Domestic demand drives German economy

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The German economy is expected to grow by 1.7 percent this year, and to maintain this pace in 2016 as well. The rate of growth should slow down slightly (to 1.5 percent) in 2017, but only because the number of working days will be lower due to the timing of public holidays.

The global economy is growing at a slower pace than it has been in recent years, but will pick up speed during the forecast period. The recessions in Russia and Brazil are coming to an end, China is orienting its economy toward more consumption—so far, without any major disruptions—and growth in the U.S. and the UK remains strong. The euro area is on the path to recovery, albeit at a moderate pace: Job creation, while modest, and an increase in real income are spurring demand in many countries. The global economy's average annual growth rate is expected to rise from 3.4 percent this year to 3.6 next year, and to 3.9 percent in the following year.

In Germany, strong private consumption is the primary growth driver. The main reason for this is the ongoing pattern of strong growth of the wage bill. In the coming year, this year's positive effect of lower oil prices on households' purchasing power will fall away—yet positive impulses will also arise as a result of the refugee influx. This is connected with the care, accommodation, and integration of refugees and with the consumption this creates, as well as with increased activity in the construction industry. In contrast, investment in equipment will develop only modestly. In addition to the overall slightly weaker global sales prospects, there are also domestic factors with dampening effects. Despite robust exports, foreign trade will not contribute to growth in net terms since the dynamic domestic economy is spurring imports more powerfully.

Pace of global economic expansion accelerating slightly

The momentum of the global economy increased slightly during the third quarter (Figure 1), mostly due to developments in the emerging countries: Russia and Brazil exhibited a smaller decrease in economic performance than they had previously, and a hard landing of the Chinese economy did not materialize. In the industrialized countries, however, the pace decreased slightly; nevertheless, demand remained high. The economy of the euro area continued on its path of moderate growth.

Although monetary policy will become less expansionary worldwide over the course of the forecast period—that is, in 2015, 2016, and 2017—it will still support the economy. Interest rate hikes are expected in the U.S. and the UK; the euro area, however, decided upon an extension of bond purchases. Fiscal policy will be neutral, in the euro area as well as globally.

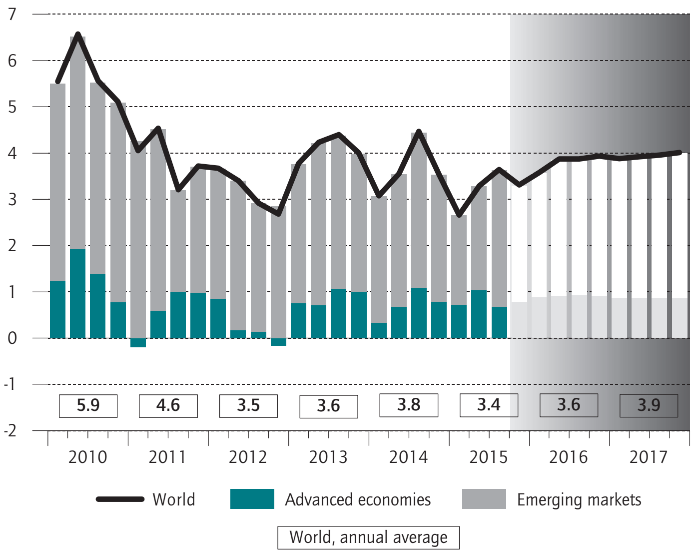
Mild improvements are expected for the global economy, with both the industrialized and the emerging countries experiencing slight increases in the pace of growth. For the emerging countries, however, a return to the growth rates of previous years is unlikely: Russia and Brazil in particular are expected to continue suffering from low commodity prices and high inflation. In addition, the lift-off of U.S. interest rates is likely to have a restrictive effect on many emerging countries. In China, the persisting overcapacities will cause a slight decrease in the growth rates. Overall, the emerging markets are expected to benefit in terms of foreign trade from the economic improvements in the industrialized countries.

In industrialized countries, however, net exports are unlikely to generate much stimulus; instead, domestic demand will drive growth. Further improvements in the labor market, along with only a slight increase in inflation, ensure purchasing power gains among households and robust consumption growth. In the long run, corporate investment is likely to increase, since companies

Figure 1

World real GDP

In percent



Source: National statistical offices; DIW winter projections 2015.

The world economy keeps expanding at a moderate pace.

will increasingly make use of the still-low interest rates as demand grows. This tendency is most apparent in the U.S., and somewhat more subdued in the euro area.

All in all, the global economy's average annual growth rate is expected to stand at 3.4 percent in 2015, and at 3.6 and 3.9 in 2016 and 2017, respectively (Table 1). Inflation will rise to 2.2 and 2.7 percent in 2016 and 2017, respectively. Moderate increases in wages and energy prices are contributing to this.

The risks for the global economy have lessened somewhat after a hard landing of the Chinese economy did not occur. However—as is the case in many other emerging countries—there still exists the risk that the high private debt levels turn out to be unsustainable. Countries with high current account deficits in particular are at risk if the U.S. interest rate turnaround leads to an unexpectedly drastic deterioration in their external financing conditions. A further risk for the forecast period is a stagnation of the integration process in the euro area. There are also significant risks due to the conflicts in the Middle East.

United States

In the U.S., the GDP grew by 2.1 percent (annualized) in the third quarter of 2015. The U.S. economy will remain on a moderate growth path during the forecast period. Private consumption, which is supported by the minor inflation increases and the ongoing recovery in the labor market, will continue to serve as an important growth driver.

The unemployment rate has declined by nearly one percentage point within the past year. However, the labor force participation rate remains low. In the course of this development, disposable income will continue to increase moderately during the forecast period, supporting private consumption as well as residential construction.

Given the strong consumer demand and rising capacity utilization, corporations will significantly expand their investment activity. Driven by private consumption, imports will grow somewhat more powerfully than will exports. In light of the ongoing economic recovery, the U.S. Federal Reserve is now expected to begin increasing its key interest rates; during the forecast period, however, only a slight and gradual increase in the key interest rates is expected. As well, fiscal policy will no longer be restrictive like it has been in recent years. All in all, the U.S. economy is expected to grow by 2.5 percent in 2015. In 2016 and 2017, respectively, the GDP growth rate will stand at 2.6 percent.

Japan

After a decline in the second quarter, Japan's GDP has grown by 0.3 percent. Consumption has recovered slightly, but private households' willingness to spend remains low. Corporate investment has grown somewhat. Despite a rise in price competitiveness, there has been no tangible increase in exports, as demand in foreign markets has been only moderate.

Attempts to bring the economy to a higher growth path through government spending programs and a very expansionary monetary policy have not yet paid off. The profits of export-oriented corporations have risen markedly because the weak yen has increased the margins. However, this has not yet led to higher wage increases. The rather weak investment activity continues, though the Tankan index for the manufacturing sector indicates a continuing stabilization. The economy is expected to expand this year and in the following two years by about 0.5 percent annually.

