

# DIW Weekly Report

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## AT A GLANCE

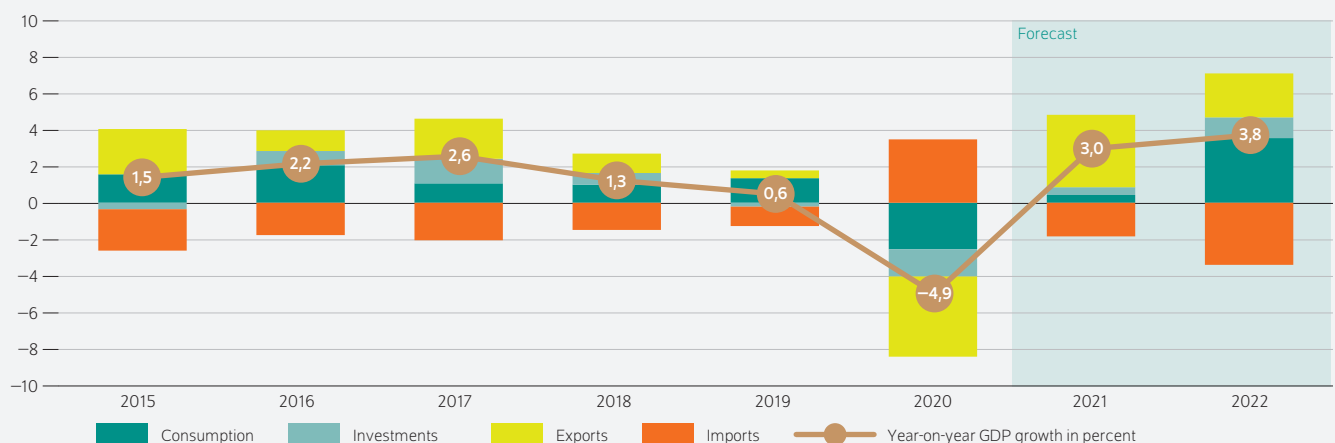
# German economy stuck in stop-go situation

By Claus Michelsen et al.

- DIW Berlin significantly lowers growth forecast for 2021 to 3.0 percent; 3.8 percent currently expected for 2022
- The expected back-and-forth of lifting measures, regional flare-ups of infections, and closures primarily impacts the service sectors
- China and the US are currently powering the global economy - the German economy is benefiting from good foreign business and thus robust industrial activity
- Problems in the corporate sector masked by the suspension of duty for companies to file for insolvency and state aid - number of corporate insolvencies likely to rise significantly
- Pandemic must be combated at a speedier pace and more investments in the future are needed so Germany does not lose out internationally

### German economy recovering significantly slower than expected in winter 2020

Individual GDP components' contribution to growth in percentage points



Source: DIW Berlin Economic Outlook Spring 2021

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## FROM THE AUTHORS

*"The economic stimulus package from 2020 has provided a significant boost in Germany, although it is nowhere near as large as in the United States. The US and other economies are using the current situation to strengthen their competitiveness. We would recommend the German government do the same."*

— Claus Michelsen, DIW Berlin Chief Economic Forecaster —

## MEDIA



**Audio Interview** with Claus Michelsen (in German)  
[www.diw.de/mediathek](http://www.diw.de/mediathek)

# German economy stuck in stop-go situation

**By Claus Michelsen, Guido Baldi, Paul Berenberg-Gossler, Marius Clemens, Geraldine Dany-Knedlik, Hella Engerer, Marcel Fratzscher, Max Hanisch, Simon Junker, Konstantin Kholodilin, and Laura Pagenhardt**

The coronavirus pandemic continues to determine world economic events. A powerful recovery lasting from summer to late fall 2020 followed the drastic slump in economic output in the first half of the year. Thereafter, the new coronavirus case numbers in many countries increased considerably, which led to renewed, partly wide-reaching restrictions on social life. Among the countries most affected were those of the European Union and the United States. Overall, global economic outlook declined by 2.7 percent in 2020. Advanced economies, including Germany, dealt with a significantly larger decline of 4.8 percent.

The second coronavirus wave in winter 2020/21 and the third wave now emerging have interrupted recovery in many countries. The service sectors above all are being dampened by consumer reticence and lockdown-related closures of retail and the cultural sector. Compared to the first coronavirus wave in spring 2020, the manufacturing industry has adjusted better to the pandemic worldwide; therefore, industrial production is robust. Global trade in particular is also in a better situation compared to spring 2020. The German economy, whose export goods are in demand despite the rampant pandemic, benefits from this as well. Business in Asia and the US is supporting exports, while the second coronavirus wave stopped recovery in the European Union. Unlike in the US or the United Kingdom, the EU's vaccination campaign is proceeding sluggishly and dampening prospects of a quick recovery.

Despite the continuing high case numbers, many countries decided to lift restrictions. Germany adopted a multi-phase plan at the beginning of March 2021, making regional differences in new case numbers the basis for opening up retail, gastronomy, and many other services. According to this plan, regions with a seven-day incidence of fewer

than 50 new cases per 100,000 residents may implement expansive re-opening measures within one week. There are more restrictive rules for the public in areas with an incidence between 50 and 100. In the case that the incidence increases to over 100, new closures are planned.

This plan is likely to lead to a stop-go situation for value added, especially for services, as re-opening while an increasing share of coronavirus mutations are spreading faster than the original variant is expected to lead to a significant increase in case numbers. It is assumed in the calculated scenario that numerous districts and urban municipalities will again have to noticeably restrict activities in retail, gastronomy, and other service sectors. Following re-openings, a similar development is expected for early summer 2021. Overall, the multi-phase plan is likely to enable more economic activity in the service sectors in the second quarter of 2021 compared to the first, but recovery will be sluggish and a permanent return to normal business will not be possible until early summer as vaccinations continue and additional test opportunities improve.

