DIW Weekly Report 24 2023

AT A GLANCE

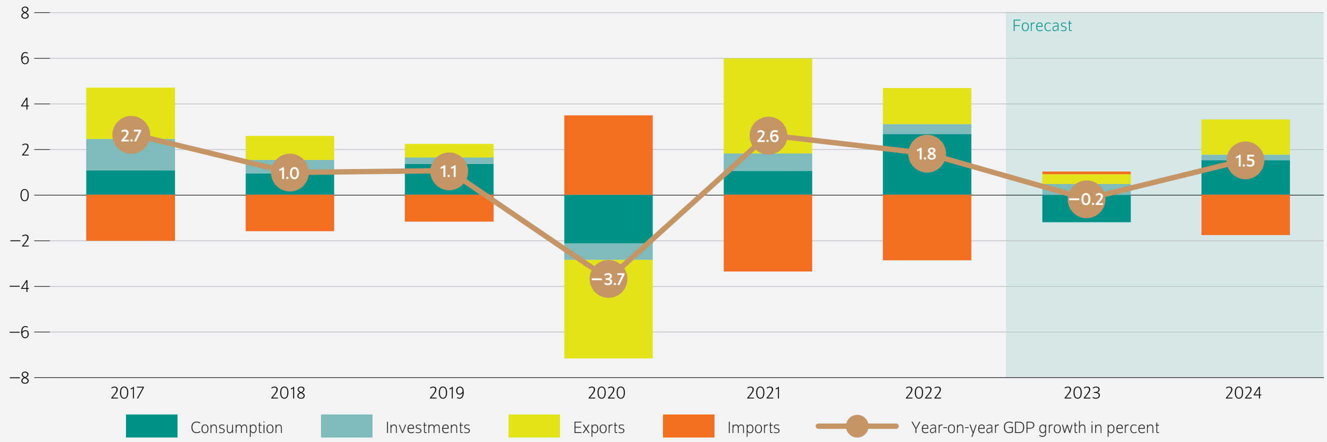
DIW Economic Outlook: German economy fighting its way out of winter recession

By DIW Berlin's economic forecasters

- Following a winter recession, the German economy is on a recovery course; however, it is expected to slightly contract by 0.2 percent in 2023 before increasing by 1.5 percent in 2024
- Wage and price development uncertainties are gradually dissipating; inflation is likely to decrease to 5.9 percent in 2023 and to 2.5 percent in 2024 and real wages will increase
- Risk of inflation has not been entirely averted; if it remains above the forecast values, the recovery of both private consumption and the entire economy will be slowed
- Global economic growth estimated to be 3.5 percent in 2023 and 4.1 percent in 2024; emerging economies are primarily driving growth as advanced economies fall behind

The German economy will expand at a solid rate in 2024, carried by private consumption

Individual GDP components' contribution to growth in percentage points



Source: DIW Berlin Economic Outlook Summer 2023.

FROM THE AUTHORS

"Less sharp price increases, higher real incomes, and more consumer spending are likely to be the key to economic recovery." — T. Bönke —

"The risk of inflation has not been completely averted. Continued high inflation and increasing interest rates could stall recovery." — G. Dany-Knedlik —

MEDIA

Audio Interview with T. Bönke & G. Dany-Knedlik (in German)
www.diw.de/mediathek

DIW Economic Outlook: German economy fighting its way out of winter recession

By Timm Bönke, Geraldine Dany-Knedlik, Guido Baldi, Hella Engerer, Pia Hüttl, Konstantin Kholodilin, Frederik Kurcz, Theresa Neef, Laura Pagenhardt, Werner Roeger, Marie Rullière, Jan-Christopher Scherer, Teresa Schildmann, Ruben Staffa, Kristin Trautmann, and Jana Wittich

EXECUTIVE SUMMARY

The German economy has returned to a recovery course following a slight recession over the winter. Although the war in Ukraine, record inflation, and feared gas shortages have taken their toll on the German economy, a drastic slump failed to materialize. The German economy remained relatively unscathed, only experiencing a slight recession over the past six months; in the final quarter of 2022 and the first quarter of 2023, it contracted by 0.5 and 0.3 percent, respectively. A mild winter and bold fiscal policy measures such as the electricity and gas price brakes mitigated the economic distortions caused by the energy crisis.

