German economy remaining robust in uncertain times

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ABSTRACT

The German economy will keep on growing amid risks although growth will slow down somewhat. GDP will continue to grow noticeably at 1.8 percent this year, 1.7 percent next year, and 1.8 percent in 2020. Private household incomes in particular—and thus consumption as well—are boosting growth, as the labor markets are improving: the unemployment rate will fall from 5.2 percent this year to well below five percent in 2020 and lead to stronger wage increases. However, inflation will remain moderate at almost two percent.

The German economy is continuing to grow albeit slower than previously (Figure 1). The risk of overheating is thus reduced for the forecast period, primarily due to slower global economic development and somewhat lower demand for capital goods. The domestic economic upturn remains intact.

The German economy is heavily dependent on exports and likely to be particularly affected by the risks to trade relations globally. In many places, investment activity is already weakening along with demand for German products. Domestic demand, however, should remain robust. In particular, construction activity is expected remain at a high level (Table 1). Private consumption also continues to significantly contribute to growth. However, growth rates here are no longer as high as they were in the past three years when declining energy prices were boosting consumers' purchasing power. Energy prices are rising again, which is why inflation is now higher at around two percent (Table 2). In view of high overall economic capacity utilization and rising labor costs, the trend towards higher inflation will continue but not exceed the two percent mark.

A series of fiscal policy measures will boost consumer incomes in the coming year. Job creation is continuing at a more leisurely pace while wages will rise slightly faster due to increasing labor market shortages—the unemployment rate will fall from 5.2 percent this year to 4.9 percent in 2019 and 4.6 percent in 2020.

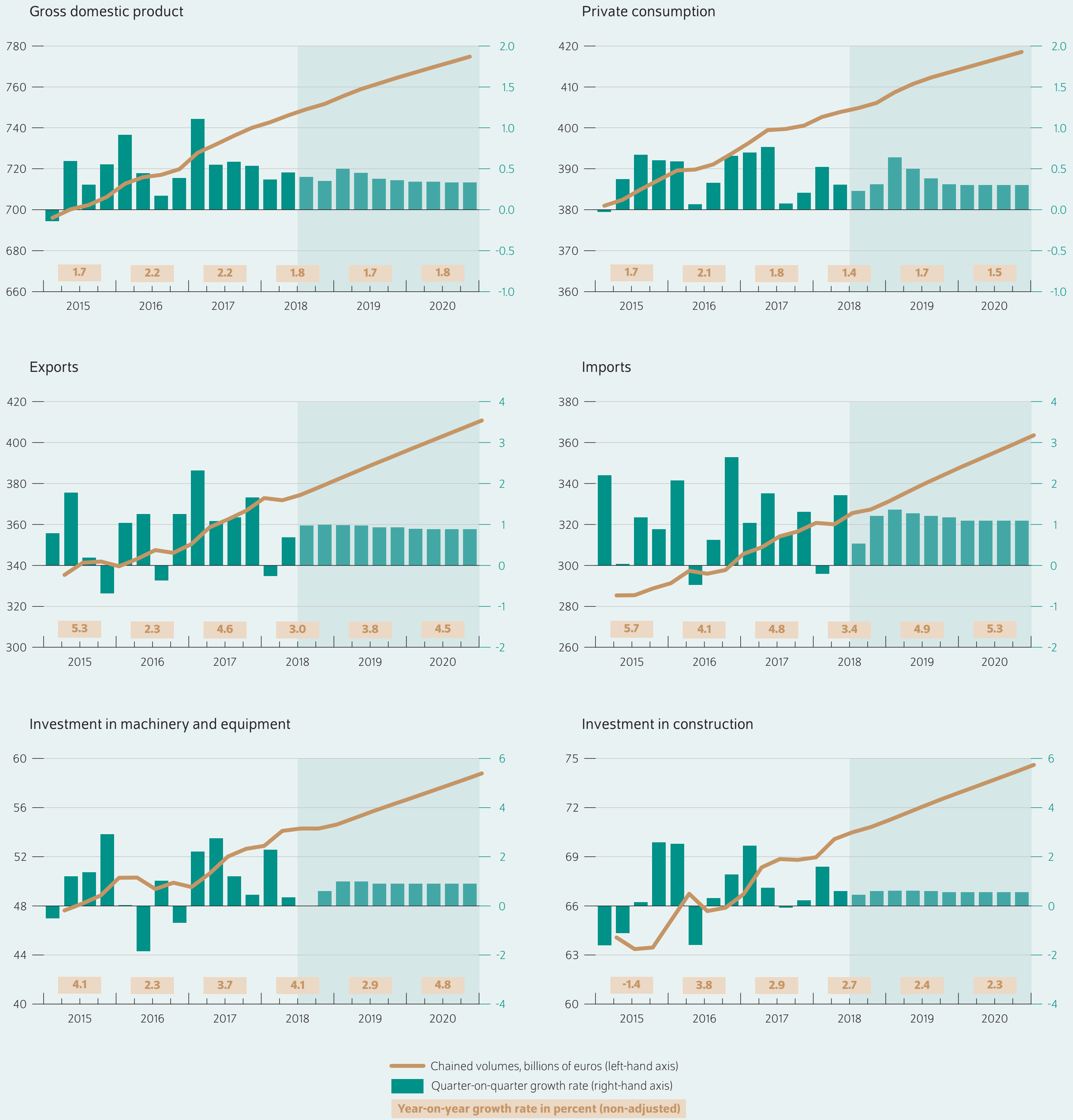
Overall, the German economy is likely to lose some momentum, which is reflected in the calendar-adjusted growth figures. Calculated in unadjusted figures, GDP should increase by 1.8 percent this year and 1.7 percent in 2019.[1] As 2020 will have 3.5 more business days than 2019, the growth rate in 2020 will be 1.8 percent. Without these additional business days, growth would be at 1.4 percent. Utilization of overall economic capacities will fall slightly this year and next (Figure 2) but rise slightly in 2020; generally, capacities will remain well utilized during the forecast period.