China

Production in China expanded by 1.8 percent in the third quarter, following a similar increase in the previous quarter. More and more, the development is being driven by rising consumer spending. Although there has been a sharp rise in wages, primarily at the lower end

Table 1

Real gross domestic product, consumer price inflation, and unemployment rate in the world economy
In percent

	Gross Domestic Product				Consumer Prices				Unemployment Rate			
	Change over previous year											
	2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017
Euro area	0.9	1.5	1.5	1.7	0.4	0.1	0.9	1.4	11.6	10.9	10.4	10.2
… without Germany	0.4	1.5	1.6	1.7	0.3	0.0	0.8	1.4	13.8	13.1	12.3	11.8
… France	0.2	1.1	0.9	1.4	0.5	0.2	0.9	1.3	10.3	10.5	10.6	10.5
… Italy	1.4	3.1	2.7	2.4	−0.2	−0.5	0.5	1.5	24.5	22.1	19.6	18.2
… Spain	−0.4	0.7	1.2	1.4	0.2	0.1	0.7	1.4	12.7	11.9	11.0	10.6
… Netherlands	1.0	2.0	2.1	2.2	0.3	0.2	0.8	1.4	7.4	6.9	6.4	6.2
United Kingdom	2.9	2.4	2.3	2.1	1.4	0.1	1.1	1.7	6.1	5.5	5.3	5.3
USA	2.4	2.5	2.6	2.6	1.6	0.2	1.7	1.7	6.2	5.3	4.8	4.6
Japan	−0.1	0.5	0.5	0.5	2.8	0.8	0.9	1.1	3.6	3.5	3.8	3.8
South Korea	3.3	2.6	2.9	3.0	1.3	0.7	1.6	2.2	3.6	3.5	3.0	3.0
Middle Eastern Europe	3.0	3.4	3.1	3.2	0.3	−0.3	1.2	1.8	8.4	7.4	6.8	6.4
Turkey	2.9	3.3	3.3	3.8	8.8	7.7	7.6	7.4	9.9	10.2	9.9	9.6
Russia	0.7	−4.1	−0.4	0.8	7.9	15.4	7.3	5.3	5.2	5.7	6.3	6.2
China	7.3	6.8	6.5	6.3	−0.6	−0.5	−0.4	1.3	3.8	3.8	3.8	3.8
India	7.2	7.2	7.0	6.9	4.3	2.0	4.8	5.7				
Brazil	0.1	−3.4	−2.6	0.8	6.3	8.5	6.8	6.0	4.9	7.1	8.5	9.8
Mexico	2.3	2.5	2.6	2.7	4.0	2.8	3.2	3.6	4.8	4.5	4.8	4.8
Advanced Economies	1.8	2.0	2.1	2.2	1.4	0.3	1.4	1.6	7.0	6.4	6.0	5.8
Emerging Markets	5.3	4.4	4.8	5.1	2.4	2.8	2.7	3.5	4.8	5.0	5.2	5.2
World	3.8	3.4	3.6	3.9	2.0	1.7	2.2	2.7	5.7	5.6	5.5	5.5

Source: National statistical offices; DIW winter projections 2015.

of the pay scale, the expansion of private consumption remains subdued. The development of exports will be hampered by the sluggish economy in the most important markets and a decline in price competitiveness. Investment will be dampened by existing overcapacities.

The PMIs point to an additional mild contraction in the industry. By contrast, the index for the service companies stands clearly above the expansion threshold. This trend is expected to continue during the forecast period. Overall, production is expected to expand by 6.8 percent in 2015. In both 2016 and 2017, the growth is expected to be slightly lower.

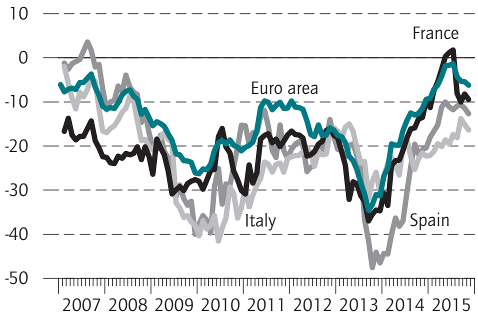
Euro area

The GDP of the euro area grew by 0.3 percent in the third quarter. In the forecast period, private consumption is likely to be the primary growth driver. Disposable income is increasing at a similarly steady pace; in real terms in particular, growth has been noticeable: Due to spare capacities, only slight increases in inflation are expected. Moreover, employment will continue to rise, if only moderately in certain countries. In Italy, the unemployment rate fell by one percentage point in the past four months, and stood at 11.5 percent in October, while in Finland, there was a slight increase during the same period, to 8.7 percent. In France, employment growth has come to a standstill. Indicators such as the improving consumer sentiment and the rise in car registrations suggest that consumers remain confident (Figure 2). Taken together, these factors points to a slight increase in private consumption. In addition, fiscal policy is expected to be neutral in 2016 and 2017, after having been subdued in the current year. Primarily due to the additional expenditure because of the influx of asylum seekers, it will have an expansive effect in certain countries, however.

Corporate investment rose slightly in the third quarter. The purchasing managers' index recently rose to 54.4 points, significantly above the expansion threshold. However, despite full order books, especially for consumer durables, investment momentum is expected to be only moderate. This follows from the moderate increase in bank lending to nonfinancial corporations, as the Bank Lending Survey of the European Central Bank indicates higher loan demand primarily for investment purposes. The announcement that the asset purchase program will be extended by six months, and

Figure 2

Consumer confidence
Net Balance



Quelle: European Commission.

Consumer confidence reamains on a high level.

a reduction in deposit rates to –0.3 percent, are unlikely to stimulate credit growth.

Although the euro's weak external value should have had a supportive effect, export development has recently been subdued. This was due to the decline in import demand from China, Russia, and Brazil. Only a minor improvement in global trade is expected during the forecast period. Correspondingly, export growth is subdued, not least because the exchange rate stimulus will die down over time. At the same time, imports are developing comparatively strongly due to growing domestic consumer demand.

This year, the euro area economy is expected to grow by 1.5 percent. In 2016, a comparable growth rate is expected. In 2017, GDP growth should be slightly stronger.

United Kingdom

Although economic development in the UK is still dynamic, it is weakening slightly. Domestic demand continues to be the primary driver for growth. Private demand is supported by higher employment. With an expected slight improvement in productivity, wages are expected to gain some momentum. At the end of the forecast horizon, the inflation rate will grow to roughly two percent; it will thus dampen income growth. Export growth, especially in the euro area and in the U.S., continues to increase with a similar momentum to import growth. The purchasing managers' indices for all sectors indicate an expansion of production. Because of the closing output gap and favorable financing conditions, investment activity is accelerating. Fiscal policy is somewhat contractionary. In the current year, economic performance is likely to rise by 2.5 percent. In 2016, growth is expected to be only slightly lower; in 2017, it will flatten out further to two percent.