In light of the robust industrial activity and foreign business's continued recovery, DIW Berlin is forecasting that German economic output will increase by around 3.0 percent in 2021 and that the recovery will continue with an increase of 3.8 percent in 2022. This recovery is progressing significantly slower than was expected at the end of 2020. The underlying scenario assumes a stop-go situation in Germany and Europe, while in other parts of the world—especially in Asia and the US—the pandemic is being combated more effectively, primarily due to a quicker vaccine rollout and no need for renewed, expansive lockdowns.

As before, the risks for this scenario are considerable. For example, politicians have changed their stance on corona-



virus policies more than once, which creates uncertainty for economic actors on its own. In addition, insolvencies are being obscured by the suspension of duty for companies to file for insolvency. Many firms exhausted their equity buffer in 2020; this applies to small businesses in the service sectors especially, who are less crisis-resilient and have fewer opportunities to prepare themselves for serious economic crises. Even before the coronavirus pandemic, these companies had a lower equity position, as surveys from the KfW, for example, show. In many cases, they are dependent on state aid to avoid insolvency, but it is often delayed or stopped entirely due to fraud. In 2020, however, there were fewer corporate insolvencies; thus, they could increase significantly in 2021 alone, putting additional pressure on the labor market. Therefore, there is a significant risk that a larger number of companies will go bankrupt. This could also lead to negative consequences for many creditors, especially the banking sector. Moreover, aid granted in the form of loans worsens the creditworthiness of the surviving companies, whose margin for maneuver, especially for investments, will be restricted in the aftermath of the crisis.

Nevertheless, the emergency aid for companies, the fiscal stimuli, and an expansionary monetary policy are likely to have reduced negative economic consequences of the crisis significantly. Larger parts of income losses and declines in demand were absorbed with instruments such as short-time work and the stimulus package from summer 2020. Although the damage to the labor market is considerable, it is still relatively minor in view of the economic slump. This is likely to be primarily due to the flexible use of short-time worker rules. The unemployment rate is likely to have reached its highest level at more than six percent in 2020 and will be 5.8 percent on average in 2021. That Germany's government debt ratio up until now has only increased to 69 percent compared to GDP is also due to the fact that parts of the aid provided have not yet been requested or were not required. Nevertheless, the debt-to-GDP ratio is likely to further increase to 71 percent in 2021, but it remains markedly lower compared to in the immediate aftermath of the global financial crisis.

A discussion about a rapid return to the debt break is already underway. However, due to the economic situation and its uncertainties, it seems too early to aim for an almost balanced budget. Particularly the fiscal stimulus in Germany

and in the euro area has been significantly smaller than that of other major economic areas, such as the US or Japan. In the US, it is around 13 percent of GDP and in Japan, around six percent. In contrast, overall fiscal aid in response to the coronavirus crisis was only about four percent compared to GDP in Germany. In the coming months and years, Germany also plans to spend significantly less than, for example, the United States, where around four times the current output gap is being spent on crisis management. In Germany, around six percent of economic output is intended for fiscal aid and measures supporting the economy for 2020 to 2022, which is only 1.2 times the output gap in 2020.

Germany and the euro area will unquestionably profit in the short-term from the stimuli in the rest of the world. Nevertheless, important modernization projects are being advanced in other economies more quickly. Therefore, a speedier pace would be important in Germany. Particularly during a time of negative interest rates, the moment seems favorable for investment measures, as these pay off double in the current economic situation. The economic capacities are underutilized, uncertainty about future development is high, and interest rates are incredibly low. Simultaneously, there is a consensus regarding the necessity of expansive state investments in decarbonization, digitalization, research and development, and education, but also in existing infrastructure. Model estimates show that one euro of this public investment will cumulatively add about 1.60 euros to GDP by 2024. As a result, real economic output would be around 0.4 percent higher on an annual average by 2024 than it would have been without the investments under the stimulus program. Especially in an environment of low interest rates, which eliminates the financing costs of issuing government debt or may even turn them into real profits, the additional growth should also make a tangible contribution to reducing public debt in the medium term.

As production potential increases, public and private capacity expand and production processes become more efficient, for example through digitalized schools and public administrations or better childcare. Short- and medium-term demand bottlenecks, which could lead to rising prices as a result of the effective fiscal stimulus, would also be mitigated by the fact that an investment program also increases production capacities permanently.

This means that in the long term there is no trade-off between a reduction in the government debt ratio and more public investment expenditure if this investment increases potential growth, thereby strengthening tax revenues and

easing the burden on social systems. Currently, Germany has a great need for such investments and should seize the opportunity to modernize its economy in a sustainable manner while overcoming the crisis at the same time.

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# Global economy: USA and China leading the way, Europe lagging behind

By Claus Michelsen, Guido Baldi, Paul Berenberg-Gossler, Geraldine Dany-Knedlik, and Hella Engerer

## ABSTRACT

The resurgence of the pandemic and renewed lockdowns have slowed the recovery of the global economy, but the overall losses will be less severe than after the first coronavirus wave in spring 2020. Industry in particular continues to develop well. In contrast, retail trade and personal services have been heavily affected, especially in hard-hit regions such as Europe. However, the fiscal stimulus cushions much of the distortions. With increasing levels of immunity, most economic restrictions will be lifted beginning in the second half of 2021, which should boost private consumption. Due to strong growth in the US and China, DIW Berlin is increasing its forecast by 0.4 percentage points for both 2021 and 2022 and expects growth of 6.7 and 4.8 percent for each year, respectively. Global production should first be able to reach its long-term growth path by the end of 2022. Although the Brexit Deal and the end of Donald Trump's presidency have eased some global uncertainties, risks still remain, especially from new waves of coronavirus infections and sharp increases in insolvencies.

