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Volume 8 June 14, 2018

Publishers

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Layout

Roman Wilhelm, DIW Berlin

Cover design

© imageBROKER / Steffen Diemer

Composition

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

ISSN 2568-7697

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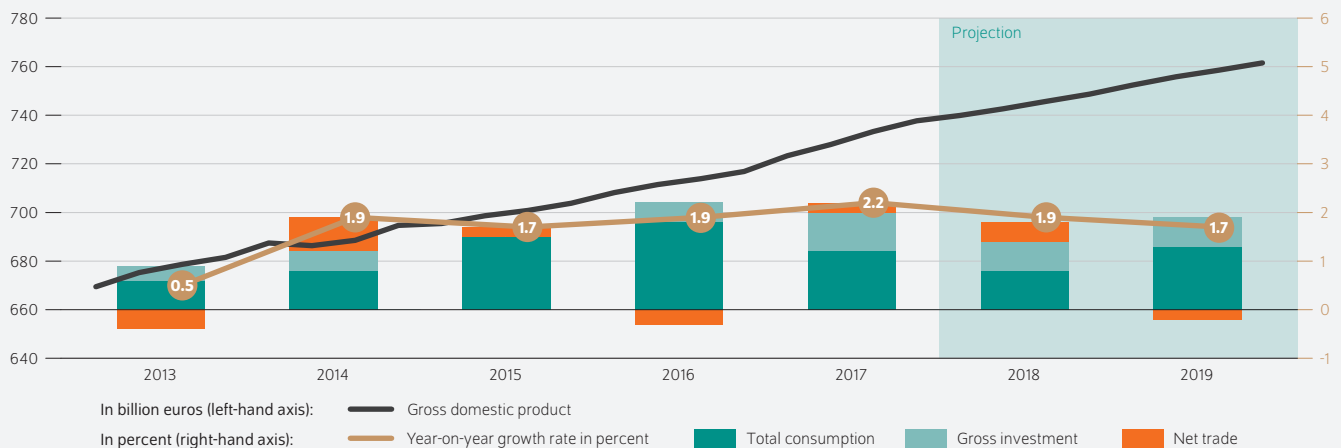
AT A GLANCE

German economy: slowdown in sight

- German GDP growth pegged at 1.9 percent for 2018 and 1.7 percent for 2019
- Worries about a trade war and a new crisis in the euro area are leaving their mark on worldwide investments
- German economic boom is losing steam, primarily due to heightened uncertainty and lower export growth
- Domestic activity remains robust: unemployment continues to drop, wages are increasing substantially, consumption demand is expanding
- Risks are high: the trade conflict with the United States could escalate further, uncertainty about the course of Italy's new government is unsettling the euro area

The German economy is still growing, supported by private consumption

Real GDP in billion euro, year-on-year growth rate in percent



Source: DIW Economic Outlook Summer 2018.

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FROM THE AUTHORS

“The very strong expansion of the German economy we have seen these past few years is likely to have come to an end for now. The GDP growth rates remain strong, but they reflect a cloudier worldwide economic environment. The worries about a trade war between the United States and the rest of the world as well as the chaotic economic policy of the Italian government clearly are leaving their mark. Both pose great risks for the German economy.”

— Ferdinand Fichtner —

The German economy is slowing down somewhat

By Ferdinand Fichtner, Guido Baldi, Christian Breuer, Geraldine Dany-Knedlik, Hella Engerer, Marcel Fratzscher, Stefan Gebauer, Simon Junker, Claus Michelsen, Malte Rieth, and Thore Schlaak

According to DIW Berlin estimates, the German economy should grow by 1.9 percent this year and 1.7 percent next year. The GDP growth forecast has thus decreased by 0.5 percentage points for this year and by 0.2 percentage points for the coming year compared to DIW Berlin's March forecast. Essentially, this reflects the markedly increased uncertainty concerning the economic policy environment that is affecting investment activity worldwide and curbing exports in particular. In addition, the start of 2018 was weaker than was expected in March due to some temporary factors: high rates of sick leave, broad-based strikes, and an above-average number of holidays.

The pace of expansion is likely to be higher in summer than at the beginning of the year. However, the economy is likely to lose some momentum compared to last year, as global economic conditions have deteriorated noticeably with the introduction of trade restrictions and concerns about an escalation in trade policy conflicts between the United States and other economic regions. Following the Italian election and the political quarrels in Spain, concerns about the integrity of the European Monetary Union have increased again; Brexit negotiations also continue to be a cause for significant concern. In addition, geopolitical risks, especially in the Middle East, have recently intensified once again. All this should lead many companies to act more cautiously and impair global demand for investment goods. This will also dampen production in Germany, as on the one hand, investment dynamics are likely to lose some momentum despite well-utilized capacities, and on the other, machines are the German economy's most important export commodity. Thus, the worldwide lower demand will also be reflected in the industrial sector's order books.

While exports are weakening somewhat, the German economy can continue to rely on quite strong private consumption in the forecast period. The labor market situation is exceptionally favorable; moreover, wage agreements should gradually become higher in light of the continuing decline in unemployment—the rate will be around 5.2 percent this year and around 4.9 percent next year. Thus, more and more people have a job—the increase is pegged at just under 550,000 people this year and almost 300,000 people next year—and employees are earning decent wages overall. This boosts private consumption.

In addition, starting next year in particular, the federal government is planning to expand spending and reduce taxes. The plan to finance statutory health insurance by splitting the costs equally between employers and employees as well as the reduction of the unemployment insurance contribution rate will relieve employees in the amount of almost ten billion euros at the beginning of 2019. The announced increase in children benefits and tax allowances, as well as the increase in the insurance periods recognized for bringing up children (Mütterrente) and the introduction of a basic pension, are providing billions of euros in stimuli. Moreover, the federal government is increasing its investment expenditures for things such as broadband expansion, research and development, and public housing. These expenditures are likely to stimulate the economy somewhat.

Despite the expansionary fiscal policy, the government's financial situation will remain favorable for the time being. Public revenues are sputtering, since revenues from value-added tax are increasing significantly due to the dynamic development of consumer spending. Additionally, in light of the favorable labor market situation, income tax revenue is also rising sharply, while transfer expenditure—especially

unemployment expenditure—is only increasing moderately. The resulting surpluses of 50 billion euros in the general government's budget this year, and 45 billion euros next year, are, however, largely temporary, as they partly go back to the unusually low interest rates that the government pays on its debts. The scope for increases in long-term expenditures—such as in the area of pension insurance—or revenue reductions—e.g., a broad-based reduction of income taxes—are therefore very limited and should be oriented towards positively influencing the long-term growth of the German economy. In view of the foreseeable unfavorable demographic development, policies especially need to focus on making the environment for investment more appealing and investing in education and research. This way, the productivity of the (increasingly smaller) work force can be increased.

