GERMAN COUNCIL
of Economic Experts

ECONOMIC FORECAST 2018 AND 2019

21 March 2018

German Council of Economic Experts
Statistisches Bundesamt
65180 Wiesbaden
Tel.: 0049 611 / 75 - 2390
Fax: 0049 611 / 75 - 2538
E-Mail: info@svr-wirtschaft.de
Internet: www.sachverstaendigenrat-wirtschaft.de

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ECONOMIC FORECAST FOR 2018 AND 2019

The upswing of the German economy continues. The German Council of Economic Experts (GCEE) is raising its forecast for 2018 slightly and now expects annual average real GDP growth of 2.3 % and 1.8 %, respectively, for 2018 and 2019. Compared with the forecast provided in the GCEE Annual Report 2017, exports will make a somewhat higher contribution to growth, while there will be a smaller contribution from the components of domestic demand.

The rate of GDP growth in 2018 and 2019 is therefore expected to exceed the estimated potential growth rate of 1.3 %, with the result that the level of capacity overutilisation in the German economy will continue to rise. On the labour market, the number of persons in employment has reached a new record high and the ratio of unemployed persons to vacancies is at its lowest in 25 years. Labour shortage is likely to increasingly slow down the pace of growth.

As a consequence of the persistently strong growth of recent years, the German economy has now reached a boom phase. Under these circumstances, the ECB's continued expansionary monetary policy is a contributing factor to the increasing level of capacity overutilisation. If the planned fiscal measures in the coalition agreement between the CDU, CSU and SPD are implemented, they will deliver additional expansionary stimuli.

Further improvements in the external economic environment have also contributed to the slight upward revision of the forecast. The global economy is currently experiencing the first synchronous period of expansion since the financial crisis unfolded around ten years ago. The GCEE is raising its forecast for global economic growth slightly to 3.4 % in 2018, and expects an increase of 3.1 % for 2019. For the euro area, the GCEE forecasts strong GDP growth of 2.3 % in 2018 and of 1.9 % in 2019.

The positive growth outlook must not disguise the fact that the risks to economic development have intensified recently. In addition to the election results in Italy and the uncertainty surrounding the outcome of Brexit negotiations, the recent announcement by the United States to raise tariffs on steel and aluminium plays a particular role here. Well-functioning international trade is of central importance if the global recovery is to continue. A protectionist spiral would have significant negative implications for both the global and the German economy.

I. GLOBAL ECONOMY

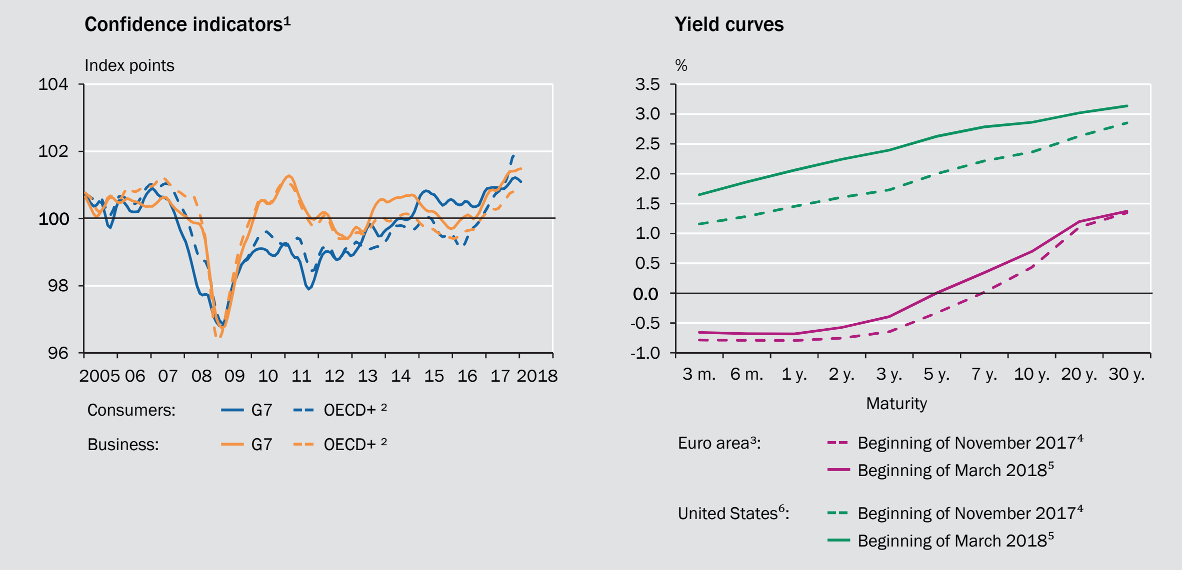
1. The global economy: synchronous upswing

1. The **global economy is currently experiencing a phase of economic expansion**. At a rate of 3.3 %, growth in global economic output in 2017 was stronger than in the previous five years. Almost all the major economies contributed to this development, with the United States, China, the euro area and Japan seeing higher real GDP growth in 2017 than in the previous year.