A second wave of the coronavirus pandemic has been thwarting economic recovery since the fourth quarter of 2020. After recovering strongly in the third quarter of 2020 by 7.9 percent compared to the second quarter, the global economy only grew by 1.8 percent in the fourth quarter (Figure 1).

Stricter lockdown measures in Europe and North America have led to economic setbacks. Production in the euro area shrank by 0.7 percent in the fourth quarter of 2020, and with growth of only around one percent, recovery slowed down in the United Kingdom and the US. In light of low infection rates, economies in Asia—led by China—continued to recover strongly at the end of 2020. However, at the end of 2020, the economic performance of most countries was just below or already at the pre-crisis level. Nevertheless, production growth has to increase by a third until the long-term growth path is reached again.

In Europe and North America, the pandemic will continue to dampen the global recovery process despite increased levels of immunity. Following a continuous decline of new coronavirus cases at the beginning of 2021, cases have been increasing in many European countries since the end of February 2021. A third wave and a return of stricter lockdown measures in this region is likely over the first half of 2021. In the US, too, the number of new cases is not currently declining; rather, it is remaining at a constant, but still high, level. In addition, the spread of virus mutations is causing an increase in case numbers in other regions, especially South America.

In many countries, vaccination programs have already begun but are off to a slow start, mainly due to vaccine shortages. Therefore, effective herd immunity will not be reached in major economies before the end of the first half of 2021. Until then, the pandemic and the lockdown measures will continue to negatively impact retail and personal services. Initially, this will dampen the global economic upswing.

Nevertheless, economic losses due to the current wave of coronavirus are likely to be markedly lower than in spring 2020. On the one hand, current heavy caseloads have been concentrated in two regions, North America and Europe. On



the other, industrial value added in these regions is markedly increasing and appears to barely be affected by the pandemic. Correspondingly, corporate investment and trade in industrial goods are also developing solidly in many places; in particular, the continuing upswing in Asian countries is likely to further support industrial production, especially in the manufacturing sector, and strengthen international trade.

With adequate immunity, the upturn in the major economies is likely to pick up significant speed by summer 2021. However, this forecast assumes that the current economic restrictions to control the coronavirus will only be marginally reduced by summer 2021. With sufficient immunity, the infection prevention and control measures can begin to be gradually reduced in the second half of 2021, so that by the end of the year only a few legal requirements and voluntary behavioral changes will affect the economy. In 2022, restrictions will be limited to a few sectoral and regional measures in most countries.

Additional fiscal stimuli as well as a very accommodating monetary policy are likely to support the recovery over the coming years. Many governments passed further fiscal aid packages. For example, since December 2020, the US government has passed two relief packages totaling around 2.8 trillion USD, which is around 13 percent of the US's 2020 GDP. These relief packages will significantly strengthen the US's growth prospects. Some European countries also topped up existing stimulus packages, albeit to a lesser extent than the US. Additional direct fiscal measures should partially offset current corporate and household income losses and thus prevent longer-term distortions.

Many stimulus packages that have been passed also contain investment-enhancing funds to boost the recovery process over the coming years. In Japan, for example, half of the stimulus packages passed—around three percent of Japanese GDP—is earmarked for investments in digitalization and decarbonization. Much of the EU's recovery fund (NextGenerationEU), which accounts for about six percent of the EU's economic output, is also geared toward promoting corporate investment. In addition to fiscal policy, the further favorable financing conditions and a robust development of industrial production will support corporate investments in many places.

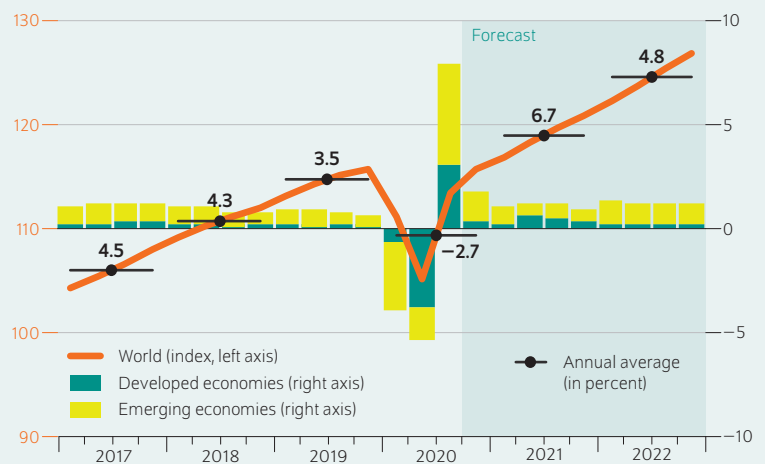
In contrast, private consumption will remain dampened initially. This is in part due to high infection rates in economically important regions, but also due to household income losses and their continuing uncertainty about future economic development. This is reflected in the high savings rates in many places. The loosening of economic restrictions in regions currently hit hard by the coronavirus should significantly boost household consumption, as some consumption is likely to catch up. Sufficient immunity and less fear of new waves should give private consumption additional momentum and decrease the savings rate.

The labor market is likely to only recover sluggishly in many places. By the end of 2020, only about half of the employment

Figure 1

### Growth of real GDP

Compared to previous quarter, in percent



Sources: National statistical offices; DIW Berlin Economic Outlook Spring 2021.

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Global production should first be able to reach its long-term growth path by the end of 2022.