The high level of uncertainty regarding the political environment is affecting investment activity and thus the economy, even without the problems worsening. In addition, the various trouble spots are creating uncertainty about the economic outlook, as generally favorable economic prospects are overshadowed by considerable risks. With the introduction of tariffs on American imports of steel and aluminum and

the introduction of counter-tariffs by the European Union, the trade conflict has escalated. The adverse effects on international trade, which are conceivable as the next step in a possible escalation—such as U.S. tariffs on cars—could result in production losses of several billion euros and thus a decline in the growth of the German economy by a few tenths of a percentage point.

The difficult economic situation in Italy also has the potential to affect the economy beyond the uncertainty assumed in this forecast. If the new Italian government insists on only partially repaying public debt and such defaults prove likely, this could lead to renewed tensions in the financial markets and a resurgence of the crisis in the euro area.

In this environment, it is more urgently needed than ever before to strengthen the monetary union's institutions and, in particular, to ensure a more stable banking and financial system that meets the conditions of a monetary union—for example by introducing a common deposit guarantee and clear rules for orderly debt restructuring for the member states.

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The global economy and the euro area: increased uncertainty is dampening growth

By Ferdinand Fichtner, Guido Baldi, Geraldine Dany-Knedlik, Hella Engerer, Stefan Gebauer, and Malte Rieth

ABSTRACT

The political conditions for growth are currently dominated by increased uncertainty; this is particularly weighing on investment activity and slowing down the global economy. DIW Berlin is lowering its forecast slightly for this year and the next to 4.1 percent and 3.9 percent, respectively. However, global expansion appears to remain intact. In developed economies, primarily the good labor market situation is supporting consumption. In the United States, higher growth than at the beginning of the year is expected due to fiscal stimulus. The outlook for the euro area has deteriorated recently, however. Many emerging countries are also under greater pressure—in addition to domestic issues mainly caused by a tightening of international financial conditions. Over the course of the rest of the year, the rise in global interest rates, the first labor shortages in developed economies, and a further gradual deceleration of growth in China are expected to slow down the global economy more. The main risks for the continuation of the global upswing are primarily the United States' protectionism and political uncertainties in the euro area.

The global economy continued to lose momentum at the beginning of the year. The noticeable increase in uncertainty regarding economic policy is likely to have contributed to this. Moreover, financial conditions have worsened globally, particularly for emerging economies. In some major developed economies, extraordinary factors had an additional negative impact on growth.

Overall, however, global expansion appears to remain intact and global production is likely to rise more strongly again in the coming quarters, albeit not at the pace of the past years (Figure 1). In developed economies, the good labor market situation and the associated gains in household purchasing power support consumption. A return to higher growth is therefore to be expected, especially for the United States and Japan. However, the outlook for the euro area has deteriorated recently. On the one hand, energy prices have risen sharply, which is likely to weaken domestic demand. On the other hand, the euro has depreciated, so export demand should pick up somewhat.

The global increase in uncertainty should slow down international trade and businesses' investments, particularly this year. Furthermore, towards the end of the forecast period, higher interest rates and labor shortages—for example in the United States or the euro area—will become noticeable. In addition, there is a gradual deceleration of growth in China; thus, the pace of the global economy's expansion is likely to slow down further.

All in all, global production is expected to grow by 4.1 percent this year. Growth will then weaken slightly next year. Thus, compared to the Economic Outlook published in spring 2018, DIW Berlin is lowering its forecast slightly for both years (Table).

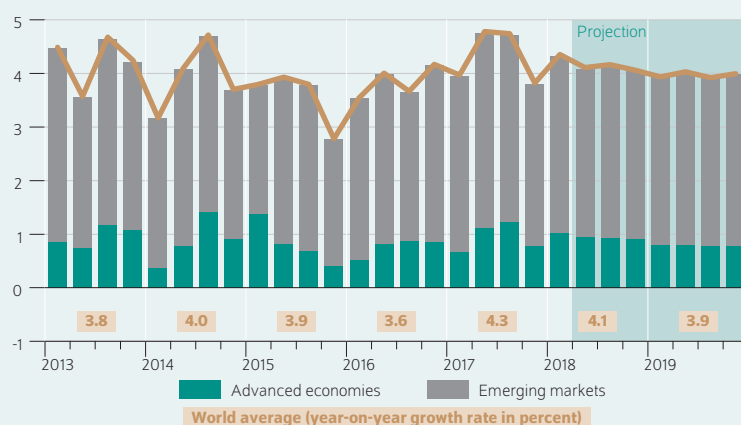
The monetary policy environment will be less expansionary globally. In the United States, the central bank is likely to raise the key interest rates further, but only gradually in light of moderate pressure on prices and wages. In the euro area, an end to net purchases this year is likely. A first key interest rate hike by the European Central Bank is expected for the second quarter of 2019. Fiscal policy is likely to become

more expansionary globally. In the United States and some European countries, the measures adopted or announced should boost growth.

The risks for the global economy have increased. If the protectionism emanating from the United States increases, this will put a strain on international trade. It would also lead to a further tightening of global financial markets. An intensification of political uncertainties in southern Europe would also worsen financing conditions in the euro area and affect household and business sentiment. An increase in global uncertainty as well as intensifying political developments in Europe would weigh on investment activity.

Figure 1

World real gross domestic product growth In percent



Sources: National statistical offices; DIW Economic Outlook Summer 2018.

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Global economy is slowing down.

