

DIW economic outlook



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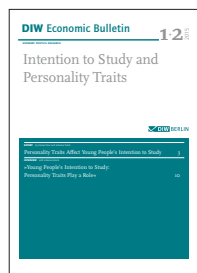
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Global growth still subdued

By Ferdinand Fichtner, Guido Baldi, Christian Dreger, Hella Engerer, Christoph Große Steffen, Michael Hachula, Malte Rieth and Thore Schlaak

The world economy has yet to regain momentum: after the already weak final quarter of 2015, the pace of expansion slowed down again in the first quarter of 2016. In the emerging countries' economies, growth is expected to remain subdued, especially in China, where the gradual slowdown continues as overcapacities are reduced. Russia and Brazil are likely to remain in recession: apart from the still-low commodity prices, domestic issues are aggravating the situation. Growth is just barely stable in the industrialized countries, which means they cannot compensate for the emerging countries' weaknesses. In the industrialized countries, the primary growth driver is still domestic demand. Strong consumption growth is expected in the US as well as in the euro area, primarily as a result of the improving labor market situation. All in all, the global economic growth rate is expected to be 3.2 percent in 2016, which is lower than previously forecasted. The uncertainty about China's future economic development and the potential impact of a Brexit are the primary risks that are curbing optimism.

Global economic development remains weak: after production experienced a slight increase in the final quarter of 2015, the pace of expansion slowed once again in the first quarter of this year (Figure 1). A slight economic recovery is expected over the course of 2016. This is unlikely to fully compensate for the unexpectedly weak performance in the first quarter, and thus the growth rate should stand at 3.2 for the entire year—again, less than previously predicted (Table). The economy should pick up in the coming year: a growth rate of 3.6 percent is expected.

As in previous quarters, it was primarily the emerging countries that were contributing to the slowdown. China recorded the lowest growth since the global financial crisis; however, the major slump in the Chinese economy that was feared among global financial markets this past spring did not materialize. In Russia and Brazil, the economy continued to shrink, albeit at a slower pace. Here, the recent rise in commodity prices is likely to support a return to positive growth rates towards the end of the forecast horizon. In China, government stimulus packages will likely contribute to slightly rising growth rates. The dampening factors will continue, however, with the result that overall, the growth in the emerging countries' economies will remain modest, and will be lower than that of previous years.

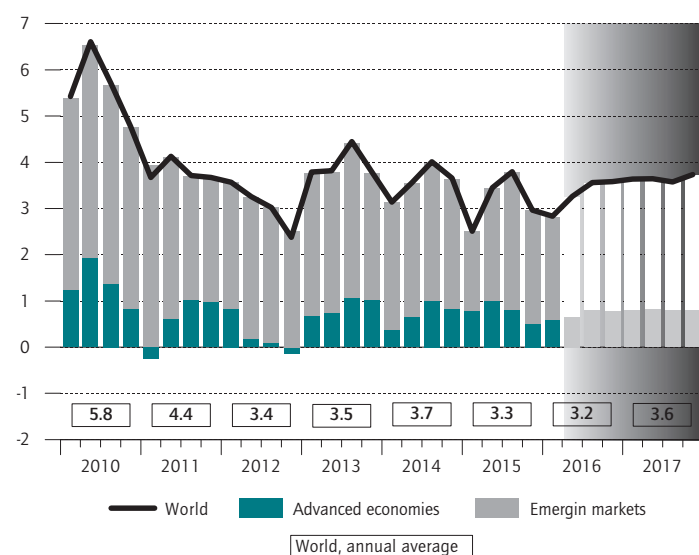
In the developed countries, the first quarter was characterized by an upward momentum. While economic output in the US increased less than it did before, the GDPs in Japan and the euro area increased at higher rates. In the next quarters, the stable sideways movement of the economy in the developed economies is expected to continue, with private consumption remaining the primary growth driver due to the improving labor market situation. For the time being, however, neither the development of net exports nor the investment activities are likely to create major impulses, since the emerging countries' economies are not picking up momentum.

Across the globe, monetary policy will be slightly less expansionary. While the central banks in the euro area

Figure 1

World real GDP

In percent



Source: National statistical offices; DIW summer projections 2016.

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Global growth is still subdued.

and Japan continue to implement expansionary measures, the US Federal Reserve is expected to gradually and slightly raise the interest rates, given the generally good situation on the labor market and the early signs of rising inflation rates. Global fiscal policy is expected to be somewhat less restrictive. In Europe, for example, a slower implementation of the deficit reduction is expected.

The risks to the global economy have decreased: uncertainty regarding China's development has lessened among the financial markets, with the result that global financial conditions have seen slight improvements. In Europe, however, uncertainty has been increasing due to the forthcoming referendum on the fate of the UK in the European Union (See box: Brexit).

USA

In the first quarter of this year, the US GDP increased by an annualized rate of only 0.8 percent. While private consumption has increased markedly, corporate investment has declined. Given the robust consumer demand and a rebound in investment activity, US economic growth should pick up considerably. Private consumption will be supported by the continued recovery in the labor market: the unemployment rate decreased within one year by

Tabelle

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

In percent

	Gross Domestic Product				Consumer Prices				Unemployment Rate			
	Change over previous year											
	2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017
Euro area	0.9	1.6	1.6	1.7	0.4	0.0	0.4	1.3	11.6	10.9	10.1	9.6
without Germany	0.6	1.6	1.6	1.7	0.2	0.0	0.2	1.2	13.8	13.0	12.1	11.5
France	0.7	1.2	1.2	1.4	0.5	0.1	0.3	1.2	10.3	10.4	10.1	10.0
Italy	1.4	3.2	2.7	2.4	-0.2	-0.5	-0.3	1.3	24.5	22.1	19.8	18.5
Spain	-0.3	0.6	1.0	1.4	0.2	0.1	0.3	1.0	12.7	11.9	11.0	10.4
Netherlands	1.0	2.0	1.9	2.2	0.3	0.2	0.6	1.0	7.4	6.9	6.3	6.1
United Kingdom	2.9	2.3	1.8	2.1	1.5	0.0	0.4	1.8	6.1	5.3	5.0	4.9
USA	2.4	2.4	1.8	2.3	1.6	0.2	1.6	1.7	6.2	5.3	4.8	4.7
Japan	-0.1	0.6	0.6	0.5	2.7	0.8	0.1	1.0	3.6	3.4	3.7	3.8
South Korea	3.3	2.6	2.6	2.8	1.3	0.7	1.2	2.2	3.5	3.6	3.2	3.0
Middle Eastern Europe	3.0	3.6	3.2	3.4	0.3	-0.4	-0.3	1.4	8.4	7.3	6.6	6.3
Turkey	3.0	4.0	3.3	3.6	8.9	7.8	7.8	7.4	10.0	10.3	10.4	10.1
Russia	0.7	-3.6	-1.1	0.5	7.9	15.5	6.7	4.4	5.2	5.6	5.7	5.6
China	7.3	6.9	6.1	6.0	-0.6	-0.6	0.9	2.9	3.8	3.8	3.8	3.8
India	7.1	7.4	7.3	6.7	4.4	1.1	3.3	6.1				
Brazil	0.1	-3.9	-3.0	0.2	6.3	9.0	7.0	5.5	4.8	6.8	5.1	5.1
Mexico	2.2	2.5	2.6	2.6	4.0	2.7	2.9	3.2	4.8	4.4	4.8	4.8
Advanced Economies	1.8	2.0	1.6	1.9	1.4	0.2	1.0	1.5	7.0	6.3	5.9	5.7
Emerging Markets	5.2	4.4	4.4	4.8	2.5	2.9	3.0	4.1	4.8	5.0	4.8	4.7
World	3.7	3.3	3.2	3.6	2.0	1.8	2.2	3.0	5.8	5.6	5.3	5.2

Source: National statistical offices; DIW summer projections 2016.