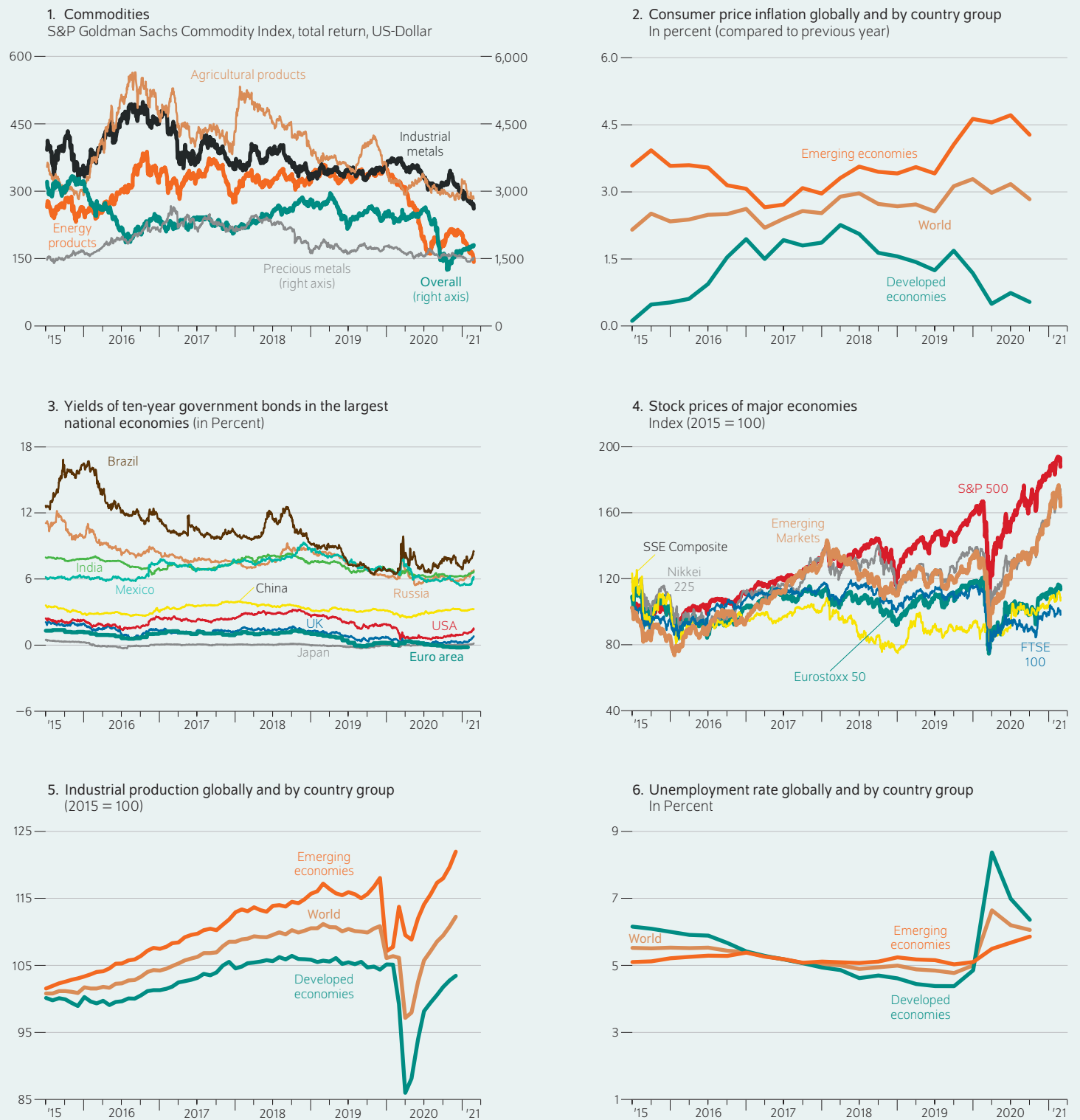
losses from the spring of 2020 had been made up in most countries. The unemployment rate in advanced economies continues to sink, but most are still significantly above the pre-crisis level (Figure 2). If emergency aid for businesses, such as short-time work allowance, is ended at short-notice, unemployment will be expected to rise again. The gradual recovery on the labor markets is also likely to weigh on wage developments in many economies. Thus, consumer price inflation in most economic areas should only moderately increase despite recent increases in energy prices.

In 2020, the coronavirus pandemic caused the global economy to shrink by around 2.7 percent. Due to a strong recovery in Asia, especially of the Chinese economy, the overall decline is around 0.7 percentage points less than DIW Berlin previously expected (Table). An increase in the new infection rate in Europe and the US slowed further recovery, but the upturn will likely continue with strong growth rates in the second half of 2021. Thus, global production will likely only be able to reach its long-term growth path by the end of the forecast period. Due to the unexpected and powerful upswing in China and the improved growth outlook for the US, DIW Berlin is increasing its forecast by 0.4 percentage points for both 2021 and 2022. Thus, DIW Berlin expects growth rates of 6.7 percent for 2021 and 4.8 percent for 2022.

Downward uncertainties have been eased somewhat by the trade agreement concluded between the EU and the UK and Joe Biden's inauguration as US President in January 2021. However, the forecast overall remains tainted with predominantly negative risks, especially due to the continuing uncertainties about the course of the pandemic, new virus mutations, and the effectiveness of available vaccines.

Figure 2

## Global economic indicators



Note: Last observations on February 26, 2021 (parts 1, 3, and 4), third quarter of 2020 (parts 2 and 6) and December 2020 (part 5).

Sources: National statistical offices; IMF; Macrobond; Eurostat; CPB World Trade Monitor, S&P Dow Jones Indices, STOXX, Nikkei Inc.; Shanghai Stock Exchange, FTSE; authors' own calculations.