2. This development is largely consistent with the forecast in the GCEE Annual Report 2017. However, the **pace of growth** in a number of national economies was even **somewhat stronger than anticipated**, particularly in the euro area and the eastern European member states of the European Union (EU). Partly because of this, the growth forecasts for these national economies are being revised slightly upwards. The currently very high level of survey-based indicators of consumer and business confidence suggest that the global upturn will continue in the forecast period. ↘ CHART 1, LEFT

3. The GCEE is raising its forecast for the **global economy** slightly for 2018, and now expects GDP growth of 3.4 %. In 2019, the growth in output is likely to decelerate, not least due to the increasing level of capacity utilisation, with the result that a somewhat lower growth of 3.1 % can be expected. ↘ TABLE 1 The upturn

↘ CHART 1
Indicators for the development of the world economy: confidence indicators and yield curves



1 – Standardized OECD confidence indicators. The business confidence index represents the manufacturing sector. 2 – The aggregate "OECD+" includes the member states of the OECD as well as the non-member states Brazil, China, India, Indonesia, Russia and South Africa (Major Six NME). 3 – Nominal spot rates, based on AAA-rated euro area central government bonds with a residual maturity of 3 months or more.
4 – Average of the five daily values of the period 30.10. - 3.11.2017. 5 – Average of the five daily values of the period 26.2. - 2.3.2018.
6 – Treasury Yield Curve Rates: Nominal spot rates on US-government securities.

Sources: ECB, OECD, U.S. Department of the Treasury, own calculations is accompanied by a **marked revival of world trade**. Given the increasing utilisation of production capacities and the substantial increase in oil prices in the second half of 2017, inflation rates in most countries are likely to rise slightly in 2018.

4. In the **United States** the upturn and the accompanying growth in employment have continued. Consumer price inflation is just above 2 %. Against this backdrop, the US Federal Reserve (the Fed) continued its policy of gradually raising its policy rate, and the **yields on** US **government bonds rose** appreciably. ↘ CHART 1, RIGHT It appears that these developments and speculation on the possibility of additional interest hikes increased the nervousness of financial markets. The temporary sharp drop in share prices in February 2018 has been linked to growing expectations of a move by the Fed to increase the key interest rate.

This demonstrates the sensitivity of financial markets with regard to expectations for future monetary policy. In contrast to the Fed, the European Central Bank (ECB) has continued to pursue its extremely expansionary monetary policy, with the result that the yield spread between US- and Euro-denominated bonds has increased.

5. The comprehensive **tax reform** approved in the United States at the end of 2017 lowers the tax rates on private and corporate incomes. It also changes the depreciation rules with regard to investments and the taxation of multinational corporations. Overall, the reform is likely to strengthen **investment incentives** in the United States and thereby increase potential growth. The higher disposable incomes are also likely to provide short-term expansionary stimulus for consumption.

6. In its projection, the GCEE expects this tax reform to have a positive impact on the GDP of the United States. The cumulated **growth effects** for 2018 and 2019 are likely to be slightly more than a half a percentage point. Other estimates arrive at similar or slightly higher results (Deutsche Bundesbank, 2018; IMF, 2018; Tax Foundation, 2017; Tax Policy Center, 2017). The already high level of capacity utilisation in the United States economy, the temporary nature of many of the measures - particularly in the area of the personal income tax - and a more restrictive monetary policy are likely to stand in the way of a more pronounced effect. Given the favourable economic climate, the tax cuts and the substantial widening of the government deficit this entails have a pro-cyclical effect. At the same time, the United States' national debt continues to rise.

7. The GCEE is revising its growth forecast for 2018 slightly upwards for the group of **emerging economies**. If the Chinese government continues to avoid serious disruptions in the financial system without an excessively negative impact on its economic development, GDP growth in **China** in the forecast period is expected to be more or less in step with the government's growth target. As projected in the GCEE Annual Report 2017, growth in **India** picked up again in the second half of 2017 and is likely to increase again in the forecast period.

8. In contrast to the other G7 countries, annual GDP growth in the **United Kingdom** in 2017 was lower than in the previous year. In particular, growth in private consumption has slowed. The weak growth in real income which results from increasing inflation due to the devaluation of the pound is likely to have played a significant role here (GCEE Annual Report 2017, Item 225). The expectation for the current year continues to foresee only moderate growth. This is

↘ TABLE 1

Gross domestic product and consumer prices of selected countries

Country/country group	Weight in %[1]	Gross domestic product				Consumer price index			
		Change on previous year in %							
		2017	2018[2] Update	2018[2] Diff. to AR 2017/18[3]	2019[2]	2017	2018[2] Update	2018[2] Diff. to AR 2017/18[3]	2019[2]
Europe	**29.5**	**2.5**	**2.4**	**(0.3)**	**2.0**	**2.2**	**2.3**	**(0.1)**	**2.3**
Euro area	17.9	2.3	2.3	(0.2)	1.9	1.5	1.5	(0.0)	1.6
United Kingdom	3.9	1.7	1.6	(0.2)	1.4	2.7	2.9	(0.4)	2.4
Russia	1.9	2.1	1.9	(0.0)	1.7	3.7	2.5	(– 2.5)	4.1
Middle- and Eastern Europe[4]	1.6	4.8	4.0	(0.5)	3.6	1.7	2.9	(1.1)	2.6
Turkey	1.3	6.9	5.1	(1.7)	4.7	11.1	10.9	(0.9)	9.9
Other countries[5]	2.8	1.8	2.3	(0.0)	2.1	1.3	1.3	(0.0)	1.3
America	**36.1**	**2.2**	**2.6**	**(0.2)**	**2.3**	**2.9**	**3.3**	**(0.6)**	**2.9**
United States	27.9	2.3	2.7	(0.3)	2.3	2.1	2.6	(0.5)	2.3
Latin America[6]	3.2	2.3	2.7	(– 0.1)	2.7	10.6	10.1	(2.3)	7.3
Brazil	2.7	1.0	1.6	(– 0.1)	2.0	3.4	3.5	(– 0.7)	4.4
Canada	2.3	3.0	2.4	(0.1)	2.1	1.6	2.2	(0.4)	1.9
Asia	**34.4**	**5.2**	**5.0**	**(0.1)**	**4.8**	**1.6**	**2.3**	**(0.2)**	**2.3**
China	16.9	6.9	6.7	(0.2)	6.3	1.6	2.1	(0.1)	2.0
Japan	7.4	1.7	1.5	(0.2)	1.0	0.5	1.3	(0.8)	1.2
Asian advanced economies[7]	3.8	3.2	2.9	(0.3)	2.8	1.5	1.6	(0.0)	1.8
India	3.4	6.3	7.3	(0.2)	7.4	3.3	6.0	(0.8)	5.7
Southeast Asian emerging economies[8]	2.9	5.2	4.9	(– 0.1)	4.9	3.0	3.2	(– 0.1)	3.6
Total	**100**	**3.3**	**3.4**	**(0.2)**	**3.1**	**2.3**	**2.7**	**(0.4)**	**2.5**
Advanced economies[9]	67.7	2.4	2.4	(0.2)	2.0	1.7	2.1	(0.4)	1.9
Emerging economies[10]	32.3	5.5	5.4	(0.1)	5.3	3.4	3.9	(0.2)	3.7
memorandum:									
weighted by exports[11]	100	3.1	3.0	(0.3)	2.6	.	.	.	.
following IMF concept[12]	100	3.7	3.8	(0.0)	3.8	.	.	.	.
World trade[13]		4.5	4.0	(0.6)	3.3	.	.	.	.