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almost one percentage point and in May, it amounted to 4.7 percent. However, the labor force participation rate is still at historically low levels. All in all, the slight increase in disposable income will also pick up during the forecast period, supporting private consumption as well as residential construction. Against the backdrop of strong consumer demand, businesses will expand their investment activity somewhat over the course of this year. Due to the increasing capacity utilization, investment will see even more significant increases in the coming year. Given the steady improvement of the state of the economy, the US Federal Reserve is expected to raise its key interest rates again by autumn; the following quarters should also see slight and gradual increases in interest rates. In contrast to previous years, fiscal policy is no longer restrictive, and it is assumed that the fiscal policy will not be changed after the presidential elections at the end of 2016. All in all, the US economy is expected to grow by 1.8 percent in 2016, and by 2.3 percent in 2017.

China

In China, production increased by only 1.1 percent in the first quarter of the year. While private consumption experienced above-average growth, investment growth was less pronounced. Negative impulses also came from net exports. The overall annual development, however, was distorted by the long holiday period due to the Chinese New Year. The annual increase in production stood at 6.7 percent.

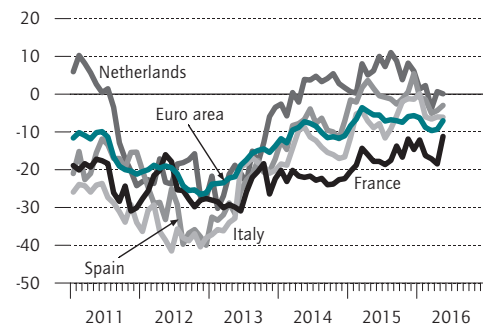
Although the service sector is showing strong growth, the business cycle in the industrial sector is weaker. This is reflected in the PMIs—among others—which are well above the expansion threshold in the service sector, but slightly under the expansion threshold in the industrial sector. State-owned enterprises in particular are dealing with significant overcapacities that are dampening investment. Moreover, the weak demand from the global economy is an impediment for stronger exports. To sustain growth, China will invest roughly 630 billion euros to improve the infrastructure over the next three years. All in all, China's GDP is likely to increase by 6.1 percent this year, and by 6.0 percent next year.

Euro area

Production in the euro area grew by 0.6 percent in the first quarter of 2016, thus picking up momentum. In the second quarter, however, there was a slight counter-movement—which is partly due to industrial production which, after a significant increase in January, began declining again in the following two months. A key growth driver in the first quarter was private consumption, which should continue supporting growth in the long run. Many consumer indicators, such as the number of motor ve-

Figure 2

Consumer confidence Net Balance



Quelle: European Commission.

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Consumer confidence is above its long-run average, but has stopped increasing in recent months.

hicle registrations, are currently pointing to an upward trend. The moderate increase in employment in many countries continues, and the gradually improving situation on the labor market is manifesting itself through an increase in real disposable income. Over time, however, the development of private consumption is unlikely to gain further momentum. One indication of this is that consumer confidence is still above the long-run average, but has stopped increasing in recent months (Figure 2). Secondly, slightly increasing inflation rates are expected to curb the growth of real disposable income.

Investment is expected to gradually pick up momentum over the forecast period, not least due to improving financial conditions. The current *Bank Lending Survey* of the European Central Bank (ECB) indicates further easing of credit conditions for businesses as well as a slightly stronger demand for loans. Total lending to businesses has increased in recent months, and production capacity underutilization has been declining compared to previous years. A rapid increase in momentum during the forecast period is unlikely. The high level of uncertainty due to the possible Brexit and the overall slowdown of global economic growth, among other things, are still having a dampening effect. Moreover, although various PMIs are above the expansion threshold, they have not increased noticeably so far this year.

Exports developed only modestly in the first quarter, and due to the gloomy growth prospects in key markets, only a minor improvement is expected this year. Given the somewhat more favorable outlook for global growth in 2017 and the euro's weak external value (despite a slight

improvement in the first quarter of 2016), exports are likely to regain momentum next year. Since imports are also developing robustly as a result of domestic demand, foreign trade is not expected to make any positive growth contributions to many member states' economies over the course of the forecast period.

In recent months, the euro area's inflation rate has repeatedly fallen below 0 percent. With a slight increase in oil prices and a slowly closing output gap, inflation is expected to rise again over the forecast period. The ECB is unlikely to reach its inflation target even by the end of 2017, with the result that monetary policy is expected to continue to be extremely expansive over the forecast period. In contrast, fiscal policy will be more neutrally oriented in this year and next. Given the still-low interest rates on government bonds, a slight decrease of the debt-to-GDP ratio is expected.

Overall, output is expected to increase by 1.6 percent this year and by 1.7 percent next year.

United Kingdom

UK economic growth slowed down slightly at the beginning of the year, down to 0.4 percent. Indicators such as the business climate index and manager surveys point to a further slowdown in the second quarter. However, there are signs that economic growth will be gaining momentum again in the second half of the year. For example, employment is still on the rise, which along with the increase in real wages will boost private consumption. Investment activity is likely to regain some momentum given the rising demand. Investment is also likely to benefit from industrial production growth in the first quarter and a constant level of new orders. Overall, output growth

should amount to 1.8 percent this year and 2.1 percent next year—but if a Brexit materializes, growth is likely to be significantly lower in 2017 (Box: Brexit).

Russia

In the first four months of 2016, the Russian economy shrank by 1.1 percent compared to the previous period last year. The decline has now slowed. Compared to the same period last year, construction activity further declined, and industrial production stagnated. The lower retail sales suggest that individuals are further restricting their consumption as a result of a decline in real income. In the first quarter of 2016, investment declined once again compared to the previous year. In May, the PMI for the manufacturing sector improved over the previous month, but it still remains slightly below the expansion threshold. Overall, domestic demand is expected to create only minor impulses. In foreign trade, Russian merchandise imports experienced declines, especially in January. They picked up again in the following months, but remain below the level of the previous year. In the first months of 2016, the development of exports in terms of value was influenced by the low price of oil. Since oil prices are now rising once again, Russian export revenues will also increase. Moreover, the exchange rate of the ruble has been stabilizing with the oil-price development. This has contributed to a further decline in domestic inflation, which stood at 7.3 percent in April and remains above the inflation target to be reached by the end of 2017 (4 percent). The Russian central bank has not ruled out the possibility of lowering the interest rate if there is a further slowdown of the price increase. Given the slightly increasing oil prices, GDP is expected to contract less severely than it did last year, and increase slightly in 2017.

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German economy on a stable growth path

By Ferdinand Fichtner, Karl Brenke, Marius Clemens, Simon Junker, Claus Michelsen, Maximilian Podstawski, Thore Schlaak and Kristina van Deuverden

Supported by dynamic domestic demand, the German economy is expected to grow by 1.7 percent this year. As consumption and investment in construction are likely to weaken in the coming year, is hardly contributing to growth 2017 should amount to roughly 1.4 percent. Foreign trade is contributing relatively little to growth. In both years of the forecast period, capacities will be at more or less normal levels of utilization; there are no signs of overheating. In the medium term, however, stronger investment in the capital stock is necessary to increase the growth potential of the German economy.

Supported by strong domestic demand, the German economy's moderate growth trend continues. Exports are also recovering (Table 1), but since imports are growing at somewhat higher rates, foreign trade contributes hardly to growth.

Consumption is expanding favorably due to developments in the labor market (Figure 1), though the pace is slowing due to the slightly lower employment growth and the fact that the once-again increasing energy prices are dampening real income. Unlike previously assumed, 2016 has seen far fewer refugees migrating to Germany. Additional demand stimulus—which will initially come from government expenditure on accommodation, care, and integration, and later, increasingly, from refugees' consumption—is likely to be lower next year than in the current year.