The present forecast predicts that the German economy will contract by 0.2 percent in 2023. However, this figure hides the fact that the economy is already following a slight upward trend and is on a recovery course. High consumer price inflation and uncertainty about whether and how quickly inflation would slow down dominated the first quarter of 2023. Many people were also unsure how their wages would develop. Now, however, the uncertainty is gradually fading: Prices are increasing substantially more slowly than previously, and the first major collective wage agreements, for example for the postal service and for the public sector, are facilitating optimism in workers in other sectors. For the first time in three years, real incomes should increase again by the second half of 2023 at the latest. This will benefit private consumption, which was still the weak spot of the German economy at the beginning of 2023 and was largely responsible for it sliding into a recession.

However, the risk of inflation has not been fully averted. If it remains significantly above the figures forecast here—5.9 percent in 2023 year and 2.5 percent in 2024—then recovery could be significantly delayed, especially as the European Central Bank would then probably be forced to raise interest rates even higher than assumed. This would further dampen investment in particular, which is already suffering significantly from the current high interest rates. If everything goes well, private consumption will carry the German economy in 2024 too, which is expected to grow by 1.5 percent.

Currently, the recovery of the German economy depends more on domestic factors than foreign trade. While German exports will increase again, especially in 2024, so will imports. As a result, foreign trade as a whole will contribute very little to growth or even dampen it. Exports are not developing more dynamically because advanced economies grew more slowly in 2023. For example, the euro area economy is only slowly recovering from the energy crisis, although the situation in most member states is somewhat better than in Germany. There are signs of a noticeable slowdown in the second half of 2023 in the USA. Global economic growth, which is forecast to be 3.5 percent in 2023 and 4.1 percent in 2024, will be supported by China and other emerging economies. In the advanced economies, in contrast, high inflation rates and rising interest rates are slowing economic recovery.

DOI: https://doi.org/10.18723/diw_dwr:2023-24-1

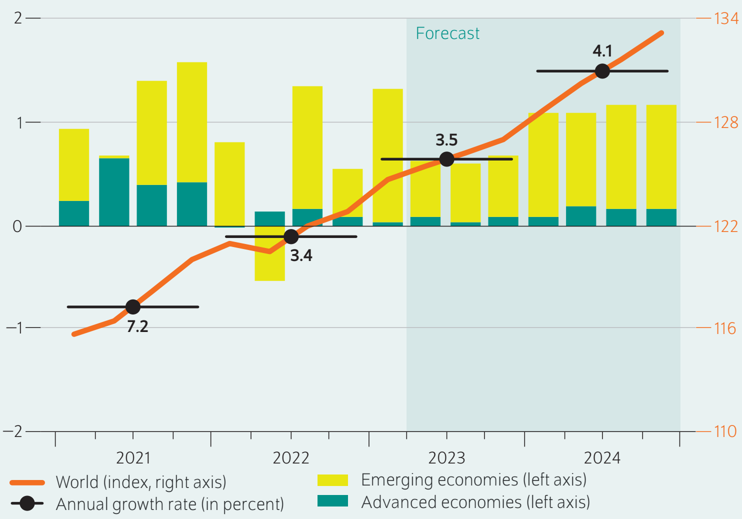
Global economy recovering sluggishly; emerging economies providing growth stimuli

Strong economic expansion in the emerging economies boosted the global economy somewhat at the beginning of 2023. Following the relaxation of China's zero-COVID policy, private households in particular have begun making up for missed consumption, helping the Chinese economy grow by 2.5 percent compared to the previous quarter. In the advanced economies, strong increases in the prices of goods and services as well as a high interest rate are continuing to dampen the purchasing and investment activity of private households and firms. The economy expanded slowly in many countries and even shrunk in some. According to the latest figures, the euro area has entered a technical recession, meaning it has experienced two consecutive quarters of contraction. In the United States, the economy continued cooling and recorded growth of 0.3 percent. The situation was better in Japan, where GDP increased by 0.7 percent, likely due to the comparatively moderate consumer price increases and Japan's continued expansive monetary policy. Overall, the global economy grew by 1.6 percent in the first quarter of 2023. In the fourth quarter of 2022, it only grew by 0.5 percent (Figure 1).