1 – Nominal GDP (US dollar) of the named countries or country groups in 2016 as a percentage of total nominal GDP of the named countries or country groups. 2 – Forecast of the German Council of Economic Experts. 3 – Difference in percentage points. 4 – Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania. 5 – Denmark, Norway, Sweden, Switzerland. 6 – Argentina, Chile, Colombia, Mexico. 7 – Hong Kong, Republic of Korea, Singapore, Taiwan. 8 – Indonesia, Malaysia, Philippines, Thailand. 9 – Asian advanced economies, euro area, Middle- and Eastern Europe, Canada, Denmark, Japan, Norway, Sweden, Switzerland, United Kingdom, United States. 10 – Latin America, Southeast Asian emerging economies, Brazil, China, India, Russia, Turkey. 11 – Total of all named countries, weighted by the respective shares of german exports in 2016. 12 – Weights according to purchasing power parities and extrapolated to the countries covered by the IMF. 13 – As measured by the Netherlands Bureau for Economic Policy Analysis (CPB).

Sources: CPB, IMF, national statistical offices, OECD, own calculations due in no small part to the ongoing uncertainty resulting from the difficult **exit negotiations with the EU,** the outcome of which remains unclear. For 2019, the GCEE assumes that the current trade regulations will be maintained by a transitional agreement.

2. Euro area: expectations exceeded

9. The economy in the **euro area continued** to see **strong growth** in the second half of 2017. Standing at 2.3 %, growth in 2017 was at its highest level since 2007, the year before the financial crisis unfolded. For 2018, the GCEE is revising its forecast upwards from 2.1 % to 2.3 %. ↘ TABLE 2 Given the increasing level of capacity utilisation, the **rate of growth** is likely to fall to 1.9 % in 2019, and thereby move closer to the potential growth rate which is estimated at 1.4 %.

10. Of the major advanced economies, the economic growth prospects of the euro area brightened the most in the course of 2017. The unexpectedly strong pace of growth in the euro area may have been a contributing factor to the **appreciation of the euro**. The effective exchange rate of the euro rose by roughly 7 % over the course of 2017 and is currently at the level it was at the start of 2014.

Despite the higher exchange rate, the **export of goods** to countries outside the euro area recently saw **extremely positive** growth, a development which is likely due primarily to the more dynamic global economy. At the end of the year, incoming orders and expectations regarding the volume of exports in the months ahead were also on an upward trend, suggesting that positive growth in exports can be expected in 2018.

11. In addition to the very positive external economic environment, **domestic demand** in the euro area is the most important pillar of the economic upturn. Ongoing growth in employment is driving up the level of household disposable income, while businesses are apparently becoming more confident in the strength of the recovery and are expanding their investment activities significantly. This growing optimism among consumers and businesses is reflected in the extraordinarily **high levels of indicators of market sentiment**, although these indicators did fall a little recently.

12. The extremely **expansionary monetary policy** pursued by the ECB is likely to have contributed to the fact that growth in credit is gradually picking up again in the euro area. In January 2018, the interest rate for new loans with a maturity of less than a year dropped to below 1.7 %, and the **volume of loans** to households and businesses rose by 2.1 % in the fourth quarter of 2017 compared with the previous year.