Table

Real gross domestic product, consumer price inflation, and unemployment rate of the world economy

In percent

	GDP				Consumer prices				Unemployment rate in percent			
	Change over previous year in percent											
	2016	2017	2018	2019	2016	2017	2018	2019	2016	2017	2018	2019
Euro area	1.8	2.5	2.0	1.7	0.4	1.4	1.9	1.8	10.0	9.0	8.2	8.0
without Germany	1.8	2.5	2.1	1.7	0.4	1.3	1.8	1.7	12.6	11.4	10.5	10.3
France	1.1	2.0	1.9	1.7	0.2	1.1	1.7	1.5	10.1	9.4	8.8	8.6
Italy	1.0	1.5	1.3	1.1	0.0	1.3	1.2	1.4	11.7	11.3	10.8	10.6
Spain	3.3	3.0	2.7	2.2	−0.2	2.0	2.2	2.3	19.7	17.2	15.9	15.4
Netherlands	2.1	3.3	2.7	2.3	0.1	1.3	1.5	1.8	6.0	4.8	4.1	4.0
United Kingdom	1.9	1.8	1.3	1.3	0.7	2.7	2.5	2.0	5.0	4.5	4.4	4.5
USA	1.5	2.3	2.8	2.5	1.3	2.1	2.6	2.1	4.9	4.4	3.9	3.5
Japan	1.0	1.7	1.1	1.0	−0.1	0.5	1.0	1.1	3.1	2.8	2.7	2.6
South Korea	2.9	3.1	3.0	2.7	1.0	2.0	2.0	2.7	3.7	3.7	3.2	3.0
Middle Eastern Europe	3.2	5.0	4.0	3.3	−0.2	1.7	2.3	2.8	5.7	4.6	4.0	3.8
Turkey	3.2	7.4	4.2	3.0	7.8	11.1	10.8	10.6	10.9	10.9	10.3	10.5
Russia	−0.2	1.7	1.8	2.2	6.6	3.5	2.3	3.8	5.5	5.1	4.7	4.6
China	6.7	6.9	6.5	6.3	1.6	1.7	2.0	2.4	4.1	4.0	4.0	4.0
India	7.9	6.3	6.6	5.8	3.0	4.0	5.3	6.1				
Brazil	−3.5	1.0	0.8	1.1	8.7	3.4	4.5	6.0	11.3	12.8	10.6	8.4
Mexico	2.6	2.3	2.1	2.0	2.8	6.0	4.1	3.2	3.9	3.4	4.8	4.8
Developed economies	1.6	2.3	2.3	2.0	0.8	1.8	2.2	1.9	5.9	5.3	4.8	4.6
Emerging markets	5.0	5.6	5.3	5.1	3.0	3.1	3.4	4.0	5.3	5.2	5.0	4.8
World	3.6	4.3	4.1	3.9	2.1	2.5	2.9	3.1	5.5	5.3	4.9	4.7

Sources: National statistical offices; DIW Economic Outlook Summer 2018.

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Box 1

On the macroeconomic stability of Italy and its financial market situation

Since the general election in March, and especially since the coalition talks and formation of a government in May, concerns about Italy's macroeconomic stability have significantly increased. There are many fears that the new fiscal policy stance, combined with fragile macroeconomic conditions, could lead to tensions in financial markets, which in turn could jeopardize Italy's ability to remain in the monetary union.

However, the indicators used in the Macroeconomic Imbalance Procedure (MIP) of the European Union do not suggest a pronounced macroeconomic imbalance in Italy. A DIW Berlin index based on MIP indicators, which signals macroeconomic imbalances when certain threshold values are exceeded,¹ has improved significantly since 2015 and currently does not indicate a serious imbalance. This is due to significant improvements in both the external imbalances (such as the current account balance or export market shares) and the internal imbalances (such as private sector debt). Overall, unemployment has also developed favorably, though it is still at a high level.

A persistent problem exists primarily in connection with public debt. Accordingly, financial markets have reacted sensitively when the new government at least partially questioned repaying debts. In the days following the announcement of the joint government program on May 14, for example, the leading indices of European stock exchanges, in particular those traded on the Milan stock exchange, fell noticeably in value. The share prices of Italian banks were hit particularly hard; Italian-based financial institutions hold about half of Italy's outstanding public debt.

The subsequent uncertainty about the actual formation of the coalition intensified the price decline. Moreover, the erratic approach in forming a government led to greater fluctuations in stock market prices than before, even though volatility had already been increasing since the beginning of May. However, the news of a successfully formed government—in spite of the participating parties—contributed to the stabilization of stock markets.

Lastly, financial market uncertainty was reflected in the sharp rise in yields on Italian government bonds. It was striking that not only interest rates on long-term notes rose sharply, but also yields on securities with shorter maturities.² The increased uncertainty about the future repayment of Italy's public debt led investors to place more funds in securities perceived as more safe, such as German government bonds. After the government was formed, however, the situation relaxed again for the bond markets.

In light of the evaluated indicators, the macroeconomic conditions in Italy are more robust than often feared. At present, the main threat is political mismanagement of high public debt. If the debt level is gradually reduced—by maintaining the overall stability-oriented fiscal policy of recent years, but increasingly also by measures that are suitable for supporting (nominal) growth of the Italian economy—the macroeconomic indicators certainly suggest that Italy's economy can overcome the current tensions.

¹ If the index is above 1, the indicators violate, on average, the limit values defined by the European Union. If the index is above 2, the macroeconomic imbalances have reached a level that is associated with a high risk of an overall economic crisis. The estimation procedure will be presented in detail in a DIW Berlin discussion paper that will be published soon.

² Generally, the difference between the yields on short-term securities between the member states of the euro area is less when compared to long-term titles because the development of short-term interest rates depends particularly strongly on the European Central Bank's common monetary policy for all member states.

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JEL: E32, E66, F01

Keywords: Business cycle forecast, economic outlook

German economy: slowdown in sight

By Ferdinand Fichtner, Christian Breuer, Simon Junker, Claus Michelsen, and Thore Schlaak

ABSTRACT

Compared to last year, the German economy is weakening noticeably. Orders from abroad are decreasing and domestic companies are holding back on investments. However, capacity utilization remains high—also because the government will boost the incomes of private households next year. However, above all, incomes are rising noticeably due to the positive situation in the labor market: the unemployment rate will fall to 5.2 percent this year and 4.9 percent next year. All in all, the German economy will grow by 1.9 percent this year and 1.7 percent in 2019.

