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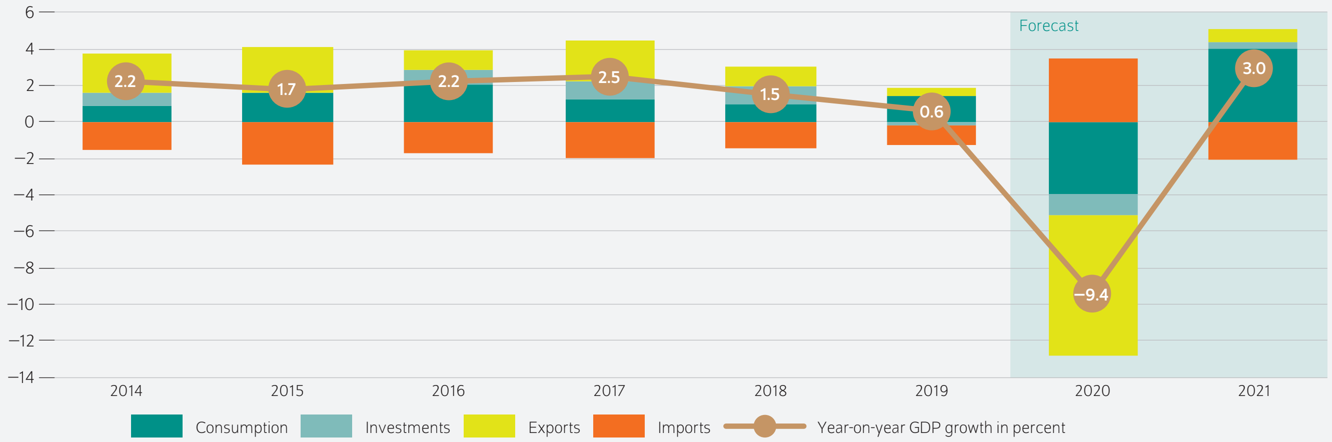
AT A GLANCE

Germany Hit Hard by the Global Recession as Uncertainty Weighs Heavy

By Claus Michelsen et al.

- Economic output in Germany is likely to plummet drastically by over nine percent in 2020; the global economy also shrinking significantly
- A U-shaped recovery is currently the most likely scenario for Germany: the intense slump will be followed by a period of poor growth before gradually picking up again
- Uncertainties are weighing heavily on firms and private households, making them reluctant to purchase capital and major consumer goods
- The German Federal Government's economic program is helping, will increase economic output in 2020 and 2021 by 1.3 percentage points
- More broadly, DIW Berlin proposes an investment program to counter the crisis and strengthen the economy's growth potential

German economy plummets drastically: pre-crisis level by the end of 2021 remains far off
Individual GDP components' contribution to growth in percentage points



Source: DIW Berlin Economic Outlook Summer 2020.

FROM THE AUTHORS

"The German economy needs a stimulus which will stimulate demand while addressing future problems at the same time. We have been discussing decarbonization, digitalization, and education issues for some time. Now is our opportunity to address these obvious weaknesses and strengthen the growth potential of the economy."
— Claus Michelsen, DIW Berlin Chief Economic Forecaster —

MEDIA

Audio Interview with C. Michelsen (in German)
www.diw.de/mediathek

EDITORIAL

Germany Hit Hard by the Global Recession as Uncertainty Weighs Heavy

By Claus Michelsen, Marius Clemens, Guido Baldi, Geraldine Dany-Knedlik, Hella Engerer, Marcel Fratzscher, Stefan Gebauer, Max Hanisch, Simon Junker, Konstantin Kholodilin, Laura Pagenhardt, Malte Rieth, and Thore Schlaak

The coronavirus pandemic is plunging the global economy into a deep recession. Economic output declined in many economies in the first quarter of 2020. However, this decline is likely only the beginning, as the majority of the coronavirus containment measures were implemented in the second quarter of 2020. The coronavirus has also spread to emerging economies, where it has significantly affected daily life. The German economy is being hit hard by the crisis and is likely to experience the deepest recession in post-World War II history as a result.

The recession has been caused by the uncontrolled spread of the novel coronavirus. Most governments took drastic measures to contain the virus in response, but these measures massively restrict social life and economic activity. Moreover, production shutdowns resulted in disruptions of international supply chains. Short-time work and layoffs are lowering the purchasing power of private households and thus their demand, and massive sales shortfalls and increasing debt are restricting firms' scope of investment.

In addition, serious uncertainty from both firms and private households regarding the economy and the further course of the pandemic results in a significant reluctance to invest and to purchase expensive, durable consumer goods, such as cars, which deepens the recession. The export-based German economy was hit particularly hard, as it specializes in producing high-quality machines, devices, and cars, and foreign demand for these goods has fallen. Despite the fact that many countries have now eased containment measures, foreign demand is likely to recover only slowly; it is additionally dampened by uncertainty from private households and firms.

Therefore, DIW Berlin is expecting a significant decline in economic output and is lowering its forecast for the German economy for 2020 to −9.4 percent. The global economy is likely to decline by 4.9 percent and only recover very gradually. Due to the high degree of uncertainty, massive income losses, and the containment measures remaining partially in place—and despite the expansionary monetary and fiscal policy reactions—DIW Berlin predicts a U-shaped recovery as the most likely course of the crisis. Thus, economic activities are bound to recover only slowly. For 2021, the German economy is predicted to grow by 3.0 percent and the global economy is predicted to grow by 5.5 percent. The economic consequences of the pandemic will be nowhere close to offset during the forecast period.

This forecast depends on many assumptions. For example, a more rapid (V-shaped) recovery is also possible, provided that the consequences of the pandemic are quickly overcome and, in particular, uncertainty is markedly reduced. If economic activities are revived worldwide during summer 2020 and the monetary and fiscal policy measures have a broad impact, optimism can return. Renewed optimism would move firms to invest and hire new employees. However, there is also the risk of an even deeper, more long-lasting economic slump, especially if the pandemic cannot be contained and one or more coronavirus waves follow. This would force a large number of firms into bankruptcy and have even more drastic consequences on the labor markets. This "L-shaped scenario" could lead to crises in the banking sector and a loss of trust in the credit standing of many emerging economies and some more developed economies such as Italy or Spain. One of the main goals of forming economic policies during this crisis is to avoid this scenario.

Therefore, many governments reacted swiftly to the economic crisis with various measures, attempting to prevent corporate insolvencies with subsidies, loans, and guarantees.

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Private household incomes were also stabilized via instruments such as short-time allowances, subsidies, or one-time payments. Germany's measures alone, including all guarantees, amount to around 1.5 trillion euros; in the United States, around three trillion dollars in aid has been distributed. Worldwide, central banks have reacted by lowering interest rates, expanding asset purchase programs, and providing extensive liquidity to commercial banks to support their lending to firms.