Central and Eastern Europe

Growth in most Central and Eastern European economies continued to accelerate mildly in the third quarter: The 0.9 percent growth of the Polish GDP corresponded approximately to the average; meanwhile, the Romanian GDP grew by as much as 1.4 percent. Growth is primarily due to the continuously increasing domestic demand. The labor markets of most countries are seeing a decline in unemployment along with a rise in labor market participation. Real income is on the rise—also because the rate of inflation in most countries has recently been negative due to low energy and food prices. Prospects remain favorable: Further improvements are expected for the labor market. The consumer confidence index is moving upward. The expansionary monetary policy is likely to support investment. Exports, which were developing weakly in the middle of this year, should increase due to higher foreign demand from the other EU countries. Growth in the region is expected to stand at 3.4 percent this year—and it will likely be similarly strong over the forecast period, with 3.2 percent.

Russia

In Russia, the low price of oil and the sanctions are weakening the overall economic performance. The GDP shrank by 3.8 percent in the first three quarters of 2015 compared to the same period last year. In the third quarter, however, the decline slowed down compared to the previous quarters. Investment declined in the first three quarters. With lower retail turnover and a decline in real income, consumption is also likely to have been significantly reduced. In the autumn, the price increase remained at a high of 15.5 percent. Consumers do not expect any improvement to the economic situation: According to the index of the Russian statistical office, consumer confidence is once again on the decline somewhat. As well, the investment climate has not improved significantly; the withdrawal of private capital from Russia, however, has slowed down. Due to the devaluation of the ruble, stimulus from foreign trade is expected. However, this stimulus is likely to be minor at best, since the Russian energy exports can hardly be increased due to the high global supply of energy sources. After the strong contraction of imports, which is due in part to the Russian import ban on certain agricultural and food products, imports are likely to stabilize. Overall, the Russian GDP is expected to decrease by more than four percent in 2015, and to decrease slightly in the coming year as well. Growth is not expected until 2017.

Table 2

Use of gross domestic product, quarter-on-quarter growth rates
Price, seasonally and working-day adjusted, in percent

	2015				2016				2017			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Private consumption	0.4	0.1	0.6	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.4
Public consumption	0.4	0.7	1.3	1.0	0.6	0.8	0.6	0.6	0.2	0.2	0.4	0.6
Gross fixed capital formation	1.7	−0.4	−0.3	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.7
Investment in machinery and equipment	1.9	0.5	−0.8	0.6	0.7	0.8	0.9	1.0	1.1	1.1	1.1	1.1
Construction investment	1.8	−1.3	−0.3	0.9	0.8	0.7	0.7	0.4	0.4	0.4	0.4	0.4
Other investment	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Change in inventories[1]	−0.2	−0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic uses	0.5	−0.2	0.7	0.5	0.5	0.6	0.6	0.5	0.4	0.4	0.4	0.4
Net Exports[1]	−0.1	0.6	−0.4	−0.2	−0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports	1.5	1.8	0.2	0.1	0.9	1.0	1.0	1.1	1.1	1.1	1.1	1.1
Imports	2.1	0.5	1.1	0.6	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.3
Gross domestic product	**0.3**	**0.4**	**0.3**	**0.3**	**0.4**	**0.5**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**

1 Contribution to GDP growth in percentage points.
Source: Federal Statistical Office; DIW Berlin, Forecast from 2015q3 onward.

German economy: Slightly above-average growth

Total economic output is expected to continue its upward trend over the course of the forecast period—a development that is primarily driven by domestic forces. In the coming quarters, economic output will grow at a slightly above-average rate (Table 2). In the longer run, overall economic capacities will be utilized somewhat normally.

Investment in equipment has been developing modestly (Figure 3), which is a consequence of the relatively weak global economic growth. There are also uncertainties concerning the future of the euro area as well as the entire EU. Private consumption is currently evolving favorably, but this is also due to temporary effects, particularly the increased purchasing power due to the lower oil prices and the demand stimulus related to refugee migration. Foreign trade is still contributing to growth in net terms this year, but this effect will dampen slightly later on in the forecast period.

This year and in 2016, fiscal policy is expansionary; in 2017, it will be more neutral.[1] After a 1.7 percent increase in GDP in 2015 and 2016, economic performance will increase by 1.5 percent in 2017 (Table 3). Adjusting for the change in the number of working days, there will be a slight increase in the average annual rate during the forecast period.

Prices rising only moderately

Because of the nearly normal capacity utilization in Germany and the widely underutilized capacity in many countries, price inflation is also expected to remain low domestically. Oil prices are rising in line with assumptions (Table 4); the main reason for this is that consumer prices will be roughly one percent higher in the coming year over 2015—a year in which they, hindered by lower energy prices, have barely increased (Figure 4). An ongoing, partial transfer of oil price-related cost savings from corporation to consumer will, in the longer run, be confronted with price pressure due to the rise in consumption. In 2017, inflation is expected to rise to one and a half percent, but it will remain well below the level defined as price stability by the European Central Bank.

Both employment and unemployment on the rise

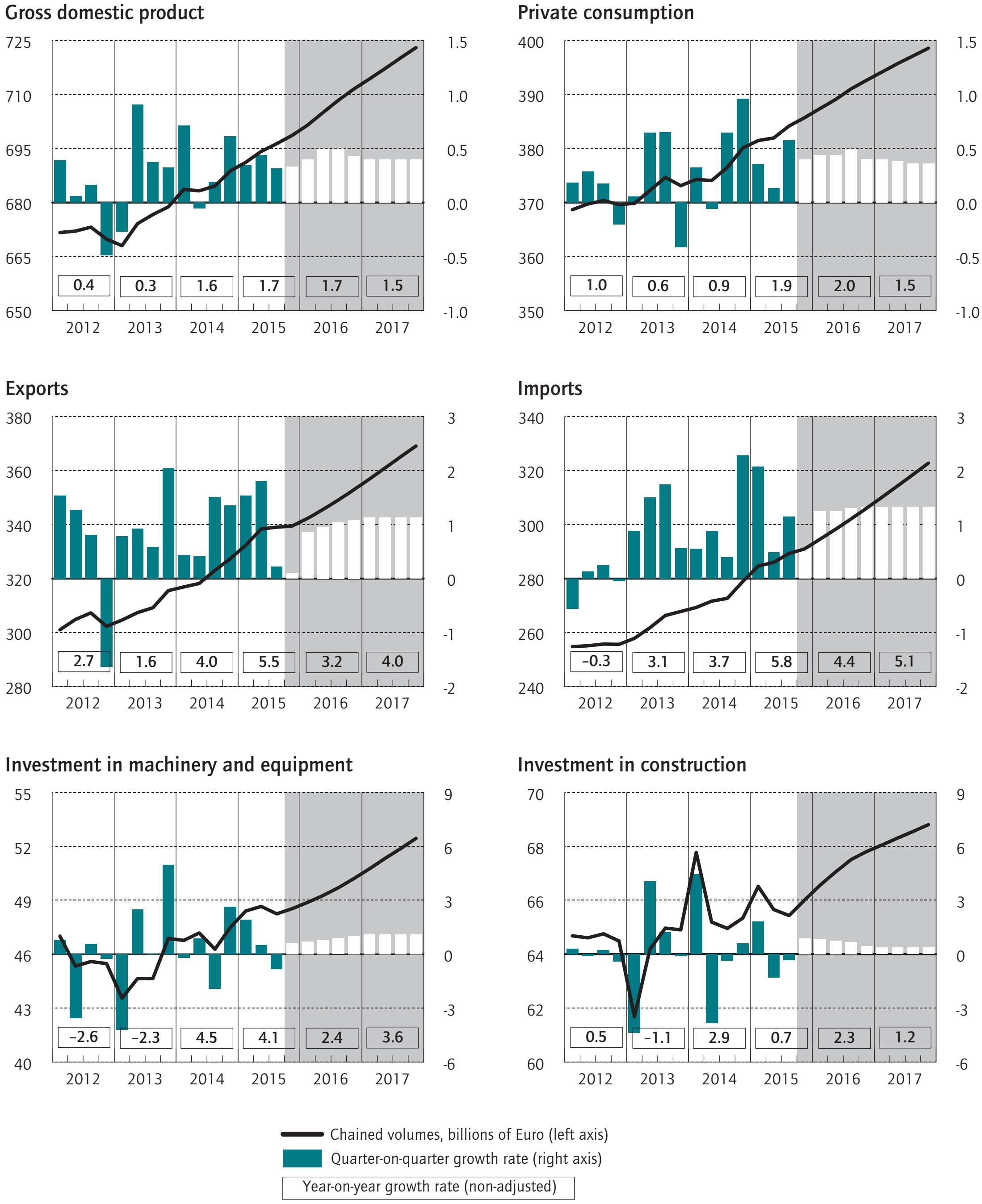
Until recently, employment had been experiencing considerable growth. In the labor force, the number of social security-obligated workers (Table 5) grew with virtually undiminished momentum; unlike the development among individuals who work only a mini-job, the effects of the introduction of the minimum wage were evident in this group. From October 2014 to February 2015, their number dropped significantly, by 150,000.

