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DIW Economic Outlook

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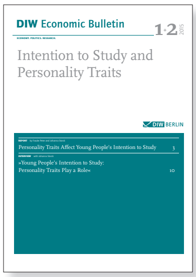

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Despite uncertainty in the global economy, Germany is on a solid growth path

By Ferdinand Fichtner, Marcel Fratzscher, Guido Baldi, Karl Brenke, Marius Clemens, Christian Dreger, Hella Engerer, Stefan Gebauer, Michael Hachula, Simon Junker, Robert Lange, Claus Michelsen, Malte Rieth, Thore Schlaak und Kristina van Deuverden

The current global economic environment presents numerous risks – but the German economy remains robust, with expected growth rates of 1.4 percent for 2017 and 1.7 percent for 2018.

The 2017 growth rate projected here is higher than what was originally published in DIW Berlin's December 2016 forecast. The main reason behind this upward adjustment is that the Federal Employment Agency has massively revised its labor market data in early March. According to the new calculations, employment growth has not been stagnating since mid-2016, as previously believed: rather, it has continued to expand – and this growth is expected by DIW Berlin to continue. This year will likely see the addition of 600,000 jobs, and this momentum will slow down only slightly in 2018, when 440,000 more jobs will be added. The number of unemployed persons will drop by 170,000 this year and 150,000 next year – even though more and more refugees are obtaining work permits and joining the labor pool.

Although private consumption remains the GDP's primary growth driver, impulses are relatively weak despite the considerable increase in employment. The current tempo, which will remain subdued for at least the first half of 2017, can be traced to the fact that the growth momentum of income and wages, in real terms – that is, taking into account price developments – has slowed down significantly. Inflation experiences a considerable increase this year, with an overall annual average of 1.8 percent. In comparison, consumer prices rose by only 0.5 percent in 2016. This difference is primarily due to the significant increases in crude oil prices that took place in the final months of 2016 – which in turn resulted from the supply cuts in oil-exporting countries -, not from a powerful economic upturn nor an overheating of the German economy.

Collective bargaining agreements currently in place imply comparatively low nominal wage increases for 2017 – and those will be compromised by the higher inflation rates. Consumer demand – and thus imports, which are already weak – should thus begin to lose some momentum this year. Apart from the rise in inflation, there are other key factors that could have encouraged higher wage increases, such as the favorable economic situation and the low unemployment rates. Nevertheless, wage increases are expected to be only slightly higher in the coming year.

But since inflation is unlikely to remain at the 2017 level, private consumption should pick up again in the further course of the forecast period. The core inflation rate – that is, the price development excluding food and energy – is still well below two percent. If there are no further oil price increases, energy prices' current impact on the inflation rate will gradually subside.

The development in the euro area is similar: the higher inflation rates here are also temporary. In addition, since euro area production capacities are expected to remain underutilized into 2018, claims against the European Central Bank to scale back or even end its expansionary monetary policy are be premature. Given the euro area's overall robust economic performance, however, there is currently also no sign that monetary policy should become more expansionary – for example through an expansion of the current bond purchase programs.

Although production is expected to increase during the forecast period, the European economy remains vulnerable to risks: if the outcome of the upcoming elections in the Netherlands and France leads to friction in the fragile financial markets, it could weaken the economy once again. The Brexit negotiations, which have already led to uncertainty in the private sector, could be end up being more arduous and complicated than assumed. In addition, the U.S. government's unpredictable approach to economic policy could have a negative impact on world trade, and thus export-oriented countries such as Germany.

The effects of this uncertainty can already be seen in Germany's persistently weak business investment, which stands in stark contrast to the generally robust economic development and employment growth. Given the growing shortage on the labor market and the fact that it will become more and more difficult to fill certain job positions, it appears that companies are currently avoiding layoffs and even creating new jobs; these kinds of strategic deliberations are likely to play a minor role in investment expenditure. In addition, because the employment growth has been highest in sectors where investment plays less of a role – that is, company service providers and public services as well as the health, education, and retail sectors – it has not been accompanied by any major investment activity. Employment growth in the industrial sector, where investment plays a more critical role, has been comparatively low.

The current account surplus remains excessively high, and is expected to amount to 8.0 percent of GDP in 2017; this could feed into the emerging trade conflict with the U.S. government as well as criticism of the European Commission. The problem is not the high exports, however; rather, it is the relatively low imports which are also the result of the weak investment dynamics in Germany. This hurts the local economy by inhibiting productivity and dampening income. It is thus all the more important that policy exploits the (limited) fiscal leeway to encourage higher public expenditure in the form of investment, especially when it comes to education and infrastructure. Sustainable growth potential could also be achieved by reducing the tax burden – namely, through a reasonable increase in federal subsidies to the social security funds – thus facilitating a higher net income.

This kind of focus would help to ensure long-term growth and prosperity. If investment increases in Germany, and the country is able to strengthen its growth forces, it would benefit not only the domestic economy, but the neighboring countries as well.

World economy gaining momentum, risks remain high

By Ferdinand Fichtner, Guido Baldi, Christian Dreger, Hella Engerer, Stefan Gebauer , Michael Hachula, Robert Lange, and Malte Rieth

The world economy continues on its upward growth path, with global production expected to grow by 3.7 percent this year and slightly more than that in 2018. The economies in both the developed and the emerging countries are gaining momentum. Solid output growth is expected for the U.S. and euro area over the forecast period; China's growth rates remain high, though they are declining somewhat; and Russia is coming out of its recession. Private consumption is driving growth in the developed countries, but the rise in inflation – which is due to higher energy prices – is expected to slow down consumption growth a bit. The global increase in prices is likely to also lead to a slightly more restrictive monetary policy overall. A number of economic policy-related risks – not least among them, the protectionism – could have a negative impact on the world economy, in particular on investment activity.

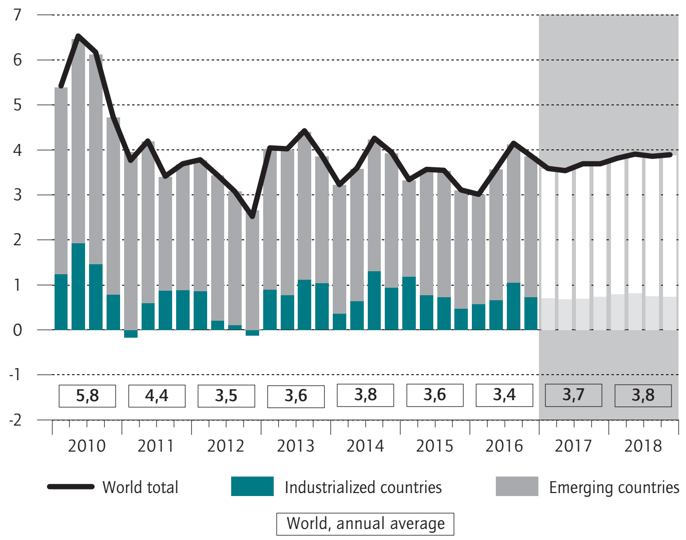
The global economic upswing in the first half of 2016 continued in the final quarter of the past year – and the improved growth dynamic is expected to persist throughout the forecast period (Figure). For the most part, the economies in both the developed and emerging countries are picking up momentum. A number of early indicators suggest that solid growth in the U.S. and the euro area will continue; this is also the case for Japan, though the upward momentum will cool off somewhat there. Among the emerging countries, China's economy is expanding in accordance with the new official growth targets, and the slump feared by some observers one year ago is unlikely to materialize, with a steady momentum emerging for the forecast period. In Russia, the economy is picking up; in Brazil, however, the situation is unlikely to improve considerably in the near future, with the long-awaited economic recovery nowhere in sight. At 3.7 percent, the overall increase in global output this year is expected to be higher than it was in 2016. It will be somewhat higher the year after that. DIW Berlin has slightly increased the previously forecasted figures for both years (Table).