Despite these measures, the economic crisis will strongly negatively affect almost every economic variable in Germany. Private consumption as well as investment activity will decline significantly. Foreign demand is also likely to markedly decline, which will put pressure on export activity. Even the construction industry, which has had extraordinarily good business over the past few years, will probably have to deal with a significant drop in sales, primarily due to lower demand from companies and municipalities. This impacts the labor market: for example, in May 2020, firms declared interest in short-time work allowances for (a maximum of) 11 million people. However, despite the possibility of short-time work, personnel are being made redundant or not replaced and the unemployment rate will increase to 6.0 percent. This development is noticeably impacting public budgets, as the German Federal Government is being forced to partially spend its reserves. For example, some of the reserves built up in recent years in unemployment insurance and other areas of public budgets, such as statutory health insurance and pension insurance, will probably be used up by the end of 2020. The reserves in unemployment insurance are likely to drop from 26 billion euros to minus five billion euros overall. According to current estimates, German federal debt alone will increase by 156 billion euros. When the new debt of regional and local authorities is added, in addition to direct loans and investments in firms, the national debt ratio will rise from below 60 to about 77 percent.

Although measures were quickly implemented to stabilize the economy, a rapid recovery and a continuation of the economic growth of the 2010s cannot be expected without further action. The coronavirus recession will leave deep marks on economic output and result in lower levels of prosperity for some time to come. Following the financial crisis of 2007–2008, Germany experienced a decade of strong growth and thus reductions in public and private debt ratios. Economic policies going forward should do everything so that this development repeats itself. Decisive for this is that the German economy improves its competitiveness in next-generation businesses and remains attractive as a production location for firms. Therefore, economic stimuli that both increase purchasing power and stimulate investments to increase production potential are necessary to combat the acute crisis. An economic and growth package that stimulates economic activity for a specific period of time in the short-term in a targeted manner is needed. This package should also strengthen transformation processes that meet the needs of a sustainable, inclusive, and digitalization-oriented economy.

Such a program has now been passed by the German Federal Government. Around 130 billion euros are to be invested primarily in short-term measures to stimulate demand, and a significant amount of the instruments will stimulate consumption. Overall, the package covers more than 50 points, including temporarily decreasing the value-added tax, granting a children bonus, and providing aid to municipalities. This aid intends to compensate for the commercial tax losses and provide relief for social security contributions in addition to stabilizing public gross fixed capital formation in construction. Further elements address climate policy, digitalization, and education. Overall, many prudent steps have been decided upon, which will noticeably stabilize economic output in 2020 and 2021 with a stimulus of 1.3 percentage points in each of these two years.

However, a stronger focus on investments would be wise as a supplement to the measures, or even partially in place of them, as this would have greater effects on the potential growth rate. DIW Berlin recommends such a program in the amount of around 192 billion euros. This would speed up economic recovery and actively contribute to making the economy sustainable and digitalized. The growth potential of 2021 and beyond could thus be increased significantly, by an average of 0.5 percentage points annually, while at the same time meeting the goals of decarbonization and creating more equal living conditions through improved educational opportunities. In this way, the program would largely finance itself through increased growth.

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Coronavirus Pandemic Plunging Global Economy into a Serious Recession

By Claus Michelsen, Guido Baldi, Geraldine Dany-Knedlik, Hella Engerer, Stefan Gebauer, and Malte Rieth

ABSTRACT

The consequences of the ongoing 2020 coronavirus pandemic are leaving deep marks on the global economy. In the first quarter of 2020, global production sank by 15.5 percent over the course of the worldwide lockdown. Since containment measures in many countries were mainly implemented during the second quarter of 2020, the slump in the first half of 2020 is likely to be even more severe overall. Due to the expansive containment measures in many countries and massive limitations on production and sales from March 2020 to summer 2020, DIW Berlin is lowering its forecast for the year drastically from 2.5 percent to -4.9 percent. It is also likely that the significant production losses and the serious slump in the service sector will be unable to be compensated for in 2021. However, for 2021, DIW Berlin expects an increase in global production of 5.5 percentage points. Of course, the possibility of further coronavirus waves poses risks and trade conflict escalations cannot be ruled out conclusively.

Containing the coronavirus pandemic has plunged the global economy into a deep recession (Figure). In the first quarter of 2020, global production declined by 15.5 percent overall and international trade shrunk significantly as well.

It is likely the global recession will intensify over the first half of 2020, as lockdown measures in place since March 2020 have majorly limited economic activity in many advanced and some emerging economies. In many European countries and the United States as well, revenue in service industries such as gastronomy or retail dropped to the double-digit range in March. As stringent lockdown measures in many countries remained in place throughout April and May 2020, parts of the service sector are likely to come to an almost complete standstill in the second quarter of 2020. Moreover, significant production losses have occurred due to supply chain disruptions and a stark decline in employment in many areas, especially in advanced economies. For example, industrial production in the United States and Japan declined by around ten percent each in April 2020.

However, oil prices remain low, which is mildly supporting the manufacturing industries as well as private consumption, at least in economies that import oil. Thus, despite the ceasefire in the OPEC+ price war and slight supply shortages, crude oil prices are still at a very low level.[1]

These losses are also likely to leave deep marks on the labor markets. In many countries, appropriate measures, such as expanding short-time working allowances, were taken. However, unemployment in some economies, especially in 2020, is expected to increase significantly. The accompanying loss of income and a higher propensity to save due to uncertainty will probably weaken private consumption noticeably.

It also remains unclear how quickly and to what extent income losses can be cushioned by the rescue packages passed in many countries and by loosening monetary policies. Some

1 The OPEC+ announced production losses of 9.7 million barrels per day (mb/d) compared to the October 2019 level. Until the end of 2019, losses were at 7.7 mb/d and until the end of April 2020, at 5.8 mb/d. Furthermore, Saudi Arabia and Kuwait have announced voluntary losses for June.