1 See the report on fiscal policy in this issue.

Figure 3

Gross domestic product and use of GDP

Seasonally and working day adjusted



Sources: Federal Statistical Office; Computations by DIW Berlin, forecasts as of 2015 Q4.

After that, the reduction continued at a markedly slower rate, and has now nearly come to a standstill.

In the coming year as well as in 2017, employment growth will continue, although it is slightly losing momentum (Figure 5) due to the slowing growth in production. But unemployment is also on the rise, because the labor force is increasing even more strongly: The immigration of workers from within the EU remains high; In addition, an increasing number of asylum seek-

Table 3

Key economic indicators for the German economy

	2012	2013	2014	2015	2016	2017
Real GDP[1] (percent change over previous year)	0.4	0.3	1.6	1.7	1.7	1.5
Domestic employment (1,000 persons)	42,060	42,328	42,703	43,031	43,413	43,694
Unemployed (ILO concept)	2,223	2,182	2,092	1,927	1,942	2,066
Unemployed (BA concept)	2,897	2,950	2,898	2,799	2,878	3,023
Unemployment rate[2] (ILO concept)	5.4	5.2	5.0	4.6	4.6	4.8
Unemployment rate[2] (BA concept)	6.8	6.9	6.7	6.4	6.5	6.8
Consumer prices	2.0	1.5	0.9	0.3	1.1	1.5
Unit labor costs[3]	3.1	2.0	1.6	1.6	1.9	2.4
Government budget balance[4]						
In billion EUR	−2.4	−3.1	8.9	29.0	13.3	12.5
In percent of GDP	−0.1	−0.1	0.3	1.0	0.4	0.4
Current account balance, in percent of GDP	6.9	6.5	7.3	8.4	8.3	8.1

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.

ers are being granted residence status and with that, a work permit. The labor force is expected to increase by 180,000 in 2016 and by 270,000 in 2017. [2] There will be 80,000 more unemployed individuals in 2016, and 150,000 more in 2017. As a result, the unemployment rate will increase somewhat, from 6.4 percent this year to 6.8 percent in 2017.

Despite the introduction of the statutory minimum wage, wage rate increases remained moderate this year, mainly because the hourly wages, which are collectively agreed upon, experienced only weak increases. The collective agreements that have already been completed and are reaching into the coming year are creating a slowdown in hourly wage increases. Due to the continuing rise in employment, however, non-tariff wages are likely to take on greater significance.

Table 4

Assumptions underlying this forecast

		2014	2015	2016
ECB policy rate	Percent	0.05	0.05	0.05
Money market rate	three month EURIBOR in percent	−0.02	−0.04	0.01
Long-term interest rate	10 year government bond yields, euro area	1.00	1.07	1.26
Long-term interest rate	10 year government bond yields, Germany	0.52	0.60	0.80
Exchange rate	US-Dollar/Euro	1.11	1.09	1.09
Negotiated wages	Percent changes over previous year	2.4	2.2	2.5
Oil price	US-Dollar/Barrel	54.0	47.4	50.9
Oil price	Euro/Barrel	48.6	43.4	46.5

Private consumption currently driving growth

Private consumption is expected to keep growing significantly. In past quarters, the decline in oil prices had been spurring consumer purchasing power, and thus temporarily boosting consumption. For the most part, this effect has now dropped off. In particular, the wage bill is increasing powerfully and facilitating the development of household income. It should be added that in the next few quarters in particular, additional consumer demand will develop in connection with the refugee migration. Since it is assumed that the number of refugees will eventually recede, this effect will then become less significant.

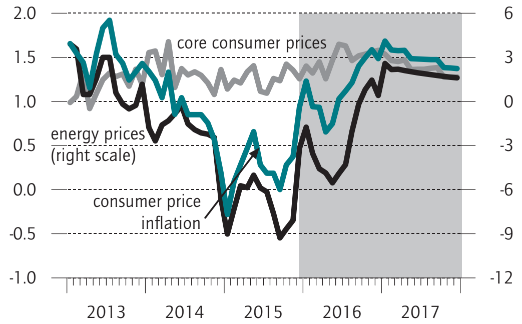
In the final quarter of this year, transfer expenditures will increase: The effects of the supplementary child benefits payments are expected to be reflected in consumption. Thus, despite the previous strong growth, the increase in private consumption will probably be noticeable again

2 It is assumed that the influx of asylum seekers will subside during the forecast period, from a massive 1.1 million this year to 800,000 in 2016, and to 500,000 in 2017. Half of them will obtain residence permits; 79 percent of those will be of working age, and two thirds are expected to join the labor market. Over time, the congestion in the recording of and deciding upon asylum applications will gradually be reduced.

Figure 4

Consumer price inflation

Percentage change over previous year

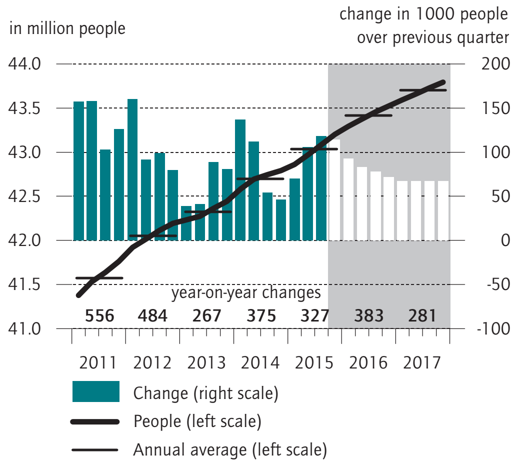


Sources: Destatis; DIW Berlin.