However, developments in lending continue to vary greatly between the member states. In **Italy and Spain,** the volume of lending by banks to businesses and households decreased in the fourth quarter of 2017 compared with the same period of the previous year, while it grew by 3.5 % and 5.7 %, respectively, in **Germany and France**. Nevertheless, the rate of credit growth in Germany is still below the nominal growth rate of GDP. By contrast, growth in the volume of

↘ TABLE 2

Gross domestic product, consumer prices and unemployment rates in the Euro area

Country/ country group	Weight in %[1]	Gross domestic product[2]				Consumer prices (HICP)[3]				Unemployment rate[4]			
		Change on previous year in %								%			
		2017	2018[5]		2019[5]	2017	2018[5]		2019[5]	2017	2018[5]		2019[5]
			Update	Diff. to AR 2017/18[6]			Update	Diff. to AR 2017/18[6]			Update	Diff. to AR 2017/18[6]	
Euro area[7]	**100**	**2.3**	**2.3**	**(0.2)**	**1.9**	**1.5**	**1.5**	**(0.0)**	**1.6**	**9.1**	**8.3**	**(– 0.3)**	**7.9**
including:													
Germany	29.2	2.2	2.3	(0.1)	1.8	1.7	1.7	(0.0)	1.7	3.8	3.5	(– 0.2)	3.4
France	20.7	1.8	2.1	(0.2)	1.8	1.2	1.6	(0.3)	1.5	9.4	8.6	(– 0.5)	8.1
Italy	15.5	1.5	1.4	(0.0)	1.2	1.3	0.9	(– 0.3)	1.2	11.3	10.7	(– 0.1)	10.3
Spain	10.3	3.1	2.5	(0.2)	2.1	2.0	1.6	(0.0)	1.6	17.2	15.6	(– 0.5)	14.7
Netherlands	6.5	3.1	2.8	(0.1)	2.1	1.3	1.8	(0.2)	2.4	4.9	3.9	(– 0.4)	3.6
Belgium	3.9	1.7	1.7	(0.1)	1.6	2.2	2.0	(0.2)	2.0	7.2	6.4	(– 0.9)	6.3
Austria	3.2	2.9	2.8	(0.3)	2.1	2.2	2.3	(0.4)	2.0	5.5	5.2	(– 0.2)	5.0
Ireland	2.6	7.8	6.6	(2.9)	3.8	0.3	1.0	(– 0.2)	1.2	6.7	5.5	(0.1)	5.0
Finland	2.0	2.7	2.4	(0.3)	2.1	0.8	1.0	(– 0.2)	1.3	8.6	8.3	(– 0.1)	7.9
Portugal	1.7	2.7	2.3	(0.4)	1.9	1.6	1.6	(– 0.2)	1.7	9.0	7.5	(– 0.7)	6.8
Greece	1.6	1.4	2.0	(0.0)	2.0	1.1	1.0	(– 0.1)	1.4	21.4	19.4	(– 0.6)	18.3
memorandum:													
Euro area without Germany	**70.8**	**2.4**	**2.3**	**(0.2)**	**1.9**	**1.4**	**1.5**	**(0.1)**	**1.6**	**11.0**	**10.0**	**(– 0.4)**	**9.5**

1 – Nominal GDP in the year 2016 as a percentage of the nominal GDP of the euro area. 2 – Actual data according to Eurostat. Forecast values for 2018 and 2019 are based on seasonal and calendar adjusted quarterly figures. 3 – Harmonised index of consumer prices. 4 –Standardised according to the ILO concept, weighted for the total euro area and euro area without Germany by the labour force of 2016. 5 – Forecast of the German Council of Economic Experts. 6 – Difference in percentage points. 7 – Weighted average of the member states.

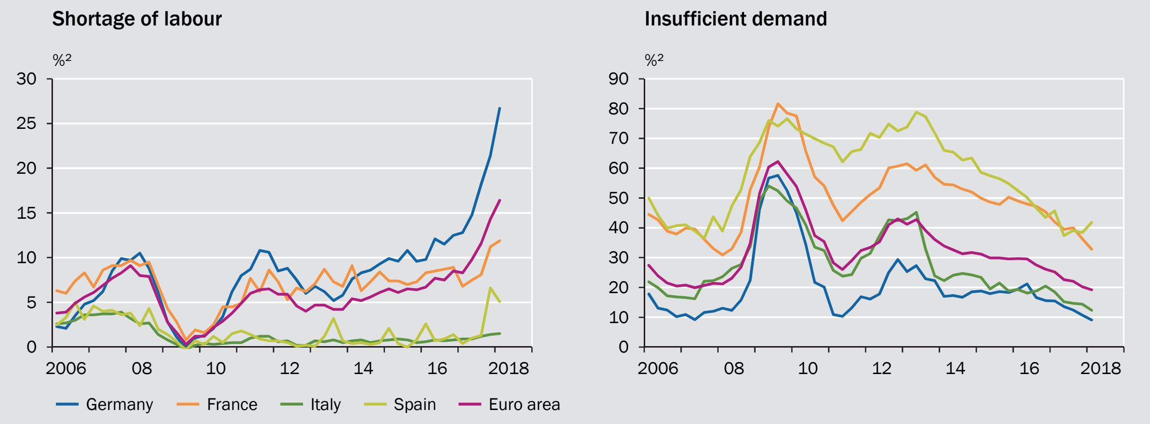
Sources: Eurostat, own calculations

credit in France has consistently outpaced nominal GDP growth since the second quarter of 2015.

13. The **economic upturn** in the euro area is likely to continue. The estimated positive output gap is expected to stand at 1.0 % in 2018 and reach 1.5 % in 2019. The euro area as a whole is therefore experiencing a period of capacity overutilisation. Indications of increased capacity utilisation are also reported in the surveys conducted by the European Commission. For example, businesses are finding it increasingly difficult to find enough **workers** to serve existing demand. ↘ CHART 2, LEFT This is particularly true of Germany and the eastern European Member states of the euro area. By contrast, for businesses insufficient demand is less and less a factor limiting production. ↘ CHART 2, RIGHT

14. The **growth in employment** in the euro area is likely to continue. However, given the still high level of unemployment in many member states, wage developments remain moderate despite the higher level of capacity utilisation in the economy. The low wage growth improves price competitiveness in the member states particularly hard hit by the financial crisis. In a number of member states, immigration and increased labour force participation help to increase the supply of labour and thereby reduce wage pressures.