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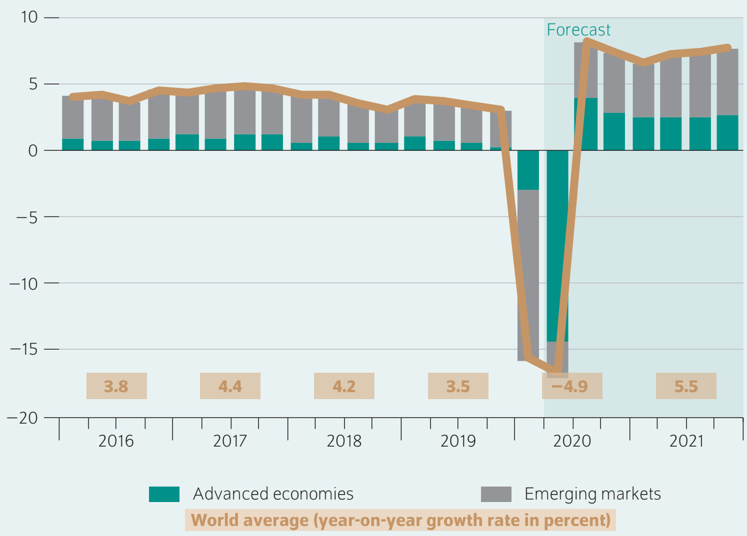
of these packages have reached historic proportions and fiscal and monetary policy is likely to remain expansionary in many regions. Overall, the multifacted measures will support production.

Thus, following such a strong slump in global production in the first half of 2020, an initially slow recovery can be expected over the further course of the forecast. However, this forecast presumes most countries will successfully contain the coronavirus. Under this presumption, existing containment measures will be eased over the further course of 2020 and replaced with targeted measures, thus avoiding a second wave of the coronavirus. Presumably, then, in 2021, these targeted measures will be gradually phased out.

The coronavirus pandemic has resulted in a need for societal adaptations, such social distancing or working from home, and it can be presumed these measures will remain in place in many countries for some time. As a result, restrictions in the production process will only gradually be resolved in many countries, thereby preventing a rapid normalization of production. Following major losses of revenue in the first half of 2020 and the subsequent gradual reduction of production restrictions, companies will have little incentive to invest despite favorable financing conditions. Moreover, it is likely that investments that have already been planned will be delayed due to the pandemic.

Figure

World real GDP growth
Quarter-on-quarter, in percent



Sources: National statistical offices; DIW Berlin Economic Outlook Summer 2020.

Real GDP plummeted due to the spread of the coronavirus and global containment measures in the first half of 2020.

Table

Real GDP, consumer price inflation, and unemployment rate in the world economy
In percent

	GDP				Consumer prices				Unemployment rate in percent			
	Change over previous year in percent											
	2018	2019	2020	2021	2018	2019	2020	2021	2018	2019	2020	2021
Euro area	1.9	1.2	−9.7	5.6	1.7	1.3	0.6	1.0	8.1	7.5	9.4	8.9
without Germany	2.0	1.4	−9.8	7.0	1.7	1.2	0.5	1.1	10.3	9.5	11.9	11.1
France	1.7	1.3	−9.4	7.2	1.9	1.1	0.5	1.2	9.0	8.5	10.1	9.5
Italy	0.7	0.3	−11.2	7.3	1.2	0.7	0.0	0.8	10.6	9.9	11.2	10.6
Spain	2.4	2.0	−11.0	7.2	1.7	0.7	0.2	1.1	15.3	14.1	18.7	17.4
The Netherlands	2.5	1.8	−5.8	5.5	1.6	2.7	0.9	1.5	3.8	3.4	6.0	5.2
United Kingdom	1.3	1.4	−8.9	3.6	2.3	1.7	1.4	2.2	4.1	3.8	7.0	9.6
USA	2.9	2.3	−6.9	4.1	2.4	1.8	0.8	1.1	3.9	3.7	11.6	9.0
Japan	0.3	0.7	−4.6	2.9	0.8	0.6	−0.1	0.2	2.4	2.4	3.3	2.9
South Korea	2.7	2.0	−1.2	2.6	1.5	0.4	0.2	0.4	3.8	3.7	4.4	4.1
Central and Eastern Europe	4.7	4.0	−4.5	4.7	2.2	2.7	2.7	2.8	3.7	3.3	3.4	3.2
Turkey	2.9	0.9	−4.2	0.5	16.3	15.2	11.6	12.0	11.0	13.7	14.8	14.0
Russia	2.4	1.4	−4.4	0.8	2.9	4.5	3.4	4.2	4.8	4.6	4.9	4.9
China	6.7	6.2	−3.2	8.1	1.9	2.4	4.0	3.1	4.1	4.1	4.1	4.1
India	6.7	5.1	−2.6	6.8	3.9	3.7	3.6	3.3				
Brazil	1.3	1.1	−5.0	4.1	3.8	3.8	1.5	2.7	12.3	12.0	13.9	12.5
Mexico	2.1	−0.1	−5.2	2.9	4.9	3.4	1.3	1.6	3.4	3.5	4.9	4.1
Developed economies	2.2	1.8	−7.2	4.2	2.0	1.4	0.7	1.0	4.8	4.5	9.3	8.0
Emerging markets	5.5	4.6	−3.5	6.4	3.3	3.6	3.9	3.6	5.1	5.2	5.6	5.3
World	4.2	3.5	−4.9	5.5	2.8	2.7	2.6	2.6	5.0	4.9	7.1	6.4

Sources: National statistical offices; DIW Berlin Economic Outlook Summer 2020.

The coronavirus pandemic has plunged the global economy into a deep recession in 2020. As a result, global production in 2020 is predicted to decline by 4.9 percent. Recovery will be slow, and overall may barely compensate for losses during the forecast period. In many places, restrictions on production and sales are not being lifted completely. Households and businesses in many countries are suffering enormous losses of income and revenue and are simultaneously incredibly uncertain how the pandemic will play out and about economic development. This uncertainty is likely to continue to put a significant brake on capital demand and consumer goods into 2021, despite favorable financing conditions and fiscal policy support in most economies.

With a global GDP of 5.5 percent in 2021, production will not reach its pre-coronavirus recession level by the end of 2021 in most economies (Table). Compared to the Winter Outlook, DIW Berlin is drastically lowering its forecast for 2020 by 7.4 percentage points from 2.5 to -4.9 percent and increasing its forecast for 2021 by 2.0 percentage points from 3.5 to 5.5 percent.

The current risks are predominantly tilted to the downside. For example, further coronavirus waves could result in a re-implementation of containment measures, which would significantly deepen the recession and increase its length. Moreover, a stronger than expected increase in corporate and personal bankruptcy, together with an increase in loan defaults, could destabilize the financial markets in some regions and endanger the solvency of many countries. Additionally, there are still risks of trade conflicts, such as between China and the United States. However, the Brexit talks between Great Britain and the European Union, in which no progress has been made in the fourth round of negotiations, pose additional trade conflict risks.