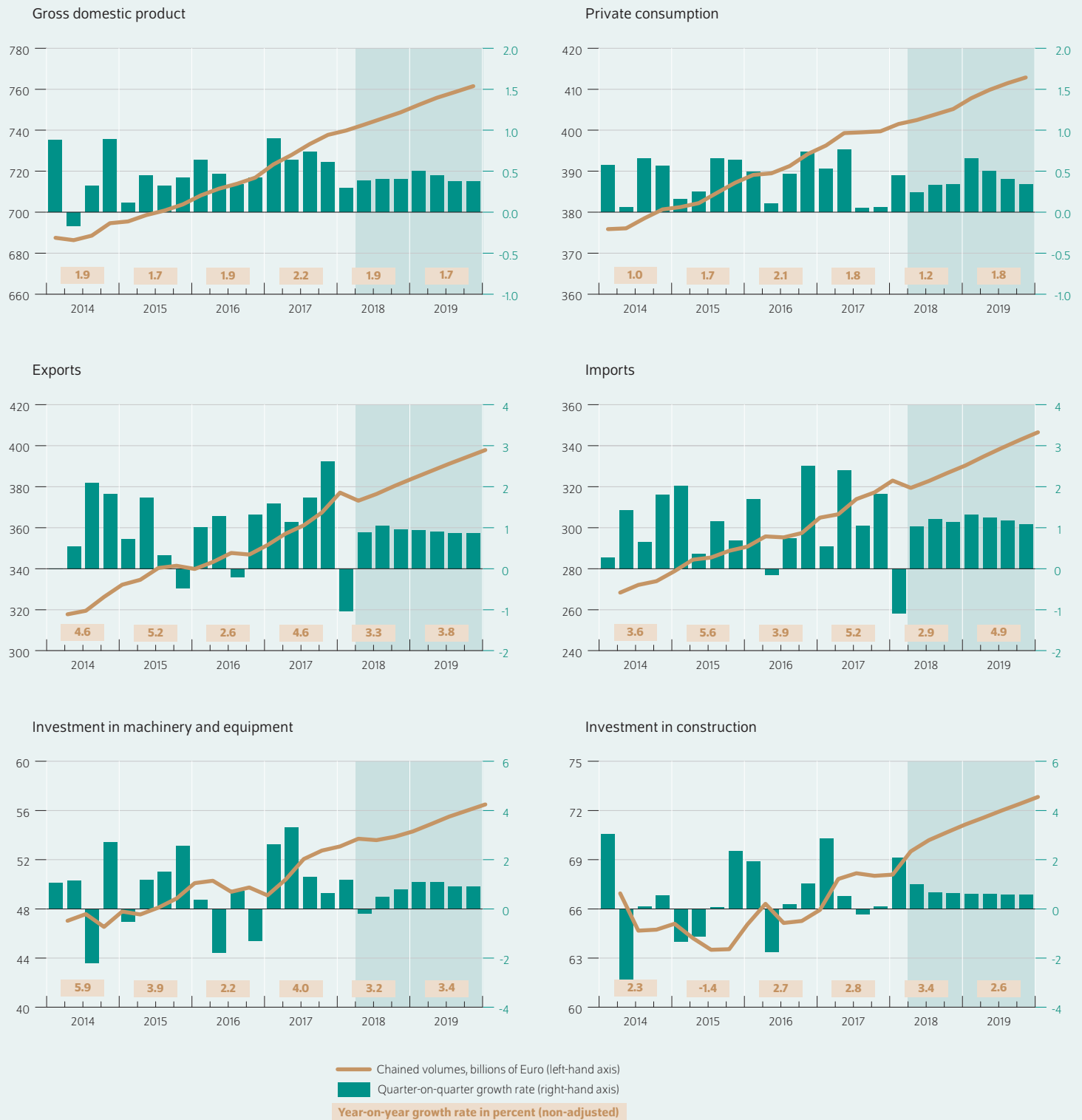
The German economy is losing momentum: after an unexpectedly weak start to the year, economic output growth is unlikely to match last year's pace over the further course of the year (Figure 1). However, the German economy will noticeably grow by 1.9 percent this year (Table 1) and capacity utilization will remain high (Figure 2) as there are signs of an acceleration for the current and the coming quarter. In the summer, the industrial sector is likely to expand its production; this is supported by the still well-filled order books (Figure 3). However, a slowdown is to be expected: new orders have declined since the beginning of the year, above all because the global economy has weakened since winter after the strong summer of 2017. In particular, global investment momentum, which had boosted the German economy last year, is cooling off in many places as a result of the escalating trade conflict with the United States and growing concerns about a resurgence of the euro crisis.¹ This will dampen the increase in exports over the rest of the year (Table 2), although the recent depreciation of the euro will have a positive effect on its own. And the uptrend in domestic investments from last year has also been interrupted for the time being: as in the first quarter, companies are likely to have reduced their expenditure on new equipment in the second quarter. In view of the high capacity utilization, they will spend more over the further course of the year, but investments will by no means increase as strongly as in the previous year. Due to strongly increasing wage incomes, private households will increase their consumption. However, employment expansion has lost momentum and rising wages cannot fully compensate for this. In addition, prices are temporarily buoyant: oil prices have risen significantly and the euro has lost value against the dollar. This dampens the purchasing power of private households, particularly in the summer. Overall, inflation will remain moderate; it should amount to 1.9 percent in both years of the forecast period.

In the coming year, were it not for external stimuli, the economy would switch to a more moderate pace and capacity utilization would normalize. However, measures agreed upon

¹ See Ferdinand Fichtner et al., "The global economy and the euro area: increased uncertainty is dampening growth", DIW Weekly Report no. 24 (2018): 206–209.

Figure 1

Gross domestic product and use of gross domestic product Seasonally and working-day adjusted

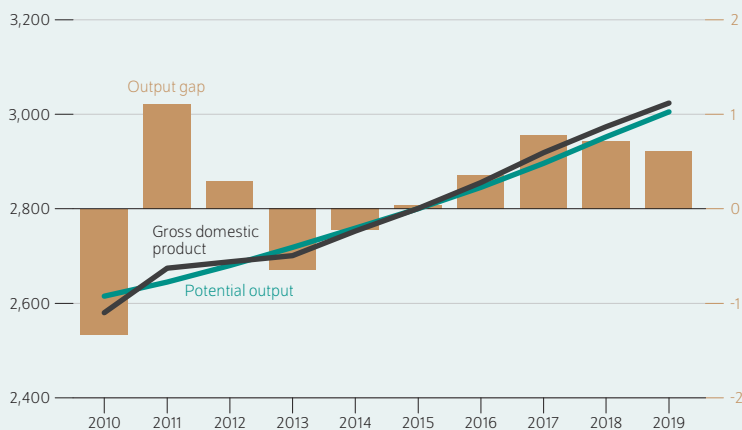


Sources: Federal Statistical Office; DIW Economic Outlook Summer 2018, forecasts from second quarter 2018 onward.