↘ CHART 2
Assessment of factors limiting production by companies[1]



1 – Quarterly survey of industrial companies conducted by the European Commission. Companies are asked about the factors limiting production. Possible answers are: none, insufficient demand, shortage of labour, shortage of space and/or equipment, financial constraints, others. Multiple answers are possible. Seasonally adjusted data. In total about 24,000 industrial companies are surveyed in the euro area. Usually, about 18,000 of them respond. 2 – Share of companies.

Source: European Commission

Nevertheless, as the level of capacity utilisation continues to rise, somewhat **stronger wage increases can be expected** in the forecast period. Compensation per employee in the euro area already saw somewhat stronger growth in the second and third quarter of 2017 than in previous years, with increases of 1.7 % registered for both quarters compared with the same quarter of the previous year.

15. The **rate of inflation** in the euro area last year was primarily driven by the **volatile development of the price of crude oil.** After the sharp increase in oil prices since the start of 2016, peaking at 56 US dollar in February 2017, the price dropped to 48 US dollar in June before rising to its current level of over 60 US dollar. The significant depreciation of the dollar against the euro over the course of 2017, however, relieved some of the resulting price pressure. **Core inflation** continued its moderate but steadily upward trend in the first three quarters of 2017. In the fourth quarter, however, consumer prices excluding energy, food, alcohol and tobacco stagnated at the level of the previous quarter. The core inflation rate for the full year 2017 amounted to 1.0 % and was therefore **only slightly higher than the previous year's value** of 0.9 %.

In terms of overall consumer prices, the GCEE is expecting rates of change of 1.5 % and 1.6 %, respectively, for 2018 and 2019. ↘ TABLE 2 Given the small statistical overhang from the previous year, only a slightly higher core inflation rate of 1.1 % can be expected this year. In 2019, it is then likely to increase to 1.5 %.

3. Opportunities and risks

16. With regard to the future development of the global economy, there is the **chance** of an even stronger synchronous recovery among the major economies. More dynamic investment could contribute to a stronger productivity growth. In addition, a larger-than-expected potential labour force could work to counteract

wage and inflationary pressures arising from increasing capacity utilisation levels and enable higher output growth than assumed in the projection. In view of US tax and fiscal policy, there is the possibility that this could result in even stronger growth momentum in the United States than anticipated in the forecast. This could improve the export prospects of the trading partners.

17. On the other hand, a number of **risks** have intensified since last autumn. In addition to geopolitical risks, especially the recent announcement by US President Trump regarding the introduction of tariffs has given cause for concern. An **escalation of the trade conflict** would adversely affect international value chains and threaten the international rules-based trading system in the medium term (GCEE Annual Report 2017, Items 657 ff.). This would specifically impair the growth prospects of particularly open economies that are highly interconnected internationally. The risks also include a sharper weakening of the Chinese economy due to the excessive level of indebtedness in the financial system (GCEE Annual Report 2016, Items 950 ff.).

18. A further risk lies in the **monetary policy** of the major central banks. The ongoing policy of low interest rates increases the risk of a misallocation of resources and threatens financial market stability (GCEE Annual Report 2017, Items 372 ff.). Given the healthy state of the euro area economy and the return to higher inflation rates, steps by the ECB towards an exit from expansionary monetary policy are long overdue. The communication of a normalisation strategy is of central importance to enable this exit without causing severe upheavals on the financial markets (GCEE Annual Report 2017, Item 366).

Furthermore, an unexpectedly quick tightening of monetary policy, particularly in the United States, in response to stronger growth and higher inflation could result in considerable **price adjustments on international financial markets**. If this caused turbulences, economic development could be jeopardised. These risks are even more relevant given the high level of debt worldwide.

19. The still uncertain outcome of Brexit negotiations between the EU and the United Kingdom poses a particular risk for economic growth in Europe. A **disorderly Brexit** remains a serious risk, particularly for the United Kingdom. However, it would also have appreciable negative implications for the remaining EU member states, not least as a result of possible turmoil in financial markets.

20. In the **euro area,** the level of **indebtedness** of many member states remains very high. This is particularly true of Italy where the national debt stands at over 130 % of GDP. Should financial markets lose confidence in the sustainability of public debt on account of the political uncertainty resulting from the outcome of the election, given the size of the Italian economy a return of the euro crisis cannot be ruled out. Furthermore, risks to financial stability continue to persist in certain member states due to the fragility of many banks, particularly with regard to the extent of non-performing loans.