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Keywords: Business cycle forecast, economic outlook

German Economy Slowly Recovering Following a Deep Slump

By Claus Michelsen, Marius Clemens, Max Hanisch, Simon Junker, Konstantin Kholodilin, Laura Pagenhardt, and Thore Schlaak

ABSTRACT

The coronavirus recession has left deep marks on the German economy and despite economic policy action, it is likely to heal only slowly. The partial easing of the lockdown and a gradual revival of global value chains are generating positive stimuli, but massive income losses will curb demand for some time to come. The German Federal Government was able to avoid the worst by implementing measures to stabilize the domestic economy, but it can do little to counteract a slump in foreign demand. This decline in foreign demand reflects the devastating effects of the recession on the labor markets of many countries. Overall, economic recovery will be slow in Germany: The German economy cannot compensate for a decline of 9.4 percent in GDP in 2020, even with GDP growth of 3.0 percent in 2021.

The German economy will shrink to an unprecedented extent in the second quarter of 2020 (Figure). This decline is due to the coronavirus-related lockdown, which is gradually being lifted. Provided the pandemic is successfully contained, as is assumed in this forecast, the trough has been reached and economic output is likely to increase again in the third quarter of 2020 as the lockdown is eased. However, a rapid recovery is unlikely. Rather, a slow recovery is the most likely scenario due to high levels of uncertainty, behavioral changes, and massive income losses, both in Germany and in other countries in particular.

Generally, epidemics lead to a decline in economic output that requires up to two years to be compensated for. However, the coronavirus has spread much more widely than previous epidemics, growing into a pandemic, and is affecting both the advanced and emerging economies. Major economies, such as those of the United States and the United Kingdom, have been hit hard by the coronavirus pandemic.

In addition to this are the lockdown measures, which in many countries brought sectors to a partial or almost complete standstill for several weeks in spring 2020. Thanks to these containment measures, an even worse pandemic scenario has been avoided. However, the measures have also had a direct economic cost. Private consumption collapsed immediately (Table 1), as many services were shut down as part of the containment measures and only a small part of them could be replaced: For example, restaurants switched to take-out only service; people increased their use of streaming services instead of other cultural offerings, such as going to the movie theaters; and businesses switched to online sales. Although the collapse of private consumption was noticeable by the end of the first quarter of 2020, the full force of the slump was not felt until the second quarter of 2020.

It is unlikely that economic output over the course of the easing of the containment measures will soon reach pre-crisis levels. Many restrictions remain in place, such as social distancing or mask requirements, which restrict capacity

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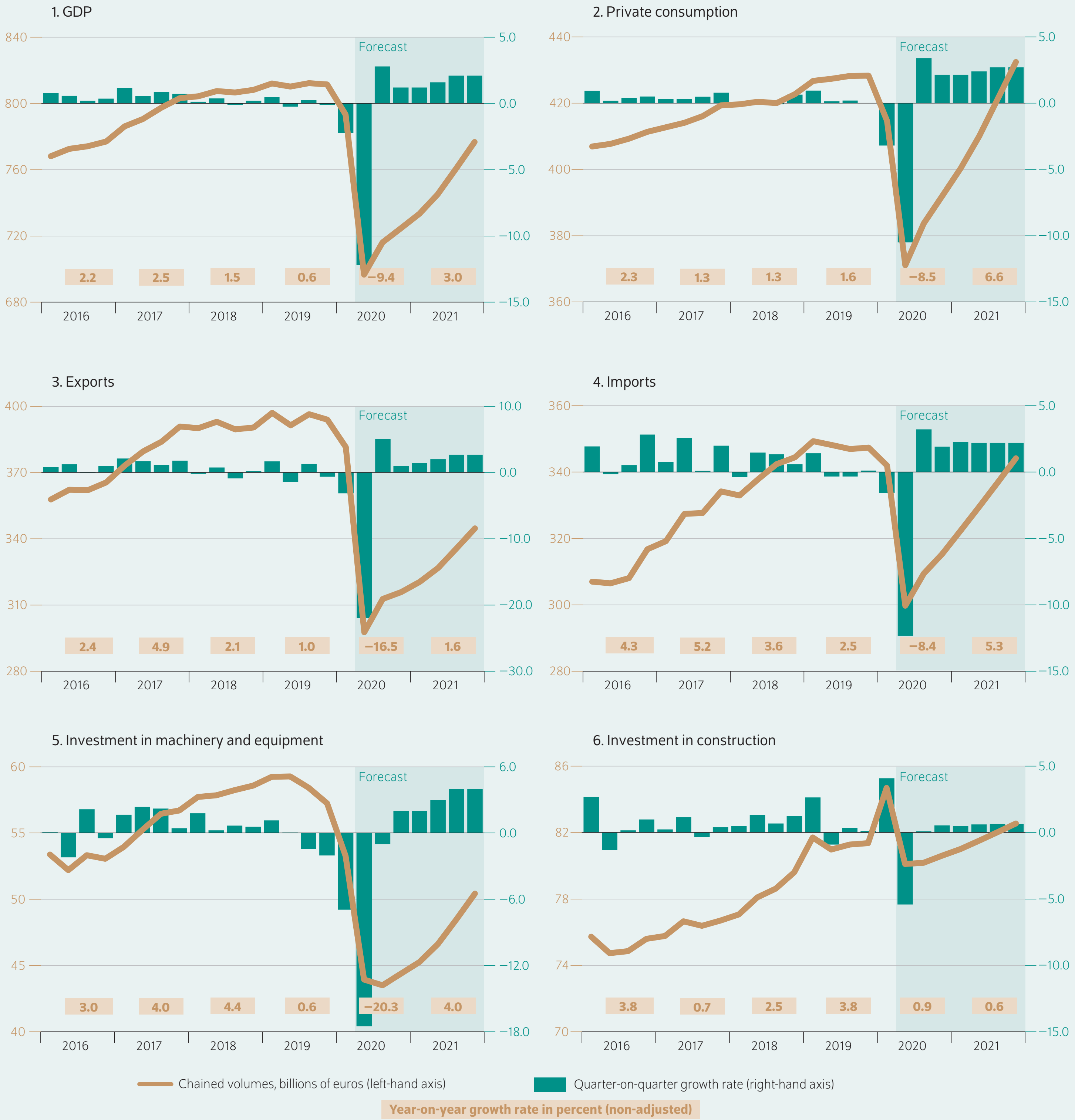
Figure

Gross domestic product and use of GDP

Seasonally and working day adjusted



Sources: Federal Statistical Office; DIW Berlin Economic Outlook Summer 2020, forecast from Q2 2020 onward.

