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DIW Economic Outlook

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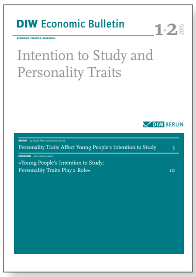

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German economy on track

By Ferdinand Fichtner, Guido Baldi, Karl Brenke, Christian Dreger, Hella Engerer, Marcel Fratzscher, Stefan Gebauer, Simon Junker, Claus Michelsen, Malte Rieth and Thore Schlaak, and Kristina van Deuverden

Germany's economic output is now experiencing significant and steady increases for the fourth year in a row—a trend that will also continue throughout the forecast period. DIW Berlin predicts an increase of 1.5 percent for the current year, a figure that is nearly identical to that of the Institute's spring forecast. This year's growth rate will be lower than last year's, a difference that is solely due to 2017 having fewer working days. The German economy is expected to more or less maintain its pace in the coming year as well, with a growth rate of 1.7 percent.

After the economic phase of weakness in the winter 2012/2013, when the European debt crisis caused a decline in the economic output of many countries, the German economy—which suffered indirectly as a result of these recessions—returned to a path of growth. Since then, there has been a gradual increase in overall capacity utilization and a significant drop in unemployment. But the rate of expansion in the initial years of the upswing was noticeably below that of previous phases of economic recovery, and in the time since the production potential was reached in 2015, GDP has been growing with marked stability along the long-term growth path. In a nutshell, the German economy has been growing over the past few years, but not excessively. There are currently no signs of any significant capacity shortages, nor is there any talk of the German economy overheating.

That prices are still only experiencing moderate increases also reflects these conditions. Although inflation will rise significantly this year—to 1.7 percent from last year's 0.5 percent—this is mainly due to the fact that crude oil prices experienced a sharp increase in the final months of 2016, when the OPEC countries were able to agree on supply cuts. Core inflation, which is influenced to a greater extent by the cyclical utilization of capacities—and thus by the leeway that businesses have to impose price increases—will remain low in this and the coming year, at roughly one-and-a-half percent.

In the context of the growing scarcity in the German labor market—employment numbers will increase by about one million over the course of the forecast period, and the unemployment rate will continue to drop, hitting 5.3 percent in 2018—the wage increases that appear powerful on paper are actually rather low considering the overall positive development. This is connected to comparatively weak collective wage agreements, with some unions prioritizing other issues (such as early retirement schemes) over collective wage increases. Moreover, the large-scale immigration into Germany—both from within Europe and beyond—is probably making it easier for companies to attract employees without having to offer significantly higher wages. In this sense, the persistently high unemployment levels that plague many other European countries are also having an impact on Germany, since it is this lack of employment opportunities elsewhere that is triggering the influx into Germany.

In many parts of Europe, unemployment rates still clearly exceed pre-crisis levels. This also applies to the euro area specifically, where even though a considerable economic recovery has taken place over the past few years—and on a broader scale, as well—unemployment in many countries still exceeds the 2009 rates. This is dampening wage development and—apart from the temporary influences of energy prices fluctuations—will likely also cause the inflation rate in the euro area to remain below the price stability level defined by the European Central Bank of just under two percent for a longer period of time. From this perspective, demands for the ECB to significantly reduce or even end its expansive monetary policy are premature. However, given the strong economic development in the euro area, it would be appropriate to gradually prepare markets for a normalization of monetary policy, which—as long as the upswing proves to be robust—should be initiated through the reduction of the bond-purchasing programs starting between the end of 2017 and the beginning of 2018.

The threats to economic development in both Germany and Europe as a whole are still significant. Although the elections in France and the Netherlands yielded positive outcomes with regard to the cohesion of the EU—and thus helped avoid a considerable increase in uncertainty that less positive outcomes could have triggered—the ongoing political tensions in Italy, among other issues, still present risks. In addition, drafts of protectionist and isolationist policies are gaining acceptance in the UK and the U.S.; if such measures were to be implemented, the German economy would suffer noticeable losses in growth.

This is a major issue for Germany in particular because its economy is still highly dependent on foreign trade. Although domestic demand has become more important for growth in recent years, the excessively high current account surplus—which will remain so throughout the forecast period—reflects a weakness in imports, which in turn can be attributed to the fact that private consumption and investment has been only moderate.

It is primarily the weak investment situation that poses a threat to the German economy's longer-term growth, since it inhibits productivity development. Policy is needed here to prepare the German economy for future challenges, such as those resulting from foreseeably unfavorable demographic trends. There is, however, a certain amount of fiscal leeway for this, even if it is not as high as the current surpluses suggest.

A portion of this leeway is only temporary in nature, and this portion can and should be used for public investment, especially in education and infrastructure. Another portion is sustainable in nature, but it is not sufficient for accommodating the strong tax reductions that are being demanded in the current political discussion. Nevertheless, the burden on the production factor labor should decline in order to achieve a higher growth potential in the long term. This can be achieved through an adequate increase in federal subsidies for social security funds—and thus lead to higher net income.

The world economy and the euro area: despite risks, global recovery is stabilizing

By Ferdinand Fichtner, Guido Baldi, Christian Dreger, Hella Engerer, Stefan Gebauer, and Malte Rieth

Global economic output is expected to grow by 3.7 percent this year, and with a slightly stronger dynamic in the coming year; both predictions match the figures proposed in DIW Berlin's spring forecast, even though the year started off somewhat weaker than expected. But overall, economic recovery continues. Despite rising inflation rates, private consumption remains one of the main drivers in the developed countries, primarily due to the fact that more and more people are getting jobs. In the U.S. and Europe, corporate investment activity is once again picking up momentum.

But although the elections in France and the Netherlands yielded positive outcomes with regard to the cohesion of the EU, and thus helped reduce the widespread unease, there remain risks for the global economy: the Brexit negotiations and the uncertainty surrounding the possible new elections in Italy are curbing the spending of both companies and consumers alike. Moreover, the emerging countries could be affected by capital outflows resulting from the U.S. Federal Reserve's interest rate hikes.

