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Economic Outlook Autumn 2020

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DIW Weekly Report 37 2020

AT A GLANCE

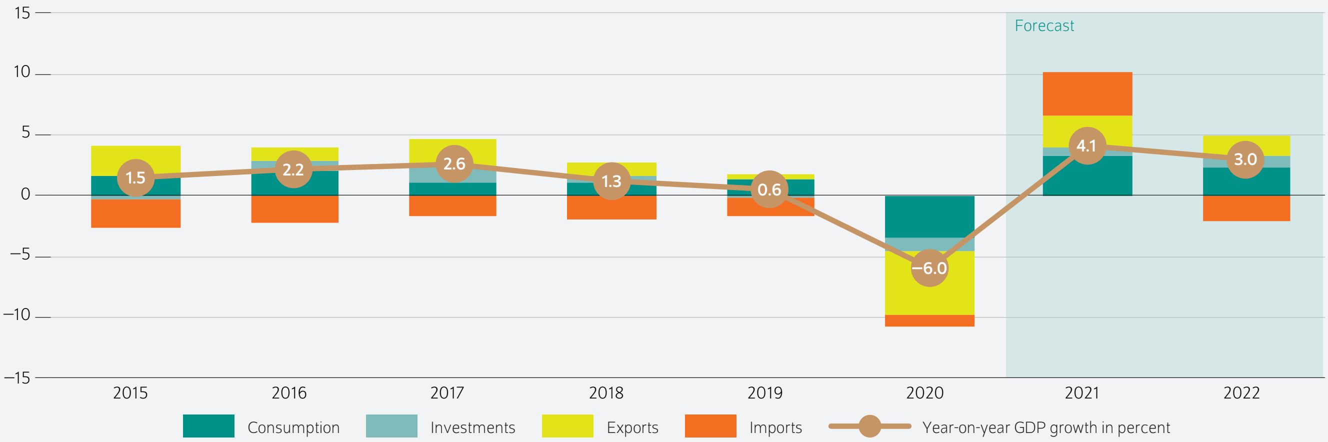
Economic Outlook Better than Expected Despite Pandemic

By Claus Michelsen et al.

- German economy weathering the crisis better than expected, but still too soon to declare it over
- GDP likely to sink by around six percent in 2020 as long as no new pandemic-related restrictions are implemented; autumn forecast more optimistic than summer forecast
- Private consumption increasing over the course of the year; short-term work declining gradually, disposable incomes increasing
- Comparably rapid economic recovery in China is a positive sign for German export economy; economies and labor markets of many other trade partners were more negatively impacted
- German Federal Government should maintain stabilization policies and increase investments for future development, primarily in education, digitalization, infrastructure, and R&D

German economy's slump was weaker than expected, but the crisis is long from over

Individual GDP components' contribution to growth in percentage points



Source: DIW Berlin Economic Outlook Autumn 2020.

FROM THE AUTHORS

"The German economy has weathered the crisis better than expected, but it is too soon to relax. Many important trade partners have been hit hard, which leaves the export economy facing an uncertain future. Even here in Germany, many negative economic effects will only gradually make themselves visible."

— Claus Michelsen, DIW Berlin Chief Economic Forecaster —

MEDIA

Audio Interview with C. Michelsen (in German)

www.diw.de/mediathek

Economic Outlook Better than Expected Despite Pandemic

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

The coronavirus pandemic triggered drastic economic slumps worldwide over the course of 2020. In many countries, gross value added declined by over ten percent in the second quarter, an unprecedented drop for some. In particular, developed economies experienced significant losses.

The German economy declined by 9.7 percent in the second quarter, shrinking more than it ever has before. Nevertheless, companies and households have weathered the crisis better than expected, significantly in part due to the government's monetary and fiscal policy stabilization measures. Economic activity picking up again from a standstill should lead to strong GDP growth in the summer of 2020. However, this should not give the impression that the economic crisis has been solved quickly. The uncertainties facing households and firms are too great: Although their moods have improved, there is still the fear that the pandemic could worsen again and significant limitations could be reimposed. In addition, the pandemic's effects on business accounts and the development of the labor market are not yet completely clear. The enormous decrease in equity capital and lower disposable incomes are likely to dampen demand for capital goods and durable consumer goods for some time to come, slowing down economic recovery. However, China provides a glimmer of hope, as their economic activity significantly increased again in the second quarter and is also supporting domestic export activity.

The German Federal Government took decisive action to combat the crisis and implemented countless measures to secure firms and jobs as well as to stabilize overall economic demand, including decreasing the value-added tax and extensive increases in investment spending. In many sectors, the liquidity support and equity injections provided may have ensured firms' survival. For example, the short-time work allowance and easier access to housing benefits and a guaranteed minimum pension significantly stabilized private household income. Although these fell significantly in the second quarter, the decline of around one percent in disposable income is far less than the decline in gross value added. In many cases, income is not spent, but rather saved. The savings rate doubled in the second quarter of 2020 and, as of September 2020, is above 20 percent. This also reflects consumers' considerable uncertainty. In contrast, corporate and investment income has been much more resilient and is likely to have considerably weakened many firms' equity position. This weighs on investment activity, which slumped by an unprecedented 20 percent in the second quarter.

Therefore, DIW Berlin expects a significant decline in economic output for 2020. Nevertheless, the outlook has improved somewhat. The economic situation is more positive than expected as was in summer 2020, in part due to the political response to the pandemic. As long as massive restrictions to public life are not reintroduced, DIW Berlin is calculating a decline of 6.0 percent in German economic output in 2020. The global economy is likely to shrink by four percent. Unlike as forecast in the summer, recovery is occurring more dynamically. Therefore, DIW Berlin is also raising its forecast for 2021 to 4.1 percent GDP growth.

However, despite the positive outlook, the coronavirus recession will not be handled within a few months. Rather, the recovery is likely to drag on until late into 2021 and is fraught with considerable risks. There is still no cure for the coronavirus and there is a significant risk that more coronavirus waves could lead to renewed economic slumps. Even if Germany can prevent an increase in the rate of new infections, further waves in important sales markets could lead to a dramatic decrease in demand, such as for machinery

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and equipment, Germany's main exports. It is also possible that some sectors of the economy will not regain their former strength and firms will go bankrupt. A wave of insolvencies would also negatively impact the labor market. So far, the short-time work allowance has stabilized the workforce. If demand for certain goods and services remains weak for a longer period of time, unemployment figures would also be expected to rise significantly. A U-shaped recovery, a scenario with significantly more time spent at the bottom of the recession, is therefore still conceivable, as is an L-shaped recovery, where the deep recession is not followed by a correspondingly strong period of recovery. If more uncontrolled waves occur, then a W-shaped recovery is possible, a cycle of recession and recovery.