Table

### Real GDP, consumer prices, and unemployment rate in the global 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	1.3	−6.8	3.4	4.2	1.3	0.1	1.6	1.2	7.5	8.1	9.2	8.1
without Germany	1.6	−7.5	3.6	4.4	1.2	−0.1	1.3	1.1	9.5	9.8	11.4	10.1
France	1.5	−8.3	4.4	4.4	1.1	0.5	1.2	1.1	8.5	8.2	9.8	8.5
Italy	0.3	−8.9	3.0	3.9	0.7	−0.2	1.0	0.9	9.9	8.9	10.3	9.7
Spain	2.0	−11.0	5.1	5.8	0.7	−0.3	1.0	1.1	14.0	16.2	18.6	16.0
Netherlands	1.6	−3.8	2.2	3.0	2.6	1.1	1.6	1.6	3.4	3.8	5.7	5.3
United Kingdom	1.4	−9.9	4.7	6.5	1.7	1.0	1.8	2.4	3.8	4.5	6.5	6.1
USA	2.2	−3.5	6.7	3.5	1.9	1.2	2.6	2.1	3.6	7.5	5.3	4.0
Japan	0.3	−4.9	2.9	1.8	0.5	−0.1	−0.3	0.9	2.4	2.8	3.0	2.6
South Korea	2.0	−0.9	3.3	3.1	0.4	0.5	1.2	1.4	3.8	4.0	4.1	3.7
East-Central Europe	4.1	−3.7	4.0	4.7	2.7	3.1	3.3	3.1	3.3	3.7	4.2	3.7
Turkey	1.0	1.6	4.9	3.0	15.2	12.3	13.1	11.0	13.7	14.0	14.3	13.3
Russia	1.3	−3.1	2.9	2.9	4.5	3.4	4.3	4.1	4.6	5.8	5.6	4.9
China	6.2	2.5	8.9	5.8	2.4	3.4	2.1	3.0	4.1	4.1	4.1	4.1
India	4.7	−8.2	8.9	7.4	3.7	6.6	3.8	3.6				
Brazil	1.4	−5.0	3.0	2.0	3.8	3.3	4.7	3.5	11.9	13.8	14.1	13.3
Mexico	0.0	−8.7	3.5	2.0	3.4	3.4	3.6	3.2	3.5	4.6	5.9	4.5
Developed economies	1.7	−4.8	5.1	3.7	1.5	0.7	1.9	1.7	4.5	6.6	6.0	5.0
Emerging economies	4.6	−1.5	7.6	5.5	3.6	4.5	3.6	3.8	5.2	5.5	5.7	5.4
World	3.5	−2.7	6.7	4.8	2.8	3.1	2.9	3.0	4.9	6.0	5.8	5.2

Sources: National statistical offices; DIW Berlin Economic Outlook Spring 2021.

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Despite lockdown measures and vaccination campaigns, further uncontrolled increases in regional and global infection rates could occur, especially if virus mutations spread rapidly. This, in turn, would make stricter lockdown measures necessary and would likely further delay an economic upswing. Additionally, slow vaccine rollouts could dampen the hope of a relatively quick end to the pandemic and weaken public trust. Another risk is that corporate and personal

insolvencies will rise sharply, in particular as a result of the continuing (partial) lockdowns. This could lead to significant loan defaults and, as a result, destabilize the financial markets, which could also jeopardize the solvency of a number of countries. Global recovery, on the other hand, would be strengthened by faster vaccine distribution and more effective treatments for COVID-19.

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# 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.

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 <sup>1</sup>	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 <sup>1</sup>	-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

<sup>1</sup> Contribution to gdp growth in percentage points

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

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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 <sup>1</sup> (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 <sup>2</sup> (ILO concept)	3.8	3.4	3.2	4.2	4.4	3.8
Unemployment rate <sup>2</sup> (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 <sup>3</sup>	1.1	2.8	3.2	4.2	0.0	1.0
Government budget balance <sup>4</sup>						
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

<sup>1</sup> Price-adjusted, chain-linked

<sup>2</sup> As a share of domestic labor force (ILO), resp. Civilian labor force (BA)

<sup>3</sup> Compensation of employees (national concept) per hour worked over real GDP

<sup>4</sup> According to ESA 2010

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

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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.

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## APPENDIX: NATIONAL ACCOUNTS DATA