Consumer prices begin to increase at the end of the year.

Figure 5

Work force



Sources: Federal Statistical Office; DIW Berlin.

Growth in employment continues.

Table 5

Labour market performance

Millions

	2012	2013	2014	2015	2016	2017
Persons in employment (domestic concept)	**42.06**	**42.33**	**42.70**	**43.03**	**43.41**	**43.69**
Self employed	4.56	4.46	4.40	4.30	4.25	4.21
Employees subject to social security contributions[1]	29.36	29.73	30.22	30.83	31.38	31.68
Public officers, judges, military personel	1.89	1.89	1.90	1.91	1.93	1.95
Mini jobbers (without persons with a second job)	4.98	5.02	5.03	4.91	4.71	4.59
Others	1.27	1.23	1.15	1.08	1.14	1.26
+/− Commuters, employed persons in foreign state institutions in Germany or in foreign states	−0.05	−0.06	−0.06	−0.07	−0.07	−0.07
Persons in employment (national concept)	**42.01**	**42.27**	**42.64**	**42.96**	**43.34**	**43.62**
Unemployed (ILO concept)	**2.22**	**2.18**	**2.09**	**1.94**	**1.95**	**2.07**
Active population	**44.23**	**44.45**	**44.73**	**44.90**	**45.29**	**45.69**
Nachrichtlich:						
Unemployed (Federal Labour Office (BA) concept)	2.90	2.95	2.90	2.80	2.88	3.02
Unemployment rate (BA concept[1]) in percent	6.8	6.9	6.7	6.4	6.5	6.8
Unemployment rate (SGB concept[2]) in percent	9.0	9.0	8.8	8.3	8.4	8.7
Unemployment (NSA concept[3]) in percent	5.0	4.9	4.7	4.3	4.3	4.5
Unemployment rate (ILO concept) in percent	5.4	5.2	5.0	4.6	4.6	4.9
Employed persons (domestic concept – ILO)	39.02	39.41	39.74	39.98	40.28	40.56

1 Unemployed persons, registered at the federal labour office, in relation to civil active population.
2 Unemployed persons in relation to unemployed plus employed persons subject to social insurance contribution.
3 Unemployed persons, ILO concept, in relation to unemployed (ILO) plus persons in employment (national concept).

Sources: Federal Statistical Office; Federal Labour Office; DIW calculations and estimations.

by the end of the year. Although this stimulus will drop off at the beginning of the year, the increase in tax allowances is expected to support disposable income then.

The wage bill will grow significantly throughout the forecast period, by 4 percent annually. However, the fees—social contributions payable by the employees, but especially the payroll tax—will see a more significant rise: by a total of 5.0 percent this year, 4.7 percent next year, and 5.3 percent in 2017. Although the growth of fees in the coming year will be dampened by the increase in tax allowances, the supplementary contribution to statutory health insurance will rise. In sum, although the wage bill will develop more weakly in net than in gross, with an average of 3.5 percent it is clearly developing more dynamically than are the prices.

Monetary social benefits are increasing even stronger than net wages. This is due to significant increases in pensions, which will be particularly strong in the coming year. The transfers for refugees are also likely to play an important role. The income from entrepreneurial activity and assets should—as it did this year—increase by about 2 percent in the next two years; low yields on fixed income investments will still exert a dampening effect.

In line with the recent trend, the savings rate of private households increased slightly over the most recent quarters. While consumer surveys indicate that this trend is continuing, it is making little difference to the yearly average. On balance, private consumption increases by just under 2 percent this year—also a result of the low inflation. In the coming years, the growth will be slightly lower.

Investment in equipment only modest

Corporations have reduced their investment in equipment; it is likely that the weak global economy has caused them to act with more restraint. [3] The existing uncertainty related to global economic development could continue; in addition, it is unclear how the euro area as well as the EU's political orientation will develop. Industrial capacity utilization corresponds to the long-term average, with the result that expansion investments are unlikely to start playing a greater role until the end of the forecast period. As well, strong private consumption should provide a slight boost to investment among service providers. Recently, domestic sales have recovered noticeably among capital equipment manufacturers. Although their orders had been stagnating during the summer months, they have recently seen significant increases, and the business expectations of the capital goods manufacturers have brightened. As a result, investment in equipment is expected to gradually pick up speed.

Construction investment developing vigorously

After an overall decline in construction activity during the summer months, construction is getting back on track, primarily due to residential construction. Interests on housing loans are at an extremely low level, yet yields on investment alternatives are minor. Labor market and income prospects remain positive. Moreover, given the large numbers of refugees, significantly more housing is needed: In metropolitan areas, the demand is already much greater than the supply. In the coming year, residential construction activity will maintain its pace of expansion somewhat, while in 2017, the dynamics will flatten out slightly (Table 6).

Refugee migration will also be a driving force for commercial construction, which has otherwise been stagnating. Refugees are initially housed, short-term, in collective centers: modular, lightweight constructions that are usually built by private organizations. Therefore, enhanced construction activity is evident in commercial construction—which is suggested by the incoming orders in non-residential construction. In general, however, the momentum in commercial construction is low: With the exception of storage and commercial buildings, the number of construction permits is declining. This fits the current economic picture of a primarily consumer-driven economic development.

Table 6

Investment in construction

Constant prices, percentage changes

	2014	2012	2013	2014	2015	2016	2016
	shares	year-on-year changes					
Residential construction	59.2	3.4	−0.7	3.3	2.6	2.5	1.8
Non-residential construction	40.8	−3.3	−1.5	2.4	−2.1	2.0	0.2
Commercial construction	28.8	−1.6	−2.2	2.3	−2.2	0.3	0.7
Public construction	12.0	−7.3	0.2	2.7	−2.0	6.2	−0.8
Total construction	100.0	0.5	−1.1	2.9	0.7	2.3	1.2

Sources: Federal Statistical Office; DIW Berlin.

In public construction, strong stimuli are expected. In particular, initiatives to strengthen local investment activities and the maintenance and expansion of infrastructure create additional demand. [4] In public investment, there is not much additional expenditure connected to the strong refugee migration. After a loss of two percent in the current year, a strong expansion of six percent is expected for 2016. The nominal level will probably remain the same in 2017—however, the strong price increases will then create a decline of nearly one percent in real public construction investment.

Given the brisk construction activity and the full order books, a significant tightening of construction capacities is expected for the coming year. In 2015, low commodity prices above all have hindered the acceleration of prices. Starting next year, the shortages are likely to lead to a price increase well over two percent.