If the positive development forecast occurs, the macroeconomic impact is nevertheless likely to be deep and have a longer lasting effect. Investment activity will probably suffer considerably and the lack of expansion and modernization of the capital stock will reduce the German economy's growth potential. The same applies to foreign business, as its growth depends largely on investment activity in the German sales markets. Private households, saving considerably in 2020, are slowly reducing their high saving rate, which is dampening consumption. Short-time work is also likely to be reduced only gradually and wage trends are likely to remain relatively weak. Overall, the state will accumulate considerable deficits until at least 2023. In 2020 alone, there is likely to be a deficit of around 215 billion euros.

However, due to the pandemic, it is not prudent to end fiscal policy support too early or to attempt to comply with the new debt limits of the debt brake in the short term, or even in 2021. Rather, it is important for the confidence of firms and households that the aid packages continue to be available as insurance. However, it does not mean the financial measures are not ineffective if the funds are not used up entirely. It is a good sign that funds from the emergency aid measures are still available to a considerable extent, as that indicates firms have weathered the crisis better than feared.

Regardless of the current crisis, there is still a considerable need for investments in Germany. From 2021 onward, the issue must be addressed and Germany must be further developed as an investment location in important areas such as digitization, education, infrastructure, and research and development. It is well known that the leverage effect of such expenditures is particularly high in times of underutilization. Extending the short-term stabilization policy by creating a future program that addresses long-term investment needs would be an important signal to market participants and would significantly brighten medium-term growth prospects.

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Global Economy: Slow Recovery Following Deep Recession

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

ABSTRACT

The coronavirus pandemic caused a global market crash in the first half of 2020. Following a massive slump of around four percent in the first quarter, global GDP decreased in the second by five percent. Lower rates of new infections, together with far-reaching monetary and fiscal policy measures to dampen the economic impact of the pandemic, ensure that production and the trust of consumers and firms will slowly return. Notably, China's quick economic recovery is inspiring hope. As long as the rate of new infections does not continue to rise, global production in the third quarter is likely to increase markedly. DIW Berlin calculates that global production will shrink by 4.0 percent in 2020. During the forecast period, the global economy is likely to grow at quite strong rates of 5.8 percent in 2021 and 4.0 percent in 2022. However, risks still exist: if infection rates grow substantially again, a significant increase in insolvencies, combined with a rise in loan defaults, could destabilize the financial markets and ultimately threaten the solvency of some states.

In the first half of 2020, the coronavirus pandemic led to a global recession of historic proportions. Following a four percent decline in GDP in the first quarter, global production shrank by a further five percent (Figure). Almost all economies suffered considerable economic losses in the second quarter and international trade shrank by around twelve percent. In contrast, China was already experiencing strong growth by the second quarter. The sometimes rigorous measures to contain the spread of the coronavirus not only resulted in a standstill in trade and services, but also hampered production, which in turn disrupted local and global supply chains. In addition, uncertainty among households and companies decreased their propensity to consume and invest.

Decisive for the country-specific differences in production output are the intensity and duration of the coronavirus containment measures. For example, production losses were greatest in countries where prolonged, expansive lockdown measures occurred and where public life was significantly restricted, such as in the United Kingdom and India. However, even countries with fewer restrictions on daily life, like Sweden or South Korea, experienced declines in growth due to other factors, such as behavioral changes or weak export activity. However, economic losses due to illness-related work absences remain low, as the number of infected people in relation to the entire population continues to be very low.

Economies with a high value added from the services sector, such as Spain and Italy, have been disproportionately affected by the crisis. Due to global restrictions, tourism has significantly declined; border-crossing travel ended almost completely from April to June. Services requiring close human contact, for example gastronomy or hotel services, could not be provided in some places or could only be offered to a limited extent.

Over the summer of 2020, the global increase in infections slowed. However, the course of infection is heterogeneous across countries. Easing lockdown measures too early and enforcing hygiene and distancing measures too laxly led to an increase in new infections in some countries over the

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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											
	2019	2020	2021	2022	2019	2020	2021	2022	2019	2020	2021	2022
Euro area	1.2	−9.0	5.5	3.1	1.3	0.4	1.0	1.4	7.5	9.1	9.7	8.6
without Germany	1.4	−10.5	6.3	3.0	1.2	0.3	0.8	1.2	9.5	11.5	12.3	10.9
France	1.5	−10.3	7.8	2.8	1.1	0.4	0.7	1.2	8.5	9.9	10.9	10.0
Italy	0.3	−11.3	5.1	3.1	0.7	−0.1	0.6	0.9	9.9	11.0	12.0	10.5
Spain	2.0	−13.1	6.5	3.5	0.7	−0.1	1.1	1.6	14.1	18.4	18.7	16.5
Netherlands	1.6	−5.0	4.0	2.7	2.7	0.9	1.1	1.4	3.4	3.9	4.4	3.5
United Kingdom	1.5	−12.1	3.6	1.7	1.7	1.1	2.1	1.8	3.8	4.3	5.4	5.0
USA	2.2	−4.9	3.2	2.9	1.8	0.9	2.0	2.4	3.7	8.7	7.1	5.8
Japan	0.7	−6.0	2.2	1.5	0.6	0.0	0.2	0.7	2.4	2.8	2.6	2.4
South Korea	2.0	−0.3	4.4	3.0	0.4	0.5	1.3	1.5	3.7	4.1	4.1	3.7
East-Central Europe	3.9	−5.9	5.1	3.9	2.7	3.1	3.4	3.1	3.3	4.1	4.0	3.4
Turkey	1.0	−5.9	4.5	3.5	15.2	13.0	15.3	10.5	13.7	14.6	14.3	13.3
Russia	1.4	−5.9	4.8	3.1	4.5	3.7	4.3	3.4	4.6	6.0	4.5	4.8
China	6.2	1.4	8.3	5.3	2.4	3.7	3.1	3.0	4.1	4.1	4.1	4.1
India	4.7	−6.2	7.0	4.6	3.7	5.9	4.0	4.0				
Brazil	1.1	−6.3	4.0	3.7	3.8	2.3	2.7	3.5	11.9	13.6	12.5	11.5
Mexico	−0.3	−10.9	3.4	2.9	3.4	2.8	2.8	3.3	3.5	6.3	6.3	4.8
Developed economies	1.7	−6.4	3.7	2.7	1.4	0.7	1.5	1.9	4.5	7.5	6.9	5.9
Emerging markets	4.5	−2.4	7.0	4.7	3.6	4.5	4.0	3.8	5.2	5.8	5.5	5.3
World	3.4	−4.0	5.8	4.0	2.7	3.0	3.0	3.1	4.9	6.5	6.1	5.5