The steady expansion of the global economy continues. That the start of 2017 turned out to be weaker than the final quarter of 2016 was mainly due to temporary factors in the U.S. and China; the dynamic in the euro area was strong. In the U.S., consumption lagged behind its previous growth rate due to delayed tax refunds and higher energy prices. On the other hand, corporate investment in the U.S. experienced positive developments; this was also the case in the euro area. Overall, this indicates that the global economic recovery is still in motion (Figure 1); a number of early indicators also suggest this. The upward trend in Japan – which had already stabilized in the previous year – is likely to continue, albeit at a somewhat slower pace. Consumption should remain the main growth driver in the developed countries, a trend that will be supported by the steady improvement in the labor market. In the euro area in particular, the unemployment rate continues to fall. In the UK, on the other hand, the strong rise in consumer prices related to currency effects is being increasingly reflected in private consumption.

A similar dynamic is materializing in the emerging countries. While a slight countermovement is initially expected for China after a weak first quarter, the considerable and ongoing industrial overcapacity will continue to have an impact in the medium term. Consumption growth rates, which are increasing as a result of structural transformations, are not expected to compensate entirely for the decline in investment. In Russia, the economy is becoming increasingly stable, while new political turmoil in Brazil is threatening to reverse the positive growth rates.

The growth rate for global economic output is expected to amount to 3.7 percent in 2017, and to come out slightly higher in 2018; these figures remain largely unchanged from the DIW Berlin's spring forecast from March 2017 (Table).

Global monetary policy will remain expansive, but less so than before. The U.S. Federal Reserve continues with

Table

Real Gross Domestic Product, Consumer Prices and Unemployment Rate in the global 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	1.9	1.6	0.0	0.2	1.5	1.3	10.8	10.0	9.2	9.1
... without Germany	2.1	1.7	1.9	1.5	−0.1	0.2	1.4	1.3	13.7	12.7	11.8	11.5
... France	1.2	1.1	1.2	1.6	0.0	0.2	1.3	1.4	10.4	10.0	10.1	10.0
... Spain	0.7	1.0	1.1	1.0	0.1	0.0	1.2	1.2	11.9	11.7	11.4	11.4
... Italy	1.4	3.2	3.0	2.1	−0.5	−0.2	2.8	1.2	22.1	19.6	17.6	16.9
... Netherlands	2.0	2.1	2.0	1.7	0.2	0.1	1.5	1.2	6.9	6.0	5.2	5.1
United Kingdom	2.2	1.8	1.4	1.3	0.1	0.7	2.6	2.3	5.5	5.0	5.2	5.5
USA	2.6	1.6	2.1	2.4	0.1	1.3	2.3	1.9	5.3	4.9	4.5	4.3
Japan	1.1	1.0	1.2	1.0	0.8	−0.1	0.5	0.4	3.4	3.1	3.1	3.2
South Korea	2.8	2.8	2.5	2.3	0.7	1.0	2.7	2.7	3.6	3.7	3.2	3.0
Central Eastern Europe	4.0	3.0	3.6	3.4	−0.4	−0.2	2.0	2.3	7.0	5.7	4.9	4.6
Turkey	5.9	3.1	2.8	3.1	7.7	7.8	10.1	7.1	10.3	10.9	13.0	12.5
Russia	−2.8	−0.2	0.9	1.6	15.5	7.1	4.1	4.0	5.6	5.5	5.2	5.1
China	6.5	6.7	6.4	6.1	1.5	2.1	3.2	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				
Brasil	−3.8	−3.6	−0.5	1.2	9.0	8.7	5.2	5.7	8.3	11.3	12.4	10.6
Mexico	2.7	2.0	2.5	2.1	2.7	2.8	5.7	3.2	4.3	3.9	4.8	4.8
Advanced Economies	2.2	1.6	1.9	1.9	0.2	0.8	1.9	1.7	6.4	5.9	5.5	5.4
Emerging Markets	5.0	4.8	5.1	5.1	3.4	3.5	4.4	4.8	5.2	5.4	5.6	5.3
World	3.8	3.5	3.7	3.8	2.0	2.4	3.3	3.5	5.7	5.6	5.5	5.4

1 This group consists of Central and 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.

Sources: National statistical offices; DIW summer projections 2017.

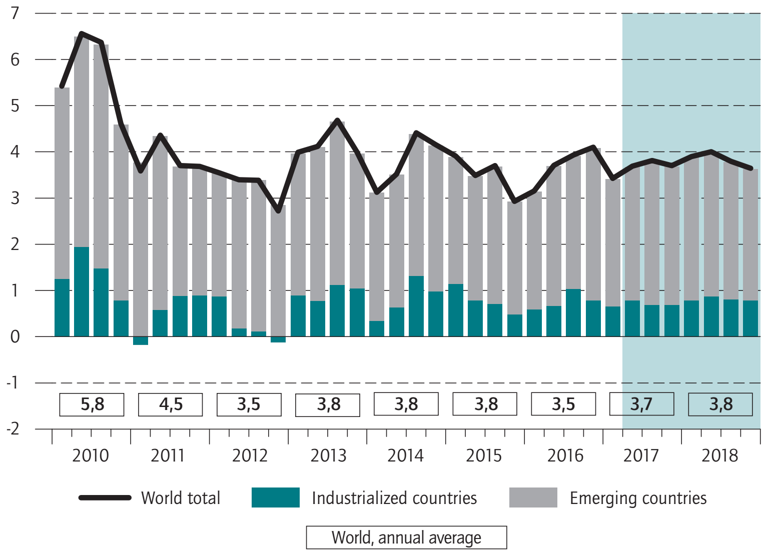
its rate hikes; it is also expected to start reducing its bond purchase programs. The European Central Bank will gradually rein in its expansionary monetary policy to some extent. It is expected that the ECB will reduce bond purchases and moderate the expansionary tone in its forward guidance. On the other hand, the key interest rate will likely remain unchanged up until the end of the forecast period. On a global scale, the stance of fiscal policy will likewise remain expansionary.