Consumption should remain the primary growth driver in the developed countries, mainly due to the improving labor market situation. Employment continues to grow in both the U.S. and the euro area, though consumer demand is likely to temporarily lose some momentum. This is mostly due to the higher inflation rates, which in turn result from the higher energy prices. In the U.K., the British pound has depreciated sharply, which additionally increases consumer prices. In the U.S., expansive fiscal policy measures are expected to further drive up inflation. All in all, investment should make a bigger contribution to growth than it has in the past, especially since the higher inflation rates will offer businesses more opportunities to increase prices and margins than in the low-inflation global environment of the past few years. This can be seen, for example, in the increase in corporate profits as well as the optimistic outlook for manufacturing in the U.S. and the euro area. The robust domestic demand in the developed countries should benefit

Figure

World real GDP

In percent, percentage points



Sources: National statistical offices, authors' own calculations and projections.

The world economy is growing over the forecast period.

Table

Real Gross Domestic Product, Consumer Price Inflation, and Unemployment Rate in the World Economy

In Percent

	GDP				Consumer prices				Unemployment rate in percent			
	Change over previous year, in percent											
	2015	2016	2017	2018	2015	2016	2017	2018	2015	2016	2017	2018
Euro area	1,9	1,7	1,6	1,6	0,0	0,2	1,6	1,3	10,9	10,0	9,4	9,1
... without Germany	2,1	1,7	1,5	1,5	−0,1	0,1	1,6	1,3	13,8	12,7	12,1	11,8
... France	1,2	1,1	1,3	1,5	0,1	0,2	1,5	1,4	10,4	10,1	9,9	9,8
... Italy	0,6	1,0	1,0	1,1	0,1	−0,1	1,1	1,1	11,9	11,7	11,4	11,5
... Spain	3,2	3,2	2,3	2,0	−0,5	−0,2	2,1	1,4	22,1	19,6	17,9	16,9
... Netherlands	2,0	2,1	1,9	1,7	0,2	0,1	1,5	1,4	6,9	6,0	5,5	5,4
United Kingdom	2,2	1,8	1,4	1,2	0,0	0,7	2,6	2,2	5,3	4,9	5,3	5,5
USA	2,6	1,6	2,3	2,5	0,1	1,3	2,1	2,1	5,3	4,9	4,6	4,5
Japan	1,3	1,0	0,6	0,5	0,8	−0,1	0,6	0,4	3,4	3,1	3,2	3,2
South Korea	2,6	2,7	2,4	2,7	0,7	1,0	2,0	2,7	3,6	3,7	3,0	3,0
Central Eastern Europe[1]	4,0	2,9	3,3	3,4	−0,4	−0,2	1,5	2,1	7,0	5,8	5,3	5,0
Turkey	4,1	2,2	2,2	3,3	7,7	7,8	8,1	7,6	10,3	10,8	11,6	10,9
Russia	−2,8	−0,2	1,1	1,5	15,5	7,0	4,6	4,1	5,6	5,5	5,4	5,3
China	6,5	6,7	6,3	6,0	−0,6	0,5	2,5	4,5	4,1	4,1	4,1	4,1
India	7,4	7,3	7,0	6,9	1,0	3,3	6,0	6,1				
Brazil	−3,9	−3,1	0,4	1,5	9,0	8,5	5,7	5,7	8,3	11,2	12,4	10,6
Mexico	2,6	2,1	2,7	2,3	2,7	2,8	3,6	3,2	4,3	3,9	4,8	4,8
Advanced Economies	2,2	1,6	1,8	1,9	0,2	0,8	1,8	1,7	6,4	5,9	5,7	5,5
Emerging Markets	4,7	4,8	5,1	5,1	2,3	2,7	3,9	4,9	5,2	5,4	5,6	5,3
World	3,6	3,4	3,7	3,8	1,4	1,9	3,0	3,6	5,7	5,6	5,6	5,4

1 This group consists of Central und Eastern European countries within the European Union but that are not part of the monetary union: Romania, Bulgaria, Hungary, Poland, the Czech Republic and Croatia.

National statistical offices; DIW spring projections 2017.

The world economy is gaining momentum.

the emerging countries' exports. The rise in commodity prices will also have a positive impact on many emerging economies, as well as on U.S. investment.

The global rise in prices, however, will probably lead to a tightening of monetary policy. In the U.S. in particular, the Federal Reserve's policy will be less expansionary due to the steadily improving economic situation. This should lead to a somewhat more restrictive monetary policy in the emerging countries as well, in order to avoid excessive capital outflows and exchange rate fluctuations. The central banks in Europe and Japan are expected to continue conducting a supporting policy over the course of the forecast period. Fiscal policy around the world will be somewhat more expansive than previously, with stimulus measures expected in the U.S.

There are a number of risks for the global economy, which may particularly affect investment more adversely than this forecast assumes. The unpredictability of the new U.S. government's economic policies, the forthcoming Brexit negotiations, and the upcoming elections in several key euro area countries could increase uncertainty in both the U.S. and Europe. An increase in worldwide protectionism – mainly originating in the U.S. – poses risks for world trade, and this could have particularly negative effects on export-oriented economies as well as on some emerging Asian and Latin American countries.

German economy: strong employment growth, weak investment activity

By Ferdinand Fichtner, Karl Brenke, Marius Clemens, Simon Junker, Claus Michelsen, Thore Schlaak, and Kristina van Deuverden

The German economy's upward growth trend continues, with the economic output expected to increase by 1.4 percent this year with slightly overloaded capacities. Employment growth remains strong with the creation of 600,000 new jobs, which has in turn led to an increase in private consumption – one of the key growth drivers of the German economy. The higher inflation rates are dampening purchasing power, but they will subside later on in the forecast period. The high public budget surpluses will experience a sharp decline.

Investment, on the other hand, remains weak, partially due to the fact that Brexit and Trump are creating uncertainty for German exporters. Frictions in the financial markets that may arise as a result of the upcoming elections – in France and the Netherlands, for example – could present risks for the real economy.