Sources: National statistical offices; DIW Autumn Projections 2020.

summer of 2020. In contrast, Japan, South Korea, and many European countries were able to reduce the number of new infections through strict lockdown measures, mass testing, or behavioral changes.

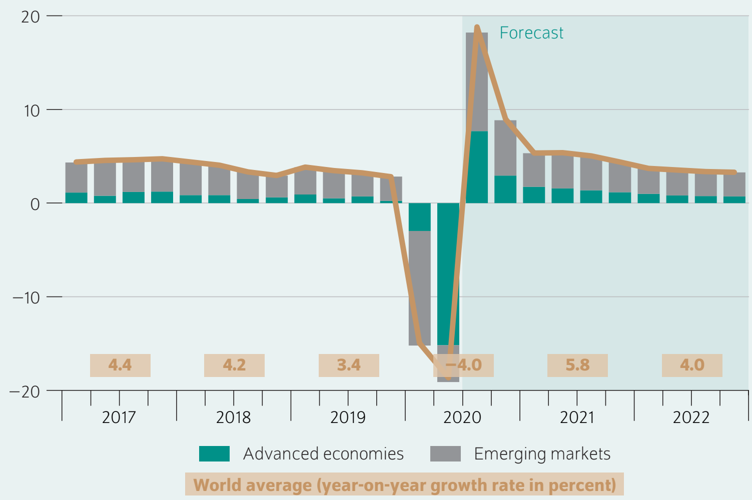
A reduced increase in new infections, more relaxed and targeted measures to combat the pandemic, and financial assistance have made households and firms more confident. In the largest economies, the purchasing managers' industrial production indices have risen again in recent months. In many places, they are once again above the expansion threshold. Consumer confidence has also returned, although it remains significantly below the pre-crisis level in most places. Nevertheless, the available indicators indicate a marked recovery in many economies. The confidence of market participants is also reflected in the financial markets, where the most important stock markets have already been able to compensate for the massive price losses in spring 2020.

If it is assumed that the pandemic can be further controlled, strong catch-up effects from the global economy can be expected in the second half of 2020. Afterwards, recovery is likely to slow, with global production gradually reaching its long-term growth path towards the end of the forecast period. In view of the extent of the current recession, financial and monetary policy is likely to remain expansionary in many regions and continue to support production. However,

Figure

World real GDP growth

Quarter-on-quarter, in percent



Sources: National statistical offices; DIW Autumn Projections 2020.

The trough seems to have been weathered: Global production is expected to grow again significantly in 2021 and 2022.

it can be assumed that financial aid will only partially cushion large entrepreneurial and household income losses and that they will probably only be offset gradually. Primarily, corporate investment activity is likely to remain low for a long time despite favorable financing conditions. In addition, the considerable decline in employment in many places suggests the coronavirus pandemic will leave a deep impact on the labor markets.

For example, unemployment is expected to continue to increase sharply in several countries. The resulting loss of income and increased uncertainty among households regarding future income trends are likely to weaken private consumption. The poor situation on the labor market is likely to weigh on wage trends in many economies. Together with continuing low energy prices, the recent weak consumer price inflation in many places will only gradually pick up again. However, low inflation for the time being should support private consumption. Despite the incipient recovery in the second half of 2020, global production will shrink by 4.0 percent this year (Table). Starting from a low level, the global economy is will grow at fairly strong rates of 5.8 percent in 2021 and 4.0 percent in 2022. Therefore, DIW Berlin is increasing its forecast for 2020 by 0.9 percentage points and is lowering its forecast for global economic growth next year by 0.3 percentage points.

This forecast excludes, as assumed, uncontrolled, significant increases in new infections and, correspondingly, a reintroduction of expansive lockdowns. It is assumed that in most economies, the virus is being successfully contained. By the end of 2020, it is likely that the general measures currently in place will be replaced by more targeted measures. It is assumed that these containment measures will be phased out gradually beginning in 2021.

However, as the further course of the pandemic remains uncertain, forecast uncertainty is still considerable and primarily involves downward risks. For example, new infections could increase again markedly worldwide, as has already happened in some countries. In that case, an increase in containment measures would be expected, which would again lead to significant slumps in economic output (See Scenario Box World). Moreover, a significant increase in corporate and personal insolvencies, combined with a rise in credit defaults, could destabilize the financial markets and ultimately threaten the solvency of some countries. With the latent trade conflicts between China and the USA and between Great Britain and the European Union, there are still risks unrelated to the pandemic that could lead to renewed trade policy escalations and corresponding distortions in the real economy.

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Keywords: Business cycle forecast, economic outlook

German Economy: On the Long, Slow Road to Normality

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

ABSTRACT

The German economy has bottomed out, but its recovery is going to be long and arduous. Nevertheless, following the almost two-digit slump in economic output in the second quarter of 2020, recovery is likely to be accompanied by above-average rates. However, it is assumed that a second wave will not occur and lockdown-like measures will not be reimplemented. Private consumption in particular will markedly increase over the third and fourth quarters of 2020. Short-time work is declining, contributing to the increase in disposable income. Additionally, households saved considerably during the height of the pandemic in spring 2020 and are spending their savings gradually over the second half of the year. The VAT reduction and further stimulus program measures are supporting consumption and thus the economy. In contrast, the recovery in foreign demand for German products is likely to be more protracted. The economy and labor markets in many countries have been hit much harder than in Germany, and demand for consumer durables and capital goods – the focus of Germany's export industry – in particular is likely to be subdued. The pre-crisis level of economic activity will likely not be reached until early 2022. In 2020, German GDP is expected to drop by an annual average of 6.0 percent and grow by 4.1 and 3.0 percent in 2021 and 2022, respectively.