Figure 2

Gross domestic product, potential output and output gap

In billion euros, percent of potential output



Sources: Federal Statistical Office; DIW Economic Outlook Summer 2018.

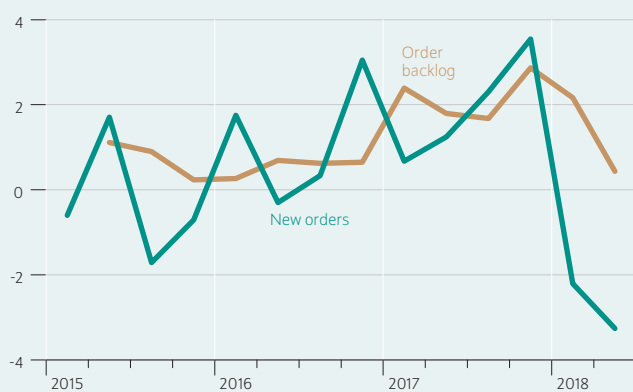
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The German economy's capacities remain well utilized.

Figure 3

New orders and order backlog

Seasonally adjusted quarter-on-quarter change in percent



Sources: Federal Statistical Office.

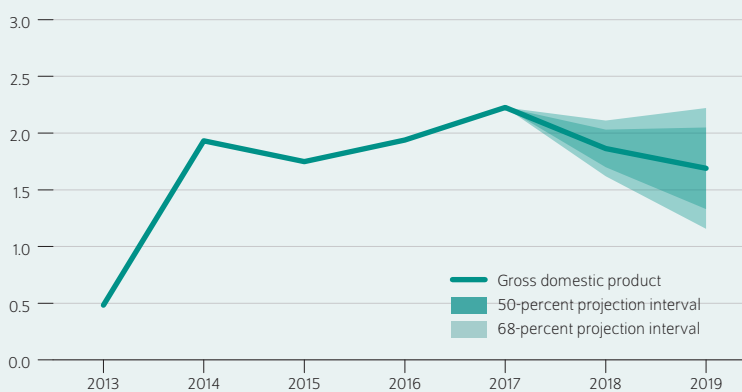
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Deep decline of new orders at the beginning of the year, but order backlog continues to rise.

Figure 4

Forecast for the rate of change of real gross domestic product

In percent



Sources: DIW Economic Outlook Summer 2018.

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in the new German government's coalition agreement act as a counterforce. Many of these measures will probably take effect at the beginning of the year—such as the plan to finance statutory health insurance by splitting the costs equally between employers and employees, which will initially increase the income of statutorily insured employees by around six billion. That will temporarily boost private consumption. As a result of this income injection, growth in 2019 is expected to be about 0.3 percentage points higher at 1.7 percent than without these measures; the utilization of overall economic capacities remains at its above-average value. The 68-percent confidence interval resulting from the forecast errors of the previous five years is between 1.6 and 2.1 percent for this year and between 1.2 and 2.2 percent for next year (Figure 4). Since higher consumption is fueling imports, the current account balance will fall slightly: from 8.3 percent this year to 7.9 percent next year.

Despite considerable additional expenditure under the coalition agreement, the public sector's financial situation remains favorable: a surplus of 50 billion euros is expected for this year, and 45 billion euros for the coming year.

The risks have recently increased. The trade conflict with the United States could have a greater impact on world trade than assumed here or even escalate further; this would have a particularly severe impact on the open German economy. Political developments in Italy entail the danger of a new crisis in the euro area, which would dampen the economy in the monetary union and also in Germany, for example, due to increasing uncertainty or worsening financing conditions.

Table 1

Key economic indicators for the German economy

	2014	2015	2016	2017	2018	2019
Real GDP ¹ (percent change over previous year)	1.9	1.7	1.9	2.2	1.9	1.7
Domestic employment (1000 persons)	42,672	43,069	43,638	44,271	44,815	45,102
Unemployed (ILO concept)	2,092	1,949	1,775	1,621	1,406	1,300
Unemployed (BA concept)	2,898	2,795	2,691	2,533	2,328	2,221
Unemployment rate ² (ILO concept)	5.0	4.6	4.1	3.8	3.3	3.0
Unemployment rate ² (BA concept)	6.7	6.4	6.1	5.7	5.2	4.9
Consumer prices	0.9	0.3	0.5	1.8	1.9	1.9
Unit labor costs ³	1.4	1.8	1.6	1.5	2.1	2.1
Government budget balance ⁴						
in billion EUR	15.5	25.4	31.9	38.2	49.4	46.3
in percent of GDP	0.5	0.8	1.0	1.2	1.5	1.3
Current account balance, in percent of GDP	7.5	8.9	8.5	8.0	8.3	7.9

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 Economic Outlook Summer 2018, forecast from second quarter 2018 onward.

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Table 2

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

Price, seasonally and working-day adjusted, in percent

	2017				2018				2019			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Private consumption	0.5	0.8	0.0	0.1	0.4	0.2	0.3	0.3	0.7	0.5	0.4	0.3
Public consumption	0.1	0.5	0.5	0.4	-0.5	0.8	0.4	0.4	0.4	0.5	0.4	0.5
Gross fixed capital formation	2.6	1.5	0.4	0.3	1.7	0.6	0.6	0.7	0.8	0.8	0.7	0.7
Investment in machinery and equipment	2.6	3.3	1.3	0.7	1.2	-0.2	0.5	0.8	1.1	1.1	0.9	0.9
Construction investment	2.9	0.5	-0.2	0.1	2.1	1.0	0.7	0.7	0.6	0.6	0.6	0.6
Other investment	2.0	0.9	0.6	-0.1	1.5	0.8	0.7	0.7	0.8	0.8	0.7	0.7
Change in inventories ¹	-0.5	0.2	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic uses	0.4	1.1	0.4	0.1	0.4	0.4	0.4	0.4	0.6	0.6	0.5	0.4
Net Exports ¹	0.5	-0.4	0.4	0.5	-0.1	0.0	0.0	0.0	-0.1	-0.1	-0.1	0.0
Exports	1.6	1.1	1.7	2.6	-1.0	0.9	1.0	1.0	0.9	0.9	0.9	0.9
Imports	0.5	2.4	1.0	1.8	-1.1	1.0	1.2	1.1	1.3	1.2	1.2	1.1
Gross Domestic Product	0.9	0.6	0.7	0.6	0.3	0.4	0.4	0.4	0.5	0.5	0.4	0.4

1 Contribution to gross domestic product growth in percentage points.

Sources: Federal Statistical Office; DIW Economic Outlook Summer 2018, forecast from second quarter 2018 onward.

