

JOINT ECONOMIC FORECAST 2/2024 PRESS RELEASE

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German economy in transition – weak momentum, low potential growth

The Joint Economic Forecast Project Group forecasts a 0.1% decline in Germany's gross domestic product in 2024. Looking further ahead, the institutes expect a weak recovery with growth of 0.8% (2025) and 1.3% (2026). Compared to the spring forecast, this represents a downward revision of 0.2 (2024) and 0.6 (2025) percentage points. "In addition to the economic downturn, the German economy is also being weighed down by structural change," says Dr Geraldine Dany-Knedlik, head of Forecasting and Economic Policy at the German Institute for Economic Research (DIW Berlin). "Decarbonisation, digitalisation, and demographic change – alongside stronger competition with companies from China – have triggered structural adjustment processes that are dampening the long-term growth prospects of the German economy."



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Table

Key Forecast Figures for Germany

	2021	2022	2023	2024	2025	2026
Gross domestic product ¹	3.7	1.4	-0.3	-0.1	0.8	1.3
Employed persons ² (1,000 persons)	45 052	45 675	46 011	46 176	46 244	46 267
Unemployment (1,000 persons)	2 613	2 418	2 609	2 775	2 781	2 664
Unemployment rate ³ (in %)	5.7	5.3	5.7	6.0	6.0	5.7
Consumer prices ⁴	3.1	6.9	5.9	2.2	2.0	2.0
Unit labour costs ^{4,5}	-0.3	4.4	6.7	5.2	2.7	1.6
General government financial balance ⁴						
Euro billion	-116.4	-84.9	-107.5	-92.6	-82.5	-85.8
in % of gross domestic product	-3.2	-2.1	-2.6	-2.1	-1.9	-1.9
Current account balance						
Euro billion	254.6	174.5	248.7	283.1	276.9	267.8
in % of gross domestic product	6.9	4.4	5.9	6.6	6.3	5.9

¹ Price adjusted, % change over previous year. ² Domestic concept. ³ Federal Employment Agency concept.

⁴ % change over previous year. ⁵ Compensation of employees per hour in relation to gross domestic product per hour.

⁶ On national accounts definition (ESA 2010).

Sources: Federal Statistical Office; Federal Employment Agency; Deutsche Bundesbank; 2024 to 2026: forecast by the institutes.

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The German economy has been stagnating for more than two years. A slow recovery is likely to set in next year, but economic growth will not return to its pre-coronavirus trend for the foreseeable future. The overlapping effects of structural change and the economic downturn are particularly evident in the manufacturing sector. Capital goods manufacturers and energy-intensive industries are particularly affected. Their

competitiveness is suffering from higher energy costs and increasing competition from high-quality industrial goods from China, which are displacing German exports on world markets. In terms of the economy, the manufacturing industry is also struggling with the weakening of the global industrial sector and the associated lack of new orders. This is mitigated by the strong increase in gross value added in select areas of the service sector, particularly those dominated by the state, such as education and healthcare.

The Joint Economic Forecast Project Group considers the continuing weakness in investment to be symptomatic of the problems in the manufacturing sector. The persistently high interest rate level alongside the elevated economic and geopolitical uncertainty are likely to have weighed heavily on the investment activities of companies and the propensity of private households to make purchases. Private households are increasingly saving their money instead of spending it on new residential property or consumer goods.

According to the report, the structural adjustment processes are likely to continue and the economic brakes will only be gradually released. The tentative recovery is driven by a revival in private consumption, which will be supported by strong growth in real disposable incomes. The upturn in key sales markets, such as neighbouring European countries, will support German foreign trade. Together with more favourable financing conditions, this will benefit investment in fixed assets.

The economic standstill is now showing clearer signs on the labour market with slightly increased unemployment. It is only in the course of 2025, when economic activity gradually recovers, that unemployment is likely to fall again.

In August, the inflation rate fell to its lowest level in more than three years and is expected to remain close to the European Central Bank's (ECB) inflation target of two percent through 2026.

The full-length version of the report will be available on 26 September 2024 as of 10:00 a.m. at www.gemeinschaftsdiagnose.de/category/gutachten/.

About the Joint Economic Forecast

The Joint Economic Forecast is published twice a year on behalf of the Federal Ministry for Economic Affairs and Climate Action. The following institutes participated in the autumn report 2024:

- German Institute for Economic Research (DIW Berlin)
- ifo Institute – Leibniz Institute for Economic Research at the University of Munich in cooperation with the Austrian Institute of Economic Research (WIFO) Vienna
- Kiel Institute for the World Economy (IfW Kiel)
- Halle Institute for Economic Research (IWH) – Member of the Leibniz Association

- RWI – Leibniz Institute for Economic Research in cooperation with the Institute for Advanced Studies Vienna

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