The coronavirus pandemic is negatively impacting peoples' lives and economies all over the world. Germany has also fallen into its deepest recession since World War II due to the virus and corresponding containment measures. In the second quarter of 2020, which was particularly impacted by the lockdown, economic output dropped by almost ten percent. Meanwhile, however, the German economy has weathered the trough of the recession.

Nevertheless, the pandemic is not over and the threat of new coronavirus waves remains. In this forecast, it is assumed that the global infection rate will slowly decline. Under this assumption, value added recovers at an above-average pace, even if it will likely take until 2022 to reach the pre-crisis level.

Unlike in the summer 2020 forecast, this forecast considers the stimulus program measures, which increases economic output by at least one percent. The slump in the second quarter of 2020 was not as deep as suspected in July 2020, partly due to the fact that foreign demand for German goods and services has recovered more quickly than expected initially. Overall, GDP will decline by 6.0 percent in 2020 (Figure 1), 3.4 percentage points less than expected in summer 2020.

However, the situation on the labor market remains tense. In April, six million employees had changed to short-time work, which equates to one in six employees subject to social security contributions. Unlike the global financial crisis, the coronavirus recession has affected almost every economic sector: primarily industry and industrial services, but also the sectors that suffered heavily during the spring 2020 lockdowns, including (parts of) retail, gastronomy, and other services, such as those provided by musicians, artists, and event planners. However, while short-time work is being markedly reduced over the course of recovery, employment is likely to barely increase, its growth only picking up in spring 2021. Before the coronavirus recession, the unemployment rate was 5.0 percent (Table 1). Therefore, it did not increase too strongly in 2020 on an annual average, to 6.0 percent, while reaching 6.4 percent in the late summer of 2020. It will decrease from this level only very gradually (Figure 2).

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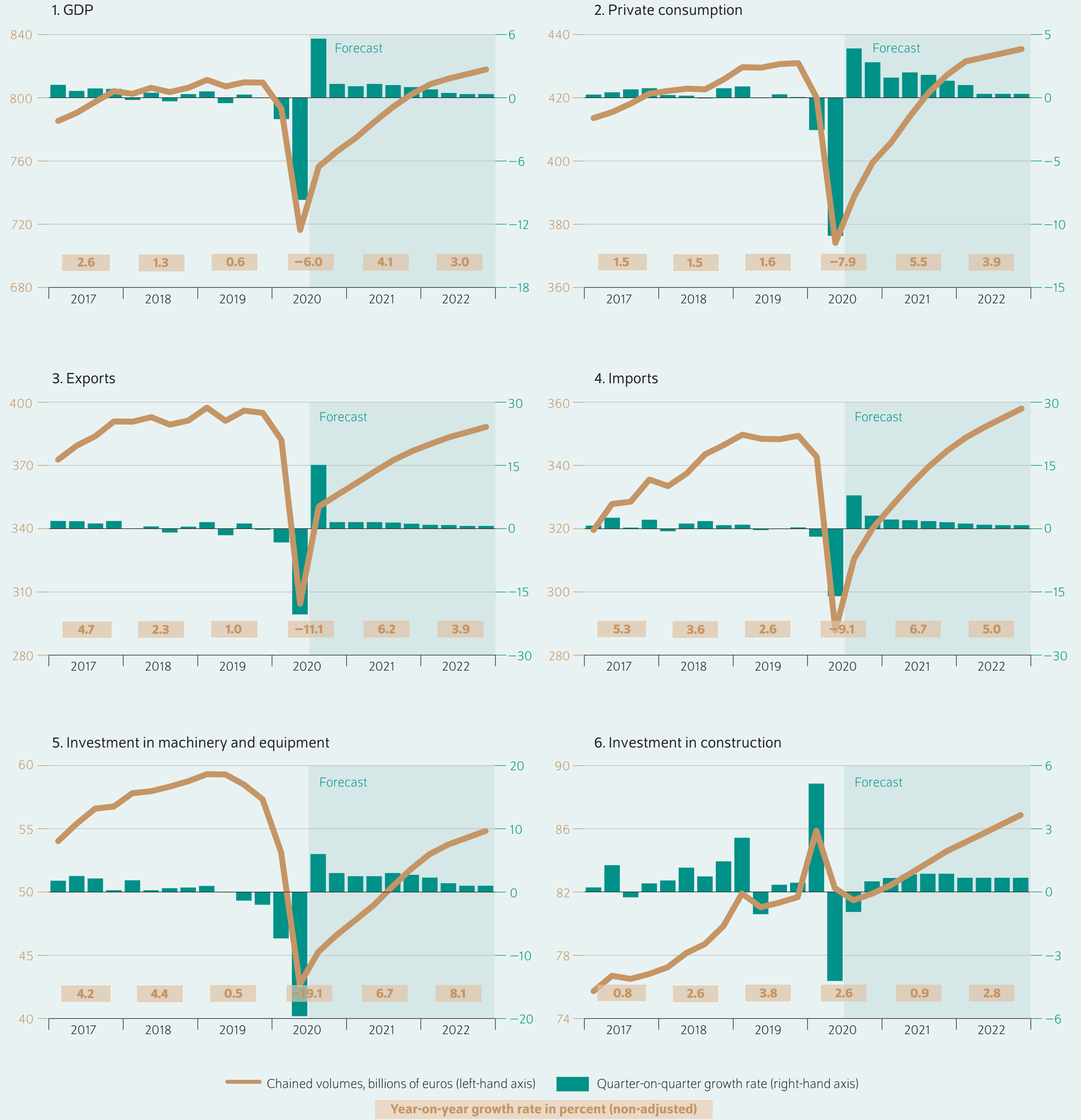
Figure 1

Gross domestic product and use of GDP

Seasonally and working day adjusted



Sources: Federal Statistical Office; DIW Berlin Economic Outlook Autumn 2020, forecast from 2020 Q3 onward.