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JEL: E32, E66, F01

Keywords: Business cycle forecast, economic outlook

NATIONAL ACCOUNTS DATA

The main national accounts data for the Federal Republic of Germany Forecast for 2018 and 2019

	2017	2018	2019	2017		2018		2019	
				1st half year	2nd half year	1st half year	2nd half year	1st half year	2nd half year
1. Origin of GDP									
Percentage change over previous year									
Domestic employment	1.5	1.2	0.6	1.5	1.4	1.3	1.1	0.7	0.6
Hours worked, per working day	1.0	0.0	0.1	0.0	2.0	0.0	−0.1	0.7	−0.4
Working days	−1.2	−0.3	0.0	0.0	−2.3	−0.5	−0.1	−0.8	0.8
Labor volume, calendar-monthly	1.3	0.9	0.8	1.5	1.1	0.9	1.0	0.6	0.9
Labor productivity¹	1.0	0.9	0.9	0.7	1.2	1.1	0.8	0.9	1.0
GDP, price adjusted	2.2	1.9	1.7	2.2	2.3	2.0	1.7	1.5	1.9
2. Disposition of GDP in current prices									
a) Billion EUR									
Final consumption expenditure	2,370.7	2,445.0	2,536.5	1,158.2	1,212.5	1,191.4	1,253.7	1,234.0	1,302.5
Private consumption expenditure²	1,732.8	1,785.0	1,848.8	848.8	884.0	871.3	913.7	900.9	947.8
Government consumption expenditure	637.9	660.0	687.7	309.4	328.5	320.0	340.0	333.1	354.6
Gross fixed capital formation (GFCF)	663.1	702.6	738.3	319.9	343.2	338.6	364.0	355.3	383.0
Machinery and equipment	214.6	222.4	230.9	101.8	112.8	106.5	115.9	109.3	121.6
Construction	323.0	348.6	369.9	156.7	166.3	167.8	180.8	178.8	191.1
GFCF in other products	125.4	131.6	137.6	61.3	64.1	64.3	67.3	67.2	70.4
Change in stocks³	−17.5	−24.4	−26.0	−1.8	−15.7	−4.1	−20.3	−5.2	−20.8
Domestic uses	3,016.2	3,123.2	3,248.8	1,476.2	1,540.0	1,525.9	1,597.4	1,584.1	1,664.7
Balance of exports and imports	247.2	255.2	250.0	126.3	120.9	136.5	118.7	134.0	116.1
Exports	1,541.5	1,607.6	1,680.8	760.8	780.7	796.6	811.0	831.4	849.4
Imports	1,294.3	1,352.4	1,430.8	634.5	659.8	660.1	692.3	697.5	733.3
GDP	3,263.4	3,378.4	3,498.8	1,602.5	1,660.9	1,662.3	1,716.1	1,718.1	1,780.8
b) Percentage change over previous year									
Final consumption expenditure	3.5	3.1	3.7	3.7	3.4	2.9	3.4	3.6	3.9
Private consumption expenditure²	3.5	3.0	3.6	3.8	3.2	2.7	3.4	3.4	3.7
Government consumption expenditure	3.6	3.5	4.2	3.3	4.0	3.4	3.5	4.1	4.3
Gross fixed capital formation (GFCF)	5.2	6.0	5.1	4.9	5.6	5.9	6.1	4.9	5.2
Machinery and equipment	4.3	3.6	3.8	2.9	5.6	4.6	2.7	2.6	4.9
Construction	6.1	7.9	6.1	6.2	5.9	7.1	8.7	6.5	5.7
GFCF in other products	4.8	4.9	4.5	4.9	4.7	4.8	5.1	4.6	4.5
Domestic uses	4.2	3.5	4.0	4.4	4.1	3.4	3.7	3.8	4.2
Exports	6.3	4.3	4.6	6.0	6.6	4.7	3.9	4.4	4.7
Imports	7.9	4.5	5.8	8.9	6.9	4.0	4.9	5.7	5.9
Gross domestic product	3.8	3.5	3.6	3.4	4.1	3.7	3.3	3.4	3.8
3. Disposition of GDP, adjusted for prices									
a) Chain-linked estimated in billion EUR									
Final consumption expenditure	2,155.1	2,180.2	2,218.8	1,060.2	1,094.9	1,071.3	1,108.8	1,088.3	1,130.4
Private consumption expenditure²	1,594.0	1,612.7	1,641.1	783.2	810.9	791.1	821.6	802.9	838.2
Government consumption expenditure	560.8	567.1	577.3	276.9	283.9	280.0	287.1	285.2	292.1
Gross fixed capital formation (GFCF)	591.2	610.8	628.8	286.1	305.1	295.3	315.5	303.4	325.4
Machinery and equipment	207.6	214.2	221.5	98.0	109.5	102.2	112.1	104.4	117.1
Construction	271.2	280.5	287.7	132.6	138.5	136.1	144.3	140.1	147.7
GFCF in other products	113.2	116.9	120.5	55.6	57.6	57.2	59.6	59.0	61.4
Domestic uses	2,717.1	2,759.6	2,815.0	1,341.7	1,375.4	1,361.9	1,397.8	1,386.0	1,429.0
Exports	1,459.5	1,508.4	1,565.2	720.1	739.4	749.4	759.0	775.3	790.0
Imports	1,258.5	1,295.4	1,358.8	614.0	644.4	634.2	661.2	662.9	696.0
Gross domestic product	2,918.8	2,973.2	3,023.4	1,447.5	1,471.3	1,476.6	1,496.6	1,498.6	1,524.8
b) Percentage change over previous year									
Final consumption expenditure	1.7	1.2	1.8	1.9	1.5	1.0	1.3	1.6	1.9
Private consumption expenditure²	1.8	1.2	1.8	2.0	1.5	1.0	1.3	1.5	2.0
Government consumption expenditure	1.5	1.1	1.8	1.4	1.6	1.1	1.1	1.8	1.8
Gross fixed capital formation (GFCF)	3.3	3.3	2.9	3.1	3.5	3.2	3.4	2.7	3.1
Machinery and equipment	4.0	3.2	3.4	2.6	5.3	4.2	2.3	2.2	4.5
Construction	2.8	3.4	2.6	3.3	2.3	2.6	4.2	2.9	2.3
GFCF in other products	3.5	3.2	3.1	3.7	3.3	3.0	3.4	3.2	3.0
Domestic uses	2.2	1.6	2.0	2.5	2.0	1.5	1.6	1.8	2.2
Exports	4.6	3.3	3.8	4.0	5.2	4.1	2.7	3.5	4.1
Imports	5.2	2.9	4.9	5.1	5.2	3.3	2.6	4.5	5.3
GDP	2.2	1.9	1.7	2.2	2.3	2.0	1.7	1.5	1.9