Table 1

GDP use, quarter-on-quarter growth rates

Price, seasonally and working-day adjusted, in percent

	2019				2020				2021			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Private consumption	0.9	0.2	0.2	0.0	−3.2	−10.5	3.4	2.2	2.2	2.4	2.7	2.7
Public consumption	1.1	0.5	1.4	0.1	0.2	0.8	1.3	0.8	0.5	0.4	0.3	0.3
Gross fixed capital formation	1.6	−0.3	−0.1	−0.4	−0.2	−8.1	−0.4	1.0	1.0	1.3	1.6	1.6
Investment in machinery and equipment	2.6	−0.9	0.4	0.1	4.1	−5.4	0.1	0.5	0.5	0.6	0.6	0.6
Construction investment	1.2	0.0	−1.4	−2.0	−6.9	−17.5	−1.0	2.0	2.0	3.0	4.0	4.0
Other investment	−0.5	0.9	1.0	1.1	−0.3	−0.8	−0.8	0.8	0.8	0.8	0.8	0.8
Change in inventories[1]	−0.8	0.2	−0.9	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic uses	0.3	0.3	−0.5	0.3	−1.5	−7.5	2.0	1.6	1.5	1.7	1.9	1.9
Net exports[1]	0.2	−0.5	0.8	−0.4	−0.8	−5.1	0.8	−0.4	−0.3	−0.1	0.2	0.2
Exports	1.7	−1.4	1.3	−0.6	−3.1	−22.0	5.1	1.0	1.4	2.0	2.7	2.7
Imports	1.4	−0.3	−0.3	0.1	−1.6	−12.3	3.2	1.9	2.2	2.2	2.2	2.2
GDP	**0.5**	**−0.2**	**0.3**	**−0.1**	**−2.2**	−12.2	**2.8**	**1.2**	**1.2**	**1.6**	**2.1**	**2.1**
Gross value added	**0.5**	**−0.3**	**0.1**	**0.0**	**−2.0**	−12.2	**2.8**	**1.2**	**1.2**	**1.6**	**2.1**	**2.1**
Manufacturing	−0.9	−1.5	−0.6	−0.8	−4.4	−21.7	7.0	1.8	1.7	2.7	3.8	4.0
Construction	0.9	−0.5	1.3	−0.1	2.1	−5.4	0.1	0.5	0.5	0.6	0.6	0.6
Trade, accomodation, transport	2.4	−0.5	0.1	−0.1	−3.4	−20.4	6.3	3.9	2.5	2.8	3.7	3.7
Business and production services	0.3	0.1	0.0	0.3	−1.8	−12.0	2.5	0.5	1.0	2.0	2.5	2.5
Public admin, community and social services	0.2	0.2	0.8	0.3	−0.8	−4.0	0.7	0.5	0.5	0.5	0.5	0.5

1 Contribution to GDP growth in percentage points.

Source: Federal Statistical Office; DIW Berlin Economic Outlook Summer 2020, forecast from Q2 2020 onward.

Table 2

Main economic indicators for the German economy

	2016	2017	2018	2019	2020	2021
Real GDP[1] (percent change over previous year)	2.2	2.5	1.5	0.6	−9.4	3.0
Domestic employment (1000 persons)	43,655	44,248	44,854	45,236	45,021	44,957
Unemployed (ILO concept)	1,775	1,621	1,469	1,374	1,727	1,797
Unemployed (BA concept)	2,691	2,533	2,340	2,267	2,745	2,894
Unemployment rate[2] (ILO concept)	4.1	3.8	3.4	3.2	4.0	4.2
Unemployment rate[2] (BA concept)	6.1	5.7	5.2	5.0	6.0	6.3
Consumer prices	0.5	1.5	1.8	1.4	0.9	0.9
Unit labor costs[3]	1.2	1.2	2.5	3.3	7.2	0.1
Government budget balance[4]						
in billion EUR	37.1	40.3	62.4	50.4	−198.6	−113.1
in percent of GDP	1.2	1.2	1.9	1.5	−6.2	−3.4
Current account balance, in percent of GDP	8.5	7.8	7.4	7.1	4.1	3.0

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 Berlin Economic Outlook Summer 2020, 2020 and 2021: forecast.

and dampen consumer spending behavior. Above all, however, the massive income losses along with the uncertainties, such as many people's worries about their own jobs or firms' concerns about sales potential, are likely to burden the recovery.

As of June 2020, firms are unlikely to consider hiring new staff and unemployment will rise, averaging 6.0 percent annually (Table 2), with the rate being much higher by the end of 2020. In addition to losses in productivity and earnings, some of the decline in economic output is currently being offset by short-time work. At its peak, around 6.5 million workers are likely to be affected on average in the second quarter of 2020. Firms are adjusting labor input by reducing hours and the government is partially compensating workers for lost wages. In addition, the self-employed will lose a considerable portion of their income or even have to shut down their business. Moreover, rising unemployment figures are lowering purchasing power and weak income growth will hinder the recovery of consumption. In contrast, low inflation of 0.9 percent in 2020 will barely limit purchasing power, reflecting the decline in oil prices and the huge under-utilization of economic capacities.

While sales prospects on the domestic market are likely to be dampened for some time and difficult for firms to assess, the prospects on foreign markets have worsened much more. In addition, they will remain more uncertain for the time being than previously, and domestic firms will postpone unnecessary investments to a large extent.

This reluctance to invest is also driven by the fact that many firms have had to forego a large part of their sales revenue in recent weeks while still having to pay invoices. Although the short-time work regulations have prevented more significant losses, corporate debt is nevertheless likely to have risen and will additionally hamper corporate investment. In the first half of 2020, corporate investment will have slumped and is likely to only recover slowly afterwards.

Foreign demand for German goods and services is likely to have declined even more significantly than domestic consumption. On the one hand, the effects of the coronavirus recession on incomes are more drastic in many countries than in Germany, in part because the labor markets are not as robust as the German market. This particularly dampens demand for durable goods, such as cars, which are central to the German economy. On the other hand, the collapse of investments worldwide is affecting German exporters specialized in durable goods. Exports are thus likely to remain significantly below the pre-crisis level during the forecast period, even if they increase again over the course of 2020.

However, the German economy will begin growing again in the third quarter of 2020. Economic output, on the other hand, will remain far below the pre-crisis level following the slumps in the first and especially second quarters of 2020 (the extent of which is difficult to pinpoint). It will fall by 9.4 percent on an annual average. Although the German economy is expected to grow at an above-average rate of 3.0 percent in 2021, it will be far from the pre-crisis level by the end of 2021.