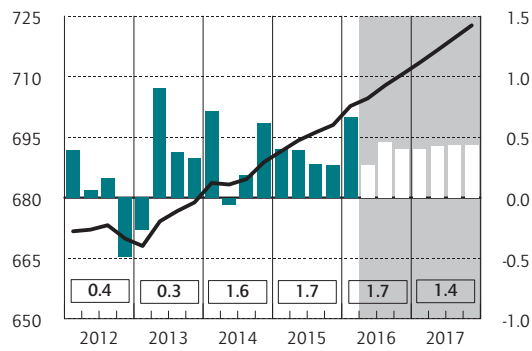
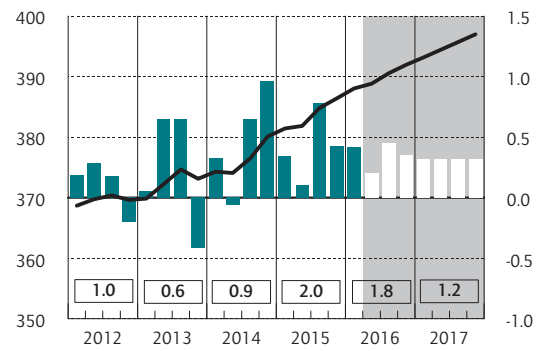
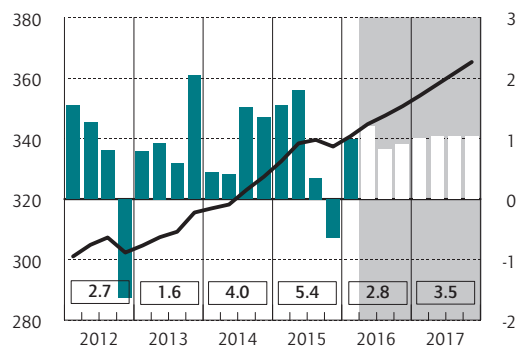
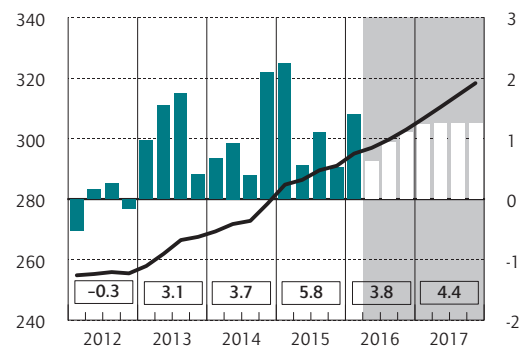
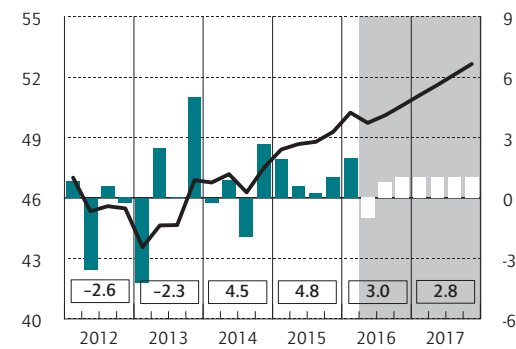
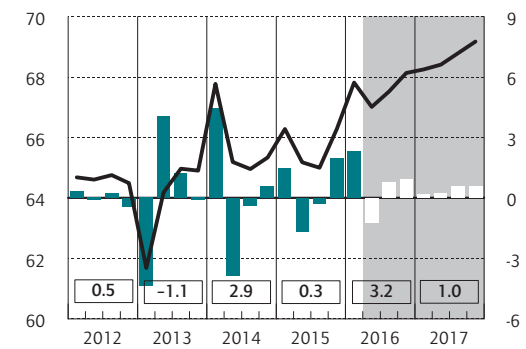
Exports have been recovering recently, and are expected to create noticeable and positive impulses over the forecast period. However, these will be significantly smaller compared to previous years; here, the structural growth slowdown in some key markets is taking its toll. This is expected to dampen investment spending, especially in industry. By contrast, service providers will probably be investing more dynamically in new equipment. On balance, equipment investment growth remains subdued, partly due to the uncertainty facing the economic development of key sales markets and concerns about the future cohesion of the EU. Construction investment continues to pick up momentum—especially in residential properties, which are still serving as forms of investment. In the coming year, however, public construction will stagnate.

Given the dynamic domestic demand, imports are experiencing stronger growth than are exports: on balance and compared with the annual average of the previous year, foreign trade will actually have a slight dampening effect on economic growth in 2016. In the upcoming quarters, foreign trade will hardly contribute to growth.

Figure 1

Gross domestic product and use of GDP

Seasonally and working day adjusted

Gross domestic product**Private consumption****Exports****Imports****Investment in machinery and equipment****Investment in construction**

— Chained volumes, billions of Euro (left axis)
 ■ Quarter-on-quarter growth rate (right axis)
 □ Year-on-year growth rate (non-adjusted)

Sources: Federal Statistical Office; computations by DIW Berlin, forecasts as of 2016 Q2.

Table 1

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

Price, seasonally and working-day adjusted, in percent

	2015				2016				2017			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Private consumption	0.3	0.1	0.8	0.4	0.4	0.2	0.5	0.4	0.3	0.3	0.3	0.3
Public consumption	0.7	0.7	0.7	0.9	0.5	0.8	0.3	0.3	0.7	0.7	0.5	0.6
Gross fixed capital formation	1.4	-0.5	0.1	1.4	1.8	-0.8	0.7	0.9	0.5	0.5	0.7	0.7
Investment in machinery and equipment	1.9	0.6	0.2	1.0	1.9	-1.0	0.8	1.0	1.0	1.0	1.0	1.0
Construction investment	1.4	-1.7	-0.3	2.0	2.3	-1.2	0.8	0.9	0.2	0.2	0.6	0.6
Other investment	0.7	0.6	0.7	0.7	0.2	0.7	0.7	0.6	0.6	0.6	0.6	0.6
Change in inventories ¹	-0.1	-0.3	0.0	0.1	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic uses	0.6	-0.2	0.6	0.9	0.8	0.0	0.5	0.4	0.4	0.5	0.5	0.5
Net Exports ¹	-0.2	0.6	-0.3	-0.5	-0.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Exports	1.5	1.8	0.3	-0.6	1.0	1.2	0.8	0.9	1.0	1.0	1.0	1.0
Imports	2.2	0.6	1.1	0.5	1.4	0.6	0.9	1.1	1.2	1.3	1.3	1.3
Gross Domestic Product	0.4	0.4	0.3	0.3	0.7	0.3	0.5	0.4	0.4	0.4	0.4	0.4

¹ contribution to gdp growth in percentage points.

Source: Federal Statistical Office; DIW Berlin, Forecast from 2016 Q2 onward.

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Table 2

Key economic indicators for the German economy

	2012	2013	2014	2015	2016	2017
Real GDP ¹ (percent change over previous year)	0.4	0.3	1.6	1.7	1.7	1.4
Domestic employment (1,000 persons)	42,060	42,328	42,703	43,056	43,582	43,958
Unemployed (ILO concept)	2,223	2,182	2,092	1,949	1,762	1,730
Unemployed (BA concept)	2,897	2,950	2,898	2,795	2,692	2,657
Unemployment rate ² (ILO concept)	5.4	5.2	5.0	4.6	4.1	4.0
Unemployment rate ² (BA concept)	6.8	6.9	6.7	6.4	6.1	6.0
Consumer prices	2.0	1.5	0.9	0.2	0.6	1.5
Unit labor costs ³	3.1	2.0	1.6	1.7	1.9	2.4
Government budget balance ⁴						
in billion EUR	-2.4	-3.1	8.9	19.6	20.0	16.6
in percent of GDP	-0.1	-0.1	0.3	0.6	0.6	0.5
Current account balance, in percent of GDP	7.0	6.8	7.3	8.5	8.9	8.9

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; computations by DIW Berlin; 2016 and 2017: DIW forecast.

