German economy between lockdowns and normality

By Claus Michelsen, Paul Berenberg-Gossler, Marius Clemens, Max Hanisch, Simon Junker, Konstantin Kholodilin, and Laura Pagenhardt

By lifting lockdown measures as coronavirus case numbers are rising and the vaccine rollout is proceeding slowly, the German economy is being sent on a stop-go course. Re-opening measures will probably be followed by renewed closures, at least regionally, in order to keep the spread of COVID-19 under control. Nevertheless, industry is robust overall, primarily due to good foreign business. In the service sectors, however, recovery will be sluggish following another setback at the beginning of 2021. It is likely that social and economic restrictions will only be able to be sustainably lifted over the course of the third quarter of 2021. Whereas economic output growth of 5.3 percent in 2021 still seemed realistic in December 2020, the current forecast is now projecting a significantly lower figure of 3.0 percent. Currently, growth of 3.8 percent is expected for 2022. The long-term economic consequences of the coronavirus pandemic are still unclear: For example, the extent of corporate insolvencies will not become apparent until later in 2021 at the earliest.

The German economy is facing a sluggish recovery in the coming months. The multi-phase plan for re-opening the service sectors is likely to lead to a stop-go situation initially, for example in retail, gastronomy, and the events sector. In the first quarter of 2021, the German economy will probably shrink by almost 1.5 percent (Figure). In the final quarter of 2020, it was able to maintain its level despite the renewed lockdown, but in January and February 2021, the closures hit with full force. Therefore, activity declined in the first quarter, especially in many service sectors. In many places, companies have prepared for operation under pandemic conditions, but the current lockdown is already lasting longer than the first lockdown in spring 2020.

The lockdown was extended at a conference of the chancellor and the federal state prime ministers on March 3, 2021. However, at the end of the deliberations, a plan for successively lifting the lockdown measures was introduced, which the federal states have been able to implement since March 8 on a regional and staggered basis depending on the infection rate. In light of the current increase in case numbers, it is assumed in the present forecast that many of the opening measures will have to be reversed around Easter at the latest and that lifting measures on a broader basis will only be a sustainable action during the third quarter. This back-and-forth of lifting measures and regional flare-ups leads to a stop-go situation that impacts the affected service sectors differently. All in all, economic recovery will take longer than the rapid recovery phase in summer 2020 (Table 1).

Unlike a year ago when global supply chains were severely disrupted, industry is likely to continue its upward trend. The automotive industry, the most important industrial sector, suffered a setback at the beginning of 2021, with production slumping by double digits in January. However, this is likely to have been largely due to semiconductor supply bottlenecks and will be made up for at a later date. However, the substantial advance purchases of passenger cars in 2020, as is common in the event of an announced (re)increase in VAT, are now weighing on demand. Other key industries, such as mechanical engineering, began 2021 with strong growth, in part due to brisk foreign demand.

DOI: https://doi.org/10.18723/diw_dwr:2021-11-3

Figure

Gross domestic product and use of GDP
Seasonally and working day adjusted

Sources: Federal Statistical Office; DIW Berlin Economic Outlook Spring 2021. Forecast from 2021 Q1 onward.

Table 1

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	−2.3	−11.0	10.8	−3.3	−3.9	3.8	2.3	2.1	1.4	1.1	0.8	0.8
Public consumption	0.6	2.1	0.6	−0.5	0.5	0.7	0.5	0.4	0.4	0.3	0.2	0.2
Gross fixed capital formation	−0.8	−6.6	3.9	1.0	−3.3	3.3	2.3	1.6	0.8	1.0	0.8	0.8
Investment in machinery and equipment	4.3	−4.3	−1.3	1.8	−5.0	4.5	2.6	1.3	0.7	0.7	0.5	0.4
Construction investment	−6.9	−15.1	15.9	−0.1	−3.0	3.0	2.8	2.8	1.0	1.5	1.5	1.5
Other investment	−4.1	0.6	1.9	0.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Change in inventories[1]	0.0	0.0	−1.9	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic uses	−1.4	−7.1	4.7	−0.3	−2.8	3.0	1.9	1.6	1.0	0.9	0.7	0.7
Net exports[1]	−0.7	−2.9	3.9	0.6	1.2	−0.6	−0.1	−0.2	−0.2	−0.2	−0.2	−0.2
Exports	−3.3	−20.4	18.0	4.5	1.0	0.6	2.1	1.9	1.4	1.0	0.8	0.5
Imports	−2.0	−15.9	9.0	3.7	−1.8	2.2	2.9	2.8	2.2	1.7	1.2	1.0
GDP	**−2.0**	**−9.7**	**8.5**	**0.3**	**−1.4**	**2.2**	**1.6**	**1.3**	**0.7**	**0.6**	**0.5**	**0.5**
Gross value added	**−1.6**	**−10.3**	**8.1**	**−0.2**	**−1.2**	**2.2**	**1.6**	**1.3**	**0.7**	**0.6**	**0.5**	**0.5**
Manufacturing	−3.9	−18.2	13.9	6.7	1.5	1.5	1.4	0.8	0.7	0.6	0.6	0.6
Construction	4.1	−3.0	−3.2	5.2	−4.3	3.5	0.8	0.8	0.7	0.7	0.5	0.4
Trade, accomodation, transport	−1.0	−14.2	13.3	−4.4	−4.2	3.2	4.4	3.4	0.9	0.7	0.5	0.5
Business and production services	−1.8	−11.6	4.9	−0.5	−1.5	2.4	0.8	2.7	1.5	1.2	1.0	1.0
Public admin, community and social services	−1.3	−7.8	9.6	−3.2	−0.9	3.5	0.5	0.5	0.5	0.4	0.4	0.4

1 Contribution to gdp growth in percentage points

Source: Federal Statistical Office; DIW Berlin Economic Outlook Spring 2021. Forecast from 2021 Q1 onward.