Table 1

Key economic indicators for the German economy

	2017	2018	2019	2020	2021	2022
Real GDP[1] (percent change over previous year)	2.6	1.3	0.6	−6.0	4.1	3.0
Domestic employment (1,000 persons)	44,262	44,868	45,269	44,842	44,781	45,157
Unemployed (ILO concept)	1,621	1,469	1,374	1,708	1,756	1,586
Unemployed (BA concept)	2,533	2,340	2,267	2,719	2,842	2,562
Unemployment rate[2] (ILO concept)	3.8	3.4	3.2	4.0	4.1	3.7
Unemployment rate[2] (BA concept)	5.7	5.2	5.0	6.0	6.2	5.6
Consumer prices	1.5	1.8	1.4	0.6	1.4	1.6
Unit labor costs[3]	1.1	2.9	3.2	4.5	-0.5	1.6
Government budget balance[4]						
in billion EUR	44.4	61.6	52.5	−215.0	−134.1	−77.8
in percent of GDP	1.4	1.8	1.5	−6.5	−3.8	−2.1
Current account balance, in percent of GDP	7.8	7.4	7.1	7.2	7.3	6.9

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 Autumn 2020, 2020 onward: forecast.

Table 2

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

	2020				2021				2022			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Private consumption	−2,5	−10,9	3,9	2,8	1,6	2,0	1,8	1,4	1,0	0,3	0,3	0,3
Public consumption	0,6	1,5	0,7	0,6	0,7	0,4	0,1	0,4	0,5	0,3	0,3	0,3
Gross fixed capital formation	−0,5	−7,9	1,2	1,2	1,2	1,3	1,4	1,4	1,2	0,9	0,8	0,8
Investment in machinery and equipment	−7,3	−19,6	6,0	3,0	2,5	2,5	3,0	2,7	2,3	1,4	1,0	1,0
Construction investment	5,1	−4,2	−0,9	0,5	0,7	0,8	0,9	0,9	0,7	0,7	0,7	0,7
Other investment	−4,1	0,6	0,8	0,8	0,8	0,8	0,8	0,8	0,8	0,8	0,8	0,8
Change in inventories[1]	0,0	0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Domestic uses	−1,4	−7,2	2,5	1,9	1,3	1,5	1,3	1,1	0,9	0,5	0,4	0,4
Net exports[1]	−0,7	−2,8	3,2	−0,5	−0,1	−0,1	−0,1	−0,1	−0,1	0,0	0,0	0,0
Exports	−3,3	−20,3	15,1	1,6	1,5	1,5	1,5	1,2	0,9	0,9	0,6	0,6
Imports	−1,9	−16,0	7,9	3,1	2,2	2,0	1,8	1,5	1,2	0,9	0,8	0,8
GDP	**−2,0**	**−9,7**	**5,6**	**1,3**	**1,1**	**1,3**	**1,2**	**1,0**	**0,8**	**0,5**	**0,4**	**0,4**
Gross value added	**−1,7**	**−9,9**	**5,6**	**1,3**	**1,1**	**1,3**	**1,2**	**1,0**	**0,8**	**0,5**	**0,4**	**0,3**
Manufacturing	−4,0	−16,1	15,1	2,0	1,4	1,5	1,5	1,3	1,0	0,6	0,5	0,5
Construction	4,6	−3,8	−0,9	0,5	0,7	0,8	0,9	0,9	0,7	0,7	0,7	0,7
Trade, accomodation, transport	−1,4	−12,4	5,3	2,8	2,4	3,3	2,6	1,9	1,5	0,6	0,4	0,4
Business and production services	−2,2	−14,3	7,0	1,0	1,0	1,0	1,0	1,0	1,0	0,4	0,4	0,4
Public admin, community and social services	−1,2	−8,8	3,9	0,8	0,8	0,8	0,8	0,6	0,5	0,4	0,2	0,2

1 Contribution to GDP growth in percentage points.

Sources: Federal Statistical Office; DIW Berlin Economic Outlook Autumn 2020, forecast from 2020 Q3 onward.

Due to the deep recession, hourly wages are likely to only increase moderately over the second half of 2020. As an increasing number of workers return to regular employment from short-time work, however, wages per employee are increasing noticeably. While the short-time work allowance compensated for a loss of wages to a great extent, but not fully, disposable incomes are recovering noticeably.

In spring 2020, the declining employment numbers and the build-up of short-time work negatively affected income. In addition, consumption was impacted by the restrictions on economic life during the lockdown. As a result, a considerable amount of money could not be spent. These additional funds are now available to private households, additionally boosting consumption. Overall, consumption will increase strongly over the further course of 2020. Purchasing power will be boosted in the second half of 2020 by the VAT reduction, the main reason inflation remains low at 0.6 percent. Compared to the momentum already created by the catch-up process, however, this additional boost is hardly significant. In 2021, when this year's temporary VAT reduction will be reversed, real incomes will still increase due to the expected decline in short-time work.

Even exports are gradually recovering (Table 2). However, the labor markets in many countries—which have been more severely affected than in Germany—and the associated high income losses continue to noticeably dampen foreign demand. Demand for durable consumer and capital goods in particular is likely to remain dampened over the second half of 2020. Exports are therefore unlikely to return to their pre-crisis level for some time. The recent strong appreciation of the euro against the dollar will also weaken exports. In contrast, imports are benefitting from the revival of domestic demand. The trade balance will therefore not rise significantly in the further forecast period; in relation to economic output, it is likely to average 5.5 percent in 2020. However, only the oil price-related low import costs are preventing a significantly lower balance; the terms of trade are rising by a good two and a half percent.

Figure 2

Employment and short-time workers

Seasonally adjusted quarterly changes in thousands

Sources: Federal Statistical Office, Federal Employment Agency, DIW Berlin Economic Outlook Autumn 2020.

Short-time work set to decrease, employment will pick up later.

Corporate investments collapsed by almost a fifth in 2020, although they are also already recovering. However, in view of the uncertain prospects on foreign sales markets and the considerable increase in corporate debt, they will not reach their pre-crisis level in the forecast period. However, they are profiting from the robust domestic economy and the stimulus package measures. Construction investments, on the other hand, are continuing to expand, but are also losing growth momentum due to subdued incomes.

Recovery will last until at least 2022, although rates will be strong until then. On an annual average, the German economy is expected to grow by 4.1 in 2021 and by 3.0 percent in 2022. Nevertheless, starting from the most recent low level, the output gap will not be closed until 2022. In 2020, the gap is expected to be -4.9 percent and in 2021, it will still be considerable at -2.0 percent.