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The surplus in the current account, at just under 9 percent (Table 2), will be substantial in both years of the forecast period. This is also due to the fact that imports are significantly cheaper this year than they were last year as a result of the massive oil price slump in winter 2015–2016.

All in all, the German economy is expected to grow by 1.7 this year, which is actually one-tenth of a percentage point higher than what DIW Berlin predicted in its spring forecast and is due to the surprisingly strong start of the

year.¹ Next year, growth should amount to 1.4 percent. Compared to the current year, there are fewer workdays in 2017; without this calendar effect, growth would be at 1.7 percent for both years. German capacities will be utilized almost normally in both years. There are no signs of overheating: private consumption is weakening somewhat and the uptrend in equipment investment is only

¹ See Fichtner et al. (2016): German Economy Back on Track, Despite Weak Global Economy, DIW Wochenbericht, no. 11.

moderate. Stronger investment in the capital stock—both private and public—as well as incentives to increase labor market participation would lead to a more dynamic economic development in the medium term.

Despite still-significant financial burdens on the public sector due to the refugee migration—11.8 billion euros this year and 12.8 billion euros next year—the public budget will end both years with surpluses.² In relation to nominal GDP, this amounts to 0.6 percent this year and 0.5 percent next year.

The current forecast is complicated by uncertainties related to refugee migration: for example, the number of asylum-seekers who come to Germany could deviate significantly from the assumptions put forth in the forecast.³ Secondly, a stronger-than-expected slowdown in the Chinese economy would put a considerable burden on German exporters, as well as dampening domestic investment. It is also unclear how a Brexit would affect the German economy.⁴

Moderate increases in inflation

The development of consumer prices is influenced by the dynamics of oil prices, and this year's average annual inflation rate was thus dampened by the drop in energy prices at the end of 2015/beginning of 2016. Since the spring, oil prices and thus the energy prices have been rising and recently, this increase has even been accelerating; in the current quarter, this is likely to noticeably increase inflation, resulting in a rate of 0.6 for 2016. Next year, oil prices are assumed to increase (Table 3). Primarily due to this, inflation is expected to be higher next year, at just over 1.5 percent. This year's core rate stands at 1.3 percent; this corresponds roughly to the annual growth of the past five years. In the coming year it is expected to be slightly higher—at 1.4 percent—in view of a dynamic domestic economy (Figure 2).

Employment growth continues at a somewhat slower pace

The number of employees is still increasing markedly at the same time, the influx of migrants to Germany has increased the potential labor force. The most notable group taking up work in Germany is made up of immigrants from other EU countries—refugees are accounting for

² See van Deuverden, K. (2016): *Finanzpolitik: Haushaltsspielräume gehen zurück, sind aber größer als zuletzt erwartet*, DIW Wochenbericht, no. 24/25.

³ For the forecast, it was assumed that the number of asylum-seekers counted in the initial registration process would be 310,000 this year and 230,000 next year.

⁴ For more on the potential effects of a Brexit, see Fichtner, F. et al. (2016): *Global growth still subdued*, DIW Economic Bulletin, no. 24/25.

Table 3

Assumptions underlying this forecast

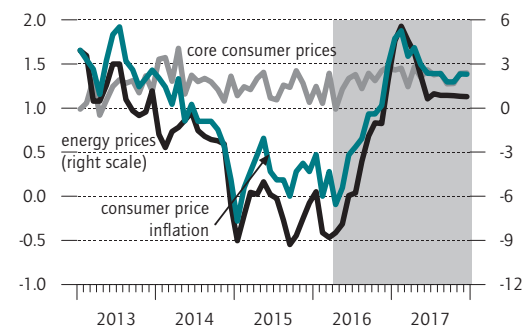
		2015	2016	2017
ECB policy rate	Percent	0.1	0.0	0.0
Money market rate	three month EURIBOR in percent	0.0	-0.2	-0.2
Long-term interest rate	10 year government bond yields, euro area	1.0	0.8	1.0
Long-term interest rate	10 year government bond yields, Germany	0.5	0.3	0.5
Exchange rate	US-Dollar/Euro	1.11	1.13	1.14
Negotiated wages	Percent changes over previous year	2.4	2.3	2.1
Oil price	US-Dollar/Barrel	53.1	45.4	50.7
Oil price	Euro/Barrel	47.8	40.2	44.6

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Figure 2

Consumer price inflation

Percentage change over previous year



Sources: Destatis; DIW Berlin.

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Inflation is dominated by swings in energy prices.

very little of the increase in employees, since they normally will only receive a work permit following a lengthy approval procedure. The number of registered unemployed individuals, however, has barely decreased—were it not for the expansion of labor market policies, particularly those for refugees, this number would have actually increased slightly.

Employment figures will continue their uptrend albeit at a somewhat slower pace (Figure 3). Productivity is gaining momentum; moreover, the actual working hours are increasing slightly. Both trends will continue in the coming year. As well the number of employees subject

to social security contributions will increase substantially, while mini-jobs, which have become less attractive as a result of the statutory minimum wage, will continue to decrease. Self-employment will decrease over the forecast period as well, but only slightly (Table 4). This year, the number of employees will exceed that of the previous year by 530,000; in 2017, this figure will amount to 380,000. The number of registered unemployed individuals will be less by 100,000 this year, and by roughly 30,000 next year. Given the solid development of employment and contrary to earlier forecasts, the influx of refugees does not result in an increase in unemployment. Firstly, the number of refugees migrating to Germany has dropped sharply since the beginning of spring, and secondly, it is expected that many recognized refugees will be accommodated by labor market policies, particular when it comes to qualification.⁵

Wage increases accelerated at the beginning of the year, even though the opposite was expected following the collective agreements. As it is usually the case in the first quarter, paid performance bonuses from the past year likely factored into this to a considerable extent. The wage drift is therefore likely to decrease over the summer, and the strong wage growth should lose some momentum. At the beginning of next year, wage increases will accelerate once again due to the impending rise of the statutory minimum wage.⁶ After this, they will slow down again somewhat as a result of the impending and overall rather moderate negotiated wage increases, which will take effect in 2017. But due to the favorable employment developments, the effective wages are likely to grow faster than those collectively agreed upon.

Consumption is driving growth, but losing momentum

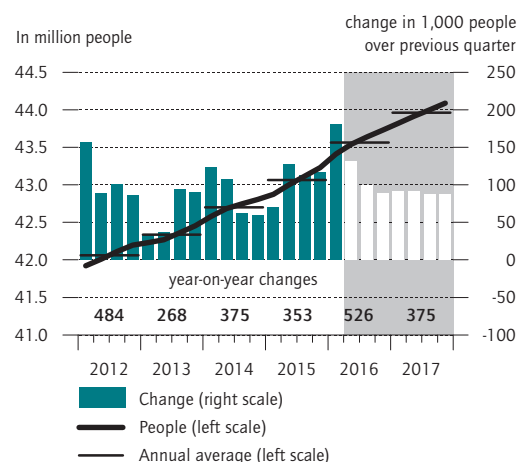
Because it is still benefitting from favorable development in income, particularly with regard to wages, private consumption should continue to grow significantly. It is likely to lose momentum, however, because the low oil prices' effect on purchasing power will start to move in the opposite direction due to the increase in crude oil prices. In the second quarter in particular, this will negatively affect real income, and thus the increase in private consumption will be more moderate in this quarter. A major pension adjustment in the third quarter of 2016 is expected to boost consumption, even though a larger proportion of this additional income is likely to be put into savings.

