IWH Halle Institute for Economic Research
Member of the Leibniz Association

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Halle (Saale), December 12, 2024

Frosty prospects for the German economy

The German economy will continue to stagnate in winter 2024/2025. Industry is suffering from a loss of international competitiveness. For this reason and due to the unclear economic policy outlook, firms and consumers are holding back on spending, although incomes have increased recently. Consumer spending will only increase more strongly once the uncertainty subsides. According to the winter forecast of the Halle Institute for Economic Research (IWH), gross domestic product in Germany is expected to fall by 0.2% in 2024 and to expand by 0.4% in 2025. In September, the IWH forecast had still assumed a zero growth in 2024 and a growth of 1.0% in 2025. In East Germany, gross domestic product will increase by 0.5% both this year and in 2025.

Table
Forecast for Germany: Key Economic Indicators[a] for Germany, 2023–2026

	2023	2024	2025	2026
	percentage change over previous year (price adjusted)			
Germany	–0.3	–0.2	0.4	1.3
East Germany[a]	0.7	0.5	0.5	1.2
	percentage change over previous year in %			
hours worked	0.4	–0.2	–0.1	0.3
hourly union wages	3.6	4.8	3.1	2.5
hourly actual wages	6.6	5.2	3.1	2.3
unit labour costs[b]	6.7	5.2	2.9	1.3
consumer price index	5.9	2.2	2.0	2.2
	1,000 persons			
employment (domestic)	46 011	46 111	46 106	46 186
unemployment[c]	2 609	2 787	2 889	2 895
	in %			
unemployment rate[d]	5.7	6.0	6.2	6.2
East Germany[a]	7.2	7.5	7.7	7.7
	in % of nominal GDP			
general government overall balance	–2.6	–2.4	–2.0	–2.2
current account balance	5.9	6.1	5.9	5.6

[a] East Germany including Berlin. – [b] Per hour (IWH calculations). – [c] Federal Employment Agency (BA) concept. – [d] Unemployment in % of civilian labour force (Federal Employment Agency (BA) concept).

Sources: Federal Statistical Office; 2024–2026: IWH forecast (as of December 12, 2024).

At the turn of the year, global production should continue to expand at roughly the same rate as in the decade before the pandemic. The economy remains remarkably robust in the US, but performs only modestly in the euro area. In China, a property crisis continues to weigh on residential construction and the finances of households, firms and regional authorities. The US president-elect is expected to at least partially fulfil his campaign promise of tariff increases in 2025. This will result in higher prices and a more restrictive monetary policy in the US, because output is already at more than full capacity. The

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The IWH Forecasting Dashboard (ForDas)

The IWH-ForDas is an interactive platform for comparing macroeconomic forecasts from various institutes on the German economy.

Keywords
business cycle, consumption, demography, economic growth, East Germany, energy, export, forecast, Germany, global economy, gross domestic product, labour market, monetary policy, production, stagnation, tariffs, wages

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consequences for global trade and German exports will be negative, and the international division of labour will become less efficient. In the short term, however, trade and production are likely to benefit from attempts to pre-empt tariff increases by concluding deals quickly.

The German economy continues to stagnate at the end of 2024. Economic production and exports are currently only around the same level as in 2019. In the third quarter, investment in equipment was significantly lower than in 2019. The poor export business explains the declining demand for new equipment. "Structural problems such as the rise in energy prices in Germany, the ageing of the labour force and the shortage of skilled workers are not easy to solve," says Oliver Holtemöller, head of the Macroeconomics Department and Vice President at the IWH. "This leads to uncertainty among private households that react by saving more." In addition, uncertainty about economic policy has increased more and more. Concerns about jobs are also emerging, as employment growth has come to a standstill. Gross domestic product is expected to stagnate again in the final quarter of 2024. In the first few months of 2025, the federal government's provisional budget will limit public spending, which is an additional dampening factor. However, a new government will be formed sometime next spring. This should reduce economic policy uncertainty, and private consumption is likely to pick up somewhat. After all, real net wages have recently risen significantly. The looser monetary policy is also helping the economy. "Still, a strong upturn is not to be expected," says Oliver Holtemöller.

There are considerable risks to this forecast. Firstly, large firms in the manufacturing sector have recently announced significant job cuts. If the reports of large-scale job cuts continue, the recovery in consumer demand forecasted here would probably not materialise in the coming year according to the IWH researchers. In addition, a global trade war would hit the export-orientated German economy particularly hard. Finally, there is a domestic political risk: "If economic confidence is to increase again, a stable government with a recognisable economic policy concept has to be formed next spring," economist Oliver Holtemöller says, "and there is no guarantee that this will happen." For 2024, the 68% forecast interval for GDP growth ranges from –0.5% to 0.1%, for 2025 from –0.9% to 1.9% and for 2026 from –0.5% to 3.3%.

The extended version of this forecast contains three boxes (all in German):

Box 1: On the estimation of potential output

Box 2: On the effect of the start of production at the Grünheide car factory on gross domestic product in Brandenburg in 2022 and 2023

Box 3: On the public deficit in the context of European fiscal rules

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