Contrary to what is assumed here, a second wave of the coronavirus cannot be ruled out. For example, another wave occurring in the fall of 2020 would at the very least result in the re-implementation of regional lockdowns, thereby again depressing economic performance. In contrast, a more rapid return to normality is also possible if a vaccine for widespread use is developed quickly or effective drugs against the virus enable further easing of containment measures. The latent trade conflicts and the potential of a no-deal Brexit also pose risks; both can additionally negatively impact the open German economy. If a wave of bankruptcies cannot be avoided despite the measures implemented by the German Federal Government, this would have a lasting negative impact on production potential. Higher debt and a general reluctance to invest can also cause lasting damage to innovative capacity and reduce potential growth.

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APPENDIX: NATIONAL ACCOUNTS DATA

The Main National Accounts Data for the Federal Republic of Germany
Forecast for 2020 to 2021

	2019	2020	2021	2019		2020		2021	
				1st half of year	2nd half of year	1st half of year	2nd half of year	1st half of year	2nd half of year
1. Origin of GDP Percentage change over previous year									
Domestic employment	0.9	−0.5	−0.1	1.1	0.7	−0.2	−0.8	−0.4	0.1
Hours worked, per working day	−0.2	−5.6	1.3	0.5	−1.0	−4.6	−6.7	0.0	2.7
Working days	0.0	1.5	0.1	−0.8	0.8	0.5	2.4	0.0	0.2
Labor volume, calendar-monthly	0.6	−4.7	1.3	0.8	0.4	−4.2	−5.1	−0.5	3.0
Labor productivity[1]	0.0	−5.0	1.7	−0.3	0.3	−4.1	−6.0	−0.1	3.6
GDP, price adjusted	**0.6**	**−9.4**	**3.0**	**0.4**	**0.7**	**−8.0**	**−10.8**	**−0.8**	**6.7**
2. Disposition of GDP in current prices a) Billion EUR									
Final consumption expenditure	2,494.3	2,391.1	2,544.6	1,216.1	1,278.2	1,172.8	1,218.4	1,221.0	1,323.7
Private consumption expenditure[2]	1,795.4	1,657.8	1,781.7	878.1	917.3	819.7	838.1	849.7	932.1
Government consumption expenditure	698.9	733.3	762.9	338.0	361.0	353.0	380.3	371.3	391.6
Gross fixed capital formation (GFCF)	746.5	716.9	743.5	359.6	386.9	351.0	365.9	351.3	392.2
Construction	239.8	193.5	202.9	115.8	124.1	96.5	97.0	92.8	110.1
Machinery and equipment	372.9	387.1	399.3	180.5	192.5	189.0	198.1	191.5	207.8
GFCF in other products	133.7	136.3	141.3	63.3	70.4	65.5	70.8	67.0	74.3
Change in stocks[3]	−6.2	2.7	1.8	10.6	−16.8	7.6	−4.9	7.7	−5.9
Domestic uses	3,234.7	3,110.8	3,289.9	1,586.3	1,648.4	1,531.3	1,579.4	1,579.9	1,709.9
Balance of exports and imports	200.5	83.2	48.6	102.8	97.7	64.5	18.7	29.4	19.2
Exports	1,613.5	1,349.3	1,408.9	803.7	809.8	694.9	654.4	677.5	731.4
Imports	1,412.9	1,266.1	1,360.3	700.8	712.1	630.3	635.8	648.1	712.2
GDP	**3,435.2**	**3,194.0**	**3,338.5**	**1,689.1**	**1,746.1**	**1,595.9**	**1,598.1**	**1,609.3**	**1,729.2**
b) Percentage change over previous year									
Final consumption expenditure	3.5	−4.1	6.4	3.3	3.8	−3.6	−4.7	4.1	8.6
Private consumption expenditure[2]	3.0	−7.7	7.5	2.9	3.1	−6.6	−8.6	3.6	11.2
Government consumption expenditure	5.0	4.9	4.0	4.4	5.6	4.4	5.4	5.2	3.0
Gross fixed capital formation (GFCF)	5.5	−4.0	3.7	6.5	4.5	−2.4	−5.4	0.1	7.2
Construction	1.9	−19.3	4.9	3.1	0.9	−16.6	−21.8	−3.8	13.5
Machinery and equipment	8.3	3.8	3.2	9.6	7.2	4.7	2.9	1.3	4.9
GFCF in other products	4.4	2.0	3.6	4.5	4.2	3.4	0.6	2.3	4.8
Domestic uses	3.1	−3.8	5.8	4.1	2.1	−3.5	−4.2	3.2	8.3
Exports	1.7	−16.4	4.4	1.4	2.1	−13.5	−19.2	−2.5	11.8
Imports	2.4	−10.4	7.4	4.6	0.3	−10.1	−10.7	2.8	12.0
GDP	**2.7**	**−7.0**	**4.5**	**2.6**	**2.9**	**−5.5**	**−8.5**	**0.8**	**8.2**
3. Disposition of GDP, adjusted for prices a) Chain-linked estimated in billion EUR									
Final consumption expenditure	2,366.8	2,238.2	2,358.5	1,164.5	1,202.2	1,106.8	1,131.4	1,141.1	1,217.4
Private consumption expenditure[2]	1,708.8	1,562.8	1,666.6	840.1	868.7	774.5	788.3	798.0	868.6
Government consumption expenditure	657.9	674.8	691.7	324.5	333.4	332.0	342.8	342.8	348.9
Gross fixed capital formation (GFCF)	683.6	642.6	654.0	330.9	352.7	315.9	326.7	310.2	343.9
Construction	232.9	185.7	193.0	112.7	120.2	92.6	93.0	88.2	104.8
Machinery and equipment	324.0	326.9	328.9	157.8	166.2	160.5	166.4	158.6	170.3
GFCF in other products	126.5	127.0	129.6	60.3	66.3	61.3	65.7	61.8	67.8
Domestic uses	3,054.1	2,888.3	3,018.2	1,506.1	1,548.1	1,430.1	1,458.3	1,458.1	1,560.1
Exports	1,572.6	1,313.8	1,335.1	785.5	787.1	679.2	634.6	647.7	687.4
Imports	1,387.7	1,270.9	1,338.4	686.7	700.9	633.5	637.4	642.9	695.5
GDP	**3,240.7**	**2,936.7**	**3,023.6**	**1,605.4**	**1,635.1**	**1,477.7**	**1,459.0**	**1,466.6**	**1,557.0**
b) Percentage change over previous year									
Final consumption expenditure	1.9	−5.4	5.4	1.6	2.2	−5.0	−5.9	3.1	7.6
Private consumption expenditure[2]	1.6	−8.5	6.6	1.5	1.7	−7.8	−9.3	3.0	10.2
Government consumption expenditure	2.7	2.6	2.5	2.0	3.3	2.3	2.8	3.2	1.8
Gross fixed capital formation (GFCF)	2.6	−6.0	1.8	3.4	1.8	−4.5	−7.4	−1.8	5.3
Construction	0.6	−20.3	4.0	2.0	−0.6	−17.8	−22.6	−4.8	12.7
Machinery and equipment	3.8	0.9	0.6	4.4	3.2	1.7	0.1	−1.2	2.3
GFCF in other products	2.7	0.4	2.1	2.9	2.6	1.8	−1.0	0.8	3.3
Domestic uses	1.2	−5.4	4.5	1.9	0.5	−5.0	−5.8	2.0	7.0
Exports	1.0	−16.5	1.6	0.3	1.7	−13.5	−19.4	−4.6	8.3
Imports	2.5	−8.4	5.3	3.6	1.5	−7.8	−9.1	1.5	9.1
GDP	**0.6**	**−9.4**	**3.0**	**0.4**	**0.7**	**−8.0**	**−10.8**	**−0.8**	**6.7**