Imports growing more powerfully than are exports

German exports barely increased in the third quarter. Exports to certain regions have actually declined—especially to Asia, but also to the U.S. (Figure 6). Ma-

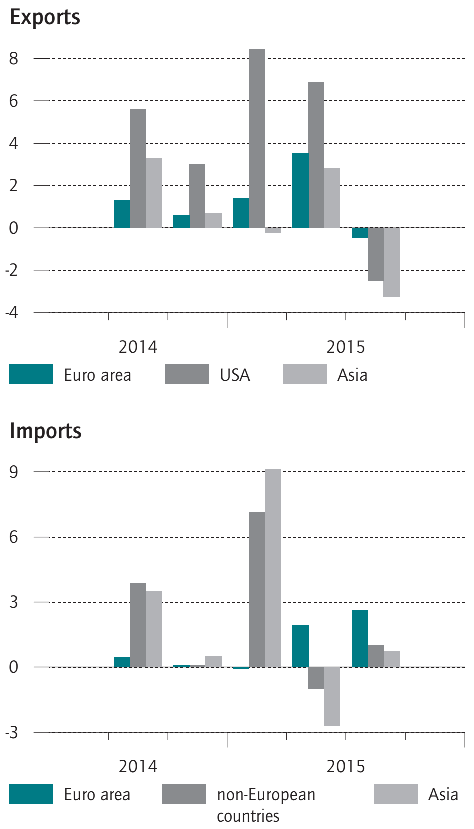
3 So far, there do not seem to have been any profound consequences for the Volkswagen Group due to the scandal over the company lying about the exhaust emissions of their diesel vehicles. Volkswagen has announced that in the coming year, it will replace global investments amounting to one billion euros. Even taking into account possible effects on the supply industry, the consequences for investment in Germany are likely to remain low at the moment.

4 See the report on fiscal policy in this issue.

Figure 6

Trade by region

Quarter-on-quarter changes in percent



Source: Bundesbank, own calculations.

While imports recently rose widely, exports to important regions decreased.

chinery was particularly affected. But export expectations have recently brightened again somewhat, and incoming orders from abroad suggest that exports will start increasing more strongly again. Even if the global economy is growing significantly less powerfully compared to the years before the financial crisis, the momentum in the emerging countries gradually stabilizing, and demand from the EU will increase steadily over the forecast period. Moreover, two of the most important sales markets—the U.S. and the UK—are developing quite vigorously.

Imports expanded strongly in the third quarter. Because of the slight recovery in investment in equipment and machinery and because of the strong private consumption, imports will continue to increase slightly more powerfully than will exports. Net exports will have a dampening effect for a while since exports are moving comparatively weakly. Later on, exports will increase somewhat more, such that no more stimulus will come from foreign trade, in net terms. On the whole, foreign trade will make a positive contribution to economic growth this year. In the coming year as well as the following year it is likely to dampen growth (but only slightly in 2017).

Due to the fall in oil prices, the terms of trade have improved significantly this year. From spring onward, this effect runs out. In the longer run, the terms of trade are unlikely to change much: In accordance with the assumptions of higher oil prices and stronger import dynamics, import prices will probably rise. However, export prices are expected to increase at similar rates. Net exports will report a record level this year, with just under 8 percent in relation to economic output. Contributing to this are the cost savings due to lower energy prices. In this configuration, the trade surplus will decrease only slightly over the next two years.

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The Main National Accounts Data for the Federal Republic of Germany

Forecast for 2015 to 2017

	2015	2016	2017	2015		2016		2017	
				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	0.8	0.9	0.6	0.7	0.9	1.0	0.8	0.7	0.6
Hours worked, per working day	−0.7	0.0	0.8	0.1	−1.5	−1.2	1.2	0.3	1.3
Working days	0.9	0.4	−0.8	0.0	1.8	1.6	−0.8	0.0	−1.6
Labour volume, calendar-monthly	1.0	1.3	0.7	0.8	1.2	1.3	1.2	1.0	0.3
Labour productivity[1]	0.7	0.5	0.8	0.6	0.8	0.7	0.3	0.6	1.0
Gross domestic product, price adjusted	**1.7**	**1.7**	**1.5**	**1.4**	**2.0**	**2.0**	**1.5**	**1.7**	**1.3**
2. Disposition of GDP in Current Prices a) Billion EUR									
Final consumption expenditure	2,223.1	2,305.9	2,378.6	1,080.5	1,142.6	1,123.1	1,182.8	1,158.5	1,220.1
Private consumption expenditure[2]	1,633.8	1,685.6	1,736.1	796.6	837.2	822.8	862.8	847.4	888.7
Government consumption expenditure	589.3	620.3	642.5	283.9	305.4	300.3	320.0	311.1	331.4
Gross fixed capital formation (GFCF)	605.6	629.2	652.5	290.2	315.4	301.3	327.9	313.7	338.7
Machinery and equipment	198.4	203.8	211.6	94.2	104.2	96.7	107.1	100.7	110.9
Construction	298.8	312.2	322.9	143.3	155.5	149.5	162.8	155.6	167.3
GFCF in other products	108.4	113.1	118.0	52.7	55.7	55.1	58.1	57.4	60.5
Change in Stocks[3]	−40.8	−46.6	−39.2	−7.8	−33.0	−11.5	−35.1	−6.4	−32.9
Domestic uses	2,788.0	2,888.5	2,991.8	1,362.9	1,425.1	1,412.9	1,475.6	1,465.8	1,526.0
Balance of exports and imports	237.0	238.1	235.1	119.6	117.4	122.9	115.2	122.1	113.0
Exports	1,421.8	1,468.8	1,537.0	698.5	723.3	721.7	747.1	757.9	779.2
Imports	1,184.8	1,230.7	1,301.9	578.9	605.9	598.8	632.0	635.7	666.1
Gross domestic product	**3,024.9**	**3,126.6**	**3,227.0**	**1,482.5**	**1,542.5**	**1,535.9**	**1,590.8**	**1,587.9**	**1,639.1**
b) Percentage change over previous year									
Final consumption expenditure	3.1	3.7	3.2	3.0	3.2	3.9	3.5	3.1	3.2
Private consumption expenditure[2]	2.6	3.2	3.0	2.6	2.6	3.3	3.1	3.0	3.0
Government consumption expenditure	4.5	5.3	3.6	3.8	5.1	5.8	4.8	3.6	3.6
Gross fixed capital formation (GFCF)	3.5	3.9	3.7	2.8	4.1	3.8	4.0	4.1	3.3
Machinery and equipment	4.5	2.7	3.8	4.1	5.0	2.7	2.7	4.1	3.5
Construction	2.4	4.5	3.4	1.3	3.4	4.3	4.7	4.1	2.8
GFCF in other products	4.7	4.3	4.3	4.8	4.7	4.4	4.3	4.3	4.3
Domestic uses	2.5	3.6	3.6	1.9	3.1	3.7	3.5	3.7	3.4
Exports	6.6	3.3	4.6	7.0	6.3	3.3	3.3	5.0	4.3
Imports	4.2	3.9	5.8	4.0	4.4	3.4	4.3	6.2	5.4
Gross domestic product	**3.7**	**3.4**	**3.2**	**3.5**	**4.0**	**3.6**	**3.1**	**3.4**	**3.0**
3. Disposition of GDP, adjusted for prices a) Chain-linked estimated in Billion EUR									
Final consumption expenditure	2,062.9	2,109.9	2,142.3	1,008.6	1,054.2	1,034.5	1,075.4	1,051.4	1,090.9
Private consumption expenditure[2]	1,532.5	1,562.5	1,585.5	748.3	784.2	764.7	797.7	776.3	809.3
Government consumption expenditure	530.3	547.2	556.5	260.3	270.0	269.6	277.6	274.9	281.6
Gross fixed capital formation (GFCF)	558.0	571.2	583.7	267.5	290.5	273.9	297.3	280.9	302.8
Machinery and equipment	194.5	199.3	206.4	91.8	102.7	94.0	105.3	97.6	108.8
Construction	264.2	270.2	273.5	127.1	137.1	130.1	140.1	132.4	141.1
GFCF in other products	99.6	102.0	104.5	48.6	50.9	49.8	52.2	51.1	53.4
Domestic uses	2,585.1	2,640.7	2,687.2	1,272.6	1,312.6	1,302.5	1,338.3	1,328.2	1,359.0
Exports	1,352.5	1,395.6	1,451.6	664.3	688.2	686.8	708.7	716.7	734.9
Imports	1,153.2	1,204.2	1,265.6	562.0	591.2	586.8	617.5	618.8	646.8
Gross domestic product	**2,783.1**	**2,831.7**	**2,874.4**	**1,374.2**	**1,408.9**	**1,402.0**	**1,429.7**	**1,426.2**	**1,448.2**
b) Percentage change over previous year									
Final consumption expenditure	2.1	2.3	1.5	2.0	2.2	2.6	2.0	1.6	1.4
Private consumption expenditure[2]	1.9	2.0	1.5	2.0	1.9	2.2	1.7	1.5	1.5
Government consumption expenditure	2.6	3.2	1.7	2.1	3.1	3.6	2.8	2.0	1.4
Gross fixed capital formation (GFCF)	2.1	2.4	2.2	1.4	2.8	2.4	2.3	2.6	1.8
Machinery and equipment	4.1	2.4	3.6	3.6	4.5	2.3	2.5	3.9	3.3
Construction	0.7	2.3	1.2	−0.5	1.7	2.4	2.2	1.8	0.7
GFCF in other products	2.7	2.4	2.4	2.7	2.7	2.5	2.4	2.4	2.4
Domestic uses	1.6	2.2	1.8	1.1	2.0	2.3	2.0	2.0	1.5
Exports	5.5	3.2	4.0	5.7	5.3	3.4	3.0	4.3	3.7
Imports	5.8	4.4	5.1	5.6	6.0	4.4	4.4	5.5	4.8
Gross domestic product	**1.7**	**1.7**	**1.5**	**1.4**	**2.0**	**2.0**	**1.5**	**1.7**	**1.3**