NATIONAL ACCOUNTS DATA

Continued: The main national accounts data for the Federal Republic of Germany
Forecast for 2018 and 2019

	2017	2018	2019	2017		2018		2019	
				1st half year	2nd half year	1st half year	2nd half year	1st half year	2nd half year
4. Price level of national expenditure (2010 = 100)									
Percentage change over previous year									
Private consumption expenditure ²	1.7	1.8	1.8	1.7	1.7	1.6	2.0	1.9	1.7
Government consumption expenditure	2.1	2.3	2.4	1.8	2.3	2.3	2.3	2.2	2.5
Gross fixed capital formation (GFCF)	1.9	2.6	2.1	1.7	2.0	2.5	2.6	2.1	2.0
Machinery and equipment	0.3	0.4	0.4	0.3	0.3	0.4	0.4	0.4	0.4
Construction	3.2	4.4	3.4	2.9	3.6	4.3	4.4	3.5	3.3
Exports	1.6	0.9	0.8	1.9	1.4	0.6	1.2	0.9	0.6
Imports	2.6	1.5	0.9	3.7	1.6	0.7	2.3	1.1	0.6
GDP	1.5	1.6	1.8	1.2	1.8	1.7	1.6	1.8	1.8
5. Distribution of Income									
a) Billion EUR									
Primary income of private households ²	2,269.2	2,356.0	2,437.0	1,117.2	1,152.0	1,160.2	1,195.9	1,199.8	1,237.2
Employers' social contributions	299.4	310.0	323.6	144.9	154.5	150.2	159.7	156.9	166.7
Gross wages and salaries	1,369.5	1,432.5	1,487.6	652.8	716.7	684.0	748.5	711.1	776.5
Other primary income of private households ⁴	600.3	613.6	625.8	319.5	280.8	326.0	287.6	331.7	294.0
Primary income of other institutional sectors	482.2	497.8	514.6	221.3	260.9	233.1	264.7	237.6	277.0
Net national income (primary income)	2,751.4	2,853.8	2,951.6	1,338.5	1,412.9	1,393.3	1,460.6	1,437.4	1,514.2
Consumption of fixed capital	572.2	597.6	623.0	283.8	288.4	295.9	301.8	308.8	314.2
Gross national income	3,323.6	3,451.5	3,574.6	1,622.3	1,701.4	1,689.1	1,762.4	1,746.2	1,828.4
Memorandum item:									
Net national income (factor costs)	2,434.7	2,527.9	2,614.9	1,180.3	1,254.4	1,230.9	1,297.0	1,270.0	1,345.0
Property and entrepreneurial income	765.8	785.5	803.7	382.6	383.2	396.7	388.8	401.9	401.8
Compensation of employees	1,668.9	1,742.4	1,811.2	797.7	871.2	834.2	908.2	868.1	943.2
b) Percentage change over previous year									
Primary income of private households ²	4.2	3.8	3.4	4.3	4.1	3.8	3.8	3.4	3.5
Employers' social contributions	3.7	3.5	4.4	3.7	3.6	3.7	3.4	4.5	4.3
Gross wages and salaries	4.4	4.6	3.8	4.4	4.4	4.8	4.4	4.0	3.7
Other primary income of private households ⁴	4.1	2.2	2.0	4.3	3.8	2.0	2.4	1.8	2.2
Primary income of other institutional sectors	3.1	3.2	3.4	-0.3	6.2	5.3	1.4	1.9	4.6
Net national income (primary income)	4.0	3.7	3.4	3.5	4.5	4.1	3.4	3.2	3.7
Consumption of fixed capital	3.6	4.4	4.2	3.4	3.8	4.3	4.6	4.4	4.1
Gross national income	4.0	3.8	3.6	3.5	4.4	4.1	3.6	3.4	3.7
Memorandum item:									
Net national income (factor costs)	4.1	3.8	3.4	3.5	4.8	4.3	3.4	3.2	3.7
Property and entrepreneurial income	3.8	2.6	2.3	1.7	6.0	3.7	1.5	1.3	3.3
Compensation of employees	4.3	4.4	3.9	4.3	4.3	4.6	4.3	4.1	3.8
6. Income and expenditure of private households									
a) billion EUR									
Mass income	1,350.6	1,403.0	1,466.3	650.1	700.5	674.9	728.2	705.4	760.8
Net wages and salaries	906.0	948.4	991.6	427.3	478.7	448.0	500.4	469.1	522.5
Social benefits	564.8	580.0	605.4	282.6	282.3	289.2	290.9	301.3	304.1
Less levies on social benefits	120.2	125.4	130.7	59.8	60.5	62.3	63.1	65.0	65.8
Other primary income ⁴	600.3	613.6	625.8	319.5	280.8	326.0	287.6	331.7	294.0
Other transfers received (net) ⁵	-77.6	-82.8	-86.2	-37.7	-39.9	-40.4	-42.3	-42.2	-44.1
Disposable income	1,873.3	1,933.9	2,005.8	931.9	941.4	960.4	973.5	995.0	1,010.8
Memorandum item:									
Adjustment for the change in net equity of households in pension funds reserves	49.5	50.2	50.9	24.5	25.1	24.9	25.4	25.2	25.7
Private consumption expenditure	1,732.8	1,785.0	1,848.8	848.8	884.0	871.3	913.7	900.9	947.8
Savings	190.0	199.1	207.9	107.6	82.5	113.9	85.2	119.2	88.6
Savings ratio in percent ⁶	9.9	10.0	10.1	11.2	8.5	11.6	8.5	11.7	8.6
b) Percentage change over previous year									
Mass income	4.0	3.9	4.5	4.1	3.8	3.8	4.0	4.5	4.5
Net wages and salaries	4.2	4.7	4.6	4.2	4.3	4.9	4.5	4.7	4.4
Social benefits	3.7	2.7	4.4	4.3	3.0	2.3	3.1	4.2	4.6
Less levies on social benefits	4.7	4.3	4.3	5.7	3.7	4.2	4.3	4.3	4.3
Other primary income ⁴	4.1	2.2	2.0	4.3	3.8	2.0	2.4	1.8	2.2
Disposable income	3.8	3.2	3.7	4.0	3.5	3.1	3.4	3.6	3.8
Private consumption expenditure	3.5	3.0	3.6	3.8	3.2	2.7	3.4	3.4	3.7
Savings	5.8	4.8	4.4	5.3	6.3	5.9	3.3	4.7	4.0