Continued: The Main National Accounts Data for the Federal Republic of Germany
Forecast for 2020 to 2021

	2019	2020	2021	2019		2020		2021	
				1st half of year	2nd half of year	1st half of year	2nd half of year	1st half of year	2nd half of year
4. Price level of national expenditure (2015 = 100) Percentage change over previous year									
Private consumption expenditure[2]	1.3	1.0	0.8	1.4	1.3	1.3	0.7	0.6	0.9
Government consumption expenditure	2.3	2.3	1.5	2.4	2.1	2.1	2.5	1.9	1.2
Gross fixed capital formation (GFCF)	2.9	2.2	1.9	3.0	2.7	2.3	2.1	1.9	1.8
Construction	1.3	1.2	0.9	1.1	1.5	1.4	1.0	1.0	0.7
Machinery and equipment	4.4	2.9	2.5	4.9	3.9	3.0	2.8	2.5	2.6
Exports	0.8	0.1	2.8	1.1	0.4	0.0	0.2	2.2	3.2
Imports	−0.1	−2.2	2.0	0.9	−1.1	−2.5	−1.8	1.3	2.7
GDP	**2.1**	**2.6**	**1.5**	**2.1**	**2.1**	**2.6**	**2.6**	**1.6**	**1.4**
5. Distribution of Income a) Billion EUR									
Primary income of private households[2]	2,407.9	2,280.5	2,356.2	1,190.1	1,217.8	1,152.4	1,128.1	1,144.5	1,211.7
Employers' social contributions	326.2	315.0	329.2	158.1	168.1	155.0	160.1	159.3	169.9
Gross wages and salaries	1,522.2	1,487.3	1,543.4	727.1	795.1	718.4	768.9	729.8	813.6
Other primary income of private households[4]	559.5	478.2	483.6	304.9	254.6	279.1	199.2	255.4	228.2
Primary income of other institutional sectors	489.9	348.0	404.7	220.7	269.3	152.5	195.5	165.0	239.7
Net national income (primary income)	**2,897.8**	**2,628.5**	**2,760.9**	**1,410.7**	**1,487.1**	**1,304.9**	**1,323.6**	**1,309.6**	**1,451.4**
Consumption of fixed capital	637.0	659.3	675.3	316.1	320.9	328.0	331.2	336.0	339.3
Gross national income	**3,534.8**	**3,287.8**	**3,436.2**	**1,726.8**	**1,808.0**	**1,632.9**	**1,654.8**	**1,645.6**	**1,790.6**
Memorandum item:									
Net national income (factor costs)	2,560.2	2,382.5	2,436.4	1,242.4	1,317.8	1,175.8	1,206.7	1,142.2	1,294.2
Property and entrepreneurial income	711.8	580.2	563.8	357.2	354.6	302.5	277.7	253.1	310.7
Compensation of employees	1,848.4	1,802.3	1,872.6	885.2	963.2	873.4	928.9	889.1	983.5
b) Percentage change over previous year									
Primary income of private households[2]	3.0	−5.3	3.3	2.9	3.0	−3.2	−7.4	−0.7	7.4
Employers' social contributions	5.1	−3.4	4.5	5.4	4.8	−2.0	−4.8	2.8	6.1
Gross wages and salaries	4.2	−2.3	3.8	4.5	3.9	−1.2	−3.3	1.6	5.8
Other primary income of private households[4]	−1.4	−14.5	1.1	−1.7	−1.0	−8.5	−21.8	−8.5	14.6
Primary income of other institutional sectors	−0.1	−29.0	16.3	−0.8	0.5	−30.9	−27.4	8.2	22.6
Net national income (primary income)	**2.4**	**−9.3**	**5.0**	**2.3**	**2.5**	**−7.5**	**−11.0**	**0.4**	**9.7**
Consumption of fixed capital	4.6	3.5	2.4	4.5	4.8	3.8	3.2	2.4	2.4
Gross national income	**2.8**	**−7.0**	**4.5**	**2.7**	**2.9**	**−5.4**	**−8.5**	**0.8**	**8.2**
Memorandum item:									
Net national income (factor costs)	2.3	−6.9	2.3	2.2	2.3	−5.4	−8.4	−2.9	7.3
Property and entrepreneurial income	−2.7	−18.5	−2.8	−3.3	−2.1	−15.3	−21.7	−16.3	11.9
Compensation of employees	4.4	−2.5	3.9	4.6	4.1	−1.3	−3.6	1.8	5.9
6. Income and expenditure of private households a) Billion EUR									
Mass income	1,491.6	1,518.7	1,557.6	717.1	774.5	733.7	785.1	743.9	813.7
Net wages and salaries	1,021.2	1,005.1	1,051.6	483.1	538.1	481.5	523.6	489.0	562.6
Social benefits	605.6	658.1	649.2	300.7	304.9	323.5	334.6	327.1	322.2
Fewer levies on social benefits	135.2	144.5	143.2	66.7	68.5	71.4	73.1	72.1	71.0
Other primary income[4]	559.5	478.2	483.6	304.9	254.6	279.1	199.2	255.4	228.2
Other transfers received (net)[5]	−96.8	−91.7	−90.3	−49.3	−47.5	−46.9	−44.8	−46.0	−44.3
Disposible income	**1,954.3**	**1,905.3**	**1,950.9**	**972.7**	**981.6**	**965.9**	**939.4**	**953.4**	**997.6**
Memorandum item:									
Adjustment for the change in net equity of households in pension funds reserves	60.4	61.3	62.1	29.4	31.0	29.8	31.5	30.2	31.9
Private consumption expenditure	1,795.4	1,657.8	1,781.7	878.1	917.3	819.7	838.1	849.7	932.1
Saving	219.3	308.7	231.3	123.9	95.4	175.9	132.8	133.9	97.4
Saving ratio in percent[6]	10.9	15.7	11.5	12.4	9.4	17.7	13.7	13.6	9.5
b) Percentage change over previous year									
Mass income	4.5	1.8	2.6	4.6	4.4	2.3	1.4	1.4	3.7
Net wages and salaries	4.7	−1.6	4.6	5.0	4.4	−0.3	−2.7	1.5	7.5
Social benefits	4.5	8.7	−1.4	4.2	4.9	7.6	9.7	1.1	−3.7
Fewer levies on social benefits	6.0	6.9	−1.0	5.5	6.5	7.0	6.8	1.0	−2.9
Other primary income[4]	−1.4	−14.5	1.1	−1.7	−1.0	−8.5	−21.8	−8.5	14.6
Disposible income	**2.9**	**−2.5**	**2.4**	**2.8**	**3.0**	**−0.7**	**−4.3**	**−1.3**	**6.2**
Private consumption expenditure	3.0	−7.7	7.5	2.9	3.1	−6.6	−8.6	3.6	11.2
Savings	2.3	40.7	−25.1	2.4	2.0	41.9	39.2	−23.9	−26.7