The moderate upswing in the German economy continues, with an expected growth rate of 1.4 percent this year – which is higher than the 1.2 percent projected in DIW Berlin's December 2016 forecast. A key factor behind this adjustment was the revision of Germany's labor market data, which now appear to be more favorable than previously believed. After rather subdued development in the second half of 2016, the German economy has picked up momentum once again (Table 1), with present indicators suggesting powerful development for the first quarter of 2017. A growth rate of 1.7 percent is expected for 2018 (Table 2).

Later on in the forecast period, however, economic growth should lose some momentum (Figure) as changes to the major growth drivers – which include the refugee influx and the low energy prices – cause them to thus lose their influence, an effect that has already become noticeable over the past year. Wage development is moderate: employment growth remains strong and unemployment will continue to decline significantly, from 5.7 percent this year to 5.3 percent in 2018. The growing worker shortage should gradually lead to higher wage agreements. But given the large numbers of immigrants – especially from within the EU – and the increasing labor market participation of older people, no substantial wage increases are expected for the forecast period.

In stark contrast to the favorable employment growth, business investment remains weak. Companies are working hard to fill jobs – especially in light of the impending labor market shortage – but they remain cautious when it comes to investment expenditure. This is mainly due to the high degree of economic policy-related uncertainty that has been triggered by the Trump administration, the Brexit decision, and the forthcoming elections in some major EU countries. These factors have made it more difficult to make plans, and businesses are thus backing away from higher and longer-term expenditures, further hindering investment activity. A significant portion of companies' surpluses are instead being invested abroad; this is also reflected in the excessively high cur-

Table 1

Use of gross domestic product, quarter-on-quarter growth rates

Price, seasonally and working-day adjusted, in percent

	2016				2017				2018			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Private consumption	0,7	0,2	0,2	0,3	0,3	0,3	0,4	0,4	0,4	0,4	0,4	0,4
Public consumption	1,3	0,9	0,2	0,8	0,7	0,6	0,5	0,5	0,6	0,6	0,6	0,6
Gross fixed capital formation	1,8	-1,5	-0,2	0,8	0,6	0,9	0,9	0,8	0,7	0,6	0,7	0,7
Investment in machinery and equipment	0,9	-2,3	-0,5	-0,1	0,5	0,9	0,9	0,9	1,0	1,0	1,0	1,0
Construction investment	2,7	-1,7	-0,3	1,6	0,6	1,0	0,9	0,7	0,5	0,4	0,4	0,4
Other investment	0,9	0,7	0,6	0,3	0,6	0,6	0,6	0,6	0,6	0,6	0,6	0,6
Change in inventories[1]	-0,4	-0,1	0,3	0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Domestic uses	0,7	-0,1	0,5	0,9	0,5	0,5	0,5	0,5	0,4	0,5	0,5	0,5
Net Exports[1]	0,1	0,5	-0,3	-0,4	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Exports	1,4	1,2	-0,3	1,8	1,9	0,5	0,7	0,8	0,9	1,0	1,0	1,0
Imports	1,4	0,1	0,4	3,1	1,8	0,6	1,0	1,1	1,1	1,1	1,2	1,2
Gross Domestic Product	**0,7**	**0,5**	**0,1**	**0,4**	**0,6**	**0,4**	**0,4**	**0,4**	**0,4**	**0,4**	**0,4**	**0,4**

1 Contribution to GDP growth in percentage points.

Federal Statistical Office; DIW Berlin, Forecast from 2017q1 onward.

Table 2

Key economic indicators for the German economy

	2013	2014	2015	2016	2017	2018
Real GDP[1] (percent change over previous year)	0,5	1,6	1,7	1,9	1,4	1,7
Domestic employment (1 000 persons)	42 328	42 662	43 057	43 593	44 191	44 633
Unemployed (ILO concept)	2 182	2 092	1 949	1 776	1 593	1 486
Unemployed (BA concept)	2 950	2 898	2 795	2 691	2 518	2 368
Unemployment rate[2] (ILO concept)	5,2	5,0	4,6	4,1	3,6	3,4
Unemployment rate[2] (BA concept)	6,9	6,7	6,4	6,1	5,7	5,3
Consumer prices	1,5	0,9	0,2	0,5	1,8	1,4
Unit labor costs[3]	1,8	1,7	1,5	1,4	2,4	1,7
Government budget balance[4]						
in billion EUR	−5,4	8,6	20,9	23,7	14,3	8,6
in percent of GDP	−0,2	0,3	0,7	0,8	0,4	0,3
Current account balance, in percent of GDP	6,7	7,5	8,6	8,3	7,8	7,5

1 Price-adjusted, chain-linked.
2 as a share of domestic labor force (ILO), resp. Civilian labor force (BA).
3 compensation of employees (national concept) per hour worked over real GDP.
4 according to ESA 2010.

Sources: National and international institutions; computations by DIW Berlin 2015 and 2016: DIW forecast.

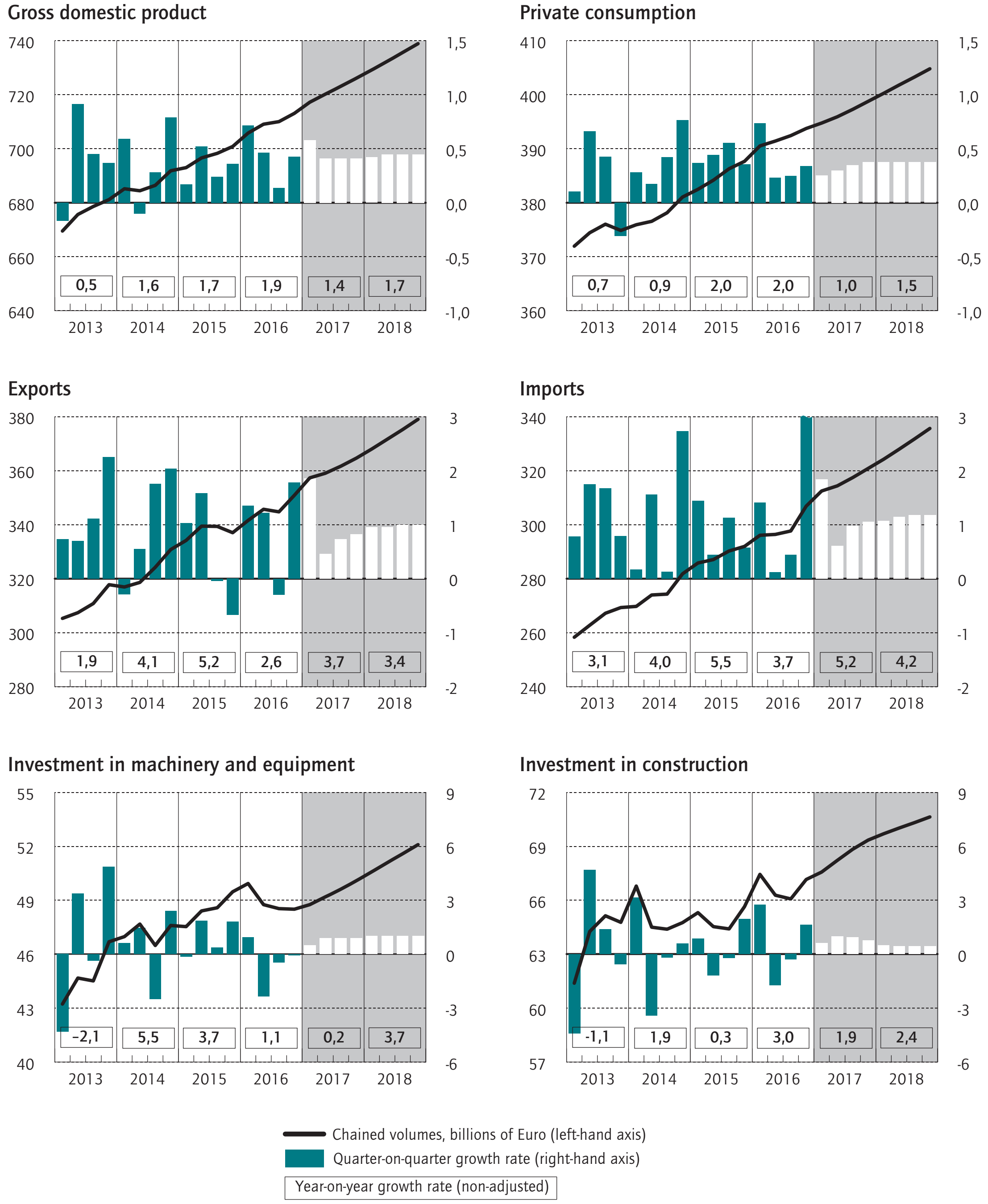
rent account surplus, which is actually expected to drop below eight percent this year (the rising import costs also play a role here). It will, however, remain well above the EU's target rate of 6 percent.