There exists the risk that the U.S.'s stimulating fiscal measures will be implemented to a lesser degree than previously assumed. But overall, risks to the global economy have declined: the results of the elections in France and the Netherlands somewhat assuaged the fears that had been plaguing the political sphere of the euro area. Despite this, the political situation in some member states, such as Italy, and the unpredictable trajectory of the Brexit negotiations are still generating uncertainty. Moreover, the U.S. Federal Reserve's balance sheet contraction presents risks for the global financial markets. If this leads to increased fluctuations on interest rate and foreign exchange markets, the emerging countries in particular are likely to feel the effects.

Figure 1

World real GDP

In percent, percentage points



Sources: National statistical offices; DIW summer projections 2017.

World economy is not really gaining momentum.

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JEL: E32, E66, F01

Keywords: Business cycle forecast, economic outlook

German economy in good shape

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

The German economy is in the midst of a robust economic cycle: the number of employed persons has reached historic highs and is still increasing powerfully; private household income is on the rise; and the public coffers are overflowing. Inflation is rising only gradually, partly because capacities are not overburdened. The mood is bright among consumers and firms alike, with economic development distributed across the board: the service sector is benefiting from consumers' more liberal spending habits, while industry is profiting from the robust exports. Yet uncertainties remain high—and this is also why companies continue to hold back on expanding their domestic capital stock. The Brexit negotiations—which include the future of trade relations—are also fraught with considerable uncertainty; as well, foreign trade could also suffer if the U.S. government implements stronger protectionist measures. No significant acceleration in investment—as would be expected given the current economic conditions—is apparent.

For the fourth year in a row, Germany's economic growth is slightly exceeding the long-term average, and overall economic capacities are now well utilized. For 2017, DIW Berlin expects economic activity to grow by 1.5 percent—a figure that is nearly unchanged from the one presented in the Institute's March forecast.[1] The fact that growth was slightly higher in 2016 is due solely to the fact that 2017 has fewer workdays.

The German economy is expected to preserve its growth dynamic in the coming year, with an increase of 1.7 percent (Table 1). In the second quarter, the GDP is likely to grow by a powerful 0.5 percent, partly because industry is expected to considerably expand production in the context of strong exports, and in the longer term at rates that are slightly lower but still above-average.

Robust exports are contributing to the persisting upward trend: although the global economy initially slowed down somewhat last year, exports continued to increase considerably (Figure 1). This was also likely due to the sharp depreciation of the euro that took place in 2016. This effect will lose its influence during the forecast period, whereas demand in the major foreign markets will pick up momentum. Exports will thus remain a driving force behind Germany's economic development, even though growth is likely to be lower than the long-term average (which is still characterized by a more pronounced global economic dynamic and a more intensive international consolidation of the value chains).

Domestic demand—especially private consumption, which continues to benefit from the favorable labor market development—is still generating strong impulses. Employment numbers continue to rise—with an expected increase of 630,000 persons this year and 430,000 in the coming year—and wages are increasing; both devel-

1 See Ferdinand Fichtner et al., "Despite Uncertainty in the Global Economy, Germany Is on a Solid Growth Path," *DIW Economic Bulletin* 11 (2017) (available online, retrieved June 9, 2017. This applies to all other online sources cited in this report unless otherwise noted.)

Table 1

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	1.5	1.7
Domestic employment (1000 persons)	42,328	42,662	43,057	43,595	44,226	44,653
Unemployed (ILO concept)	2,182	2,092	1,949	1,773	1,594	1,486
Unemployed (BA concept)	2,950	2,898	2,795	2,691	2,510	2,385
Unemployment rate[2] (ILO concept)	5.2	5.0	4.6	4.1	3.7	3.4
Unemployment rate[2] (BA concept)	6.9	6.7	6.4	6.1	5.6	5.3
Consumer prices	1.5	0.9	0.2	0.5	1.7	1.5
Unit labor costs[3]	1.8	1.7	1.5	1.7	2.5	1.9
Government budget balance[4]						
in billion euro	−5.4	8.6	20.9	26.3	20.8	29.4
in percent of GDP	−0.2	0.3	0.7	0.8	0.6	0.9
Current account balance, in percent of GDP	6.7	7.5	8.6	8.3	7.9	7.8

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; DIW summer projections 2017. 2017/18: forecast.

opments will facilitate income growth. The unemployment rate will continue to drop, to 5.6 percent in 2017 and 5.3 percent in 2018. In contrast, the higher inflation levels—with rates of 1.7 and 1.5 in 2017 and 2018, respectively, after a rate of only 0.5 percent in 2016—are hindering consumers' purchasing power to a greater extent than in the past two years. Private consumption is thus losing momentum in real terms (Table 2); furthermore, public consumption is also on the decline as refugee-related expenditure becomes less prevalent.

Corporate investment is likely to have already bottomed out—with the increase at the beginning of 2017—partly because capacity utilization in the manufacturing sector is now slightly above-average. But the upward trend is likely to remain subdued: the dynamic foreign demand is being threatened by a slightly weaker expansion of private consumption, but most of all, there are still numerous adverse factors connected to the Brexit negotiations and the uncertainty surrounding the U.S. government's trade policy orientation. The dynamic growth in the construction industry, on the other hand, persists: not only is government spending here likely to remain high, but residential construction in particular will probably continue to expand powerfully given the large number of approved but not-yet-completed apartments.

In both years of the forecast period, the net export will experience a slight decline in relation to the nominal GDP: given the dynamic domestic economy, imports are growing somewhat more powerfully than exports, but above all, the noticeable increase in raw materials prices will be reflected in higher nominal imports. As a result, the current account balance will drop to just under eight percent this year—and this ratio will decrease very little in 2018.