Figure 1

Growth of real GDP

Quarter-on-quarter percentage growth (left axis); index 2015 Q1 = 100 (right axis)



Sources: National Statistical Offices; DIW Berlin Economic Outlook Summer 2023.

Global economic growth will be carried primarily by the emerging economies.

The global economy will lose some momentum once again in the second quarter of 2023. The Purchasing Managers' Index for China has been stuck at the expansion threshold for three months in a row and consumer confidence has lost momentum again as of March 2023, the last month for which data is available. At the same time, the advanced economies are likely to provide only weak growth stimuli, indicated by the restrained development of industrial production and retail sales in many countries. The mood of many entrepreneurs has dampened recently due to persistently high inflation rates, increasingly restrictive monetary policy in many places, and geopolitical uncertainties. The manufacturing Purchasing Managers' Indices have worsened in most advanced economies and are for the most part below the expansion threshold of 50. Service providers were also less confident about future developments. In contrast, the mood of consumers has brightened somewhat recently. However, because consumer prices are only gradually declining, their mood is still markedly worse than at the beginning of 2022.

The burden of still-strong inflation and high interest rates is likely to lead to subdued growth in the advanced economies in the current quarter as well. A strong recovery is expected in most emerging economies, although China's catch-up effects are likely to somewhat subside again. The euro area is expected to expand by 0.2 percent compared to the previous quarter. GDP is likely to only grow by 0.1 in the second quarter of 2023 in the United Kingdom, where the increase in living expenses in 2022 has already brought a substantial share of private households closer to the poverty line. In the United States, the economy will expand by 0.2 percent despite a contractionary monetary policy and turmoil in the banking sector. The main reasons for this are likely the historically good labor market situation and the additional savings accumulated during the coronavirus pandemic. Because consumer prices are declining only slowly, monetary policy will remain restrictive in many countries for the time being. Oil and natural gas prices have decreased substantially following the peaks reached during the summer of 2022. At the same time, due to a rather mild winter and firms and households saving energy, gas storage levels in the European Union are higher than usual. However, inflation will still be markedly above the target of the respective countries' central banks in many places in 2023. In this context, the central banks of most advanced economies have continued to gradually increase their key interest rates over the past months. However, the tighter monetary policy probably contributed to the financial distress of some banks in the USA in March 2023, such as Silicon Valley Bank and First Republic Bank. There have not been any issues with commercial banks in the euro area so far. In Japan, the key interest rates remain unchanged, although inflation is significantly above target. However, inflation is lower and less widespread compared to other advanced economies. In general, tighter monetary policy and uncertainty in the banking sector are slowing recovery on the larger stock markets.

Table 1

Real GDP, consumer prices, and unemployment rate in the global economy
In percent