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APPENDIX: NATIONAL ACCOUNTS DATA

The Main National Accounts Data for the Federal Republic of Germany
Forecast for 2020 to 2022

	2020	2021	2022	2020		2021		2022	
				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	−0.1	0.8	−0.5	−1.4	−0.6	0.3	0.7	1.0
Hours worked, per working day	−6.6	2.3	1.2	−5.9	−7.3	1.4	3.3	1.4	1.0
Working days	1.5	0.1	−0.1	0.5	2.4	0.0	0.2	0.8	−1.0
Labor volume, calendar-monthly	−6.1	2.3	1.9	−5.8	−6.4	0.6	3.9	2.9	1.0
Labor productivity[1]	0.1	1.8	1.1	−0.7	1.0	2.6	0.9	1.2	0.9
GDP, price adjusted	**−6.0**	**4.1**	**3.0**	**−6.5**	**−5.4**	**3.3**	**4.8**	**4.1**	**1.9**
2. Disposition of GDP in current prices a) Billion EUR									
Final consumption expenditure	2,428.9	2,575.4	2,694.4	1,193.9	1,235.0	1,244.1	1,331.3	1,316.8	1,377.6
Private consumption expenditure[2]	1,681.6	1,799.3	1,894.8	831.9	849.7	866.5	932.7	927.4	967.4
Government consumption expenditure	747.3	776.1	799.6	362.0	385.3	377.6	398.5	389.3	410.3
Gross fixed capital formation (GFCF)	724.5	759.0	806.5	352.0	372.6	359.2	399.8	386.0	420.5
Construction	196.6	211.6	230.2	95.1	101.5	97.7	114.0	108.9	121.3
Machinery and equipment	394.0	407.0	429.2	193.2	200.7	194.9	212.1	207.3	221.9
GFCF in other products	134.0	140.4	147.1	63.6	70.4	66.6	73.8	69.8	77.4
Change in stocks[3]	−29.9	−36.4	−37.8	−9.0	−20.9	−14.1	−22.4	−15.2	−22.6
Domestic uses	3,123.6	3,297.9	3,463.1	1,536.9	1,586.7	1,589.2	1,708.7	1,687.6	1,775.6
Balance of exports and imports	181.4	189.5	183.9	85.3	96.1	103.3	86.2	101.7	82.2
Exports	1,433.2	1,529.2	1,600.6	703.9	729.4	749.1	780.1	793.5	807.1
Imports	1,251.8	1,339.7	1,416.7	618.6	633.3	645.8	693.9	691.8	724.9
GDP	**3,305.0**	**3,487.4**	**3,647.0**	**1,622.2**	**1,682.8**	**1,692.5**	**1,794.9**	**1,789.3**	**1,857.7**
b) Percentage change over previous year									
Final consumption expenditure	−3.3	6.0	4.6	−2.5	−4.0	4.2	7.8	5.8	3.5
Private consumption expenditure[2]	−6.9	7.0	5.3	−6.0	−7.9	4.2	9.8	7.0	3.7
Government consumption expenditure	6.1	3.9	3.0	6.3	5.8	4.3	3.4	3.1	2.9
Gross fixed capital formation (GFCF)	−3.1	4.8	6.3	−2.3	−3.9	2.1	7.3	7.5	5.2
Construction	−18.1	7.6	8.8	−17.9	−18.3	2.6	12.3	11.5	6.4
Machinery and equipment	5.4	3.3	5.4	6.8	4.1	0.9	5.7	6.3	4.6
GFCF in other products	−0.1	4.8	4.8	0.1	−0.4	4.7	4.8	4.8	4.9
Domestic uses	−3.9	5.6	5.0	−3.3	−4.4	3.4	7.7	6.2	3.9
Exports	−11.4	6.7	4.7	−12.6	−10.1	6.4	7.0	5.9	3.5
Imports	−11.7	7.0	5.7	−11.9	−11.5	4.4	9.6	7.1	4.5
GDP	**−4.2**	**5.5**	**4.6**	**−4.2**	**−4.2**	**4.3**	**6.7**	**5.7**	**3.5**
3. Disposition of GDP, adjusted for prices a) Chain-linked estimated in billion EUR									
Final consumption expenditure	2,261.4	2,363.8	2,437.3	1,117.3	1,144.1	1,152.0	1,211.9	1,201.3	1,236.1
Private consumption expenditure[2]	1,584.0	1,671.4	1,735.9	783.7	800.3	808.5	862.9	853.9	882.0
Government consumption expenditure	676.2	691.8	701.2	333.1	343.1	342.9	348.9	347.2	354.0
Gross fixed capital formation (GFCF)	649.2	667.9	697.1	316.3	332.8	317.3	350.6	334.8	362.3
Construction	188.6	201.2	217.5	91.3	97.3	92.9	108.4	102.9	114.6
Machinery and equipment	333.0	336.0	345.5	164.0	169.0	161.8	174.1	167.8	177.7
GFCF in other products	124.3	128.3	132.4	59.3	65.0	61.1	67.1	63.1	69.3
Domestic uses	2,902.3	3,024.0	3,127.0	1,432.1	1,470.3	1,468.7	1,555.4	1,535.6	1,591.3
Exports	1,399.4	1,486.0	1,544.3	686.8	712.6	729.8	756.3	767.5	776.8
Imports	1,265.0	1,350.3	1,417.9	623.0	642.0	652.5	697.8	694.0	723.9
GDP	**3,039.0**	**3,163.5**	**3,258.9**	**1,497.1**	**1,541.9**	**1,547.0**	**1,616.5**	**1,611.0**	**1,647.9**
b) Percentage change over previous year									
Final consumption expenditure	−4.7	4.5	3.1	−4.4	−5.1	3.1	5.9	4.3	2.0
Private consumption expenditure[2]	−7.9	5.5	3.9	−7.4	−8.3	3.2	7.8	5.6	2.2
Government consumption expenditure	3.2	2.3	1.4	3.2	3.2	2.9	1.7	1.3	1.5
Gross fixed capital formation (GFCF)	−5.1	2.9	4.4	−4.5	−5.7	0.3	5.3	5.5	3.3
Construction	−19.1	6.7	8.1	−19.1	−19.1	1.7	11.3	10.8	5.7
Machinery and equipment	2.6	0.9	2.8	3.6	1.6	−1.3	3.0	3.7	2.1
GFCF in other products	−1.6	3.2	3.2	−1.2	−1.8	3.1	3.3	3.2	3.3
Domestic uses	−4.8	4.2	3.4	−4.7	−4.9	2.6	5.8	4.6	2.3
Exports	−11.1	6.2	3.9	−12.6	−9.5	6.3	6.1	5.2	2.7
Imports	−9.1	6.7	5.0	−9.4	−8.8	4.7	8.7	6.4	3.7
GDP	**−6.0**	**4.1**	**3.0**	**−6.5**	**−5.4**	**3.3**	**4.8**	**4.1**	**1.9**