The domestic demand-driven economy, especially the dynamic labor-market growth, should again slightly boost the public budget surpluses during the forecast period.[2]

The GDP growth-rate forecasts of 1.5 percent for 2017 and 1.7 percent for 2018 are—as is the case with any forecast—fraught with uncertainty. Based on previous forecast errors, there is a 68 percent chance that the growth rate will fall between 0.9 and 2.2 percent this year and between 0.1 and 3.4 percent in 2018 (Figure 2).[3]

Risks for the forecast period remain high, though there have been some recent positive developments. The uncertainty plaguing the euro area diminished somewhat after the elections in France as well as the Netherlands; nev-

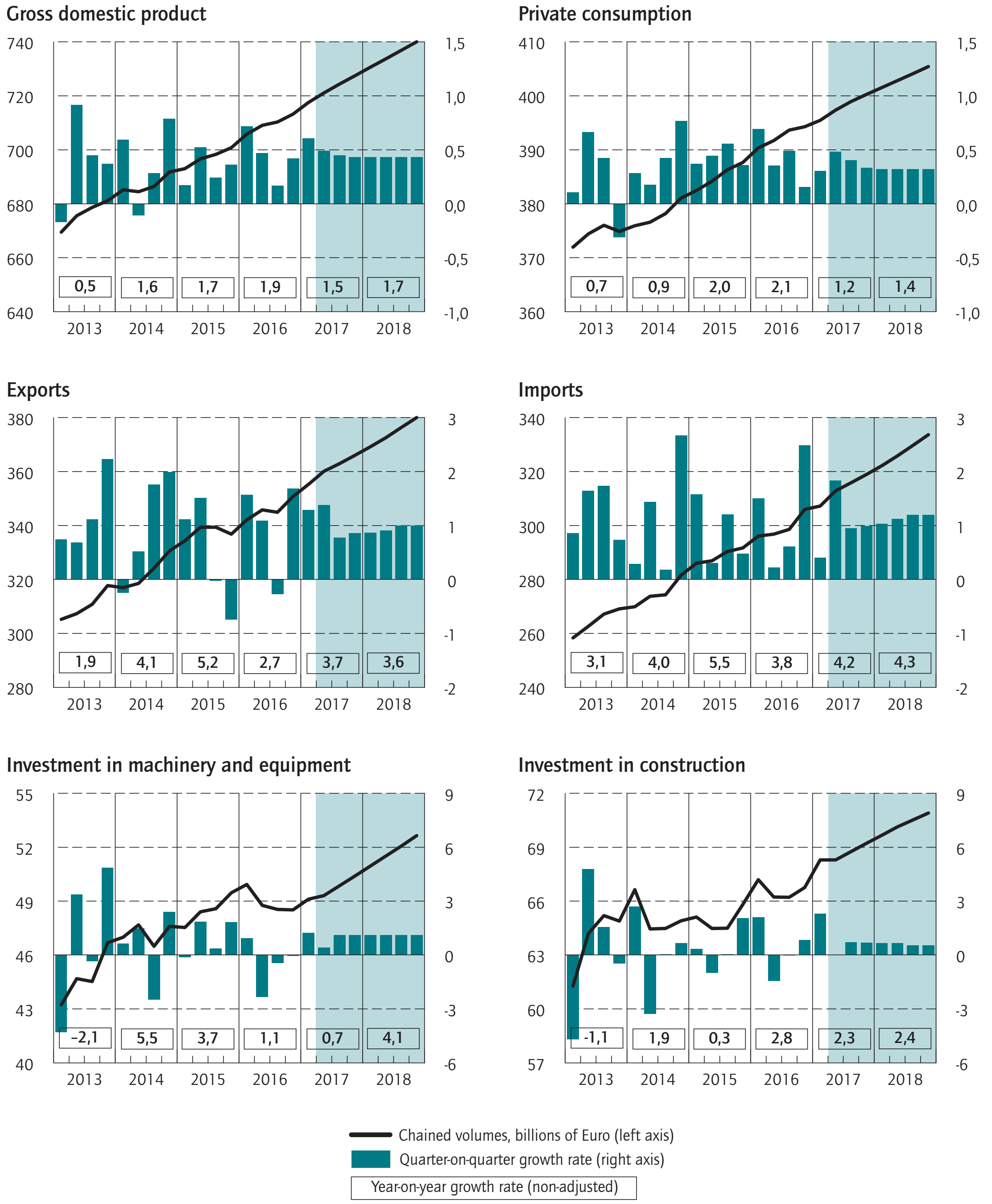
2 See Kristina van Deuverden, "Finanzpolitik: Vorerst weiter hohe Überschüsse," *DIW Wochenbericht* 24 (2017), 491–499 (available online).

3 Forecast errors can result from authors' miscalculations, unpredictable influences, and revisions to the official statistics. These revisions could be of particular significance for the present forecast. A data-collection error at the Federal Employment Agency last year led to a massive under-reporting in the case of employees. See Fichtner et al. (2017), supra. With the revision of the National Accounts in May of this year, the official statistics have partially corrected this error. Follow-up corrections for other values, such as the GDP, are expected.

Figure 1

Gross domestic product and use of GDP

Seasonally and working day adjusted



Sources: Federal Statistical Office; DIW summer projections 2017, forecasts as of 2017 Q2.

ertheless, economic uncertainty remains high in some euro-area countries, such as Italy. There exist ongoing uncertainties with regard to the possibly grave consequences of the U.S.'s trade policy orientation: a more radical shift toward protectionist measures would have an especially pronounced impact on Germany's open