	GDP				Consumer prices				Unemployment rate in percent			
	Year-on-year percentage change											
	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024
Europe												
European Union	5.4	3.6	0.8	1.6	2.9	9.2	7.0	3.8	7.0	6.1	6.1	6.2
Euro area	5.3	3.5	0.5	1.3	2.6	8.4	5.7	2.8	7.7	6.7	6.7	6.7
excluding Germany	6.4	4.1	0.7	1.2	2.4	9.0	5.6	3.0	9.2	8.1	8.1	8.2
France	6.8	2.6	0.6	1.3	2.1	5.9	5.5	2.7	7.9	7.3	7.3	7.4
Italy	7.0	3.8	0.9	0.8	1.9	8.7	6.9	3.2	9.5	8.1	8.0	8.2
Spain	5.5	5.5	1.9	1.4	3.0	8.3	4.2	2.8	14.8	12.9	12.9	12.8
Netherlands	4.9	4.5	0.7	1.0	2.8	11.6	6.0	3.8	4.2	3.5	3.7	3.9
United Kingdom	7.6	4.1	0.3	0.7	2.6	9.1	7.6	3.7	4.5	3.7	4.0	4.8
Switzerland	4.2	2.1	0.7	1.5	0.6	2.8	2.4	1.4	5.1	4.3	4.2	4.4
Central and Eastern Europe	6.1	4.7	1.3	3.1	4.7	13.5	12.4	8.0	3.9	4.5	4.6	4.7
Türkiye	11.6	5.4	2.7	3.3	19.6	72.3	45.5	41.1	12.0	10.5	10.2	10.1
Russia[1]	4.6	−1.6	−1.1	1.0	6.7	13.8	6.3	5.5	4.8	3.9	3.6	3.5
The Americas												
USA	5.9	2.1	1.2	1.3	4.7	8.0	4.0	2.0	5.4	3.6	3.9	4.2
Mexico	4.9	3.1	2.4	1.9	5.7	7.9	5.6	3.8	4.1	3.3	3.1	3.4
Brazil	5.3	3.0	0.9	1.6	8.3	9.3	4.5	4.2	13.5	9.5	8.8	8.7
Asia												
Japan	2.2	1.0	1.4	1.3	−0.2	2.5	2.4	2.0	2.8	2.6	2.6	2.5
South Korea	4.1	2.6	1.3	2.4	2.5	5.1	2.7	2.3	3.6	2.9	3.0	3.2
China	8.8	3.0	5.3	5.2	0.9	2.0	2.3	2.3	5.1	5.6	5.5	5.4
India	8.7	6.6	5.0	6.7	5.1	6.7	4.7	4.2	7.8	7.6	7.3	7.2
Total												
Advanced economies	5.3	2.4	0.8	1.1	3.8	7.3	4.4	2.0	5.7	4.6	4.7	4.8
Emerging economies	8.2	3.8	4.5	5.0	7.1	9.2	3.6	4.0	6.5	6.3	6.1	6.1
Global economy	7.2	3.4	3.5	4.1	6.5	9.2	4.3	4.4	6.3	5.9	5.8	5.8
For reference:												
Export weighted[2]	*5.8*	*2.6*	*1.4*	*1.8*								
GDP weighted in USD[3]	*6.7*	*2.8*	*2.6*	*3.4*								

1 The data forecast for Russia are subject to major uncertainties. Russia has only minor weight in the overall forecast.
2 World weighted with shares of German exports from 2022 from deStatis.
3 World weighted with the GDP in USD from 2021 to 2024.

Notes: The black figures are finalized. The values of the groups of countries are a weighted average, with the respective GDP in purchasing power parities from the IMF World Economic Outlook for 2021 to 2024 used to weight GDP and consumer prices. The 2022 labor force (15–64 years) figures of the respective country are used to weigh the unemployment rate. Central and Eastern Europe consists of: Czechia, Hungary, Poland, and Romania.

Sources: National Statistical Offices; DIW Berlin Economic Outlook Summer 2023.

Inflation rates are expected to further ease over the course of the forecast period due to declines in energy and food prices. Core rates, especially in the USA and the EU, will likely remain at a high level as nominal wages catch up. Currently, real wages are at a very low level and are still decreasing in some cases. With consumer price inflation leveling off and nominal wages picking up, real wages in many places are likely to return to pre-pandemic levels by the end of 2024. However, real wage losses are not expected to be offset within the forecast horizon.

Monetary policy is currently restrictive in many emerging economies as well, although most of them were less affected by the energy crisis than the advanced economies. However, interest rates in India, Brazil, and Mexico seem to have gradually reached their peak. There has been no inflation surge in China so far, as its zero-COVID policy and smoldering real estate crisis weighed on domestic demand until recently. However, the reopening of the country is likely to soon raise inflation somewhat.

Fiscal policy stimuli are expected in the forecast period, but overall, it is likely to be only slightly expansive. Extensive fiscal policy measures were concluded in winter 2022, especially in Europe, to cushion the economic consequences of the energy crisis. Firms and private households have already received the majority of this aid. In addition, some support measures that were passed during the coronavirus pandemic have expired. Medium-term investment packages adopted in the EU (NextGenerationEU) and the USA (Inflation Reduction Act and other infrastructure measures), in particular to accelerate the ecological transition, are likely to have stimulating effects on the economy. In addition, in early June 2023, Democrats and Republicans agreed to raise the debt ceiling in the United States, averting a default on US government debt. In the 2024 fiscal year, which begins in October 2023, much of the uncommitted government expenditure will remain relatively constant. As major areas of fiscal spending are excluded from the cuts, the effect on the economy is likely to be limited.