Investment activity will, however, be stimulated somewhat by foreign trade, which will remain rather robust throughout the forecast period: the emerging countries in particular should continue to exhibit strong growth. That energy prices are no longer declining is leading to high inflation in many places, which is dampening households' purchasing power. However, these high inflation rates are likely to decline somewhat over the next few

Figure

Gross domestic product and use of GDP

Seasonally and working day adjusted



Chained volumes, billions of Euro (left-hand axis).
Quarter-on-quarter growth rate (right-hand axis).
Year-on-year growth rate (non-adjusted).

Sources: Federal Statistical Office; Computations by DIW Berlin, forecasts as of 2015 Q2.

months, since the recent rise in energy prices has already come to a standstill.

The high public budget surplus is on the decline, due first and foremost to the lower tax revenues and the fact that expenditures have been increasing. In structural terms – that is, adjusted for cyclical influences – the total public budgets will be in the red next year, since the capacities will be slightly overloaded. This was also the case last year. This slight overutilization will subside later on in the forecast period.

Germany's economic development is facing substantial risks, most of which are arising from the international economic environment. The political developments over the past year suggest that threats to international cooperation and economic integration are increasing, and parties that are opposed to integration may receive considerable support in the upcoming elections of some key EU countries. If this leads to the implementation of measures that are detrimental when it comes to protectionism or economic cooperation, it will hinder the growth of Germany's export-oriented economy.

Yet even apart from that, the European economy remains fragile: the banking sectors and public finances in some countries are still plagued with problems, and many areas are still grappling with high unemployment rates and weak household purchasing power. All of these problems reinforce one another and could end up having a more substantial impact on Europe's economic development than forecasted here; this is also true if the outcomes of the upcoming elections create tensions in the financial markets and lead to turmoil in the banking system, public finances, and the real economy. The resulting economic downturn in the euro area will also impact the Germany economy.

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Dr. Ferdinand Fichtner, Head of the Forecasting and Economic Policy Department at DIW Berlin

SEVEN QUESTIONS FOR FERDINAND FICHTNER

»Spring 2017 economic forecast«

1. Mr. Fichtner, will the German economy be able to maintain 2016's growth momentum over the course of the current year? Although Germany's economic growth will be a bit lower in 2017, this is primarily due to the fact that there are fewer workdays this year than there were last year – and not because the economy is running out of steam.
   Another factor is the recent sharp increase in energy prices and its effect on consumer prices, which will have a negative effect on households' purchasing power. Private consumption is thus unlikely to create the same strong impulses that it did last year. Overall, we are projecting a GDP growth rate of 1.4% for 2017, which is somewhat less than last year's rate of 1.9 percent.
2. But that's still higher than the projection from the December 2016 forecast, correct? Yes, that's correct – we have increased the projected growth rate for 2017. This is due to the fact that the labor market data that was available to us back in December were too pessimistic. Recent data have indicated that the growth momentum is significantly better than it was in December, which means we can be slightly more optimistic than we were three months ago.
3. What are the current primary growth drivers? Domestic demand is still the biggest one – especially consumer demand. This is mainly due to the solid labor market situation. People have jobs and these jobs are paying quite well, even if this year's inflation rates are inhibiting purchasing power somewhat. Later on in the forecast period – especially in 2018 – the global economy will start to pick up once again, and thus exports should be contributing more to growth.
4. What can we expect when it comes to wage development? By German standards, wage development is relatively strong. The increases we are currently seeing in the wage growth rates are both reasonable and quite good compared to the past. It must be said, however, that given the growing shortage in the labor market, wage increases could also be much higher.
5. How are consumer prices developing? Consumer price inflation is clearly on the rise, especially due to the sharp increase in energy prices. Changes in energy prices have been a powerful force behind the inflation rate increase – from just half a percent last year to 1.8 percent this year. But because the rise in energy prices has come to a standstill, this effect will become much less prevalent. As a result, the inflation rate will decline significantly once again in the coming year – to approximately 1.5 percent.
6. What is your assessment of the current global economic environment? What kind of impact can these conditions have on German exports? The past year – especially the first six months – exhibited very weak global economic development. The global economy is expected to recover somewhat this year, partly because fiscal policy is less restrictive – or even expansionary – in many countries. This will continue into the coming year, which could help cultivate a very positive global economic environment. There remain significant risks, however, including the Brexit decision and the erratic economic policy of the Trump administration. These could both have a negative impact on the German economy.
7. What can we expect for imports? The strong domestic demand – especially consumer demand – is driving imports. However, because investment demand is still very weak, there is room for improvement in imports – stronger investment activity could give them a major boost. The current investment restraint among businesses can be traced to uncertainties in the current economic environment.