Table 2

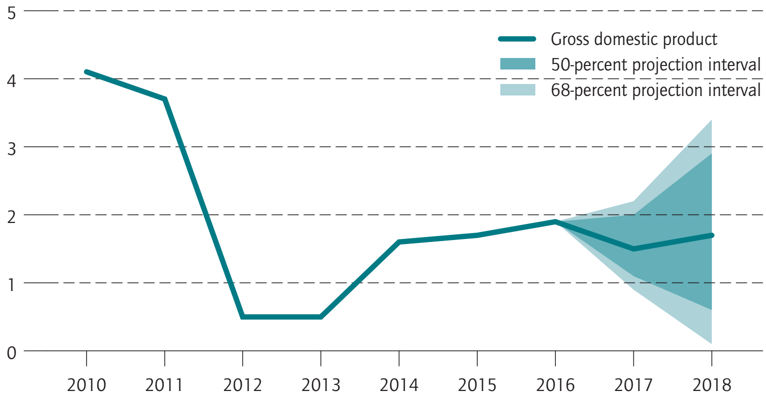
Use of gross domestic product, quarter-on-quarter growth rates
Price, seasonally and working-day adjusted, in percent

	2016				2017				2018			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Private consumption	0.7	0.4	0.5	0.2	0.3	0.5	0.4	0.3	0.3	0.3	0.3	0.3
Public consumption	1.6	0.7	0.1	0.3	0.4	1.0	0.5	0.5	0.6	0.6	0.5	0.5
Gross fixed capital formation	1.5	−1.3	−0.1	0.4	1.7	0.3	0.8	0.8	0.8	0.8	0.7	0.7
Investment in machinery and equipment	0.9	−2.3	−0.5	−0.1	1.2	0.4	1.1	1.1	1.1	1.1	1.1	1.1
Construction investment	2.1	−1.4	0.0	0.8	2.3	0.0	0.7	0.7	0.7	0.7	0.5	0.5
Other investment	0.9	0.7	0.6	0.3	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Change in inventories1	−0.4	0.0	0.3	0.4	−0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic uses	0.6	0.0	0.6	0.7	0.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Net Exports[1]	0.1	0.4	−0.4	−0.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports	1.6	1.1	−0.3	1.7	1.3	1.4	0.8	0.9	0.9	0.9	1.0	1.0
Imports	1.5	0.2	0.6	2.5	0.4	1.6	1.0	1.0	1.0	1.1	1.2	1.2
Gross Domestic Product	**0.7**	**0.5**	**0.2**	**0.4**	**0.6**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**

1 Contribution to GDP growth in percentage points.
Source: Federal Statistical Office; DIW summer projections 2017, forecast from 2017 Q2 onward.

Figure 2

GDP forecast, y-o-y changes



Source: DIW summer projections 2017.

economy. There is also uncertainty surrounding the future relationship between the EU and the UK. For this forecast, it is assumed that the negotiation process will result in a “hard Brexit”: that is, that the UK will make a complete departure from the European Single Market. After the June 8 elections, however, we should not rule out the possibility that the Brexit negotiations could yield agreements that are less damaging to trade.

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JEL: E32, E66, F01

Keywords: Business cycle forecast, economic outlook

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EIGHT QUESTIONS FOR FERDINAND FICHTNER

»Uncertainty remains one of the biggest impediments to global economic development«

1. Mr. Fichtner, is the German economy still on a path of growth? Yes—in fact, the German economy is developing quite powerfully. Growth in the first half of the year has been respectable, but we are expecting an even more significant expansion in the coming quarters, especially in light of the favorable labor market development.

2. What should we expect in terms of growth rates? We are expecting growth rates of 1.5 percent this year and 1.7 percent in the coming year. All in all, this represents a very stable level of growth, and it's actually somewhat more powerful than the German economy's potential growth rate, which is likely to be slightly lower.

3. What are the primary growth drivers? The German economy is driven by powerful domestic demand as well as strong foreign trade. The continued recovery of the global economy is stimulating German exports. Given the favorable labor market situation and relatively strong wage development here in Germany, domestic consumption is particularly dynamic.

4. What are some indicators of strong foreign trade development? Here, we are expecting a sustained upward trend in the euro area, since it is becoming clear that most countries have overcome the aftereffects of the crisis. In principle, this also applies to the other industrialized countries, with the possible exception of the UK, where the complications surrounding the Brexit are making an assessment of economic development extremely difficult. The economies in the emerging countries are also recovering somewhat: for example, Brazil and Russia have both clearly overcome the weak phases they were experiencing.

5. To what extent are the difficulties surrounding U.S. President Donald Trump leading to unrest in the markets? Uncertainty—not only in the U.S., but also with regard to the design of the Brexit—remains one of the biggest impediments to economic development worldwide. There is also considerable political uncertainty related to European integration. All of these factors can directly dampen investment to a significant extent.

6. Is investment still weak in Germany, then? We assume that investment will pick up momentum in the coming quarters, since the capacities are now overloaded in many places. This means that companies will need to invest more in machinery and possibly in new production facilities as well.

7. The U.S. in particular is critical of Germany's import-export imbalance. What is the current situation with German imports? Imports have picked up some momentum in recent years, with the result that the foreign trade surplus is not as significant as it was even a few years ago. Nevertheless, the current account surplus is still extremely high, which is mainly due to the fact that the prices of our imports—especially energy—are still relatively low, although they are gradually increasing to some extent. This means that political pressure on the federal government will not let up.

8. How is inflation developing? Since energy prices are no longer dropping to the same degree as before, inflation rates have bounced back up: with a rate of 1.5 expected for both 2017 and 2018, inflation is significantly higher than it was in 2016. Since this is still well below the ECB's target of just under two percent, we are not yet satisfied with the inflation rate. At the very least, however, it's still nowhere near the very low inflations rates in Germany and the euro area that we'd been seeing in recent years.