With consumer price inflation declining slowly, a restrictive monetary policy, and little fiscal stimuli, the global economy will only slowly emerge from its current weak phase. In 2023, growth of the global economy, which is expected to increase by 4.5 percent compared to the previous year, is likely to be mainly driven by growth in the emerging economies. In contrast, advanced economies are expected to grow by a meager 0.8 percent. In 2024, momentum should increase somewhat in the advanced economies as well; in many places, this will be helped by the favorable situation on the labor markets. Employment is continuing to increase in many economies; right now, most people do not have to worry about losing their job. As real wages increase, primarily in 2024, the purchasing power of households will also increase. Investment is likely to be stimulated primarily by fiscal measures such as the medium-term investment packages adopted in advanced economies.

Global trade will continue to expand at a robust rate. The supply bottlenecks that occurred in previous years have eased considerably. Furthermore, the sanctions against Russia are changing trade flows: Chinese and Turkish trade with Russia is gaining in importance, while European trade with Russia has come to a standstill.

All in all, the global economy is expected to grow by 3.5 percent in 2023. In 2024, growth is likely to be 4.1 percent due to stronger domestic demand in the advanced economies (Table 1).

This forecast is based on several uncertainty factors. One risk is that inflation will remain high, for example due to stronger than expected nominal wage increases or another rise in raw material prices, which could force central banks to enact markedly restrictive measures. This could lead to distortions on the financial markets, jeopardizing the sustainability of private and public sector debt and thus leading to losses in the real economy. An additional risk factor is the possible further escalation of the war in Ukraine, which could result in increased geopolitical uncertainty and higher raw material prices. The risk of geopolitical crises or even armed conflicts is great in other regions of the world too. For example, there are still conflicts concerning Taiwan and the Korean peninsula in Asia and there are political tensions between China and Western countries, especially the USA. At the same time, the G7 Communiqué in May 2023 signaled a first easing of tensions. The G7 does not want to harm or hinder China economically, which could revive world trade to a greater extent than assumed in this forecast.

German economy: economic upturn following two consecutive weak quarters

Despite record inflation, the German economy was markedly more robust at the end of 2022 than was expected in autumn 2022. Nevertheless, economic output declined in both the fourth quarter of 2022 and the first quarter of 2023; Germany was in a slight recession. The decline of GDP over the first quarter of 2023 was mainly due to private consumption, which slumped by 1.2 percent. The positive stimuli from foreign trade, equipment investment, and unexpectedly strong construction investment at the beginning of 2023 were unable to compensate for this decline, resulting in GDP shrinking by 0.3 percent in the first quarter of 2023 (Figure 2).

In the first quarter of 2023, the determining factor was high consumer price inflation and the related uncertainty about if and how quickly it would decline. Although the upward pressure on energy component prices has been easing since autumn 2022, the price shock triggered by the 2022 energy crisis impacted all sectors of the economy at the beginning of 2023, causing prices to rise across the board. Food prices again increased substantially in the first quarter, which cost many consumers additional purchasing power—especially households with low to average incomes, as they spend a greater share of their income on food.

Figure 2

Real GDP growth in Germany

In billions of euros (left axis) and quarter-on-quarter in percent (right axis)

Note: Forecast from the second quarter of 2023, adjusted for price, seasonal, and calendar effects.

Sources: Federal Statistical Office; DIW Berlin Economic Outlook Summer 2023.

The German economy will begin to expand again in the second quarter of 2023.

Wages were unable to keep up with the strong growth in consumer prices, which is the main reason real incomes decreased once again. In addition, there were greater uncertainties about future wage developments. Both factors weighed heavily on private consumption. While government relief measures such as the electricity and gas price brakes were able to support private consumption, they could not fully offset the decline.