Continued: The Main National Accounts Data for the Federal Republic of Germany
Forecast for 2020 to 2022

	2020	2021	2022	2020		2021		2022	
				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]	1.0	1.4	1.4	1.5	0.5	1.0	1.8	1.3	1.5
Government consumption expenditure	2.7	1.5	1.6	3.0	2.5	1.3	1.7	1.8	1.5
Gross fixed capital formation (GFCF)	2.1	1.8	1.8	2.3	1.9	1.7	1.9	1.8	1.8
Construction	1.2	0.9	0.7	1.4	1.0	0.9	0.9	0.7	0.6
Machinery and equipment	2.8	2.4	2.5	3.0	2.5	2.2	2.6	2.6	2.5
Exports	−0.4	0.5	0.7	0.0	−0.7	0.2	0.8	0.7	0.7
Imports	−2.8	0.3	0.7	−2.7	−2.9	−0.3	0.8	0.7	0.7
GDP	**1.9**	**1.4**	**1.5**	**2.5**	**1.3**	**1.0**	**1.7**	**1.5**	**1.5**
5. Distribution of Income a) Billion EUR									
Primary income of private households[2]	2,321.9	2,417.8	2,529.1	1,184.2	1,137.7	1,193.0	1,224.8	1,263.1	1,266.0
Employers' social contributions	323.1	332.8	350.0	160.9	162.2	161.1	171.7	170.2	179.8
Gross wages and salaries	1,497.7	1,574.4	1,655.1	719.3	778.4	743.7	830.8	789.2	865.9
Other primary income of private households[4]	501.0	510.5	524.0	304.0	197.1	288.1	222.3	303.8	220.3
Primary income of other institutional sectors	425.4	497.7	527.9	151.0	274.3	206.1	291.6	224.2	303.7
Net national income (primary income)	**2,747.3**	**2,915.4**	**3,057.0**	**1,335.2**	**1,412.0**	**1,399.0**	**1,516.4**	**1,487.3**	**1,569.7**
Consumption of fixed capital	662.1	684.4	707.4	329.0	333.1	340.1	344.3	351.5	355.9
Gross national income	**3,409.4**	**3,599.8**	**3,764.5**	**1,664.3**	**1,745.1**	**1,739.1**	**1,860.7**	**1,838.8**	**1,925.6**
Memorandum item:									
Net national income (factor costs)	2,517.4	2,599.4	2,713.3	1,201.7	1,315.7	1,230.0	1,369.4	1,307.9	1,405.3
Property and entrepreneurial income	696.6	692.1	708.2	321.5	375.1	325.2	366.9	348.6	359.6
Compensation of employees	1,820.8	1,907.3	2,005.1	880.3	940.6	904.8	1,002.5	959.4	1,045.7
b) Percentage change over previous year									
Primary income of private households[2]	−4.2	4.1	4.6	−1.2	−7.2	0.7	7.7	5.9	3.4
Employers' social contributions	−0.4	3.0	5.2	2.4	−3.0	0.1	5.9	5.6	4.7
Gross wages and salaries	−1.6	5.1	5.1	−1.0	−2.1	3.4	6.7	6.1	4.2
Other primary income of private households[4]	−13.4	1.9	2.7	−3.3	−25.3	−5.2	12.8	5.4	−0.9
Primary income of other institutional sectors	−11.1	17.0	6.1	−29.3	3.5	36.5	6.3	8.8	4.2
Net national income (primary income)	**−5.4**	**6.1**	**4.9**	**−5.4**	**−5.3**	**4.8**	**7.4**	**6.3**	**3.5**
Consumption of fixed capital	3.5	3.4	3.4	3.6	3.4	3.4	3.4	3.4	3.4
Gross national income	**−3.8**	**5.6**	**4.6**	**−3.8**	**−3.7**	**4.5**	**6.6**	**5.7**	**3.5**
Memorandum item:									
Net national income (factor costs)	−1.8	3.3	4.4	−3.3	−0.4	2.4	4.1	6.3	2.6
Property and entrepreneurial income	−3.0	−0.6	2.3	−10.5	4.5	1.2	−2.2	7.2	−2.0
Compensation of employees	−1.4	4.7	5.1	−0.4	−2.2	2.8	6.6	6.0	4.3
6. Income and expenditure of private households a) Billion EUR									
Mass income	1,532.2	1,600.4	1,659.5	729.3	802.9	757.5	842.9	791.7	867.8
Net wages and salaries	1,018.0	1,082.2	1,138.4	479.6	538.4	501.1	581.1	533.9	604.5
Social benefits	653.9	661.3	668.0	319.2	334.8	327.5	333.8	330.7	337.2
Fewer levies on social benefits	139.7	143.1	146.9	69.5	70.3	71.2	72.0	73.0	73.9
Other primary income[4]	501.0	510.5	524.0	304.0	197.1	288.1	222.3	303.8	220.3
Other transfers received (net)[5]	−88.4	−92.8	−95.8	−43.6	−44.8	−45.7	−47.1	−47.2	−48.6
Disposible income	**1,944.8**	**2,018.0**	**2,087.7**	**989.7**	**955.1**	**1,000.0**	**1,018.0**	**1,048.2**	**1,039.5**
Memorandum item:									
Adjustment for the change in net equity of households in pension funds reserves	57.5	57.8	58.1	27.9	29.6	28.0	29.8	28.2	29.9
Private consumption expenditure	1,681.6	1,799.3	1,894.8	831.9	849.7	866.5	932.7	927.4	967.4
Saving	320.7	276.5	251.0	185.7	135	161.5	115.1	149.0	102.0
Saving ratio in percent[6]	16.0	13.3	11.7	18.2	13.7	15.7	11.0	13.8	9.5
b) Percentage change over previous year									
Mass income	2.8	4.4	3.7	1.7	3.7	3.9	5.0	4.5	3.0
Net wages and salaries	−0.2	6.3	5.2	−0.6	0.1	4.5	7.9	6.5	4.0
Social benefits	7.9	1.1	1.0	6.0	9.7	2.6	−0.3	1.0	1.0
Fewer levies on social benefits	3.2	2.4	2.6	4.0	2.4	2.4	2.4	2.5	2.6
Other primary income[4]	−13.4	1.9	2.7	−3.3	−25.3	−5.2	12.8	5.4	−0.9
Disposible income	**−1.3**	**3.8**	**3.5**	**0.9**	**−3.4**	**1.0**	**6.6**	**4.8**	**2.1**
Private consumption expenditure	−6.9	7.0	5.3	−6.0	−7.9	4.2	9.8	7.0	3.7
Savings	45.6	−13.8	−9.2	49.7	40.3	−13.0	−14.8	−7.7	−11.4