⁵ The number of completed asylum procedures is expected to amount to 590,000 in 2016, and 600,000 in 2017; protected status will be granted in 63 percent or 67 percent of cases for each year, respectively. However, not all of these people are of employable age, and not all those of employable age will seek employment: the number of employable asylum-seekers will increase by roughly 160,000 this year, and by 200,000 next year.

⁶ Here, a five-percent increase of the minimum wage—to 8.93 euros—is assumed.

Figure 3

Work force



Sources: Federal Statistical Office; DIW Berlin.

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Employment growth continues, albeit at lower rates.

Table 4

Labour market performance

In millions

	2013	2014	2015	2016	2017
Persons in employment (domestic concept)	42.33	42.70	43.06	43.58	43.96
Self employed	4.46	4.40	4.33	4.30	4.28
Employees subject to social security contributions	29.73	30.22	30.86	31.40	31.85
Public officers, judges, military personnel	1.89	1.90	1.91	1.93	1.95
Mini jobbers (without persons with a second job)	5.02	5.03	4.85	4.77	4.67
Others	1.23	1.15	1.11	1.19	1.21
+/- Commuters, employed persons in foreign state	-0.06	-0.06	-0.07	-0.06	-0.06
Persons in employment (national concept)	42.27	42.64	42.99	43.52	43.89
Unemployed (ILO concept)	2.18	2.09	1.95	1.76	1.73
Active population	44.45	44.73	44.94	45.28	45.62
<i>Memorandum item:</i>					
Unemployed (Federal Labour Office (BA) concept)	2.95	2.90	2.79	2.69	2.66
Unemployment rate (BA concept ¹) in percent	6.9	6.7	6.4	6.1	6.0
Unemployment rate (SGB concept ²) in percent	9.0	8.8	8.3	7.9	7.7
Unemployment (NSA concept ³)	4.9	4.7	4.3	3.9	3.8
Unemployment rate (ILO concept) in percent	5.2	5.0	4.6	4.1	4.0
Employed persons (domestic concept - ILO)	39.02	39.41	39.69	39.79	40.01

¹ Unemployed persons, registered at the federal labour office, in relation to civil active population.

² Unemployed persons in relation to unemployed plus employed persons subject to social insurance contribution.

³ Unemployed persons, ILO concept, in relation to unemployed (ILO) plus persons in employment (national concept).

Sources: Federal Statistical Office; Federal Labour Office; calculations and estimations by DIW Berlin.

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Throughout the entire forecast period, wage income will increase powerfully, by roughly four percent. Next year, however, net growth will be lower, at three percent; this is partly due to the fact that the cumulative social security contribution rate is being raised and the effect of this year's increase in basic allowances, which boosted income in net terms, is fading. Monetary social benefits will increase noticeably—by roughly four percent—in both years; this can be primarily attributed to pension increases in the middle of both years, respectively, as well as transfers to refugees. As in previous years, income from entrepreneurial activities and assets is expected to grow rather modestly, by roughly one percent. Income from self-employment should continue to rise noticeably, but asset income is expected to decline on the balance: while private households are benefiting from favorable credit conditions, the low interest rates mean that their savings will cast off relatively minor yields.

All in all, the disposable income of private households will continue to grow noticeably in 2016 and 2017, at a rate of 2.7 percent. Due to this year's low inflation rate, a strong real growth is materializing, resulting in a 1.8-percent rise in private consumption in the context of an almost unchanged savings rate. Next year, prices will experience a somewhat sharper increase, and private consumption is expected to grow by 1.2 percent.

The positive economic effects on private and public consumption as a result of refugee migration are likely to be lower next year than in the current year. The recording and processing of asylum-seekers in Germany initially involve considerable delays. As a result, the costs of housing and caring for refugees will initially rise—but given the currently much lower influx, these costs should become less and less significant over the course of the forecast period. When the refugees leave the reception centers, they receive more transfers, which stimulates private consumption. After they receive recog-

nition, a number of these refugees will be available to the labor market. Recognition entitles refugees to higher benefits, which further boosts consumption. For the forecast period, it is assumed that the number of refugees in this year and the next will be significantly lower than last year, and also considerably lower than previously assumed. Growth in demand will therefore be somewhat lower next year than this year.

Investment in equipment remains modest

After private companies were clearly holding back with investment activity in the second half of 2015, equipment investment expanded powerfully in the first quarter of 2016: businesses increased their investment at the beginning of the year by nearly three percent. A major impulse came from sales of new vehicles. Government investment, on the other hand, which had sharply increased in the second half of 2015 as a result of major bulk orders, has since experienced a considerable setback. Given the recent decline in domestic sales and orders for capital goods manufacturers, only minor additional investment is expected for the second quarter. In the subsequent quarters, investment in machinery, equipment, and vehicles is expected to increase, but only moderately. This is partly due to weak global economic growth; on the other hand, the ongoing recovery—in contrast to prior recovery periods—is being strengthened by domestic forces, particularly private consumption, which implies lower investment activity in the manufacturing sector. In addition, the production capacities remain at normal levels of utilization, with the result that expansion investment is unlikely to occur to a large extent. Other investment, including R&D, continues to experience growth. Nevertheless, the investment ratio will also be well below its long-term average.

A short pause for construction

After a strong start to the year due to favorable weather conditions, construction activity is not experiencing the usual spring revival in the second quarter, as evidenced by the current development in construction output and new orders. Overall, however, the construction industry is continuing on a path of strong growth. In the second half of the year, all construction sectors are expected to contribute to growth in Germany. Residential construction in particular is still experiencing dynamic development (Table 5), and will continue to increase—especially in metropolitan areas—given the favorable interest rates and high housing demand. This will be driven primarily by new construction, which is evidenced by a sharp and recent increase in the issuance of building permits. The development of investment in existing buildings, however, remains subdued, and in commercial construction, the dynamic will at first be somewhat slow; however,

Table 5

Investment in construction

Constant prices, percentage changes

	2015	2013	2014	2015	2016	2017
	Shares	Year-on-year changes				
Residential construction	59.9	-0.7	3.3	1.6	3.0	1.4
Non-residential construction	40.1	-1.5	2.4	-1.5	3.6	0.3
Commercial construction	28.2	-2.2	2.3	-1.8	2.1	0.3
Public construction	11.9	0.2	2.7	-0.6	6.9	0.1
Total construction	100.0	-1.1	2.9	0.3	3.2	1.0

Sources: Federal Statistical Office; DIW Berlin.

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In particular residential construction is increasing strongly.

there are also signs of a recovery during the forecast period. For example, the number of new constructions of factory and workshop buildings, but also of operational and administrative buildings, has been recently experiencing a considerable increase. Broadband expansion and the rising expenditure on the preservation and maintenance of railway lines will also create impulses. In public construction, which has likely been benefiting from the recent expenditure on refugee accommodation, strong impulses are expected for the second half of 2016. For this, investment resources—such as those from programs for the expansion of childcare services in day cares—are available. It is assumed that such resources will still be used this year. Next year, public construction is likely to plateau in real terms.

Moderate growth trend in exports

German exports have been expanding moderately since the beginning of the year. The stagnating demand from the US and Asia was compensated for by increased deliveries to European countries—especially non-EU countries (Figure 4). Exports have recently started regaining momentum, but even in the current second quarter, the subdued expectations for exports in industry and the volume of new orders are indicating only moderate growth. Exports will likely continue to grow during the forecast period. However, the robust demand from the developed economies—particularly those in Europe—is being offset by a weak performance in the emerging markets. With nearly three percent this year and three and a half percent in the coming year, the growth rates of exports are well below pre-crisis growth rates. These numbers primarily reflect the growth slowdown in key markets, particularly the Chinese economy.