Interview by Erich Wittenberg

The Main National Accounts Data for the Federal Republic of Germany

Forecast for 2017 and 2018

	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	1.3	1.5	1.4	1.0	0.9
Hours worked, per working day	−0.7	0.5	0.1	−1.5	0.1	−0.3	1.2	0.1	0.2
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	0.8	0.8	1.3	0.6	1.3	0.3	0.6	1.0
Labour productivity[1]	0.9	0.8	0.9	1.0	0.8	0.4	1.2	1.0	0.9
Gross domestic product, price adjusted	**1.9**	**1.5**	**1.7**	**2.3**	**1.4**	**1.6**	**1.5**	**1.6**	**1.9**
2. Disposition of GDP in Current Prices a) Billion EUR									
Final consumption expenditure	2,296.8	2,366.3	2,441.3	1,120.9	1,175.9	1,154.3	1,212.0	1,189.9	1,251.4
Private consumption expenditure[2]	1,681.5	1,728.2	1,777.9	821.0	860.5	844.2	884.1	867.5	910.5
Government consumption expenditure	615.3	638.1	663.4	299.9	315.4	310.1	328.0	322.5	340.9
Gross fixed capital formation (GFCF)	626.1	649.9	682.0	303.6	322.4	313.7	336.2	328.6	353.4
Machinery and equipment	204.4	207.0	217.2	98.7	105.7	99.1	108.0	103.4	113.8
Construction	308.7	325.6	342.9	149.9	158.9	157.5	168.2	165.8	177.1
GFCF in other products	112.9	117.3	121.9	55.1	57.8	57.2	60.1	59.5	62.4
Change in Stocks[3]	−27.6	−26.9	−27.9	−8.7	−18.8	−4.3	−22.6	−4.1	−23.8
Domestic uses	2,895.3	2,989.4	3,095.4	1,415.8	1,479.5	1,463.8	1,525.7	1,514.5	1,580.9
Balance of exports and imports	238.8	227.2	229.1	128.2	110.6	119.9	107.3	121.8	107.4
Exports	1,442.2	1,524.7	1,589.6	712.9	729.3	755.8	769.0	786.7	802.8
Imports	1,203.5	1,297.5	1,360.4	584.8	618.7	635.8	661.6	664.9	695.5
Gross domestic product	**3,134.1**	**3,216.7**	**3,324.5**	**1,543.9**	**1,590.1**	**1,583.7**	**1,633.0**	**1,636.2**	**1,688.3**
b) Percentage change over previous year									
Final consumption expenditure	3.5	3.0	3.2	3.8	3.1	3.0	3.1	3.1	3.2
Private consumption expenditure[2]	2.8	2.8	2.9	3.0	2.6	2.8	2.7	2.8	3.0
Government consumption expenditure	5.4	3.7	4.0	6.3	4.6	3.4	4.0	4.0	3.9
Gross fixed capital formation (GFCF)	3.7	3.8	4.9	5.4	2.1	3.3	4.3	4.8	5.1
Machinery and equipment	2.1	1.3	4.9	5.3	−0.7	0.4	2.1	4.4	5.4
Construction	4.7	5.5	5.3	6.1	3.3	5.1	5.8	5.3	5.3
GFCF in other products	3.9	3.9	3.9	3.9	3.9	3.8	4.0	3.9	3.9
Domestic uses	3.3	3.3	3.5	3.6	3.0	3.4	3.1	3.5	3.6
Exports	1.7	5.7	4.3	1.8	1.5	6.0	5.4	4.1	4.4
Imports	1.2	7.8	4.9	0.4	1.9	8.7	6.9	4.6	5.1
Gross domestic product	**3.3**	**2.6**	**3.4**	**3.9**	**2.8**	**2.6**	**2.7**	**3.3**	**3.4**
3. Disposition of GDP, adjusted for prices a) Chain-linked estimated in Billion EUR									
Final consumption expenditure	2,123.8	2,153.8	2,189.7	1,043.5	1,080.3	1,057.2	1,096.6	1,075.2	1,114.6
Private consumption expenditure[2]	1,572.5	1,591.3	1,613.7	770.4	802.1	779.5	811.8	790.4	823.2
Government consumption expenditure	550.9	561.9	575.4	272.8	278.1	277.3	284.6	284.3	291.1
Gross fixed capital formation (GFCF)	567.2	577.5	594.6	275.5	291.6	279.5	298.0	287.2	307.4
Machinery and equipment	196.8	198.3	206.5	94.7	102.1	94.4	103.8	97.9	108.6
Construction	267.6	273.7	280.3	130.5	137.1	133.3	140.4	136.4	143.9
GFCF in other products	103.0	105.6	108.2	50.4	52.6	51.6	54.0	52.9	55.3
Domestic uses	2,655.6	2,696.4	2,748.6	1,310.4	1,345.2	1,332.2	1,364.1	1,356.6	1,392.1
Exports	1,389.1	1,441.1	1,492.6	688.2	701.0	715.9	725.2	740.0	752.6
Imports	1,200.6	1,250.6	1,304.9	586.6	614.0	613.6	637.0	639.2	665.6
Gross domestic product	**2,843.4**	**2,887.2**	**2,937.5**	**1,411.2**	**1,432.2**	**1,434.0**	**1,453.1**	**1,457.4**	**1,480.1**
b) Percentage change over previous year									
Final consumption expenditure	2.6	1.4	1.7	3.1	2.1	1.3	1.5	1.7	1.6
Private consumption expenditure[2]	2.1	1.2	1.4	2.5	1.7	1.2	1.2	1.4	1.4
Government consumption expenditure	4.0	2.0	2.4	4.8	3.3	1.7	2.3	2.5	2.3
Gross fixed capital formation (GFCF)	2.2	1.8	3.0	4.0	0.5	1.4	2.2	2.8	3.2
Machinery and equipment	1.1	0.7	4.1	4.2	−1.7	−0.3	1.7	3.6	4.6
Construction	2.8	2.3	2.4	4.4	1.3	2.2	2.4	2.3	2.5
GFCF in other products	2.6	2.5	2.5	2.6	2.6	2.5	2.6	2.5	2.4
Domestic uses	2.3	1.5	1.9	2.7	1.8	1.7	1.4	1.8	2.0
Exports	2.7	3.7	3.6	3.0	2.3	4.0	3.5	3.4	3.8
Imports	3.8	4.2	4.3	4.0	3.5	4.6	3.7	4.2	4.5
Gross domestic product	**1.9**	**1.5**	**1.7**	**2.3**	**1.4**	**1.6**	**1.5**	**1.6**	**1.9**

