

## Press Release 19/2025

Halle (Saale), June 12, 2025

### Economic recovery in Germany – but structural problems and US trade policy weigh on the economy

The German economy has picked up somewhat in the first half of 2025. This was helped by the temporary increase in demand from the US in anticipation of higher tariffs. If the US does not escalate its trade conflicts further, production in Germany according to the summer forecast of the Halle Institute for Economic Research (IWH) is likely to increase a bit (by 0.4%) in 2025, after two years of decline. In March, the IWH economists were forecasting growth of 0.1% for the current year. Growth of 1.1% is forecast for the year 2026. Similar expansion rates are to be expected for East Germany.

**Table**

Forecast for Germany: Key Economic Indicators<sup>a</sup> for Germany, 2023–2026

	2023	2024	2025	2026
percentage change over previous year (price adjusted)				
Germany	–0.3	–0.2	0.4	1.1
East Germany <sup>a</sup>	0.0	–0.1	0.4	0.9
percentage change over previous year in %				
hours worked	0.4	–0.1	–0.1	0.2
hourly union wages	3.6	4.7	2.6	2.6
hourly actual wages	6.6	5.6	3.5	2.4
unit labour costs <sup>b</sup>	6.7	5.6	3.3	1.6
consumer price index	5.9	2.3	2.0	1.9
1,000 persons				
employment (domestic)	46 011	46 081	46 101	46 138
unemployment <sup>c</sup>	2 609	2 787	2 950	2 927
in %				
unemployment rate <sup>d</sup>	5.7	6.0	6.3	6.2
East Germany <sup>a</sup>	6.7	7.5	7.8	7.7
in % of nominal GDP				
general government overall balance	–2.5	–2.7	–2.2	–3.0
current account balance	5.6	5.7	5.5	5.1

<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; 2025/2026: IWH forecast (as of June 11, 2025).

In the first quarter of 2025, the expectation of significantly higher tariffs in the future triggered a boom in US imports. In the euro area, economic expansion received a small boost. Price momentum has continued to slow in both the US and the eurozone in recent months, partly due to the sharp fall in the price of crude oil. In both economic areas, key interest rates are likely to be lowered further over the course of the year. By contrast, fiscal policy in the US is having a noticeable negative impact on the economy this year and next, while fiscal policy in the eurozone is roughly neutral. In the second half of 2025, global trade is likely to decline significantly due to tariff increases in the US. However, assuming that the trade conflicts

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### The IWH Forecasting Dashboard (ForDas)



The IWH-ForDas is an interactive platform for comparing macroeconomic forecasts from various institutes on the German economy.

Keywords

business cycle, economic growth, East Germany, euro area, export, forecast, Germany, global economy, gross domestic product, production, tariffs, USA

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do not escalate, we do not expect a recession. Instead, according to this forecast, global production will increase by 2.3% in both 2025 and 2026.

“There are increasing signs of a recovery in the German economy,” says Oliver Holtemöller, head of the Macroeconomics Department and Vice President at the IWH. Business prospects have slowly brightened since the start of the year, and production expanded by 0.4% in the first quarter of 2025. However, the 3.2% increase in exports is largely due to temporarily higher demand from the US. In addition to exports, private consumption also expanded significantly. By contrast, private investment in equipment fell, as has been the trend for the past two years. Structural problems continue to weigh on the German economy (demographics, energy transition, structural change in China). The European Central Bank's monetary easing is supporting the economy, particularly through more favourable financing conditions for the housing industry. This forecast assumes that US tariffs will remain at roughly the current level. Under this assumption, German exports will suffer a setback in the second and especially the third quarter. This is likely to significantly dampen the economic recovery but not stifle it. The fiscal policy turnaround is not likely to have a noticeable impact on production until 2026. The general government budget deficit will remain high throughout the forecast period.

“A considerable risk for the German economy lies in a possible escalation of the US trade conflicts,” says Oliver Holtemöller. The increase in US tariffs on EU goods announced at the beginning of April was only reduced for a limited period until July (from 20 to 10 percentage points) in order to create an opportunity to negotiate a “deal”. The conflict between the USA and China also harbours considerable risks for the German economy. Sluggish licensing for exports of rare earths has led to a shortage in Germany, which is threatening production in parts of the manufacturing industry. “In general, the economic antagonism between the USA and China requires German industry to perform a special balancing act, as it is closely intertwined with both economic areas,” the IWH economist says.

The extended version of this forecast contains the following box (in German):

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

#### **Publication:**

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The Halle Institute for Economic Research (IWH) – Member of the Leibniz Association was founded in 1992. With its four research departments – Financial Markets; Laws, Regulations and Factor Markets; Macroeconomics; Structural Change and Productivity –, IWH conducts economic research and provides economic policy recommendations, which are founded on evidence-based research. With the IWH's guiding theme "From Transition to European Integration", the institute's research concentrates on the determinants of economic growth processes with a focus on efficient capital allocation in a national and European context. Particular areas of interest for the institute are macroeconomic dynamics and stability, microeconomic innovation processes, productivity and labour markets, the dynamics of structural adjustment processes, financial stability and growth and the role of financial markets for the real economy.

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