1 The 68-percent confidence interval resulting from the forecast errors of the previous five years is between 1.6 percent and 2.1 percent for this year, between 1.1 percent and 2.2 percent for next year.

Figure 1

Gross domestic product and use of gross domestic product

Seasonally and working-day adjusted



Sources: Federal Statistical Office; DIW Economic Outlook Autumn 2018, forecasts from third quarter 2018 onward.

Table 1

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

Price, seasonally, and working-day adjusted, in percent

	2018				2019				2020			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Private consumption	0.5	0.3	0.2	0.3	0.6	0.5	0.4	0.3	0.3	0.3	0.3	0.3
Public consumption	−0.3	0.6	0.5	0.4	0.5	0.4	0.5	0.4	0.4	0.4	0.4	0.4
Gross fixed capital formation	1.4	0.5	0.4	0.6	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Investment in machinery and equipment	2.3	0.3	0.0	0.6	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Construction investment	1.6	0.6	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Other investment	−0.5	0.3	0.7	0.7	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Change in inventories[1]	−0.1	0.4	−0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic uses	0.4	0.9	0.2	0.4	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Net exports[1]	−0.1	−0.4	0.2	0.0	−0.1	−0.1	0.0	0.0	0.0	0.0	0.0	0.0
Exports	−0.3	0.7	1.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Imports	−0.2	1.7	0.5	1.2	1.4	1.3	1.2	1.2	1.1	1.1	1.1	1.1
Gross Domestic Product	**0.4**	**0.5**	**0.4**	**0.4**	**0.5**	**0.5**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**

1 Contribution to gross domestic product growth in percentage points.

Sources: Federal Statistical Office; DIW Economic Outlook Autumn 2018, forecasts from third quarter 2018 onward.

Table 2

Key economic indicators for the German economy

	2015	2016	2017	2018	2019	2020
Real GDP[1] (percent change over previous year)	1.7	2.2	2.2	1.8	1.7	1.8
Domestic employment (1,000 persons)	43 071	43 642	44 269	44 831	45 149	45 392
Unemployed (ILO concept)	1 949	1 775	1 621	1 466	1 310	1 189
Unemployed (BA concept)	2 795	2 691	2 533	2 347	2 208	2 104
Unemployment rate[2] (ILO concept)	4.6	4.1	3.8	3.4	3.0	2.7
Unemployment rate[2] (BA concept)	6.4	6.1	5.7	5.2	4.9	4.6
Consumer prices	0.3	0.5	1.8	1.9	2.0	1.9
Unit labor costs[3]	1.8	1.2	1.5	2.1	2.2	1.9
Government budget balance[4]						
in billion EUR	23.9	28.7	34.0	60.4	57.2	52.8
in percent of GDP	0.8	0.9	1.0	1.8	1.6	1.4
Current account balance, in percent of GDP	8.5	8.2	7.9	7.9	7.6	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; DIW Economic Outlook Autumn 2018, forecasts from 2019 onward.

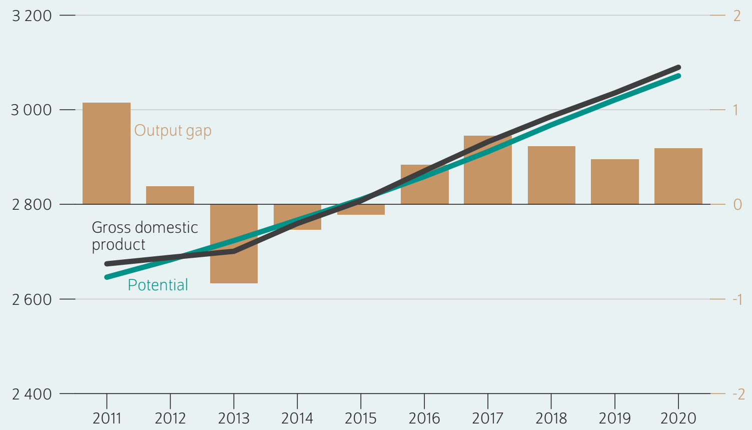
Public budgets will continue to close with substantial surpluses: the balance is expected to amount to 60 billion euros this year (1.8 percent in relation to GDP) before falling slightly (to 1.6 and 1.4 percent in relation to GDP) in the coming years, partly due to an expansionary fiscal policy. The calculation method used here shows that most of the surpluses are of a structural nature. However, Germany is continuing to benefit from unusually low interest rates.

The German economy is currently exposed to considerable risks: Brexit has the potential to negatively affect trade flows to a serious extent, which would have an impact on the German economy especially. In addition, there are the impending effects of the trade dispute with the United States, although an agreement was able to initially avert the significant increase in automobile tariffs. This does not, however, put an end to the danger that would affect one of Germany's key industries in particular. The trade dispute is already having a dampening effect on global investment activity.

Figure 2

Gross domestic product and potential or output gap

In billion euros; percentage of the output gap



Sources: National and international institutions; DIW Economic Outlook Autumn 2018.

Production capacities remain well utilized.

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