In contrast, positive stimuli came from foreign trade and investments in the first quarter of 2023. The still high order backlogs could be increasingly processed thanks to the easing of supply chains, thereby supporting domestic production, which increased in the first quarter. The construction and manufacturing outputs also increased. The energy-intensive economic sectors in particular benefited from declining energy prices.

Private consumption is likely to recover over the course of the ongoing second quarter, albeit only cautiously, as price increases and wage growth are expected to roughly balance each other out. Uncertainties about the further development of both wages and inflation have decreased significantly compared to the beginning of 2023. For example, the first high collective wage agreements have now been concluded and a continuous decline in inflation rates is foreseeable, mainly due to the further easing of energy and food inflation as well as base effects.[1] Both should largely offset the reluctance to spend seen during the final quarter of 2022 and first of 2023.

Moreover, foreign trade is likely to have a small positive impact on growth. While exports are expected to increase at robust rates, imports are likely to rise again as private consumption increases. In contrast, investment will have a slightly dampening effect. Overall, GDP is likely to expand again significantly by 0.3 percent in the second quarter of 2023 (Table 2).

Private consumption will continue to recover over the second half of 2023, mainly because consumer price inflation is likely to further decline noticeably over the course of the year. Energy and food inflation have been slowing down; this is clearly reflected in price indices such as the producer and import prices indices, which recently have increased only slightly or have already fallen again. This development, together with base effects, will be further transmitted to consumer prices and slow inflation noticeably. At the same time, the European Central Bank (ECB) is expected to raise its key interest rates further to counter consumer price inflation, which remains comparatively high. The core inflation rate

1 The year-on-year comparison refers to months in which prices had already increased sharply in 2022 due to the war in Ukraine.

Table 2

Quarterly data on the development of use and origin components of real GDP in Germany
In percent (quarter-on-quarter, seasonally and calendar adjusted)

	2022				2023				2024			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Private consumption	1.4	0.2	1.2	−1.7	−1.2	0.3	0.6	0.7	0.8	0.7	0.6	0.5
Public consumption expenditure	0.8	0.4	−1.1	0.2	−4.9	2.0	0.7	0.5	0.0	−0.3	−0.4	−0.4
Gross facilities investment	2.3	−1.2	1.3	−2.6	3.0	−1.0	−0.2	0.3	0.4	0.6	0.8	0.7
Construction	3.5	−3.1	−1.0	−3.2	3.9	−1.8	−1.0	−0.2	0.4	0.6	0.7	0.8
Equipment	1.8	1.1	5.4	−3.6	3.2	−0.5	0.6	1.1	0.4	0.7	1.0	0.6
Other investment	−0.1	0.8	1.0	0.7	0.1	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Inventory changes[1]	−0.3	0.7	0.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic consumption	1.1	0.6	0.9	−1.0	−1.0	0.3	0.4	0.5	0.5	0.4	0.4	0.4
Net exports[1]	0.0	−0.7	−0.4	0.5	0.7	0.1	0.0	−0.1	0.0	−0.1	−0.1	−0.1
Exports	0.3	0.6	1.5	−1.3	0.4	0.5	0.8	0.9	0.9	0.8	0.8	0.8
Imports	0.4	2.3	2.5	−2.4	−0.9	0.4	0.9	1.1	1.1	1.1	1.1	1.0
GDP	1.0	−0.1	0.5	−0.5	−0.3	0.3	0.4	0.5	0.5	0.4	0.3	0.3
Gross value added	1.3	−0.6	1.4	−1.1	0.9	0.3	0.4	0.5	0.5	0.4	0.3	0.3
Manufacturing	−0.3	−0.1	0.8	−0.3	2.0	−0.1	0.4	0.4	0.5	0.6	0.5	0.4
Construction	1.3	−2.6	−1.8	−2.8	6.1	−1.5	−0.8	−0.1	0.0	0.2	0.3	0.4
Trade, hospitality, transport	2.0	−1.7	2.9	−2.6	0.1	0.8	0.8	0.9	0.8	0.6	0.6	0.5
Professional services provider	1.7	0.5	−0.1	0.0	−0.4	0.4	0.6	0.7	0.6	0.5	0.4	0.4
Public services, education, health	2.4	−1.4	3.1	−0.3	0.3	0.4	0.3	0.2	0.2	0.2	0.2	0.2

1 Contribution to growth in percentage points.

Note: Forecast from the second quarter of 2023.