Interview by Erich Wittenberg

Annual results 2018

Billion Euro

		specification	Total economy	Non financial and financial corporations	General government	Households and non-profit inst. serving households	Rest of the world
3		Gross value added	2,901.1	1,951.4	309.1	640.6	–
4	–	Consumption of fixed capital	568.4	326.3	70.7	171.4	–
5	=	Net value added[1]	2,332.8	1,625.2	238.4	469.2	−220.1
6	–	Compensation of employees, paid	1,653.1	1,177.7	242.7	232.7	14.7
7	–	Other taxes on production, paid	22.8	13.1	0.2	9.5	–
8	+	Other subsidies on production, received	25.6	23.9	0.2	1.5	–
9	=	Operating surplus, net/mixed income, net	682.5	458.3	−4.3	228.5	−234.8
10	+	Compensation of employees, received	1,659.5	–	–	1,659.5	8.3
11	–	Subsidies, paid	27.9	–	27.9	–	5.4
12	+	Taxes on production and imports, received	342.1	–	342.1	–	6.9
13	–	Property income, paid	722.4	654.0	41.9	26.5	176.8
14	+	Property income, received	787.6	370.3	16.5	400.8	111.6
15	=	Net national income/Balance of prim income, net	2,721.4	174.6	284.6	2,262.2	−290.2
16	–	Current taxes on income, wealth, etc, paid	392.5	76.3	–	316.2	10.7
17	+	Current taxes on income, wealth, etc, received	402.7	–	402.7	–	0.4
18	–	Net social contributions, paid	668.0	–	–	668.0	3.8
19	+	Net social contributions, received	668.9	122.8	545.3	0.8	2.9
20	–	Social benefits other than soc transf in kind, paid	569.2	63.2	505.2	0.8	0.5
21	+	Social benefits other than soc transf in kind, receiv	562.2	–	–	562.2	7.5
22	–	Other current transfers, paid	310.5	157.0	76.9	76.7	50.5
23	+	Other current transfers, received	270.7	146.9	19.6	104.3	90.3
24	=	Disposable income, net	2,685.7	147.8	670.0	1,867.8	−254.5
25	–	Final consumption expenditure	2,367.2	–	641.0	1,726.2	–
26	+	Adjustment for the change in net equity of households in pension funds	–	−48.8	–	48.8	–
27	=	Net saving	318.5	99.0	29.1	190.4	−254.5
28	–	Capital transfers, paid	49.1	7.6	32.2	9.3	4.8
29	+	Capital transfers, received	46.0	22.6	12.0	11.4	7.9
30	–	Gross capital formation	632.4	357.1	70.5	204.8	–
31	+	Consumption of fixed capital	568.4	326.3	70.7	171.4	–
32	–	Acquisitions less disposals of valuables	−2.1	1.7	−5.2	1.4	2.1
33	=	Net lending (+)/ Net borrowing (−)	253.5	81.5	14.3	157.7	−253.5
		memorandum item:					
34		Disposable income, net	2,685.7	147.8	670.0	1,867.8	−254.5
35	–	Social transfers in kind, paid	421.6	–	421.6	–	–
36	+	Social transfers in kind, received	421.6	–	–	421.6	–
37	=	Adjusted disposable income, net	2,685.7	147.8	248.4	2,289.4	−254.5
38	–	Actual final consumption[2]	2,367.2	–	219.3	2,147.9	–
39	+	Adjustment for the change in net equity of households in pension funds	–	−48.8	–	48.8	–
40	=	Net saving	318.5	99.0	29.1	190.4	−254.5

1 Concerning Rest of the world: imports minus exports of goods and services to/from rest of the world.
2 The actual final consumption of general government corresponds only to collective final consumption. The actual final consumption of households and non profit institutions serving households includes individual goods and services provided as social transfer in kind to individual households by government units.

Annual results 2018

Billion Euro

		specification	Total economy	Non financial and financial corporations	General government	Households and non-profit inst. serving households	Rest of the world
3		Gross value added	2,994.5	2,011.8	317.0	665.6	–
4	–	Consumption of fixed capital	586.1	336.2	72.9	177.0	–
5	=	Net value added[1]	2,408.3	1,675.7	244.1	488.5	−219.9
6	–	Compensation of employees, paid	1,711.9	1,220.9	249.0	242.0	15.3
7	–	Other taxes on production, paid	23.1	13.2	0.2	9.7	–
8	+	Other subsidies on production, received	25.6	24.0	0.2	1.5	–
9	=	Operating surplus, net/mixed income, net	699.0	465.5	−4.8	238.3	−235.2
10	+	Compensation of employees, received	1,718.4	–	–	1,718.4	8.9
11	–	Subsidies, paid	28.2	–	28.2	–	5.3
12	+	Taxes on production and imports, received	350.1	–	350.1	–	6.9
13	–	Property income, paid	726.5	659.2	41.9	25.4	179.6
14	+	Property income, received	794.8	372.2	18.7	404.0	111.3
15	=	Net national income/Balance of prim income, net	2,807.6	178.5	293.9	2,335.2	−293.0
16	–	Current taxes on income, wealth, etc, paid	406.5	82.1	–	324.4	11.0
17	+	Current taxes on income, wealth, etc, received	417.1	–	417.1	–	0.5
18	–	Net social contributions, paid	692.1	–	–	692.1	3.9
19	+	Net social contributions, received	693.0	127.2	564.9	0.8	3.1
20	–	Social benefits other than soc transf in kind, paid	586.7	65.1	520.8	0.8	0.5
21	+	Social benefits other than soc transf in kind, receiv	579.4	–	–	579.4	7.8
22	–	Other current transfers, paid	320.8	157.4	83.3	80.1	45.2
23	+	Other current transfers, received	275.6	151.3	19.8	104.5	90.3
24	=	Disposable income, net	2,766.5	152.4	691.6	1,922.5	−252.0
25	–	Final consumption expenditure	2,440.6	–	664.7	1,775.9	–
26	+	Adjustment for the change in net equity of households in pension funds	–	−49.2	–	49.2	–
27	=	Net saving	325.9	103.2	26.9	195.8	−252.0
28	–	Capital transfers, paid	49.2	7.6	31.8	9.8	4.8
29	+	Capital transfers, received	46.1	23.4	11.2	11.4	7.9
30	–	Gross capital formation	660.0	371.8	72.0	216.3	–
31	+	Consumption of fixed capital	586.1	336.2	72.9	177.0	–
32	–	Acquisitions less disposals of valuables	−2.5	−1.7	−1.4	0.6	2.5
33	=	Net lending (+)/ Net borrowing (−)	251.4	85.2	8.6	157.6	−251.4
		memorandum item:					
34		Disposable income, net	2,766.5	152.4	691.6	1,922.5	−252.0
35	–	Social transfers in kind, paid	442.4	–	442.4	–	–
36	+	Social transfers in kind, received	442.4	–	–	442.4	–
37	=	Adjusted disposable income, net	2,766.5	152.4	249.2	2,364.9	−252.0
38	–	Actual final consumption[2]	2,440.6	–	222.3	2,218.3	–
39	+	Adjustment for the change in net equity of households in pension funds	–	−49.2	–	49.2	–
40	=	Net saving	325.9	103.2	26.9	195.8	−252.0

1 Concerning Rest of the world: imports minus exports of goods and services to/from rest of the world.
2 The actual final consumption of general government corresponds only to collective final consumption. The actual final consumption of households and non profit institutions serving households includes individual goods and services provided as social transfer in kind to individual households by government units.