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

Forecast for 2015 to 2017

	2015	2016	2017	2015		2016		2017	
				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]	0.7	1.2	1.5	0.6	0.7	1.1	1.3	1.5	1.5
Government consumption expenditure	1.8	2.0	1.9	1.7	1.9	2.1	1.9	1.6	2.1
Gross fixed capital formation (GFCF)	1.3	1.5	1.5	1.4	1.3	1.4	1.6	1.5	1.4
Machinery and equipment	0.4	0.3	0.2	0.4	0.4	0.4	0.2	0.2	0.2
Construction	1.7	2.2	2.2	1.8	1.6	1.9	2.4	2.3	2.1
Exports	1.1	0.1	0.6	1.3	0.9	−0.1	0.3	0.6	0.6
Imports	−1.5	−0.5	0.7	−1.5	−1.4	−0.9	−0.1	0.7	0.6
Gross domestic product	**2.0**	**1.6**	**1.7**	**2.0**	**2.0**	**1.5**	**1.6**	**1.6**	**1.7**
5. Distribution of Income									
a) Billion EUR									
Primary income of private households[2]	2,122.5	2,197.1	2,272.4	1,042.0	1,080.5	1,081.6	1,115.6	1,116.2	1,156.2
Employers' social contributions	281.1	292.5	304.3	135.8	145.4	141.3	151.2	147.0	157.3
Gross wages and salaries	1,261.6	1,312.7	1,365.7	601.6	660.1	626.0	686.7	651.6	714.1
Other primary income of private households[4]	579.7	592.0	602.4	304.7	275.1	314.4	277.6	317.6	284.8
Primary income of other institutional sectors	438.2	456.2	472.6	198.0	240.1	209.4	246.8	222.5	250.1
Net national income (primary income)	**2,560.7**	**2,653.4**	**2,745.0**	**1,240.0**	**1,320.6**	**1,291.0**	**1,362.4**	**1,338.7**	**1,406.2**
Consumption of fixed capital	530.9	543.2	556.4	264.4	266.6	270.2	273.0	276.8	279.6
Gross national income	**3,091.6**	**3,196.6**	**3,301.4**	**1,504.4**	**1,587.2**	**1,561.2**	**1,635.4**	**1,615.5**	**1,685.9**
Memorandum item:									
Net national income (factor costs)	2,264.5	2,347.1	2,430.4	1,093.5	1,171.0	1,139.6	1,207.5	1,183	1,247
Property and entrepreneurial income	721.7	741.9	760.4	356.2	365.6	372.4	369.6	385	376
Compensation of employees	1,542.8	1,605.2	1,670.0	737.3	805.4	767.2	837.9	799	871
b) Percentage change over previous year									
Primary income of private households[2]	3.3	3.5	3.4	3.3	3.3	3.8	3.2	3.2	3.6
Employers' social contributions	3.5	4.0	4.0	3.2	3.8	4.0	4.0	4.1	4.0
Gross wages and salaries	4.0	4.0	4.0	3.9	4.0	4.1	4.0	4.1	4.0
Other primary income of private households[4]	1.8	2.1	1.8	2.3	1.2	3.2	0.9	1.0	2.6
Primary income of other institutional sectors	6.9	4.1	3.6	4.2	9.3	5.8	2.8	6.3	1.3
Net national income (primary income)	**3.9**	**3.6**	**3.5**	**3.5**	**4.3**	**4.1**	**3.2**	**3.7**	**3.2**
Consumption of fixed capital	2.5	2.3	2.4	2.7	2.4	2.2	2.4	2.4	2.4
Gross national income	**3.7**	**3.4**	**3.3**	**3.3**	**4.0**	**3.8**	**3.0**	**3.5**	**3.1**
Memorandum item:									
Net national income (factor costs)	4.1	3.6	3.5	3.6	4.5	4.2	3.1	3.8	3.3
Property and entrepreneurial income	4.5	2.8	2.5	3.2	5.8	4.5	1.1	3.3	1.7
Compensation of employees	3.9	4.0	4.0	3.7	4.0	4.1	4.0	4.1	4.0
6. Income and Expenditure of Private Households									
a) Billion EUR									
Mass income	1,258.8	1,306.9	1,357.0	607.3	651.6	627.9	679.0	655	702
Net wages and salaries	835.8	866.8	895.9	394.6	441.2	409.1	457.6	424	472
Social benefits	522.8	544.1	569.4	262.0	260.8	270.2	273.9	285	285
less levies on social benefits	99.8	103.9	108.3	49.4	50.4	51.4	52.5	54	55
Other primary income[4]	579.7	592.0	602.4	304.7	275.1	314.4	277.6	318	285
Other transfers received (net)[5]	−82.3	−86.7	−91.4	−40.5	−41.8	−42.6	−44.1	−45	−46
Disposible income	**1,756.2**	**1,812.2**	**1,868.1**	**871.4**	**884.8**	**899.7**	**912.6**	**927**	**941**
Memorandum item:									
Adjustment for the change in net equity of households in pension funds reserves	50.6	51.5	52.5	25.0	25.6	25.4	26.1	26	27
Private consumption expenditure	1,633.8	1,685.6	1,736.1	796.6	837.2	822.8	862.8	847	889
Saving	173.0	178.1	184.5	99.7	73.2	102.3	75.9	106	79
Saving ratio in percent [6]	9.6	9.6	9.6	11.1	8.0	11.1	8.1	11.1	8.1
b) Percentage change over previous year									
Mass income	3.4	3.8	3.8	3.5	3.2	3.4	4.2	4.3	3.4
Net wages and salaries	3.4	3.7	3.4	3.3	3.6	3.7	3.7	3.6	3.2
Social benefits	3.4	4.1	4.7	4.0	2.8	3.1	5.0	5.4	4.0
less levies on social benefits	4.2	4.1	4.2	4.5	3.9	4.1	4.2	4.2	4.2
Other primary income[4]	1.8	2.1	1.8	2.3	1.2	3.2	0.9	1.0	2.6
Disposible income	**2.7**	**3.2**	**3.1**	**2.9**	**2.5**	**3.2**	**3.1**	**3.1**	**3.1**
Private consumption expenditure	2.6	3.2	3.0	2.6	2.6	3.3	3.1	3.0	3.0
Saving	3.2	3.0	3.6	4.4	1.6	2.5	3.6	3.6	3.5