Sources: Federal Statistical Office; DIW Berlin Economic Outlook Summer 2023.

is likely to decline more slowly than overall inflation due to rising wages and the price pressures they have unleashed. Whereas the upward pressure on prices in 2022 was largely due to food and energy, price increases in the other components of the basket of goods and services are now likely to drive inflation overall.

With decreasing inflation, the introduction of wage increases and inflation compensation in many sectors, and powerful wage increases in other sectors, real income will likely increase at a robust rate beginning in the second half of 2023. Private consumption will initially make a stronger contribution to economic expansion. Foreign trade will dampen growth slightly, as imports will rise more strongly than exports at the end of 2023 and construction investment will experience weak development due to high construction prices and substantially higher mortgage interest rates. However, the overall robust domestic consumption is supporting the upturn; value added is coming from the services sector in particular. Growth in industry is likely to be weak in the second half of 2023, as indicated by the deteriorating leading indicators. Business prospects in manufacturing as well as new orders and production activity have fallen recently. In addition, construction output is likely to continue the downward trend of 2022 following a temporary high in the first quarter of 2023.

Private consumption is likely to drive economic recovery in 2024 as well, although it is expected lose some of its momentum compared to 2023. Restrained positive growth stimuli will also come from investments, as investments in both equipment and construction will recover slightly over the course of the year. Foreign trade, in contrast, is likely to dampen GDP growth again as imports increase robustly.

Overall, economic output in Germany is expected to decline by 0.2 percent in 2023 in price-adjusted terms due to the weak previous six months before experiencing a strong 1.5-percent increase in 2024. Due to the recession, the negative output gap has widened recently. It is likely to decrease again by the end of 2024, but will not close. Inflation is expected to be 5.9 percent on average in 2023 and 2.5 percent on average in 2024. By the end of 2024, it will likely approximately reach the ECB's target of two percent (Table 3). Energy components are already dampening inflation overall, while the core rate is expected to remain high for a longer period. In 2023, it will likely be 5.9 percent on average and 2.8 percent in 2024.

The situation on the labor market remains favorable and is expected to support the economic recovery. Demand for workers has recently declined somewhat, but a lack of qualified workers means that companies are likely to maintain their workforce in many sectors and expand employment in others, such as the information and communications sector.

Only some of the extensive fiscal policy measures for cushioning the economic consequences of the energy crisis are likely to provide significant positive stimuli for economic

Table 3

Key economic indicators for the German economy

	2020	2021	2022	2023	2024
GDP[1]	−3.7	2.6	1.8	−0.2	1.5
Employment[2] (1,000 persons)	44,914	44,980	45,573	45,948	46,052
Unemployed (1,000 persons)	2,695	2,613	2,418	2,573	2,550
Unemployment[3] (BA concept, in percent)	5.9	5.8	5.3	5.6	5.5
Consumer prices[4]	0.5	3.1	6.9	5.9	2.5
Unit labor costs[5]	2.8	0.6	3.3	−4.8	−0.9
Government budget balance[6]					
in percent of nominal GDP	−4.3	−3.7	−2.6	−2.4	−1.4
Current account balance					
in billions of euros	238.7	265.0	145.1	214.8	229.5
in percent of nominal GDP	7.0	7.4	3.7	5.3	5.4

1 Price adjusted. Year-on-year change in percent.
2 Domestic concept.
3 Unemployed as a percentage of the civilian labor force (definition according to the Federal Employment Agency).
4 Year-on-year change.
5 Compensation of employees per hour worked in Germany as a percentage of real GDP per hour worked.
6 As defined in the national accounts (*volkswirtschaftliche Gesamtrechnungen*).

Note: Forecast from 2023.