The Main National Accounts Data for the Federal Republic of Germany

Forecast for 2017 and 2018[1]

	2016	2017	2018	2016		2017		2018	
				1. half year	2. half year	1. half year	2. half year	1. half year	2. half year
1. Origin of GDP **Percentage change over previous year**									
Domestic employment	*1.2*	1.4	1.0	1.2	1.2	1.4	1.3	1.1	0.9
Hours worked, per working day	−0.7	0.8	−0.3	−1.5	0.1	0.0	1.6	−0.7	0.1
Working days	0.4	−1.2	−0.3	1.6	−0.8	0.0	−2.3	−0.5	−0.1
Labour volume, calendar-monthly	*0.9*	1.0	0.5	1.3	0.6	1.4	0.6	−0.1	1.0
Labour productivity[1]	*0.8*	0.4	1.3	1.0	0.8	0.1	0.7	1.7	0.9
Gross domestic product, price adjusted	**1.9**	**1.4**	**1.7**	**2.3**	**1.4**	**1.5**	**1.3**	**1.5**	**1.9**
2. Disposition of GDP in Current Prices **a) Billion Euro**									
Final consumption expenditure	2,295.3	2,367.2	2,440.6	1,120.5	1,174.8	1,155.7	1,211.4	1,190.2	1,250.4
Private consumption expenditure[2]	1,679.2	1,726.2	1,775.9	820.8	858.3	843.5	882.8	866.4	909.5
Government consumption expenditure	616.1	641.0	664.7	299.6	316.5	312.3	328.7	323.8	340.9
Gross fixed capital formation (GFCF)	626.7	646.4	675.4	303.6	323.1	311.2	335.1	325.6	349.8
Machinery and equipment	204.4	206.1	214.5	98.7	105.7	98.8	107.4	102.3	112.1
Construction	309.4	323.0	338.9	149.8	159.6	155.3	167.7	163.8	175.1
GFCF in other products	112.9	117.2	122.0	55.1	57.8	57.2	60.1	59.5	62.5
Change in Stocks[3]	−28.1	−14.0	−15.4	−8.3	−19.8	2.7	−16.7	1.7	−17.1
Domestic uses	2,893.9	2,999.5	3,100.6	1,415.8	1,478.1	1,469.6	1,529.9	1,517.5	1,583.1
Balance of exports and imports	238.8	220.1	219.9	128.1	110.6	117.9	102.2	117.4	102.5
Exports	1,441.4	1,527.9	1,594.9	712.6	728.8	757.6	770.3	789.6	805.3
Imports	1,202.6	1,307.7	1,375.0	584.5	618.2	639.7	668.1	672.1	702.8
Gross domestic product	**3,132.7**	**3,219.7**	**3,320.6**	**1,543.9**	**1,588.7**	**1,587.6**	**1,632.1**	**1,635.0**	**1,685.6**
b) Percentage change over previous year									
Final consumption expenditure	3.4	3.1	3.1	3.8	3.0	3.1	3.1	3.0	3.2
Private consumption expenditure[2]	2.6	2.8	2.9	2.9	2.3	2.8	2.8	2.7	3.0
Government consumption expenditure	5.6	4.0	3.7	6.2	4.9	4.2	3.9	3.7	3.7
Gross fixed capital formation (GFCF)	3.8	3.1	4.5	5.4	2.3	2.5	3.7	4.6	4.4
Machinery and equipment	2.1	0.8	4.1	5.3	−0.7	0.1	1.6	3.6	4.4
Construction	4.9	4.4	4.9	6.1	3.8	3.7	5.1	5.4	4.5
GFCF in other products	3.9	3.8	4.1	3.9	3.9	3.8	3.9	4.1	4.1
Domestic uses	3.2	3.6	3.4	3.6	2.9	3.8	3.5	3.3	3.5
Exports	1.6	6.0	4.4	1.7	1.5	6.3	5.7	4.2	4.5
Imports	1.1	8.7	5.1	0.4	1.9	9.4	8.1	5.1	5.2
Gross domestic product	**3.3**	**2.8**	**3.1**	**3.9**	**2.7**	**2.8**	**2.7**	**3.0**	**3.3**
3. Disposition of GDP, adjusted for prices **a) Chain-linked estimated in Billion Euro**									
Final consumption expenditure	2,122.0	2,151.3	2,188.1	1,043.1	1,079.0	1,057.1	1,094.2	1,074.3	1,113.9
Private consumption expenditure[2]	1,570.7	1,586.1	1,610.0	770.3	800.3	777.4	808.7	788.2	821.8
Government consumption expenditure	551.0	564.5	577.3	272.5	278.5	279.3	285.3	285.6	291.7
Gross fixed capital formation (GFCF)	567.7	575.7	592.1	275.5	292.2	277.7	298.0	285.9	306.3
Machinery and equipment	196.8	197.3	204.6	94.7	102.1	94.0	103.3	97.1	107.5
Construction	268.2	273.2	279.9	130.5	137.7	132.2	141.0	135.9	143.9
GFCF in other products	103.0	105.3	107.8	50.4	52.6	51.5	53.8	52.8	55.1
Domestic uses	2,655.4	2,705.6	2,757.8	1,310.5	1,344.9	1,336.7	1,369.0	1,360.7	1,397.1
Exports	1,388.4	1,439.4	1,488.4	687.8	700.6	717.0	722.3	738.1	750.3
Imports	1,200.0	1,263.0	1,316.0	586.4	613.7	621.0	642.0	644.7	671.3
Gross domestic product	**2,843.0**	**2,883.4**	**2,932.6**	**1,411.2**	**1,431.9**	**1,432.8**	**1,450.6**	**1,454.7**	**1,477.9**
b) Percentage change over previous year									
Final consumption expenditure	2.5	1.4	1.7	3.1	2.0	1.3	1.4	1.6	1.8
Private consumption expenditure[2]	2.0	1.0	1.5	2.5	1.5	0.9	1.0	1.4	1.6
Government consumption expenditure	4.0	2.5	2.3	4.7	3.4	2.5	2.4	2.3	2.3
Gross fixed capital formation (GFCF)	2.3	1.4	2.9	4.0	0.7	0.8	2.0	2.9	2.8
Machinery and equipment	1.1	0.2	3.7	4.2	−1.7	−0.8	1.1	3.3	4.1
Construction	3.0	1.9	2.4	4.3	1.7	1.3	2.4	2.8	2.1
GFCF in other products	2.6	2.2	2.4	2.6	2.6	2.2	2.3	2.4	2.4
Domestic uses	2.3	1.9	1.9	2.7	1.8	2.0	1.8	1.8	2.1
Exports	2.6	3.7	3.4	3.0	2.3	4.2	3.1	2.9	3.9
Imports	3.7	5.2	4.2	4.0	3.5	5.9	4.6	3.8	4.6
Gross domestic product	**1.9**	**1.4**	**1.7**	**2.3**	**1.4**	**1.5**	**1.3**	**1.5**	**1.9**