Continued: The Main National Accounts Data for the Federal Republic of Germany
Forecast for 2020 to 2021

	2019	2020	2021	2019		2020		2021	
				1st half of year	2nd half of year	1st half of year	2nd half of year	1st half of year	2nd half of year
7. Government revenues and expenditures									
a) Billion EUR									
Revenues									
Taxes	826.6	744.3	797.2	415.6	411.0	376.9	367.4	404.9	392.3
Direct taxes	458.1	411.8	408.5	232.8	225.2	214.0	197.8	210.4	198.1
Indirect taxes	368.6	332.5	388.7	182.8	185.8	162.9	169.6	194.5	194.2
Net social contributions	597.6	584.9	609.1	290.0	307.6	287.5	297.4	294.4	314.7
Property income	21.3	22.5	21.3	13.1	8.2	14.3	8.2	13.2	8.1
Other transfers	24.7	24.8	25.1	11.1	13.6	11.8	13.0	11.9	13.2
Capital transfers	12.3	12.7	13.0	5.3	6.9	5.6	7.1	5.8	7.2
Sales	125.9	127.6	132.9	59.2	66.6	59.1	68.5	62.3	70.5
Other subsidies	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Total revenues	**1,608.5**	**1,517.0**	**1,598.7**	**794.5**	**814.0**	**755.2**	**761.7**	**792.5**	**806.2**
Expenditures									
Intermediate consumption	178.9	193.0	197.2	81.6	97.4	87.1	105.9	88.9	108.3
Compensation of employees	271.4	280.3	284.2	130.4	141.1	135.2	145.2	137.1	147.1
Social benefits in kind	299.9	310.1	332.8	147.9	152.0	151.2	158.9	166.8	166.0
Property income (interests)	27.6	24.0	21.1	14.5	13.1	12.5	11.6	10.9	10.2
Subsidies	30.9	86.5	64.1	14.4	16.5	33.8	52.7	27.1	37.0
Social benefits	545.7	593.0	585.0	270.9	274.8	291.5	301.6	294.6	290.4
Other transfers	78.6	91.0	93.5	38.8	39.8	42.5	48.5	45.4	48.2
Gross capital formation	85.5	87.9	91.6	37.6	48.0	38.0	49.9	39.7	51.9
Capital transfers	40.3	50.5	43.2	13.6	26.7	17.9	32.6	15.7	27.5
Acquisitions less disposals of non-financial non-produced assets	−1.2	−1.2	−1.2	−0.5	−0.7	−0.5	−0.7	−0.5	−0.7
Other taxes on production	0.3	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Total expenditures	**1,558.1**	**1,715.6**	**1,711.8**	**749.2**	**808.9**	**809.4**	**906.2**	**825.8**	**885.9**
Balance	50.4	−198.6	−113.1	45.3	5.1	−54.1	−144.5	−33.3	−79.8
b) Percentage change over previous year									
Revenues									
Taxes	3.2	−10.0	7.1	2.8	3.6	−9.3	−10.6	7.4	6.8
Direct taxes	2.9	−10.1	−0.8	2.5	3.3	−8.1	−12.2	−1.7	0.2
Indirect taxes	3.6	−9.8	16.9	3.2	4.0	−10.9	−8.7	19.4	14.5
Net social contributions	4.4	−2.1	4.1	4.6	4.1	−0.9	−3.3	2.4	5.8
Property income	0.2	5.3	−5.3	1.0	−1.0	8.8	−0.4	−7.8	−1.1
Other transfers	0.0	0.2	1.2	−3.4	2.9	5.8	−4.3	1.1	1.3
Capital transfers	−6.5	3.7	2.2	−4.5	−7.9	5.8	2.1	2.4	2.1
Sales	4.7	1.4	4.1	6.7	3.1	−0.2	2.8	5.4	3.0
Other subsidies	−5.6	0.6	0.0	−23.2	9.3	1.6	0.0	0.0	0.0
Total revenues	**3.6**	**−5.7**	**5.4**	**3.6**	**3.6**	**−4.9**	**−6.4**	**4.9**	**5.8**
Expenditures									
Intermediate consumption	5.6	7.9	2.2	5.4	5.8	6.8	8.8	2.1	2.2
Compensation of employees	4.7	3.3	1.4	4.8	4.6	3.7	2.9	1.4	1.3
Social benefits in kind	4.9	3.4	7.3	4.2	5.6	2.2	4.5	10.3	4.5
Property income (interests)	−13.0	−12.8	−12.5	−10.9	−15.2	−13.7	−11.9	−13.0	−11.9
Subsidies	4.6	179.6	−25.9	3.6	5.6	135.0	218.5	−19.9	−29.8
Social benefits	4.9	8.7	−1.4	4.5	5.3	7.6	9.7	1.1	−3.7
Other transfers[7]	3.7	12.4	2.5	2.3	1.5	3.7	8.6	2.8	−0.3
Gross capital formation	9.2	2.8	4.2	12.8	6.5	1.2	4.0	4.4	4.0
Capital transfers[7]	−1.9	10.2	−7.3	5.1	−8.9	31.5	22.2	−12.2	−15.8
Acquisitions less disposals of non-financial non-produced assets[7]	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Other taxes on production[7]	0.0	0.0	0.0	16.8	9.1	−1.7	0.0	0.1	0.1
Total expenditures	**4.5**	**10.1**	**−0.2**	**4.7**	**4.4**	**8.0**	**12.0**	**2.0**	**−2.2**

1 GDP (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 savings 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 Berlin Economic Outlook Summer 2020.