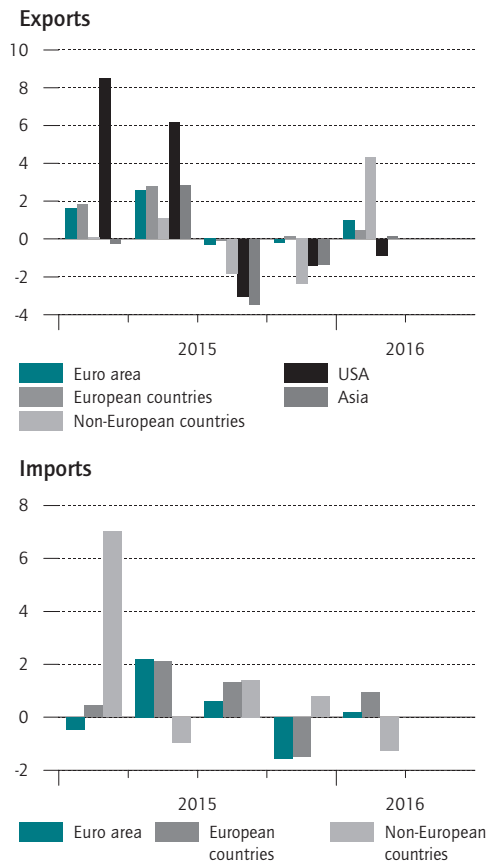
Imports have experienced significantly stronger growth than have exports since the beginning of the year. In the second quarter of 2016, however, somewhat weaker private consumption and decreasing investment are likely to dampen imports. From the middle of this year, the growth of imports, driven by the dynamic domestic economy, is expected to be only slightly above that of exports overall.

After a significant commodity price-related decline in foreign trade prices in the first quarter of this year, both the import and export prices will decline again in the second quarter, but only slightly. Since the decline in import prices is more pronounced than is that of export prices, the terms of trade will improve again somewhat in

Figure 4

Trade by region

Quarter-on-quarter changes in percent



Source: Bundesbank, calculations by DIW Berlin.

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The recent decrease in exports was broad based.

the second quarter of 2016. In subsequent quarters, the sharp increase in oil prices that already began in spring will lead to a rise in import prices. Export prices are increasing too, partly because unit labor costs are rising in the manufacturing sector, and German exporters can pass these price increases on to their customers. Overall, the terms of trade will show considerable improvement in 2016, and slight improvement in 2017. This favorable price development is influencing the fact that the current account balance is expected to rise to nearly nine percent this year, and remain there.

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JEL: E32, E66, F01

Keywords: Business cycle forecast, economic outlook



Dr. Ferdinand Fichtner, Head of the Department of Forecasting and Economic Policy at DIW Berlin

SEVENT QUESTIONS TO FERDINAND FICHTNER

»A Brexit would significantly dampen Germany's economic growth«

1. Mr. Fichter, the German economy has recently been experiencing a moderate upswing. Can we expect more momentum in the future? Germany's economic development is overall very stable. Although the strong start at the beginning of the year was followed by a somewhat weaker second quarter, we are expecting steady, moderate growth and a very balanced development of the German economy for the second half of 2016.
2. What kind of growth rates do you project? We are expecting a growth rate of 1.7 this year and 1.4 percent next year, which means that from a numbers perspective, development will cool off to an extent. However, this is also due to the fact that we have fewer workdays next year: in 2016, many public holidays fall on a weekend, but this is not the case in 2017. If next year had the same number workdays as this year does, the growth rate would also amount to 1.7 percent instead of the 1.4 percent we are predicting.
3. Is growth in Germany still supported by domestic demand? Germany's strong development is still driven by very powerful domestic demand. Private consumption in particular has seen positive development, partly due to the markedly favorable labor market situation and corresponding salary increases. Foreign trade—that is, exports—is also developing quite vigorously.
4. What is the current situation for German exports? At the beginning of the year, global economic development experienced some volatility: there was significant uncertainty surrounding the Chinese economy as well as that of many other emerging countries. We predict that this situation will improve somewhat over the

forecast period, and that German exports will gain some momentum as well. Overall, things are looking pretty good for German exporters.

5. Is the threat of a Brexit having any negative effects at the moment? We assume that the uncertainties related to the Brexit are already having an impact, because uncertainty always gives way to negative effects, especially with regard to investment. At the moment, this effect is probably limited to the UK—that is, less capital is being invested in the UK, which is dampening economic development. I would say that the impact up until now has been relatively minor for Germany and the rest of the EU.
6. What kind of impact would the Brexit have on Europe and Germany? In the time between the referendum and the UK's actual exit from the EU, growth in the UK would likely be lower than it otherwise would have been. Weaker growth in the UK will likely lead to weaker imports, and that means weaker exports for countries like Germany that export to the UK. The UK is a very important trading partner for Germany, and in this respect we can imagine that next year's German GDP growth would be roughly half of a percentage point less than it would have been had the UK decided to remain in the EU.
7. How much is the refugee influx into Germany burdening public finances? Even though refugee-related expenditure is relatively high, the situation of public finances is quite favorable. However, expenditure is significantly lower than we were assuming even three months ago, because the number of refugees has declined markedly. Despite this, the public surplus for this year and the next will be in the double-digit billions.