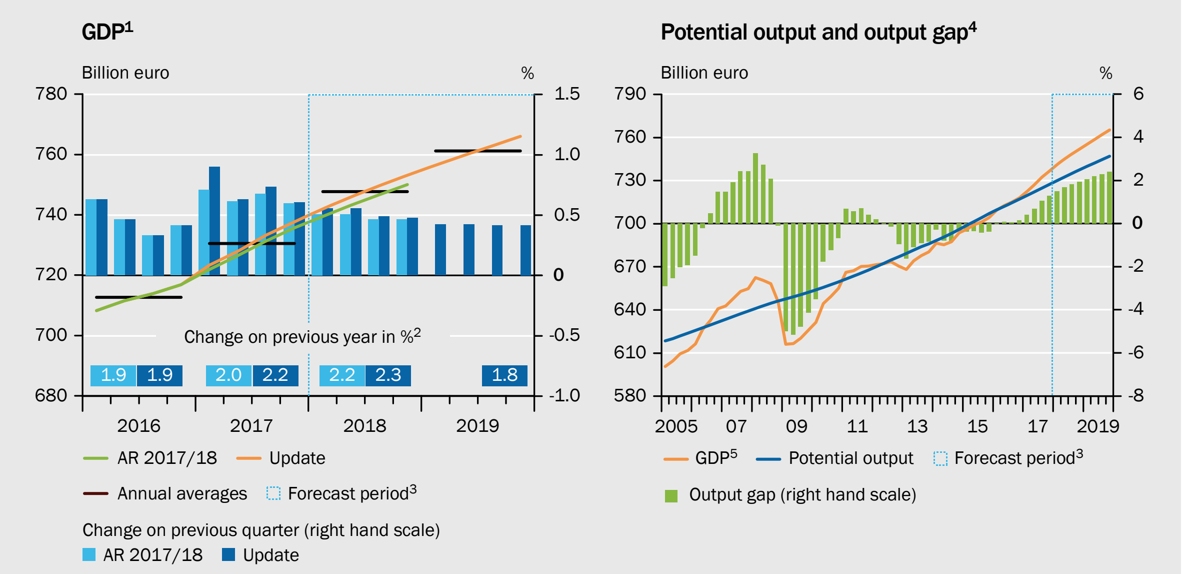
II. GERMAN ECONOMY

1. Overview: an economy in boom

21. The German economy grew at a strong pace in the second half of 2017. While GDP growth was somewhat slower in the third and fourth quarter than at the start of the year, at 0.7 % and 0.6 % respectively, ↘ CHART 3, LEFT the pace of expansion is still significantly exceeding potential growth, which the GCEE estimates to be at around 0.3 % per quarter (1.3 % per year). The overutilisation of production capacities has therefore continued to rise. At this stage, Germany is likely to be experiencing a **period of economic boom.** ↘ CHART 3, RIGHT

22. Growing at an annual average rate of 2.2 % (calendar adjusted: 2.5 %), Germany's GDP saw somewhat stronger growth in the full year 2017 than projected in the GCEE Annual Report 2017. This was due, in particular, to a subsequent **upward revision of the GDP** in the first half of 2017, while the pace of growth in the second half of the year was virtually identical to that indicated in the short-term forecast in the GCEE Annual Report 2017. However, the contribution to growth made by the individual expenditure components in the second half of the year was somewhat surprising. Contrary to the assumptions in the forecast, **growth stimuli came increasingly from abroad** and no longer primarily from domestic demand. In both quarters of the second half year, the balance of exports and imports contributed 0.4 and 0.5 percentage points, respectively, to GDP quarterly growth.

↘ CHART 3
Economic forecast for Germany



1 – Reference year 2010, seasonally and calender adjusted. 2 – Not adjusted 3 – Forecast of the GCEE. 4 – Estimate of the GCEE. 5 – Reference year 2010, seasonally adjusted; the calender effect is taken into account, however.

Sources: Federal Statistical Office, own calculations

23. The global recovery implied an **unexpectedly strong revival** of **foreign demand** at the end of the year. Exports in the second half of the year grew by 3.7 % on the previous half year. Germany exported significantly more than before to China, to eastern European EU member states and to other member states of the euro area, in particular. Such strong growth in exports was last seen in the first half of 2011. With imports only increasing moderately by comparison, this resulted in a positive balance of exports and imports of 0.2 percentage points for the full year 2017. ↘ TABLE 3

24. In contrast to exports, **growth in private consumption expenditure** in the second half of 2017 was **unexpectedly weak**. Despite the very healthy labour market and increasing wages, private consumption in the second half of 2017 only increased by roughly 0.3 % on the previous half year. The unexpected hike in the price of oil and the dampening effect this had on real income is likely to have played a role here. In addition, private households saved a somewhat larger share of their income in the second half of 2017. If the savings rate had not increased, consumption in the second half of 2017 would have increased - in purely arithmetical terms - by 0.7 % on the first half year. Despite the weaker second half of the year, private consumption increased considerably in the full year by 1.9 %. ↘ TABLE 4

25. In terms of **investment**, the picture for the second half of 2017 is mixed. The forecast for construction investment proved to be too optimistic in retrospect. Despite the high level of orders, **construction investment fell slightly** in the

↘ TABLE 3

Contributions to growth of gross domestic product by expenditure components[1]
Percentage points

	2013	2014	2015	2016	2017	Forecast[2]		
						2018		2019
						Update	Difference to AR 2017/18	
Domestic demand	**0.9**	**1.2**	**1.5**	**2.2**	**2.0**	**1.8**	**(– 0.4)**	**1.8**
Final consumption expenditure	0.6	0.8	1.5	1.8	**1.3**	1.0	(– 0.3)	1.3
Private consumption[3]	0.3	0.5	0.9	1.1	**1.0**	0.6	(– 0.4)	0.9
Government consumption	0.3	0.3	0.6	0.7	**0.3**	0.3	(– 0.1)	0.4
Gross fixed capital formation	– 0.3	0.7	0.3	0.6	**0.7**	0.6	(– 0.2)	0.5
Investment in machinery & equipment[4]	– 0.2	0.4	0.3	0.1	**0.3**	0.3	(0.0)	0.3
Construction investment	– 0.1	0.2	– 0.1	0.3	**0.3**	0.1	(– 0.2)	0.1
Other products	0.0	0.1	0.2	0.2	**0.1**	0.1	(– 0.1)	0.1
Changes in inventories	0.5	– 0.3	– 0.3	– 0.2	**0.1**	0.2	(0.2)	0.0
Net exports	**– 0.4**	**0.7**	**0.2**	**– 0.3**	**0.2**	**0.6**	**(0.6)**	**0.0**
Exports of goods and services	0.8	2.1	2.4	1.2	**2.2**	3.1	(1.0)	2.1
Imports of goods and services	– 1.2	– 1.4	– 2.2	– 1.5	**– 2.0**	– 2.6	(– 0.5)	– 2.1
Gross domestic product (%)	**0.5**	**1.9**	**1.7**	**1.9**	**2.2**	**2.3**	**(0.1)**	**1.8**

1 – Deviations in sums due to rounding. 2 – Forecast of the GCEE. 3 – Including non-profit institutions serving households. 4 – Including military weapon systems.