So far, the labor market has barely recovered from the slump in spring 2020. However, the development differed across employment forms: Employment subject to social security contributions recovered noticeably until recently, whereas in the wake of the renewed lockdown, the number of the marginally employed fell again to below its spring 2020 level. The limited activity in some service sectors is having an impact here. For the most part, however, short-time work is likely to absorb the lower labor input and the number of affected workers is expected to have risen to over 2.8 million by February 2021 before dwindling again as the recovery gradually sets in. As employment will barely change initially and only gradually increase again later on, the unemployment rate will also remain high for the time being before falling to an annual average of 5.8 percent in 2021 and 5.0 percent in 2022 (Table 2). In this

Table 2

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	−4.9	3.0	3.8
Domestic employment (1000 persons)	44,262	44,868	45,269	44,782	44,743	45,087
Unemployed (ILO concept)	1,621	1,468	1,373	1,846	1,946	1,685
Unemployed (BA concept)	2,533	2,340	2,267	2,695	2,651	2,308
Unemployment rate[2] (ILO concept)	3.8	3.4	3.2	4.2	4.4	3.8
Unemployment rate[2] (BA concept)	5.7	5.2	5.0	5.9	5.8	5.0
Consumer prices	1.5	1.8	1.4	0.5	2.1	1.5
Unit labor costs[3]	1.1	2.8	3.2	4.2	0.0	1.0
Government budget balance[4]						
in billion EUR	44.4	61.6	52.5	−139.6	−157.8	−69.9
in percent of GDP	1.4	1.8	1.5	−4.2	−4.5	−1.9
Current account balance, in percent of GDP	7.8	7.9	7.5	7.0	8.0	6.8

1 Price-adjusted, chain-linked
2 As a share of domestic labor force (ILO), resp. Civilian labor force (BA)
3 Compensation of employees (national concept) per hour worked over real GDP
4 According to ESA 2010

Sources: National and international institutions; DIW Berlin Economic Outlook Spring 2021. Forecast from 2021 onward.

environment, wage growth remains subdued. However, the wage sum is increasing noticeably: by 3.8 percent in 2021 and by 5.5 percent in 2022, primarily because more and more employees are returning to regular employment from short-time work.

In 2021, the German economy will probably only grow by 3.0 percent before growing somewhat more strongly—by 3.8 percent—in 2022. While these are comparatively large increases, underutilization remains high. After the coronavirus recession plunged the economy almost five percent below normal capacity utilization in 2020, the gap remains at a good three percent in 2021 and will not be able to be closed completely in 2022.

Consumption in particular will be impacted by the renewed lockdowns and the gradual re-opening between spring and summer. In this environment, capital expenditure will remain subdued initially, but following a setback at the beginning of 2021, it will develop dynamically as a result of brisk industrial activity. Foreign demand for German goods and services is developing strongly; imports will be dampened by travel being restricted due to the pandemic. The assumption that the pandemic will be successfully contained later in its course will spur on vacation spending and, thus, imports. Overall, the current account surplus will remain high at 8.0 percent in 2021 and 6.8 percent in 2022.

The present forecast is based on assumptions concerning the further course of the pandemic. However, it cannot be ruled out that the infection rate could be successfully controlled and that the planned re-openings could begin sooner than predicted here. However, a massive third wave—in Germany or in all of Europe—also cannot be ruled out. Foreign demand, which is currently driving industrial activity, could then collapse. However, due to extensive operating restrictions, the service sectors alone would then slow down economic development more significantly.

Claus Michelsen is Head of the Forecasting and Economic Policy Department at DIW Berlin | cmichelsen@diw.de

Paul Berenberg-Gossler is a research associate in the Forecasting and Economic Policy Department at DIW Berlin | pberenberggossler@diw.de

Marius Clemens is a research associate in the Forecasting and Economic Policy Department at DIW Berlin | mclemens@diw.de

Max Hanisch is a guest researcher in the Forecasting and Economic Policy Department at DIW Berlin | mhanisch@diw.de

Simon Junker is Deputy Head of the Forecasting and Economic Policy Department at DIW Berlin | sjunker@diw.de

Konstantin Kholodilin is a research associate in the Forecasting and Economic Policy Department at DIW Berlin | kkholodilin@diw.de

Laura Pagenhardt is a research associate in the Forecasting and Economic Policy Department at DIW Berlin | lpagenhardt@diw.de

JEL: E32, E66, F01

Keywords: Business cycle forecast, economic outlook

LEGAL AND EDITORIAL DETAILS

DIW BERLIN

DIW Berlin — Deutsches Institut für Wirtschaftsforschung e. V.
Mohrenstraße 58, 10117 Berlin
www.diw.de
Phone: +49 30 897 89–0 Fax: –200
Volume 11 March 19, 2021

Sale and distribution
DIW Berlin Leserservice, Postfach 74, 77649 Offenburg
leserservice@diw.de
Phone: +49 1806 14 00 50 25 (20 cents per phone call)

Layout
Roman Wilhelm, DIW Berlin

Cover design
© imageBROKER / Steffen Diemer

Composition
Satz-Rechen-Zentrum Hartmann + Heenemann GmbH & Co. KG, Berlin

ISSN 2568-7697