1 Due to a correction of the official employment figures by the Federal Employment Agency (Bundesagentur für Arbeit), selected variables of the system of national accounts (SNA) have been adjusted for this forecast. These figures are highlighted in italics and shaded background. For details (in German) please refer to Box 1 in Ferdinand Fichtner et al. (2017): Deutsche Wirtschaft: Beschäftigungsaufbau stark, Investitionstätigkeit schwach. DIW Wochenbericht 11, 188f.

continued: The Main National Accounts Data for the Federal Republic of Germany

Forecast for 2017 and 2018[1]

	2016	2017	2018	2016		2017		2018	
				1. half year	2. half year	1. half year	2. half year	1. half year	2. half year
4. Price Level of National Expenditure (2010=100)									
Percentage change over previous year									
Private consumption expenditure[2]	0.6	1.8	1.3	0.5	0.8	1.8	1.8	1.3	1.4
Government consumption expenditure	1.5	1.5	1.4	1.5	1.4	1.7	1.4	1.4	1.4
Gross fixed capital formation (GFCF)	1.5	1.7	1.6	1.4	1.6	1.7	1.7	1.6	1.5
Machinery and equipment	1.1	0.6	0.3	1.0	1.1	0.8	0.4	0.3	0.3
Construction	1.8	2.5	2.4	1.7	2.0	2.3	2.6	2.5	2.3
Exports	−1.0	2.3	0.9	−1.2	−0.8	2.0	2.5	1.3	0.7
Imports	−2.5	3.3	0.9	−3.5	−1.5	3.3	3.3	1.2	0.6
Gross domestic product	**1.4**	**1.3**	**1.4**	**1.6**	**1.3**	**1.3**	**1.4**	**1.4**	**1.4**
5. Distribution of Income									
a) Billion Euro									
Primary income of private household[2]	*2,188.1*	2,262.2	2,335.2	1,077.1	1,111.1	1,114.1	1,148.1	1,148.4	1,186.8
Employers' social contributions	287.3	299.8	310.4	139.0	148.3	145.4	154.4	150.5	160.0
Gross wages and salaries	*1,309.2*	1,359.6	1,407.9	624.2	685.0	649.9	709.8	672.4	735.5
Other primary income of private households[4]	*591.6*	602.7	616.9	313.9	277.8	318.8	283.9	325.5	291.4
Primary income of other institutional sectors	*457.1*	459.2	472.4	216.4	240.6	215.5	243.7	221.9	250.4
Net national income (primary income)	**2,645.2**	**2,721.4**	**2,807.6**	**1,293.5**	**1,351.7**	**1,329.6**	**1,391.8**	**1,370.3**	**1,437.2**
Consumption of fixed capital	552.1	568.4	586.1	274.4	277.7	282.6	285.8	291.2	294.9
Gross national income	**3,197.3**	**3,289.8**	**3,393.7**	**1,567.9**	**1,629.4**	**1,612.2**	**1,677.6**	**1,661.5**	**1,732.2**
Memorandum item:									
Net national income (factor costs)	2,338.4	2,407.2	2,485.7	1,141.4	1,197.0	1,173.6	1,233.7	1,210.5	1,275.2
Property and entrepreneurial income	*741.9*	747.7	767.3	378.2	363.7	378.3	369.5	387.6	379.7
Compensation of employees	*1,596.5*	1,659.5	1,718.4	763.2	833.3	795.3	864.2	822.9	895.4
b) Percentage change over previous year									
Primary income of private household[2]	*3.4*	3.4	3.2	3.7	3.1	3.4	3.3	3.1	3.4
Employers' social contributions	2.9	4.4	3.5	2.8	2.9	4.6	4.1	3.5	3.6
Gross wages and salaries	*3.9*	3.9	3.6	4.0	3.9	4.1	3.6	3.5	3.6
Other primary income of private households[4]	*2.4*	1.9	2.3	3.5	1.2	1.6	2.2	2.1	2.6
Primary income of other institutional sectors	*2.5*	0.5	2.9	7.5	−1.7	−0.4	1.3	3.0	2.7
Net national income (primary income)	**3.2**	**2.9**	**3.2**	**4.3**	**2.2**	**2.8**	**3.0**	**3.1**	**3.3**
Consumption of fixed capital	3.1	2.9	3.1	2.9	3.2	3.0	2.9	3.0	3.2
Gross national income	**3.2**	**2.9**	**3.2**	**4.1**	**2.3**	**2.8**	**3.0**	**3.1**	**3.3**
Memorandum item:									
Net national income (factor costs)	3.3	2.9	3.3	4.3	2.4	2.8	3.1	3.1	3.4
Property and entrepreneurial income	*2.5*	0.8	2.6	5.5	−0.5	0.0	1.6	2.5	2.8
Compensation of employees	*3.7*	3.9	3.5	3.8	3.7	4.2	3.7	3.5	3.6
6. Income and Expenditure of Private Households									
a) Billion Euro									
Mass income	*1,294.6*	1,340.9	1,384.5	622.0	672.6	647.6	693.4	668.1	716.4
Net wages and salaries	*866.4*	897.5	928.3	409.2	457.2	425.3	472.2	439.5	488.8
Social benefits	542.7	562.2	579.4	269.6	273.1	281.2	281.0	289.7	289.7
less levies on social benefits	114.5	118.7	123.2	56.8	57.7	58.9	59.8	61.1	62.1
Other primary income[4]	*591.6*	602.7	616.9	313.9	277.8	318.8	283.9	325.5	291.4
Other transfers received (net)[5]	*−72.8*	−75.9	−78.8	−35.9	−36.8	−37.6	−38.3	−39.1	−39.7
Disposible income	*1,813.5*	**1,867.8**	**1,922.5**	**899.9**	**913.5**	**928.7**	**939.0**	**954.5**	**968.0**
Memorandum item:									
Adjustment for the change in net equity of households in pension funds reserves	48.5	48.8	49.2	24.0	24.5	24.2	24.7	24.3	24.8
Private consumption expenditure	1,679.2	1,726.2	1,775.9	820.8	858.3	843.5	882.8	866.4	909.5
Saving	*182.8*	190.4	195.8	103.1	79.7	109.4	81.0	112.4	83.4
Saving ratio in %[6]	*9.8*	9.9	9.9	11.2	8.5	11.5	8.4	11.5	8.4
b) Percentage change over previous year									
Mass income	*3.5*	3.6	3.2	3.4	3.5	4.1	3.1	3.2	3.3
Net wages and salaries	*3.7*	3.6	3.4	4.0	3.4	3.9	3.3	3.3	3.5
Social benefits	3.2	3.6	3.1	2.5	3.9	4.3	2.9	3.0	3.1
less levies on social benefits	3.6	3.7	3.8	3.2	4.1	3.6	3.7	3.7	3.8
Other primary income[4]	*2.4*	1.9	2.3	3.5	1.2	1.6	2.2	2.1	2.6
Disposible income	*2.9*	**3.0**	**2.9**	**3.1**	**2.7**	**3.2**	**2.8**	**2.8**	**3.1**
Private consumption expenditure	2.6	2.8	2.9	2.9	2.3	2.8	2.8	2.7	3.0
Saving	*4.5*	4.2	2.9	3.6	5.9	6.2	1.6	2.7	3.0