Sources: Federal Statistical Office, own calculations

two quarters of the second half of 2017. The pronounced shortage of labour and the well-above-average utilisation of machinery and equipment are obviously putting a greater strain on growth in the construction sector than previously thought. By contrast, in keeping with the high level of capacity utilisation and strong external demand, **investment in machinery and equipment and other products** continued to increase at a moderate pace. The expansion of total gross fixed capital formation in 2017 was therefore robust at 3.3 % overall, and was largely in line with expectations. ↘ TABLE 4

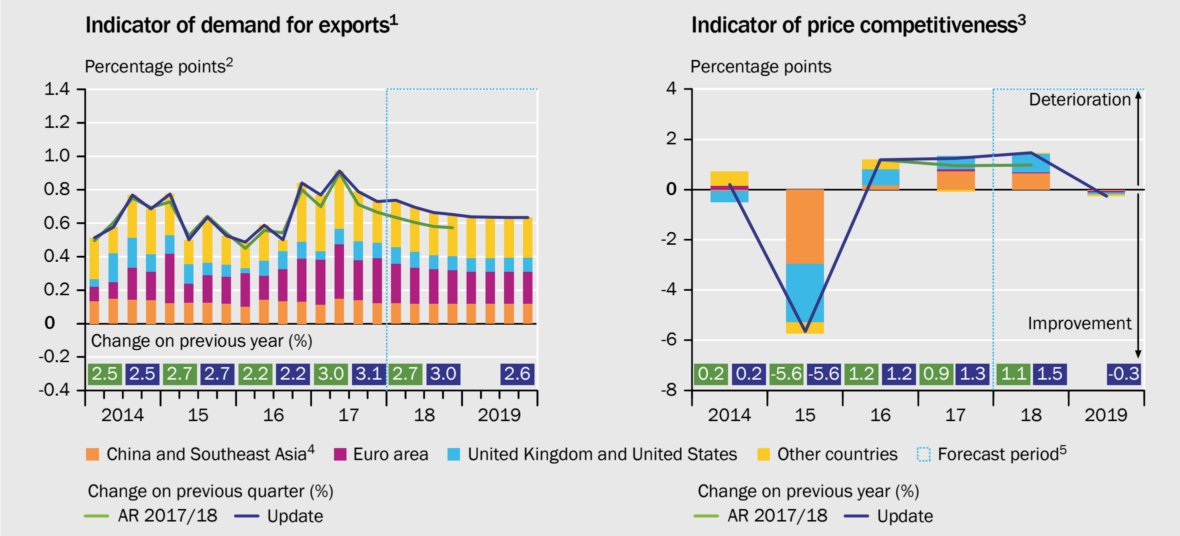
2. Conditions remain favourable

26. The monetary conditions for the German economy remain very expansionary in the forecast period. The extremely loose monetary policy continues to provide **extraordinarily favourable financing conditions**. In recent months, lending rates for German businesses have largely remained at their low levels, while lending rates for consumer loans have declined once again. The Bank Lending Survey also suggests there has been a trend towards an easing of **lending standards**. In some areas, such as the market for private housing loans, the standards were moderately eased in the course of 2017. In combination with the high level of capacity utilisation and the excellent state of the labour market, this expansionary monetary environment has resulted in a gradual increase in the extension of credit. For example, the volume of bank loans to businesses and households in the fourth quarter of 2017 increased by 3.5 % on the corresponding quarter in the previous year. This trend is likely to continue in the forecast period.

27. Expansionary effects can also be expected from **fiscal policy** in the forecast period. The coalition agreement makes provisions, in particular, for a discretionary increase in public spending. Under the assumptions made for this forecast with regard to the implementation timelines and taking actions already adopted into consideration, a fiscal stimulus of roughly 0.3 % and 0.4 %, respectively, of nominal GDP is expected for this year and next year. ↘ ITEM 42 In light of the high level of capacity utilisation, the fiscal measures in the coalition agreement exert a **pro-cyclical effect**. This may lead to amisallocation of resources, a development which occurs particularly in boom periods but which is difficult to spot in real time.

28. The **external environment** has improved further compared with the projection in the GCEE Annual Report 2017. ↘ CHART 4, LEFT, ↘ ITEMS 1 FF. Growth in world trade is likely to increase at a stronger pace. ↘ TABLE 1 On the other hand, there is a slight decline in price competitiveness, largely as a result of the appreciation of the euro in the course of 2017. ↘ CHART 4, RIGHT In a long-term comparison, however, the price competitiveness of the German economy remains high.