### The Main National Accounts Data for the Federal Republic of Germany Forecast for 2021 and 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	-1.1	-0.1	0.8	-0.5	-1.6	-0.8	0.6	0.9	0.7
Hours worked, per working day	-5.2	1.0	1.9	-5.3	-5.1	0.6	1.3	2.0	1.9
Working days	1.5	0.1	-0.1	0.5	2.4	0.0	0.2	0.8	-1.0
Labour volume, calendar-monthly	-4.7	0.9	2.6	-5.2	-4.3	-0.3	2.2	3.7	1.5
Labour productivity <sup>1</sup>	-0.2	2.1	1.2	-1.4	1.0	3.2	0.9	1.5	0.8
Gross domestic product, price adjusted	-4.9	3.0	3.8	-6.5	-3.3	2.9	3.1	5.3	2.4
2. Disposition of GDP in current prices									
a) Billion EUR									
Final consumption expenditure	2,460.1	2,524.0	2,684.2	1,197.4	1,262.8	1,212.0	1,312.0	1,307.7	1,376.5
Private consumption expenditure <sup>2</sup>	1,709.3	1,744.8	1,882.7	833.9	875.4	833.4	911.3	916.8	966.0
Government consumption expenditure	750.8	779.3	801.5	363.5	387.3	378.6	400.7	390.9	410.6
Gross fixed capital formation (GFCF)	735.5	762.3	816.7	353.1	382.4	356.7	405.6	390.6	426.1
Construction	213.9	226.3	244.5	98.0	115.9	104.4	122.0	115.2	129.3
Machinery and equipment	387.0	394.3	423.7	191.6	195.4	185.1	209.2	205.0	218.8
GFCF in other products	134.6	141.7	148.5	63.6	71.0	67.2	74.5	70.4	78.0
Change in stocks <sup>3</sup>	-57.4	-55.6	-56.9	-14.6	-42.7	-23.0	-32.6	-25.2	-31.7
Domestic uses	3,138.3	3,230.7	3,444.0	1,535.9	1,602.4	1,545.7	1,685.0	1,673.0	1,771.0
Balance of exports and imports	194.0	248.0	221.7	84.0	109.9	136.3	111.8	122.1	99.6
Exports	1,460.1	1,614.0	1,738.0	703.4	756.7	784.9	829.2	859.0	879.0
Imports	1,266.1	1,366.0	1,516.4	619.4	646.8	648.6	717.4	736.9	779.4
GDP	3,332.2	3,478.8	3,665.7	1,619.9	1,712.3	1,682.0	1,796.8	1,795.1	1,870.6
b) Percentage change over previous year									
Final consumption expenditure	-2.0	2.6	6.3	-2.3	-1.8	1.2	3.9	7.9	4.9
Private consumption expenditure <sup>2</sup>	-5.4	2.1	7.9	-5.7	-5.1	-0.1	4.1	10.0	6.0
Government consumption expenditure	6.6	3.8	2.8	6.8	6.4	4.2	3.4	3.2	2.5
Gross fixed capital formation (GFCF)	-1.7	3.6	7.1	-2.0	-1.4	1.0	6.1	9.5	5.1
Construction	-10.9	5.8	8.0	-15.5	-6.7	6.6	5.2	10.3	6.0
Machinery and equipment	3.6	1.9	7.5	5.9	1.4	-3.4	7.0	10.7	4.6
GFCF in other products	0.4	5.2	4.8	0.2	0.5	5.7	4.8	4.8	4.8
Domestic uses	-3.4	2.9	6.6	-3.3	-3.5	0.6	5.2	8.2	5.1
Exports	-9.7	10.5	7.7	-12.7	-6.8	11.6	9.6	9.5	6.0
Imports	-10.7	7.9	11.0	-11.8	-9.6	4.7	10.9	13.6	8.6
GDP	-3.4	4.4	5.4	-4.3	-2.5	3.8	4.9	6.7	4.1
3. Disposition of GDP, adjusted for prices									
a) Chain-linked estimated in billion EUR									
Final consumption expenditure	2,292.1	2,306.4	2,419.9	1,120.1	1,172.1	1,116.3	1,190.1	1,188.3	1,231.6
Private consumption expenditure <sup>2</sup>	1,614.7	1,616.6	1,720.9	785.7	829.0	775.1	841.5	841.7	879.2
Government consumption expenditure	676.5	688.5	698.7	333.8	342.7	340.2	348.2	346.3	352.5
Gross fixed capital formation (GFCF)	662.7	674.8	710.1	317.4	345.3	317.0	357.8	340.8	369.3
Construction	204.9	214.6	230.3	94.0	110.9	99.0	115.6	108.4	121.8
Machinery and equipment	330.7	329.4	345.1	162.6	168.1	155.6	173.8	167.9	177.2
GFCF in other products	124.9	129.4	133.5	59.3	65.6	61.7	67.7	63.6	69.9
Domestic uses	2,919.9	2,947.9	3,097.0	1,432.8	1,487.2	1,420.6	1,527.3	1,515.7	1,581.3
Exports	1,426.3	1,553.9	1,635.1	686.3	740.0	761.3	792.6	812.2	822.9
Imports	1,274.3	1,334.0	1,447.6	623.2	651.1	639.5	694.6	705.8	741.8
GDP	3,074.0	3,167.4	3,287.2	1,497.2	1,576.6	1,541.3	1,626.1	1,622.6	1,664.6
b) Percentage change over previous year									
Final consumption expenditure	-3.5	0.6	4.9	-4.2	-2.8	-0.3	1.5	6.4	3.5
Private consumption expenditure <sup>2</sup>	-6.1	0.1	6.5	-7.1	-5.0	-1.3	1.5	8.6	4.5
Government consumption expenditure	3.3	1.8	1.5	3.5	3.1	1.9	1.6	1.8	1.2
Gross fixed capital formation (GFCF)	-3.1	1.8	5.2	-4.2	-2.2	-0.1	3.6	7.5	3.2
Construction	-12.1	4.7	7.3	-16.7	-7.9	5.3	4.3	9.5	5.4
Machinery and equipment	1.9	-0.4	4.8	2.8	1.0	-4.3	3.4	7.9	2.0
GFCF in other products	-1.1	3.6	3.2	-1.2	-0.9	4.0	3.2	3.2	3.3
Domestic uses	-4.2	1.0	5.1	-4.7	-3.8	-0.8	2.7	6.7	3.5
Exports	-9.4	8.9	5.2	-12.7	-6.0	10.9	7.1	6.7	3.8
Imports	-8.5	4.7	8.5	-9.4	-7.5	2.6	6.7	10.4	6.8
GDP	-4.9	3.0	3.8	-6.5	-3.3	2.9	3.1	5.3	2.4

