sector and industrial policies in the USA and China that put foreign exporters at a disadvantage.

"Germany is experiencing prolonged stagnation," says Oliver Holtemöller, head of the Macroeconomics Department and vice president at the IWH. At the end of 2023, private consumption and investment were lower than before the outbreak of the pandemic four years ago. There are several reasons for this. High inflation has depressed real incomes and households are holding back on consumer spending. Industrial production in energy-intensive sectors is declining significantly. However, general concerns about Germany's competitiveness as a business location are also depressing the propensity of households and companies to spend. What is supporting the economy is the fairly robust labour market. The recent rise in real wages is likely to continue in 2024 and the resulting increase in private consumption will stabilise corporate investment. However, construction investment will continue to suffer from high financing costs. "Economic stagnation will continue in the first half of the year, with the economy expected to pick up slightly thereafter," says Holtemöller. The general government budget deficit is likely to decrease further due to the restrictive fiscal policy and the gradual economic recovery.

"One risk for the German economy relates to the question of how well today's significant structural change can be managed," the economist says. Parts of the manufacturing industry, such as energy-intensive producers or suppliers to the automotive industry, are shedding jobs. As there is a shortage of labour in the economy as a whole, it should in principle be possible to quickly re-employ the skilled workers who have been made redundant, some of whom are highly qualified. There are, however, often major obstacles to both regional and professional mobility that make reallocation in Germany difficult. Moreover, the currently widespread uncertainty could prevent companies from hiring labour in order to expand their business activities.

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

Box 1: GRNN – A new tool in the forecasting toolbox for nowcasting GDP

Box 2: On the estimation of potential output

Box 3: An analysis of forecast quality with help of the IWH Forecasting Dashboard

Publication:

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: Deutschland in der Stagnation festgefahren – privater Konsum weiter unter dem Niveau von vor der Pandemie. IWH, Konjunktur aktuell, Jg. 12 (1), 2024. Halle (Saale) 2024.

Scientific contact
Professor Dr Oliver Holtemöller
Tel +49 345 7753 800
oliver.holtemoeller@iwh-halle.de

Press contact
Stefanie Müller-Dreißigacker
Tel +49 345 7753 720
presse@iwh-halle.de

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