Sources: Federal Statistical Office; DIW Berlin Economic Outlook Summer 2023.

growth. Many measures, such as the electricity and gas price brakes, are likely to have already exerted the majority of their impact. It is expected that government spending over the forecast period will increase more moderately than in previous years as pandemic-related programs and measures from the energy crisis relief packages are expiring. Overall, the deficit is expected to fall to 2.4 and 1.4 percent in 2023 and 2024, respectively.

Inflation remaining high poses the biggest risk to the German economy. It could result in real incomes taking longer to rise, which would slow the recovery of private consumption and endanger, or at least delay, the economic recovery. In addition, monetary policy would also probably have to become more restrictive as a countermeasure in this case, which would have further negative consequences for the real economy. The recovery of private consumption could also be delayed if households take precautionary measures and postpone purchases despite the declines in energy and food prices and the first strong wage increases.

Timm Bönke is Co-Head of the Forecasting and Business Cycle Policy Group in the Macroeconomics Department at DIW Berlin | tboenke@diw.de

Geraldine Dany-Knedlik is Co-Head of the Forecasting and Business Cycle Policy Group in the Macroeconomics Department at DIW Berlin | gdanyknedlik@diw.de

Guido Baldi is a Research Associate in the Macroeconomics Department at DIW Berlin specializing in the USA | gbaldi@diw.de

Hella Engerer is a Research Associate in the Energy, Transportation, Environment Department at DIW Berlin specializing in Central and Eastern Europe | hengerer@diw.de

Pia Hüttl is Head of the global economic forecast and a Research Associate in the Macroeconomics Department at DIW Berlin | phuettl@diw.de

Konstantin Kholodilin is a Research Associate in the Macroeconomics Department at DIW Berlin specializing in estimating potential output and production | kkholodilin@diw.de

Frederik Kurcz is a Research Associate in the Macroeconomics Department at DIW Berlin specializing in the euro area | fkurcz@diw.de

Theresa Neef is a Research Associate in the Macroeconomics Department at DIW Berlin specializing in public finances | tneef@diw.de

Laura Pagenhardt is a Research Associate in the Macroeconomics Department at DIW Berlin specializing in investments | lpagenhardt@diw.de

Werner Roeger is a Guest Researcher in the Macroeconomics Department at DIW Berlin specializing in estimating potential output and macroeconomics modeling | wroeger@diw.de

Marie Rullière is a Research Associate in the Macroeconomics Department at DIW Berlin specializing in the euro area | mrulliere@diw.de

Jan-Christopher Scherer is Head of the German economic forecast and Research Associate in the Macroeconomics Department | jscherer@diw.de

Teresa Schildmann is a Research Associate in the Macroeconomics Department at DIW Berlin specializing in the German labor market | tschildmann@diw.de

Ruben Staffa is a Research Associate in the Macroeconomics Department at DIW Berlin specializing in the USA and German foreign trade | rstaffa@diw.de

Kristin Trautmann is a Research Associate in the Macroeconomics Department at DIW Berlin specializing in the euro area and European monetary policy | ktrautmann@diw.de

Jana Wittich is a Research Associate in the Macroeconomics Department at DIW Berlin specializing in German foreign trade | jwittich@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 13 June 20, 2023

Publishers

Prof. Dr. Tomaso Duso; Sabine Fiedler; Prof. Marcel Fratzscher, Ph.D.; Prof. Dr. Peter Haan; Prof. Dr. Claudia Kemfert; Prof. Dr. Alexander S. Kritikos; Prof. Dr. Alexander Kriwoluzky; Prof. Dr. Lukas Menkhoff; Prof. Karsten Neuhoff, Ph.D.; Prof. Dr. Carsten Schröder; Prof. Dr. Katharina Wrohlich

Editors-in-chief

Prof. Dr. Pio Baake; Claudia Cohnen-Beck; Sebastian Kollmann; Kristina van Deuverden

Reviewer

Dr. Alexander Schiersch

Editorial staff

Rebecca Buhner; Dr. Hella Engerer; Ulrike Fokken; Petra Jasper; Kevin Kunze; Sandra Tubik

Layout

Roman Wilhelm, Stefanie Reeg, Eva Kretschmer, DIW Berlin

Cover design

© imageBROKER / Steffen Diemer

Composition

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

ISSN 2568-7697