NATIONAL ACCOUNTS DATA

continued: The main national accounts data for the Federal Republic of Germany
Forecast for 2018 and 2019

	2017	2018	2019	2017		2018		2019	
				1st half year	2nd half year	1st half year	2nd half year	1st half year	2nd half year
7. Government revenues and expenditures									
a) billion EUR									
Revenues									
Taxes	765.9	796.1	828.0	383.1	382.8	397.8	398.2	413.6	414.4
direct taxes	421.4	442.2	463.2	211.3	210.1	221.8	220.4	232.4	230.8
indirect taxes	344.5	353.8	364.7	171.8	172.7	176.0	177.8	181.2	183.6
Net social contributions	548.0	568.8	586.8	265.6	282.4	276.2	292.6	285.2	301.7
Property income	16.4	17.8	17.9	8.8	7.6	10.3	7.4	10.7	7.2
Other transfers	22.3	22.3	22.7	10.0	12.3	10.0	12.3	10.2	12.5
Capital transfers	10.9	11.2	11.6	5.4	5.5	5.6	5.6	5.8	5.8
Sales	109.7	112.2	115.4	52.0	57.7	52.8	59.4	54.7	60.7
Other subsidies	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Total revenues	1,473.3	1,528.6	1,582.5	724.9	748.4	752.8	775.8	780.2	802.3
Expenditures									
Intermediate consumption	155.7	161.0	168.8	71.3	84.5	73.4	87.7	76.9	91.9
Compensation of employees	246.1	254.6	265.5	118.0	128.1	121.9	132.8	127.1	138.4
Social benefits in kind	278.0	286.6	296.7	138.1	139.9	142.4	144.3	147.5	149.2
Property income (interests)	33.8	31.6	30.3	17.3	16.5	15.9	15.7	15.1	15.1
Subsidies	27.8	27.9	28.1	13.6	14.2	13.7	14.3	13.7	14.3
Social benefits	506.0	520.0	543.0	253.3	252.7	259.4	260.6	270.4	272.7
Other transfers	75.3	83.9	90.7	39.8	35.5	44.2	39.8	47.5	43.2
Gross capital formation	70.3	74.1	77.5	30.2	40.1	32.0	42.1	33.4	44.1
Capital transfers	43.5	40.7	37.1	21.8	21.7	20.2	20.5	15.3	21.7
Acquisitions less disposals of non-financial non-produced assets	-1.6	-1.6	-1.7	-0.6	-0.9	-0.7	-1.0	-0.7	-1.0
Other taxes on production	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Total expenditures	1,435.1	1,479.2	1,536.2	702.8	732.4	722.3	756.9	746.5	789.8
Balance	38.2	49.4	46.3	22.2	16.0	30.5	19.0	33.7	12.6
b) Percentage change over previous year									
Revenues									
Taxes	4.6	3.9	4.0	5.1	4.2	3.9	4.0	4.0	4.0
direct taxes	6.1	4.9	4.7	6.2	6.0	5.0	4.9	4.8	4.7
indirect taxes	2.9	2.7	3.1	3.7	2.1	2.4	3.0	2.9	3.2
Net social contributions	4.6	3.8	3.2	4.8	4.5	4.0	3.6	3.3	3.1
Property income	-9.4	8.6	0.5	-8.2	-10.7	17.7	-1.9	3.3	-3.4
Other transfers	12.3	0.0	1.5	11.8	12.8	-0.1	0.1	1.5	1.5
Capital transfers	-29.5	2.8	3.5	-28.6	-30.3	3.0	2.7	3.5	3.5
Sales	4.5	2.3	2.8	4.3	4.8	1.6	3.0	3.6	2.1
Other subsidies	2.5	0.0	0.0	4.6	0.9	0.0	0.0	0.0	0.0
Total revenues	4.2	3.8	3.5	4.4	3.9	3.8	3.7	3.6	3.4
Expenditures									
Intermediate consumption	3.8	3.4	4.8	2.4	5.0	3.0	3.8	4.8	4.9
Compensation of employees	4.1	3.5	4.3	4.0	4.1	3.2	3.6	4.3	4.2
Social benefits in kind	3.5	3.1	3.5	3.4	3.6	3.1	3.1	3.6	3.4
Property income (interests)	-4.6	-6.5	-4.2	-2.0	-7.1	-8.2	-4.8	-4.5	-3.8
Subsidies	0.0	0.4	0.4	0.4	-0.3	0.4	0.4	0.4	0.4
Social benefits	4.1	2.8	4.4	4.8	3.3	2.4	3.1	4.2	4.6
Other transfers ⁷	-0.4	8.7	6.8	-0.1	-0.3	4.3	4.3	3.4	3.4
Gross capital formation	5.2	5.5	4.6	4.2	5.9	6.0	5.0	4.5	4.7
Capital transfers ⁷	7.1	-2.8	-3.6	39.0	4.7	-7.1	-5.6	-24.1	6.0
Acquisitions less disposals of non-financialnon-produced assets ⁷	-0.3	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0
Other taxes on production ⁷	0.0	0.0	0.0	2.4	-2.1	0.0	0.0	0.0	0.0
Total expenditures	3.8	3.1	3.9	4.3	3.3	2.8	3.3	3.3	4.3

1 Gross domestic product (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 saving as percentage of disposable income.

7 Absolute change over previous year in billions of euros.

8 All administrative units including Social Security.

Sources: Federal Statistical Office (Fachserie 18: Volkswirtschaftliche Gesamtrechnungen); DIW Economic Outlook Summer 2018.