## APPENDIX: NATIONAL ACCOUNTS DATA

**Continued: The Main National Accounts Data for the Federal Republic of Germany**  
Forecast for 2021 and 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 <sup>2</sup>	0.7	2.0	1.4	1.5	0.0	1.3	2.6	1.3	1.4
Government consumption expenditure	3.2	2.0	1.3	3.2	3.2	2.2	1.8	1.4	1.2
Gross fixed capital formation (GFCF)	1.5	1.8	1.8	2.2	0.9	1.1	2.4	1.9	1.8
Construction	1.3	1.0	0.7	1.4	1.2	1.2	0.9	0.7	0.6
Machinery and equipment	1.7	2.3	2.6	3.0	0.4	1.0	3.5	2.6	2.6
Exports	-0.4	1.5	2.3	0.0	-0.8	0.6	2.3	2.6	2.1
Imports	-2.4	3.0	2.3	-2.6	-2.3	2.1	4.0	2.9	1.7
GDP	1.6	1.3	1.5	2.4	0.8	0.9	1.7	1.4	1.7
5. Distribution of income									
a) Billion EUR									
Primary income of private households <sup>2</sup>	2,386.8	2,448.1	2,557.2	1,184.7	1,202.0	1,229.0	1,219.0	1,268.5	1,288.7
Employers' social contributions	331.9	337.5	350.5	161.7	170.3	164.7	172.9	170.6	179.9
Gross wages and salaries	1,509.4	1,567.0	1,653.4	720.6	788.8	738.0	829.0	783.9	869.5
Other primary income of private households <sup>4</sup>	545.4	543.5	553.3	302.4	243.0	326.4	217.2	314.1	239.3
Primary income of other institutional sectors	382.6	459.4	526.2	146.4	236.2	160.5	298.9	228.9	297.3
Net national income (primary income)	2,769.4	2,907.5	3,083.4	1,331.1	1,438.3	1,389.5	1,518.0	1,497.4	1,585.9
Consumption of fixed capital	657.8	669.6	685.9	329.1	328.6	333.5	336.1	341.6	344.3
Gross national income	3,427.1	3,577.1	3,769.2	1,660.3	1,766.9	1,723.1	1,854.1	1,839.0	1,930.2
Memorandum item:									
Net national income (factor costs)	2,492.7	2,608.0	2,730.3	1,196.9	1,295.8	1,250.1	1,357.9	1,321.5	1,408.9
Property and entrepreneurial income	651.3	703.4	726.5	314.6	336.7	347.4	356.0	367.0	359.5
Compensation of employees	1,841.4	1,904.5	2,003.9	882.3	959.1	902.7	1,001.9	954.5	1,049.4
b) Percentage change over previous year									
Primary income of private households <sup>2</sup>	-1.6	2.6	4.5	-1.2	-1.9	3.7	1.4	3.2	5.7
Employers' social contributions	2.4	1.7	3.8	2.9	1.9	1.9	1.5	3.6	4.1
Gross wages and salaries	-0.8	3.8	5.5	-0.9	-0.7	2.4	5.1	6.2	4.9
Other primary income of private households <sup>4</sup>	-5.7	-0.3	1.8	-3.8	-7.9	7.9	-10.6	-3.8	10.2
Primary income of other institutional sectors	-20.1	20.1	14.5	-31.5	-10.9	9.6	26.5	42.6	-0.5
Net national income (primary income)	-4.6	5.0	6.0	-5.7	-3.5	4.4	5.5	7.8	4.5
Consumption of fixed capital	2.8	1.8	2.4	3.6	2.0	1.3	2.3	2.4	2.4
Gross national income	-3.3	4.4	5.4	-4.0	-2.5	3.8	4.9	6.7	4.1
Memorandum item:									
Net national income (factor costs)	-2.8	4.6	4.7	-3.7	-1.9	4.4	4.8	5.7	3.8
Property and entrepreneurial income	-9.3	8.0	3.3	-12.4	-6.2	10.4	5.7	5.6	1.0
Compensation of employees	-0.2	3.4	5.2	-0.2	-0.3	2.3	4.5	5.7	4.7
6. Income and expenditure of private households									
a) Billion EUR									
Mass income	1,530.2	1,586.4	1,628.0	733.5	796.6	762.4	824.0	777.5	850.6
Net wages and salaries	1,017.2	1,062.5	1,102.9	480.0	537.2	494.5	568.0	516.4	586.5
Social benefits	654.5	671.0	676.2	322.8	331.6	340.1	330.8	335.2	341.0
Fewer levies on social benefits	141.5	147.1	151.1	69.3	72.2	72.2	74.9	74.2	76.9
Other primary income <sup>4</sup>	545.4	543.5	553.3	302.4	243.0	326.4	217.2	314.1	239.3
Other transfers received (net) <sup>5</sup>	-92.5	-90.2	-92.1	-46.5	-46.0	-45.0	-45.2	-46.0	-46.1
Disposable income	1,983.0	2,039.7	2,089.3	989.5	993.6	1,043.7	996.0	1,045.5	1,043.8
Memorandum item:									
Adjustment for the change in net equity of households in pension funds reserves	57.4	57.3	57.3	27.9	29.4	27.9	29.4	27.9	29.4
Private consumption expenditure	1,709.3	1,744.8	1,882.7	833.9	875.4	833.4	911.3	916.8	966.0
Saving	331.1	352.3	263.8	183.5	147.6	238.2	114.1	156.6	107.2
Saving ratio in percent <sup>6</sup>	16.2	16.8	12.3	18.0	14.4	22.2	11.1	14.6	10.0
b) Percentage change over previous year									
Mass income	2.6	3.7	2.6	2.3	2.9	3.9	3.4	2.0	3.2
Net wages and salaries	-0.3	4.5	3.8	-0.6	-0.1	3.0	5.7	4.4	3.3
Social benefits	8.0	2.5	0.8	7.2	8.6	5.4	-0.2	-1.4	3.1
Fewer levies on social benefits	4.5	4.0	2.7	3.7	5.3	4.3	3.7	2.7	2.7
Other primary income <sup>4</sup>	-5.7	-0.3	1.8	-3.8	-7.9	7.9	-10.6	-3.8	10.2
Disposable income	0.7	2.9	2.4	0.9	0.5	5.5	0.2	0.2	4.8
Private consumption expenditure	-5.4	2.1	7.9	-5.7	-5.1	-0.1	4.1	10.0	6.0
Savings	50.3	6.4	-25.1	48.0	53.3	29.8	-22.7	-34.2	-6.1