Interview by Erich Wittenberg

NATIONAL ACCOUNTS DATA

The main national accounts data for the Federal Republic of Germany

Forecast for 2016 and 2017

	2015	2016	2017	2015		2016		2017	
				1. half year	2. half year	1. half year	2. half year	1. half year	2. half year
1. Origin of GDP									
Percentage change over previous year									
Percentage change over previous year	0.8	1.2	0.9	0.7	0.9	1.2	1.2	0.9	0.8
Hours worked, per working day	-0.6	-0.8	1.2	0.1	-1.3	-2.3	0.6	1.1	1.3
Working days	0.9	0.4	-0.8	0.0	1.8	1.6	-0.8	0.0	-1.6
Labour volume, calendar-monthly	1.2	0.8	1.2	0.8	1.5	0.5	1.1	2.0	0.5
Labour productivity ¹	0.5	1.0	0.2	0.6	0.4	1.6	0.4	-0.5	0.8
Gross domestic product, price adjusted	1.7	1.7	1.4	1.4	1.9	2.1	1.4	1.5	1.3
2. Disposition of GDP in current prices									
a) Billion Euro									
Final consumption expenditure	2,221.6	2,290.7	2,360.6	1,080.2	1,141.4	1,116.8	1,173.8	1,151.0	1,209.6
Private consumption expenditure ²	1,634.8	1,677.2	1,721.2	796.5	838.3	819.1	858.1	840.9	880.3
Government consumption expenditure	586.8	613.5	639.4	283.7	303.1	297.7	315.7	310.1	329.3
Gross fixed capital formation (GFCF)	606.1	632.5	653.6	289.5	316.7	304.0	328.6	314.2	339.5
Machinery and equipment	200.1	206.7	213.1	94.2	105.8	98.6	108.1	101.5	111.6
Construction	297.6	312.2	321.8	142.5	155.1	150.1	162.1	154.8	166.9
GFCF in other products	108.5	113.6	118.8	52.7	55.7	55.2	58.4	57.8	61.0
Change in Stocks ³	-38.0	-45.1	-45.9	-6.4	-31.7	-10.0	-35.1	-10.2	-35.7
Domestic uses	2,789.7	2,878.1	2,968.3	1,363.3	1,426.4	1,410.8	1,467.3	1,454.9	1,513.3
Balance of exports and imports	236.2	255.7	262.8	119.5	116.7	129.5	126.2	135.7	127.1
Exports	1,419.7	1,446.8	1,519.4	698.5	721.3	711.2	735.6	747.9	771.5
Imports	1,183.5	1,191.1	1,256.6	578.9	604.6	581.8	609.4	612.2	644.4
Gross domestic product	3,025.9	3,133.8	3,231.0	1,482.9	1,543.0	1,540.3	1,593.5	1,590.6	1,640.4
b) Percentage change over previous year									
Final consumption expenditure	3.0	3.1	3.1	2.9	3.1	3.4	2.8	3.1	3.0
Private consumption expenditure [2]	2.7	2.6	2.6	2.6	2.7	2.8	2.4	2.7	2.6
Government consumption expenditure	4.0	4.5	4.2	3.8	4.3	4.9	4.2	4.2	4.3
Gross fixed capital formation (GFCF)	3.6	4.4	3.3	2.6	4.5	5.0	3.8	3.4	3.3
Machinery and equipment	5.4	3.3	3.1	4.2	6.6	4.6	2.2	3.0	3.2
Construction	2.0	4.9	3.1	0.8	3.2	5.4	4.5	3.1	3.0
GFCF in other products	4.7	4.7	4.6	4.8	4.7	4.7	4.8	4.7	4.5
Domestic uses	2.6	3.2	3.1	2.0	3.2	3.5	2.9	3.1	3.1
Exports	6.5	1.9	5.0	7.0	6.0	1.8	2.0	5.2	4.9
Imports	4.1	0.6	5.5	4.0	4.2	0.5	0.8	5.2	5.7
Gross domestic product	3.8	3.6	3.1	3.5	4.1	3.9	3.3	3.3	2.9
3. Disposition of GDP, adjusted for prices									
a) Chain-linked estimated in billion euro									
Final consumption expenditure	2,063.7	2,104.7	2,136.1	1,009.0	1,054.7	1,033.2	1,071.5	1,047.9	1,088.2
Private consumption expenditure ²	1,533.8	1,561.7	1,580.3	748.2	785.6	765.1	796.5	774.1	806.3
Government consumption expenditure	529.8	542.8	555.3	260.7	269.1	267.9	275.0	273.5	281.7
Gross fixed capital formation (GFCF)	558.3	574.9	585.5	266.7	291.6	276.5	298.3	281.7	303.8
Machinery and equipment	195.9	201.8	207.5	91.9	104.1	95.6	106.1	98.2	109.3
Construction	263.3	271.8	274.4	126.4	136.9	131.3	140.5	132.7	141.7
GFCF in other products	99.4	101.7	104.2	48.6	50.9	49.7	52.0	50.9	53.3
Domestic uses	2,586.4	2,639.8	2,681.9	1,272.9	1,313.5	1,304.6	1,335.2	1,324.5	1,357.4
Exports	1,350.9	1,388.9	1,438.1	664.3	686.6	684.3	704.6	710.8	727.4
Imports	1,153.6	1,197.4	1,249.6	562.0	591.6	585.5	611.9	610.7	638.8
Gross domestic product	2,782.5	2,830.8	2,871.8	1,374.5	1,408.0	1,402.8	1,428.1	1,424.5	1,447.3
b) Percentage change over previous year									
Final consumption expenditure	2.2	2.0	1.5	2.1	2.2	2.4	1.6	1.4	1.6
Private consumption expenditure ²	2.0	1.8	1.2	2.0	2.1	2.3	1.4	1.2	1.2
Government consumption expenditure	2.5	2.5	2.3	2.3	2.7	2.7	2.2	2.1	2.5
Gross fixed capital formation (GFCF)	2.2	3.0	1.9	1.1	3.2	3.7	2.3	1.9	1.8
Machinery and equipment	4.8	3.0	2.8	3.6	5.9	4.1	2.0	2.7	3.0
Construction	0.3	3.2	1.0	-1.0	1.6	3.9	2.6	1.1	0.9
GFCF in other products	2.6	2.3	2.5	2.6	2.6	2.3	2.3	2.6	2.4
Domestic uses	1.6	2.1	1.6	1.1	2.1	2.5	1.7	1.5	1.7
Exports	5.4	2.8	3.5	5.7	5.1	3.0	2.6	3.9	3.2
Imports	5.8	3.8	4.4	5.6	6.0	4.2	3.4	4.3	4.4
Gross domestic product	1.7	1.7	1.4	1.4	1.9	2.1	1.4	1.5	1.3

NATIONAL ACCOUNTS DATA

continued: The main national accounts data for the Federal Republic of Germany

Forecast for 2016 and 2017

	2015	2016	2017	2015		2016		2017	
				1. half year	2. half year	1. half year	2. half year	1. half year	2. half year
4. Price level of national expenditure (2010=100)									
Percentage change over previous year									
Private consumption expenditure ²	0.6	0.8	1.4	0.6	0.7	0.6	1.0	1.5	1.4
Government consumption expenditure	1.5	2.0	1.9	1.4	1.5	2.1	2.0	2.0	1.8
Gross fixed capital formation (GFCF)	1.4	1.3	1.5	1.4	1.3	1.3	1.4	1.4	1.5
Machinery and equipment	0.6	0.3	0.2	0.5	0.6	0.5	0.2	0.2	0.2
Construction	1.7	1.6	2.1	1.8	1.5	1.4	1.8	2.0	2.1
Exports	1.0	-0.9	1.4	1.3	0.8	-1.1	-0.6	1.2	1.6
Imports	-1.6	-3.0	1.1	-1.5	-1.7	-3.6	-2.5	0.9	1.3
Gross domestic product	2.1	1.8	1.6	2.0	2.1	1.8	1.8	1.7	1.6
5. Distribution of Income									
a) Billion Euro									
Primary income of private households ²	2,117.1	2,183.5	2,252.3	1,039.1	1,078.0	1,074.7	1,108.9	1,108.9	1,143.4
Employers' social contributions	280.1	291.5	304.3	135.6	144.5	141.3	150.2	147.8	156.6
Gross wages and salaries	1,261.1	1,312.2	1,362.7	601.1	660.1	626.2	686.0	651.3	711.4
Other primary income of private households ⁴	575.8	579.8	585.2	302.4	273.4	307.1	272.7	309.8	275.4
Primary income of other institutional sectors	443.0	474.5	492.1	201.0	242.0	219.4	255.1	229.2	262.9
Net national income (primary income)	2,560.1	2,658.0	2,744.4	1,240.1	1,320.0	1,294.0	1,364.0	1,338.1	1,406.2
Consumption of fixed capital	531.3	546.5	561.0	264.4	266.9	271.7	274.8	278.9	282.1
Gross national income	3,091.3	3,204.5	3,305.4	1,504.5	1,586.8	1,565.7	1,638.8	1,617.0	1,688.4
Memorandum item:									
Net national income (factor costs)	2,261.2	2,351.5	2,431.7	1,094.1	1,167.0	1,142.8	1,208.7	1,184	1,248
Property and entrepreneurial income	719.9	747.8	764.6	357.4	362.5	375.3	372.5	385	380
Compensation of employees	1,541.3	1,603.7	1,667.1	736.7	804.6	767.5	836.2	799	868
b) Percentage change over previous year									
Primary income of private households ²	3.0	3.1	3.1	3.0	3.0	3.4	2.9	3.2	3.1
Employers' social contributions	3.1	4.1	4.4	3.1	3.2	4.2	3.9	4.6	4.2
Gross wages and salaries	3.9	4.1	3.9	3.8	4.0	4.2	3.9	4.0	3.7
Other primary income of private households ⁴	1.1	0.7	0.9	1.5	0.6	1.6	-0.3	0.9	1.0
Primary income of other institutional sectors	8.1	7.1	3.7	5.8	10.1	9.1	5.4	4.5	3.1
Net national income (primary income)	3.9	3.8	3.2	3.5	4.3	4.3	3.3	3.4	3.1
Consumption of fixed capital	2.6	2.9	2.7	2.7	2.6	2.7	3.0	2.7	2.7
Gross national income	3.7	3.7	3.1	3.3	4.0	4.1	3.3	3.3	3.0
Memorandum item:									
Net national income (factor costs)	3.9	4.0	3.4	3.6	4.2	4.5	3.6	3.6	3.2
Property and entrepreneurial income	4.2	3.9	2.2	3.5	4.9	5.0	2.8	2.6	1.9
Compensation of employees	3.8	4.1	4.0	3.7	3.9	4.2	3.9	4.1	3.8
6. Income and Expenditure of Private Households									
a) Billion Euro									
Mass income	1,263.0	1,315.2	1,360.9	607.7	655.4	632.2	683.0	657	704
Net wages and salaries	836.5	870.4	896.6	394.0	442.5	411.7	458.7	425	472
Social benefits	525.6	547.3	570.3	263.1	262.5	271.6	275.7	285	286
less levies on social benefits	99.1	102.4	106.0	49.4	49.7	51.1	51.3	53	53
Other primary income ⁴	575.8	579.8	585.2	302.4	273.4	307.1	272.7	310	275
Other transfers received (net) ⁵	-79.5	-89.0	-91.5	-38.8	-40.7	-43.0	-46.0	-44	-47
Disposable income	1,759.3	1,806.1	1,854.6	871.2	888.1	896.3	909.7	922	932
Memorandum item:									
Adjustment for the change in net equity of households in pension funds reserves	50.5	51.4	52.3	25.0	25.5	25.4	26.0	26	26
Private consumption expenditure	1,634.8	1,677.2	1,721.2	796.5	838.3	819.1	858.1	841	880
Saving	175.0	180.2	185.7	99.7	75.3	102.6	77.6	107	78
Saving ratio in percent ⁶	9.7	9.7	9.7	11.1	8.2	11.1	8.3	11.3	8.2
b) Percentage change over previous year									
Mass income	3.7	4.1	3.5	3.6	3.8	4.0	4.2	3.9	3.1
Net wages and salaries	3.5	4.0	3.0	3.1	3.9	4.5	3.6	3.2	2.8
Social benefits	4.0	4.1	4.2	4.4	3.5	3.3	5.0	4.8	3.6
less levies on social benefits	3.4	3.4	3.5	4.5	2.4	3.5	3.3	3.5	3.5
Other primary income ⁴	1.1	0.7	0.9	1.5	0.6	1.6	-0.3	0.9	1.0
Disposable income	2.9	2.7	2.7	2.8	2.9	2.9	2.4	2.9	2.5
Private consumption expenditure	2.7	2.6	2.6	2.6	2.7	2.8	2.4	2.7	2.6
Saving	4.4	3.0	3.0	4.4	4.5	2.9	3.0	4.5	1.1