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Forecast for 2017 and 2018

	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]	0.7	1.6	1.5	0.5	0.9	1.6	1.5	1.3	1.6
Government consumption expenditure	1.3	1.7	1.5	1.5	1.2	1.7	1.6	1.4	1.6
Gross fixed capital formation (GFCF)	1.5	2.0	1.9	1.4	1.6	1.9	2.0	1.9	1.9
Machinery and equipment	1.1	0.5	0.8	1.0	1.1	0.7	0.4	0.7	0.8
Construction	1.8	3.1	2.8	1.7	2.0	2.9	3.4	2.9	2.7
Exports	−1.0	1.9	0.7	−1.2	−0.8	1.9	1.9	0.7	0.6
Imports	−2.5	3.5	0.5	−3.5	−1.5	4.0	3.1	0.4	0.6
Gross domestic product	**1.4**	**1.1**	**1.6**	**1.6**	**1.3**	**0.9**	**1.2**	**1.7**	**1.5**
5. Distribution of Income a) Billion EUR									
Primary income of private households[2]	2,188.0	2,266.1	2,344.6	1,076.9	1,111.1	1,115.9	1,150.2	1,153.2	1,191.4
Employers' social contributions	287.3	300.9	312.6	139.0	148.3	145.8	155.2	151.4	161.3
Gross wages and salaries	1,311.0	1,364.7	1,417.4	624.8	686.2	651.5	713.2	676.3	741.0
Other primary income of private households[4]	589.6	600.4	614.6	313.1	276.5	318.6	281.9	325.5	289.1
Primary income of other institutional sectors	458.7	453.0	468.8	216.6	242.1	210.0	243.0	219.2	249.6
Net national income (primary income)	**2,646.7**	**2,719.1**	**2,813.4**	**1,293.5**	**1,353.2**	**1,325.9**	**1,393.2**	**1,372.4**	**1,441.0**
Consumption of fixed capital	552.0	569.2	586.1	274.4	277.7	283.1	286.2	291.3	294.8
Gross national income	**3,198.7**	**3,288.3**	**3,399.5**	**1,567.9**	**1,630.8**	**1,609.0**	**1,679.3**	**1,663.7**	**1,735.8**
Memorandum item:									
Net national income (factor costs)	2,339.2	2,402.8	2,489.1	1,141.3	1,197.9	1,168.8	1,234.0	1,211.4	1,277.7
Property and entrepreneurial income	740.8	737.2	759.1	377.5	363.3	371.5	365.7	383.7	375.4
Compensation of employees	1,598.4	1,665.7	1,730.0	763.8	834.6	797.3	868.3	827.7	902.3
b) Percentage change over previous year									
Primary income of private households[2]	3.3	3.6	3.5	3.6	3.0	3.6	3.5	3.3	3.6
Employers' social contributions	2.9	4.7	3.9	2.8	3.0	4.9	4.6	3.8	3.9
Gross wages and salaries	4.0	4.1	3.9	4.0	4.0	4.3	3.9	3.8	3.9
Other primary income of private households[4]	2.1	1.8	2.4	3.3	0.8	1.7	1.9	2.2	2.6
Primary income of other institutional sectors	2.9	−1.2	3.5	7.7	−1.0	−3.0	0.4	4.4	2.7
Net national income (primary income)	**3.3**	**2.7**	**3.5**	**4.3**	**2.3**	**2.5**	**3.0**	**3.5**	**3.4**
Consumption of fixed capital	3.0	3.1	3.0	2.9	3.1	3.2	3.1	2.9	3.0
Gross national income	**3.2**	**2.8**	**3.4**	**4.1**	**2.4**	**2.6**	**3.0**	**3.4**	**3.4**
Memorandum item:									
Net national income (factor costs)	3.4	2.7	3.6	4.3	2.5	2.4	3.0	3.6	3.5
Property and entrepreneurial income	2.4	−0.5	3.0	5.4	−0.5	−1.6	0.6	3.3	2.7
Compensation of employees	3.8	4.2	3.9	3.8	3.8	4.4	4.0	3.8	3.9
6. Income and Expenditure of Private Households a) Billion EUR									
Mass income	1,296.3	1,343.3	1,386.9	622.6	673.7	647.7	695.6	668.4	718.5
Net wages and salaries	868.7	900.4	933.6	409.9	458.9	425.9	474.5	441.5	492.1
Social benefits	542.4	561.5	576.4	269.5	272.8	280.6	280.9	287.9	288.4
less levies on social benefits	114.8	118.7	123.0	56.8	58.0	58.9	59.8	61.0	62.0
Other primary income[4]	589.6	600.4	614.6	313.1	276.5	318.6	281.9	325.5	289.1
Other transfers received (net)[5]	−72.0	−76.0	−79.1	−35.5	−36.6	−37.7	−38.3	−39.3	−39.9
Disposible income	**1,813.9**	**1,867.7**	**1,922.4**	**900.2**	**913.7**	**928.6**	**939.1**	**954.6**	**967.7**
Memorandum item:									
Adjustment for the change in net equity of households in pension funds reserves	48.5	49.0	49.4	24.0	24.5	24.2	24.7	24.5	24.9
Private consumption expenditure	1,681.5	1,728.2	1,777.9	821.0	860.5	844.2	884.1	867.5	910.5
Saving	180.9	188.4	193.8	103.2	77.7	108.6	79.8	111.6	82.2
Saving ratio in percent[6]	9.7	9.8	9.8	11.2	8.3	11.4	8.3	11.4	8.3
b) Percentage change over previous year									
Mass income	3.5	3.6	3.2	3.4	3.6	4.0	3.2	3.2	3.3
Net wages and salaries	3.8	3.6	3.7	4.1	3.6	3.9	3.4	3.7	3.7
Social benefits	3.1	3.5	2.6	2.4	3.8	4.1	3.0	2.6	2.7
less levies on social benefits	3.9	3.4	3.7	3.2	4.5	3.6	3.2	3.6	3.7
Other primary income[4]	2.1	1.8	2.4	3.3	0.8	1.7	1.9	2.2	2.6
Disposible income	**2.9**	**3.0**	**2.9**	**3.1**	**2.7**	**3.2**	**2.8**	**2.8**	**3.0**
Private consumption expenditure	2.8	2.8	2.9	3.0	2.6	2.8	2.7	2.8	3.0
Saving	3.2	4.1	2.9	3.5	2.9	5.2	2.7	2.8	3.0