## APPENDIX: NATIONAL ACCOUNTS DATA

### Continued: The Main National Accounts Data for the Federal Republic of Germany Forecast for 2021 and 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 <sup>5</sup>									
a) Billion EUR									
Revenues									
Taxes	773.4	796.0	844.3	388.0	385.4	396.9	399.1	419.7	424.6
Direct taxes	426.9	425.5	450.9	214.2	212.7	211.2	214.4	223.8	227.1
Indirect taxes	346.5	370.5	393.3	173.8	172.7	185.7	184.8	195.8	197.5
Net social contributions	607.9	626.3	656.7	295.1	312.7	301.0	325.3	316.5	340.2
Property income	19.1	15.2	17.6	11.5	7.5	7.8	7.4	10.2	7.3
Other transfers	23.8	24.3	24.7	11.2	12.6	11.4	12.8	11.7	13.1
Capital transfers	15.2	15.0	15.4	7.0	8.2	6.8	8.2	7.0	8.4
Sales	123.5	128.5	132.5	58.0	65.5	60.3	68.2	62.3	70.2
Other subsidies	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total revenues	1,563.0	1,605.5	1,691.3	770.9	792.0	784.3	821.1	827.5	863.8
Expenditures									
Intermediate consumption	202.6	204.0	202.8	97.1	105.5	96.5	107.6	94.1	108.7
Compensation of employees	283.4	290.5	297.3	136.2	147.2	140.0	150.5	143.3	154.0
Social benefits in kind	311.8	333.2	350.7	150.2	161.6	162.8	170.5	174.5	176.2
Property income (interests)	21.8	19.7	18.7	11.6	10.2	10.2	9.5	9.7	9.0
Subsidies	69.8	71.0	40.3	39.6	30.2	46.3	24.7	19.9	20.4
Social benefits	593.1	608.8	613.4	292.2	300.8	309.1	299.7	303.9	309.5
Other transfers	83.0	87.3	88.2	40.2	42.8	42.4	44.8	42.9	45.4
Gross capital formation	92.5	98.0	102.4	41.0	51.5	43.4	54.6	45.6	56.8
Capital transfers	45.4	51.7	48.3	17.4	28.0	21.3	30.4	19.5	28.8
Acquisitions less disposals of non-financial non-produced assets	-1.2	-1.2	-1.2	-0.5	-0.7	-0.5	-0.7	-0.5	-0.7
Other taxes on production	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Total expenditures	1,702.6	1,763.3	1,761.2	825.3	877.3	871.6	891.7	853.0	908.2
Balance	-139.6	-157.8	-69.9	-54.3	-85.3	-87.2	-70.6	-25.5	-44.4
b) Percentage change over previous year									
Revenues									
Taxes	-6.5	2.9	6.1	-6.7	-6.3	2.3	3.6	5.7	6.4
Direct taxes	-6.7	-0.3	6.0	-7.9	-5.4	-1.4	0.8	6.0	6.0
Indirect taxes	-6.3	6.9	6.2	-5.2	-7.3	6.8	7.0	5.5	6.9
Net social contributions	1.7	3.0	4.8	1.8	1.7	2.0	4.0	5.1	4.6
Property income	-13.1	-20.5	15.7	-12.5	-14.0	-32.5	-2.1	31.6	-1.1
Other transfers	-5.3	1.9	1.8	-1.0	-8.9	2.0	1.8	1.8	1.8
Capital transfers	10.4	-1.3	2.6	15.8	6.1	-2.7	-0.1	2.7	2.5
Sales	-1.1	4.1	3.1	-1.2	-1.1	4.1	4.1	3.3	3.0
Other subsidies	-15.1	0.0	0.0	-7.9	-19.3	0.0	0.0	0.0	0.0
Total revenues	-3.0	2.7	5.3	-3.0	-2.9	1.7	3.7	5.5	5.2
Expenditures									
Intermediate consumption	11.4	0.7	-0.6	17.0	6.6	-0.7	1.9	-2.5	1.1
Compensation of employees	4.4	2.5	2.3	4.5	4.3	2.8	2.3	2.4	2.3
Social benefits in kind	3.8	6.9	5.2	1.6	5.9	8.4	5.5	7.2	3.3
Property income (interests)	-20.7	-9.5	-5.2	-19.1	-22.3	-11.7	-7.0	-5.4	-5.0
Subsidies	126.6	1.7	-43.2	175.6	83.7	16.8	-18.1	-57.1	-17.3
Social benefits	8.7	2.6	0.8	7.9	9.5	5.8	-0.4	-1.7	3.3
Other transfers <sup>7</sup>	8.9	4.2	1.0	3.6	5.3	2.2	2.0	0.5	0.5
Gross capital formation	7.4	5.9	4.5	8.9	6.2	5.8	6.0	5.0	4.1
Capital transfers <sup>7</sup>	4.4	6.3	-3.4	3.4	1.0	3.9	2.4	-1.8	-1.7
Acquisitions less disposals of non-financial non-produced assets <sup>7</sup>	0.0	0.0	0.0	0.1	-0.1	0.0	0.0	0.0	0.0
Other taxes on production <sup>7</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditures	9.3	3.6	-0.1	10.2	8.4	5.6	1.6	-2.1	1.8

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 saving as percentage of disposable income.

7 Absolute change over previous year in billion EUR.

8 All administrative units including social security.

Sources: Federal Statistical Office (Fachserie 18: Volkswirtschaftliche Gesamtrechnungen); DIW Berlin Economic Outlook Spring 2021.