1 Due to a correction of the official employment figures by the Federal Employment Agency (Bundesagentur für Arbeit), selected variables of the system of national accounts (SNA) have been adjusted for this forecast. These figures are highlighted in italics and shaded background. For details (in German) please refer to Box 1 in Ferdinand Fichtner et al. (2017): Deutsche Wirtschaft: Beschäftigungsaufbau stark, Investitionstätigkeit schwach. DIW Wochenbericht 11, 188 f.

continued: The Main National Accounts Data for the Federal Republic of Germany

Forecast for 2017 and 2018[1]

	2016	2017	2018	2016		2017		2018	
				1. half year	2. half year	1. half year	2. half year	1. half year	2. half year
7. Government Revenues and Expenditures[8] **a) Billion Euro**									
Revenues									
Taxes	731.2	744.8	767.1	364.9	366.3	373.1	371.7	384.6	382.5
direct taxes	396.8	402.7	417.1	199.4	197.4	203.5	199.2	211.1	206.0
indirect taxes	334.4	342.1	350.1	165.5	168.9	169.6	172.5	173.5	176.5
Net social contributions	523.1	545.3	564.9	253.3	269.8	264.9	280.4	274.3	290.7
Property income	18.0	16.5	18.7	10.0	8.0	8.5	8.0	10.6	8.0
Other transfers	19.3	19.6	19.8	9.3	10.0	9.4	10.2	9.5	10.3
Capital transfers	15.3	12.0	11.2	7.6	7.7	5.1	6.9	4.6	6.6
Sales	104.3	107.3	110.4	49.1	55.2	50.5	56.7	52.0	58.4
Other subsidies	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Total revenues	**1,411.4**	**1,445.6**	**1,492.4**	**694.3**	**717.1**	**711.5**	**734.1**	**735.7**	**756.7**
Expenditures									
Intermediate consumption	151.7	155.9	160.9	69.4	82.3	71.5	84.4	73.8	87.2
Compensation of employees	235.8	242.7	249.0	113.3	122.4	116.9	125.8	119.9	129.1
Social benefits in kind	268.1	283.2	297.1	133.3	134.8	140.9	142.3	147.7	149.4
Property income (interests)	43.4	41.9	41.9	21.6	21.8	20.9	21.0	20.9	21.0
Subsidies	27.6	27.9	28.2	13.4	14.2	13.6	14.3	13.7	14.5
Social benefits	487.7	505.2	520.8	242.2	245.5	252.6	252.6	260.3	260.5
Other transfers	74.6	76.9	83.3	39.4	35.2	40.0	36.9	40.5	42.8
Gross capital formation	66.5	70.5	72.0	28.8	37.7	30.3	40.3	31.2	40.8
Capital transfers	33.5	32.2	31.8	15.1	18.4	13.5	18.7	13.3	18.5
Acquisitions less disposals of non-financial non-produced assets	−1.3	−5.2	−1.4	−0.5	−0.8	−4.4	−0.8	−0.6	−0.8
Other taxes on production	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Total expenditures	**1,387.7**	**1,431.4**	**1,483.8**	**676.1**	**711.6**	**695.8**	**735.6**	**720.8**	**763.0**
Balance	23.7	14.3	8.6	18.2	5.5	15.8	−1.5	14.9	−6.3
b) Percentage change over previous year									
Revenues									
Taxes	4.5	1.9	3.0	4.8	4.2	2.2	1.5	3.1	2.9
direct taxes	6.5	1.5	3.6	5.8	7.2	2.1	0.9	3.7	3.4
indirect taxes	2.1	2.3	2.3	3.5	0.8	2.4	2.2	2.3	2.3
Net social contributions	4.5	4.2	3.6	4.3	4.6	4.6	3.9	3.5	3.7
Property income	−17.5	−8.4	13.2	−19.8	−14.5	−15.0	−0.2	25.2	0.5
Other transfers	−0.9	1.3	1.3	3.1	−4.3	1.4	1.3	1.4	1.3
Capital transfers	25.7	−21.4	−6.6	46.0	10.6	−32.9	−10.1	−8.9	−5.0
Sales	3.9	2.9	2.9	3.6	4.2	2.9	2.9	2.9	2.9
Other subsidies	−7.6	0.0	0.0	−10.3	−5.5	0.0	0.0	0.0	0.0
Total revenues	**4.2**	**2.4**	**3.2**	**4.4**	**4.0**	**2.5**	**2.4**	**3.4**	**3.1**
Ausgaben									
Vorleistungen	8.7	2.8	3.2	10.1	7.6	3.1	2.6	3.2	3.2
Arbeitnehmerentgelte	3.1	2.9	2.6	3.2	3.0	3.1	2.7	2.6	2.6
Soziale Sachleistungen	6.2	5.6	4.9	7.0	5.4	5.7	5.6	4.9	5.0
Vermögenseinkommen (Zinsen)	−8.3	−3.5	0.0	−10.6	−5.8	−3.5	−3.5	0.0	0.1
Subventionen	0.2	1.1	1.0	−3.2	3.7	1.2	1.0	1.1	1.0
Monetäre Sozialleistungen	3.5	3.6	3.1	2.7	4.4	4.3	2.9	3.1	3.1
Sonstige laufende Transfers[9]	−0.6	2.2	6.4	−1.8	1.2	0.6	1.7	0.5	5.9
Bruttoinvestitionen	3.5	6.1	2.1	7.2	0.8	5.2	6.8	3.2	1.3
Vermögenstransfers[9]	3.8	−1.3	−0.4	2.4	1.4	−10.1	1.3	−1.9	−0.9
Nettozugang an nichtproduzierten Vermögensgegenständen[9]	0.5	−3.9	3.8	0.6	−0.1	−3.9	0.0	3.8	0.0
Sonstige Produktionsabgaben[9]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	**4.0**	**3.1**	**3.7**	**3.9**	**4.2**	**2.9**	**3.4**	**3.6**	**3.7**

1 Gross domestic product (price-adjusted) per man-hour.
2 Including private organizations without pecuniary reward.
3 Including net increase in valuables.
4 Entrepreneurial income/ operating surplus and received minus paid asset income.
5 Transfers, received minus paid.
6 Current saving as percentage of disposable income
7 Absolute change over previous year in Billion EUR.

Sources: Federal Statistical Office (Fachserie 18: Volkswirtschaftliche Gesamtrechnungen); Forecast by DIW Berlin.