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Forecast for 2017 and 2018

	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 EUR**									
Revenues									
Taxes	731.8	751.6	781.6	364.6	367.2	375.2	376.4	390.7	390.9
direct taxes	397.2	408.4	430.2	199.0	198.2	205.1	203.3	216.6	213.6
indirect taxes	334.5	343.3	351.4	165.5	169.0	170.2	173.1	174.1	177.3
Net social contributions	523.3	546.9	568.1	253.3	270.0	265.4	281.5	275.6	292.6
Property income	19.3	18.7	18.9	10.0	9.3	9.2	9.5	9.4	9.6
Other transfers	20.3	20.8	21.0	9.5	10.8	9.8	11.0	10.0	11.1
Capital transfers	15.4	11.3	10.3	7.6	7.8	3.7	7.6	3.4	7.0
Sales	104.5	106.3	108.1	49.1	55.4	49.9	56.3	50.8	57.3
Other subsidies	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Total revenues	**1,414.7**	**1,455.8**	**1,508.3**	**694.2**	**720.6**	**713.3**	**742.5**	**739.8**	**768.5**
Expenditures									
Intermediate consumption	150.1	153.8	159.4	69.4	80.7	70.7	83.1	73.2	86.1
Compensation of employees	236.7	243.1	249.5	113.6	123.1	116.8	126.2	120.1	129.4
Social benefits in kind	268.0	280.5	293.8	133.3	134.7	138.8	141.7	145.3	148.5
Property income (interests)	43.2	43.6	43.9	21.3	21.9	21.5	22.1	21.6	22.3
Subsidies	27.0	27.0	27.3	13.3	13.7	13.1	13.9	13.3	14.0
Social benefits	487.3	505.0	519.0	242.1	245.2	252.3	252.7	259.1	259.8
Other transfers	75.5	75.0	84.5	39.9	35.6	39.2	35.8	39.7	44.8
Gross capital formation	66.3	69.2	70.7	28.8	37.4	29.8	39.5	30.5	40.2
Capital transfers	35.4	39.0	32.1	16.5	18.9	19.8	19.1	13.2	18.9
Acquisitions less disposals of non-financial non-produced assets	−1.3	−1.4	−1.4	−0.5	−0.8	−0.6	−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	**1,388.4**	**1,435.0**	**1,479.0**	**677.8**	**710.6**	**701.5**	**733.4**	**715.6**	**763.4**
Balance	26.3	20.8	29.4	16.4	10.0	11.8	9.0	24.2	5.1
b) Percentage change over previous year									
Revenues									
Taxes	4.5	2.7	4.0	4.6	4.4	2.9	2.5	4.1	3.9
direct taxes	6.6	2.8	5.3	5.6	7.7	3.0	2.6	5.6	5.1
indirect taxes	2.2	2.6	2.4	3.5	0.9	2.8	2.4	2.3	2.4
Net social contributions	4.5	4.5	3.9	4.3	4.7	4.8	4.3	3.8	3.9
Property income	−11.6	−3.0	1.1	−19.5	−1.2	−8.2	2.6	1.6	0.6
Other transfers	4.2	2.4	1.3	5.3	3.3	3.9	1.2	1.3	1.2
Capital transfers	26.2	−26.4	−8.8	46.0	11.5	−51.6	−1.9	−8.3	−9.0
Sales	4.2	1.7	1.7	3.6	4.6	1.6	1.7	1.7	1.7
Other subsidies	−12.4	2.0	0.0	−10.3	−14.1	4.6	0.0	0.0	0.0
Total revenues	**4.4**	**2.9**	**3.6**	**4.3**	**4.5**	**2.8**	**3.0**	**3.7**	**3.5**
Expenditures									
Intermediate consumption	7.6	2.5	3.6	10.1	5.5	1.9	2.9	3.5	3.6
Compensation of employees	3.5	2.7	2.7	3.5	3.6	2.8	2.6	2.8	2.5
Social benefits in kind	6.2	4.6	4.8	7.0	5.4	4.1	5.2	4.7	4.8
Property income (interests)	−8.6	0.8	0.8	−11.8	−5.1	0.8	0.8	0.8	0.8
Subsidies	−1.7	−0.1	1.1	−3.8	0.4	−1.4	1.2	1.2	1.1
Social benefits	3.5	3.6	2.8	2.7	4.3	4.2	3.1	2.7	2.8
Other transfers[7]	0.2	−0.5	9.5	−1.4	1.7	−0.7	0.2	0.5	9.0
Gross capital formation	3.1	4.5	2.0	7.4	0.0	3.2	5.5	2.3	1.8
Capital transfers[7]	5.7	3.6	−6.8	3.9	1.8	20.3	1.3	−33.4	−0.9
Acquisitions less disposals of non-financial non-produced assets[7]	0.5	0.0	0.0	0.6	−0.1	0.0	0.0	0.0	0.0
Other taxes on production[7]	0.0	0.0	0.0	0.0	0.0	3.6	0.0	0.0	0.0
Total expenditures	**4.1**	**3.4**	**3.1**	**4.1**	**4.0**	**3.5**	**3.2**	**2.0**	**4.1**

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.
8 All administrative units including Social Security.

Sources: Federal Statistical Office (Fachserie 18: Volkswirtschaftliche Gesamtrechnungen); DIW summer projections 2017.