Continued: The Main National Accounts Data for the Federal Republic of Germany
Forecast for 2020 to 2022

	2020	2021	2022	2020		2021		2022	
				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	747.2	816.6	853.3	382.2	365	418.2	398.5	434.1	419.2
Direct taxes	417.9	426.9	442.4	208.7	209.1	213.4	213.5	221.4	221.0
Indirect taxes	329.3	389.7	410.9	173.4	155.9	204.7	185.0	212.8	198.2
Net social contributions	594.3	614.1	650.8	295.2	299.1	296.4	317.7	315.7	335.1
Property income	20.7	19.5	19.4	12.4	8.3	11.3	8.2	11.2	8.1
Other transfers	25.1	25.5	26	11.8	13.4	12.0	13.6	12.1	13.8
Capital transfers	15.3	14.2	14.4	7.0	8.2	6.2	8.0	6.3	8.1
Sales	126.3	131.4	134.8	58.1	68.1	61.3	70.2	62.8	72.0
Other subsidies	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Total revenues	**1,529.0**	**1,621.6**	**1,698.9**	**766.7**	**762.2**	**805.4**	**816.3**	**842.4**	**856.4**
Expenditures									
Intermediate consumption	204.4	207.4	213.4	97.4	107.1	96.6	110.8	99.6	113.8
Compensation of employees	281.0	284.8	289.1	135.8	145.2	137.8	147.1	139.8	149.3
Social benefits in kind	310.4	333.5	346.1	148.5	161.8	163.9	169.6	170.2	175.9
Property income (interests)	21.4	16.8	14.4	11.7	9.7	8.9	7.9	7.5	6.9
Subsidies	99.5	73.7	67.2	39.9	59.6	35.7	38.0	33.4	33.8
Social benefits	592.3	598.1	603.2	288.9	303.4	296.4	301.7	298.9	304.3
Other transfers	89.2	91.0	92.4	40.5	48.7	43.4	47.6	43.7	48.8
Gross capital formation	91.7	97.6	101.7	39.4	52.3	42.4	55.2	44.1	57.6
Capital transfers	54.8	53.6	49.8	16.5	38.4	22.1	31.5	20.1	29.8
Acquisitions less disposals of non-financial non-produced assets	−1.1	−1.1	−1.1	−0.4	−0.6	−0.4	−0.6	−0.4	−0.6
Other taxes on production	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Total expenditures	**1,744.0**	**1,755.7**	**1,776.7**	**818.3**	**925.6**	**846.9**	**908.8**	**856.9**	**919.7**
Balance	−215.0	−134.1	−77.8	−51.6	−163.4	−41.5	−92.6	−14.5	−63.3
b) Percentage change over previous year									
Revenues									
Taxes	−9.7	9.3	4.5	−8.1	−11.2	9.4	9.2	3.8	5.2
Direct taxes	−8.6	2.2	3.6	−10.2	−7.0	2.3	2.1	3.7	3.5
Indirect taxes	−10.9	18.4	5.4	−5.4	−16.3	18.1	18.7	3.9	7.1
Net social contributions	−0.5	3.3	6.0	1.8	−2.8	0.4	6.2	6.5	5.5
Property income	−5.6	−5.9	−0.7	−5.8	−5.2	−9.1	−1.0	−0.4	−1.0
Other transfers	−0.2	1.7	1.6	3.8	−3.5	1.7	1.7	1.5	1.7
Capital transfers	10.9	−6.7	1.3	16.1	6.7	−11.8	−2.3	1.4	1.2
Sales	1.1	4.1	2.6	−0.9	2.9	5.4	3.0	2.5	2.6
Other subsidies	−4.1	0.0	0.0	−11.1	0.0	0.0	0.0	0.0	0.0
Total revenues	**−5.1**	**6.1**	**4.8**	**−3.6**	**−6.5**	**5.0**	**7.1**	**4.6**	**4.9**
Expenditures									
Intermediate consumption	12.4	1.5	2.9	17.3	8.2	−0.8	3.5	3.1	2.7
Compensation of employees	3.5	1.4	1.5	4.1	2.9	1.4	1.3	1.5	1.5
Social benefits in kind	3.3	7.4	3.8	0.4	6.1	10.4	4.8	3.9	3.7
Property income (interests)	−22.2	−21.5	−14.2	−18.3	−26.4	−23.8	−18.8	−15.8	−12.3
Subsidies	222.9	−25.9	−8.9	177.5	262.6	−10.5	−36.2	−6.6	−11.1
Social benefits	8.6	1.0	0.9	6.7	10.5	2.6	−0.6	0.8	0.9
Other transfers[7]	15.0	1.8	1.5	3.9	11.2	2.9	−1.1	0.3	1.2
Gross capital formation	6.5	6.4	4.2	4.6	7.9	7.5	5.5	4.0	4.3
Capital transfers[7]	13.8	−1.2	−3.7	17.8	42	34	−17.8	−9.2	−5.4
Acquisitions less disposals of non-financial non-produced assets[7]	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Other taxes on production[7]	0.0	0.0	0.0	3.0	0.0	0.0	0.1	0.0	0.0
Total expenditures	**11.9**	**0.7**	**1.2**	**9.3**	**14.4**	**3.5**	**−1.8**	**1.2**	**1.2**

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); Forecast by DIW Berlin.