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

Forecast for 2015 to 2017

	2015	2016	2017	2015		2016		2017	
				1. half year	2. half year	1. half year	2. half year	1. half year	2. half year
7. Government Revenues and Expenditures									
a) Billion EUR									
Revenues									
Taxes	692.0	714.7	742.9	345.9	346.1	359.9	354.8	373.4	369.5
direct taxes	369.2	381.0	400.1	186.2	183.1	194.9	186.1	203.8	196.3
indirect taxes	322.8	333.7	342.8	159.7	163.0	165.0	168.7	169.6	173.2
Net social contributions	500.6	522.7	544.1	243.0	257.7	253.5	269.1	264.2	279.9
Property income	21.5	21.5	21.4	12.8	8.7	12.7	8.9	12.6	8.8
Other transfers	19.2	19.5	19.9	8.9	10.3	9.1	10.4	9.3	10.7
Capital transfers	12.8	12.4	11.9	5.2	7.6	5.0	7.4	4.6	7.3
Sales	103.2	104.6	106.1	48.6	54.6	49.3	55.3	50.0	56.1
Other subsidies	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Total revenues	**1,349.5**	**1,395.6**	**1,446.6**	**664.5**	**685.0**	**689.6**	**706.1**	**714.1**	**732.5**
Expenditures									
Intermediate consumption	143.5	150.6	153.2	64.9	78.6	69.2	81.3	70.2	82.9
Compensation of employees	231.6	239.6	244.1	110.9	120.7	114.7	124.9	116.8	127.3
Social benefits in kind	253.8	269.7	284.9	124.6	129.2	132.8	136.9	140.3	144.5
Property income (interests)	47.2	45.3	43.9	24.3	22.9	23.3	22.0	22.6	21.3
Subsidies	26.6	27.4	28.2	13.2	13.4	13.6	13.8	14.0	14.2
Social benefits	469.0	489.9	514.1	234.8	234.2	243.0	246.9	256.9	257.2
Other transfers	62.8	63.2	68.2	37.1	25.7	37.3	26.0	40.3	27.8
Gross capital formation	64.1	68.9	69.7	27.9	36.1	29.7	39.2	30.0	39.6
Capital transfers	28.4	29.1	29.2	11.9	16.5	12.3	16.9	12.3	17.0
Acquisitions less disposals of non-financial non-produced assets	−6.5	−1.4	−1.4	−5.7	−0.8	−0.6	−0.8	−0.6	−0.8
Other taxes on production	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditures	**1,320.5**	**1,382.4**	**1,434.1**	**643.9**	**676.6**	**675.2**	**707.1**	**702.9**	**731.1**
Balance	29.0	13.3	12.5	20.6	8.4	14.3	−1.1	11.2	1.4
b) Percentage change over previous year									
Revenues									
Taxes	4.9	3.3	3.9	5.4	4.4	4.0	2.5	3.7	4.1
direct taxes	6.8	3.2	5.0	7.6	6.1	4.7	1.7	4.6	5.5
indirect taxes	2.8	3.4	2.7	3.0	2.6	3.3	3.5	2.8	2.7
Net social contributions	3.9	4.4	4.1	4.0	3.8	4.4	4.4	4.2	4.0
Property income	−14.2	0.4	−0.8	−17.6	−8.6	−0.8	2.1	−0.8	−0.9
Other transfers	0.5	1.4	2.3	2.0	−0.7	1.5	1.3	2.2	2.4
Capital transfers	5.1	−3.2	−3.9	10.2	1.8	−4.3	−2.4	−8.0	−1.2
Sales	1.6	1.4	1.4	2.2	1.1	1.4	1.4	1.4	1.4
Other subsidies	−13.9	0.0	0.0	−21.6	−7.7	0.0	0.0	0.0	0.0
Total revenues	**3.8**	**3.4**	**3.6**	**4.1**	**3.6**	**3.8**	**3.1**	**3.6**	**3.7**
Expenditures									
Intermediate consumption	3.6	4.9	1.7	2.7	4.3	6.6	3.5	1.4	2.0
Compensation of employees	3.1	3.5	1.9	2.7	3.5	3.5	3.5	1.9	1.9
Social benefits in kind	5.7	6.3	5.6	5.2	6.1	6.6	6.0	5.7	5.5
Property income (interests)	−8.3	−4.0	−3.2	−8.2	−8.4	−4.4	−3.7	−3.0	−3.3
Subsidies	4.3	3.0	3.0	5.7	3.1	3.0	3.0	3.0	3.0
Social benefits	4.0	4.5	4.9	4.5	3.4	3.5	5.4	5.7	4.2
Other transfers[7]	1.2	0.4	4.9	1.3	−0.1	0.1	0.3	3.0	1.9
Gross capital formation	1.3	7.5	1.1	−0.4	2.7	6.4	8.3	1.1	1.2
Capital transfers[7]	−7.5	0.7	0.1	0.9	−8.4	0.4	0.4	0.1	0.5
Acquisitions less disposals of non-financial non-produced assets[7]	−5.2	5.1	0.0	−5.1	−0.1	5.1	0.0	0.0	0.0
Other taxes on production[7]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditures	**2.3**	**4.7**	**3.7**	**2.6**	**2.0**	**4.9**	**4.5**	**4.1**	**3.4**

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.

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