NATIONAL ACCOUNTS DATA

continued: The Main National Accounts Data for the Federal Republic of Germany

Forecast for 2016 and 2017

	2015	2016	2017	2015		2016		2017	
				1. half year	2. half year	1. half year	2. half year	1. half year	2. half year
7. Government Revenues and Expenditures									
a) Billion Euro									
Revenues									
Taxes	691.8	721.5	742.9	344.2	347.6	361.5	360.0	372.6	370.4
direct taxes	365.4	386.1	400.2	184.8	180.6	196.0	190.0	203.6	196.6
indirect taxes	326.4	335.5	342.8	159.4	167.0	165.5	170.0	169.0	173.8
Net social contributions	500.8	522.0	547.9	242.8	258.0	253.2	268.8	266.2	281.7
Property income	21.6	21.0	21.0	12.8	8.8	12.0	9.0	12.1	8.9
Other transfers	21.5	21.7	22.2	9.0	12.5	9.2	12.6	9.4	12.8
Capital transfers	12.2	11.8	11.2	5.2	7.0	5.0	6.8	4.7	6.5
Sales	102.6	105.5	108.3	48.4	54.2	49.9	55.6	51.2	57.0
Other subsidies	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Total revenues	1,350.7	1,403.7	1,453.7	662.5	688.2	690.9	712.9	716.3	737.5
Expenditures									
Intermediate consumption	144.0	149.9	153.3	65.1	78.9	69.0	81.0	70.2	83.0
Compensation of employees	229.6	236.1	241.4	110.3	119.3	113.4	122.7	115.9	125.5
Social benefits in kind	252.1	267.1	285.1	124.6	127.5	132.0	135.1	141.0	144.1
Property income (interests)	48.0	46.7	46.0	24.2	23.7	23.6	23.1	23.3	22.7
Subsidies	27.5	29.0	30.1	13.5	14.1	14.3	14.7	14.9	15.3
Social benefits	470.8	491.2	512.5	235.8	235.0	243.7	247.4	256.1	256.4
Other transfers	64.6	63.7	69.6	36.0	28.6	37.4	26.3	40.9	28.7
Gross capital formation	66.6	71.6	73.6	27.9	38.6	30.0	41.6	31.0	42.7
Capital transfers	29.8	29.5	30.5	12.6	17.1	12.3	17.2	12.8	17.7
Acquisitions less disposals of non-financial non-produced assets	-1.9	-1.3	-5.1	-1.2	-0.7	-0.6	-0.7	-4.4	-0.7
Other taxes on production	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditures	1,331.1	1,383.7	1,437.1	648.9	682.2	675.2	708.5	701.6	735.5
Balance	19.6	20.0	16.6	13.5	6.1	15.7	4.3	14.7	1.9
b) Percentage change over previous year									
Revenues									
Taxes	4.9	4.3	3.0	4.9	4.9	5.0	3.6	3.1	2.9
direct taxes	5.7	5.7	3.7	6.7	4.7	6.1	5.2	3.9	3.4
indirect taxes	4.0	2.8	2.2	2.8	5.1	3.8	1.8	2.1	2.2
Net social contributions	3.9	4.2	5.0	3.9	3.9	4.3	4.2	5.2	4.8
Property income	-13.5	-2.7	0.2	-17.4	-7.1	-5.7	1.6	0.6	-0.3
Other transfers	12.3	1.4	2.1	2.8	20.3	1.8	1.0	2.2	2.0
Capital transfers	0.1	-3.5	-5.0	10.3	-6.3	-3.6	-3.3	-6.2	-4.1
Sales	1.1	2.8	2.6	1.8	0.5	3.1	2.6	2.6	2.6
Other subsidies	-18.5	-2.2	0.0	-20.8	-16.7	-5.1	0.0	0.0	0.0
Total revenues	3.9	3.9	3.6	3.8	4.1	4.3	3.6	3.7	3.5
Total revenues									
Intermediate consumption	3.9	4.2	2.2	2.9	4.7	6.0	2.7	1.8	2.5
Compensation of employees	2.2	2.8	2.2	2.2	2.3	2.8	2.9	2.1	2.3
Social benefits in kind	5.0	6.0	6.7	5.2	4.8	6.0	5.9	6.8	6.7
Property income (interests)	-6.8	-2.6	-1.5	-8.5	-5.1	-2.6	-2.7	-1.5	-1.5
Subsidies	8.0	5.4	3.9	7.7	8.2	6.2	4.7	4.0	3.9
Social benefits	4.4	4.3	4.3	5.0	3.8	3.4	5.3	5.1	3.6
Other transfers ⁷	3.0	-0.9	5.9	0.2	2.8	1.4	-2.3	3.5	2.4
Gross capital formation	5.3	7.6	2.8	-0.4	9.8	7.4	7.7	3.1	2.5
Capital transfers ⁷	-6.6	-0.2	0.9	1.4	-8.1	-0.3	0.1	4.2	2.5
Acquisitions less disposals of non-financial non-produced assets ⁷	-0.5	0.5	-3.8	-0.6	0.1	0.5	0.0	-3.8	0.0
Other taxes on production ⁷	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditures	3.1	4.0	3.9	3.4	2.8	4.0	3.9	3.9	3.8

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 Billion EUR.

Sources: Federal Statistical Office (Fachserie 18: Volkswirtschaftliche Gesamtrechnungen); Forecast by DIW Berlin.