↘ CHART 4
Expected development of the external environment



1 – The indicator comprises the developments of GDP of 49 trading partners. The weight of a single country corresponds to the respective country's share in German exports. 2 – Growth contributions of the respective regions. 3 – Against 37 selected countries; an increase shows a deterioration in price competitiveness. Calculation based on the approach of the Deutsche Bundesbank. 4 – Hong Kong, Japan, Republic of Korea and Singapore. 5 – Forecast of the German Council of Economic Experts.

Sources: Deutsche Bundesbank, national statistical offices, own calculations

3. Outlook: expansion continues

29. The **early indicators** present an inconsistent picture at the start of 2018. While the January values for the key area of industrial production excluding construction are already well above the average values of the fourth quarter, growth in exports and new orders was somewhat weaker at the start of the year than in autumn 2017. Domestic orders, in particular, are currently only seeing attenuated growth. ↘ CHART 5, TOP

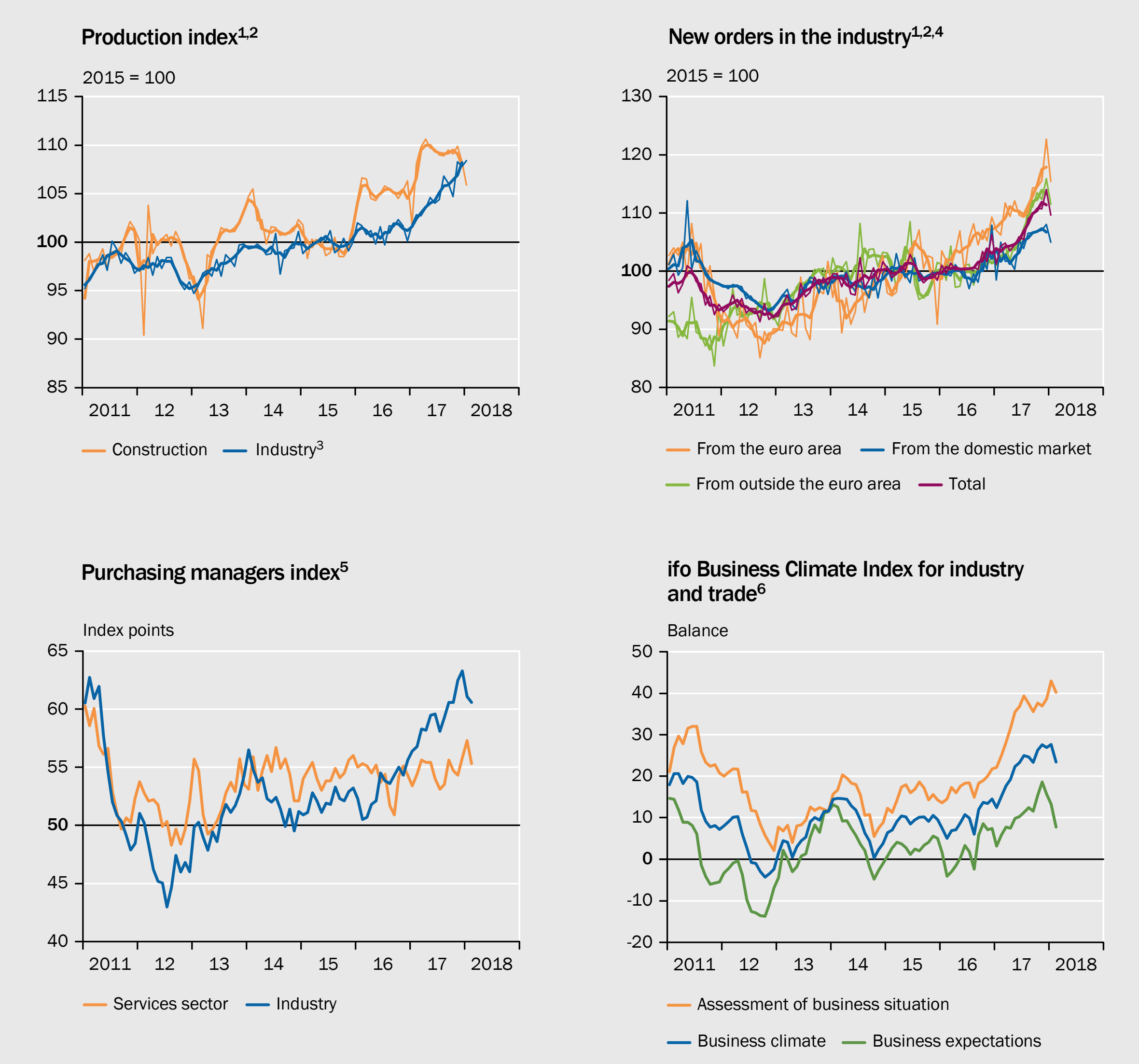
At the same time, a number of indicators of market sentiment, such as the ifo business expectations and the purchasing managers' index for industry fell in the last few months. ↘ CHART 5, BOTTOM However, they are still at a very high level and are just below their all-time highs. For example, with a total of 60.6 points the purchasing managers' index is well above the 50 point mark, which is a signal for growth. In light of this, the recent drop in the sentiment indicators can be interpreted as a normalisation rather than a slowdown.

30. A **short-term forecast** for the first and second quarter of 2018 based on the indicators available projects GDP growth rates of 0.6 % and 0.5 %, respectively. Overall, all these impressions continue to indicate a broad-based and well-advanced upturn. With regard to the expenditure components, however, the **balance of the contributions to growth** is **different** to that described in the GCEE Annual Report 2017 on account of recent developments. In particular, net exports are expected to contribute 0.6 percentage points to growth in 2018, not least owing to the upturn of the world economy. On the other hand, growth in building investment is expected to be less pronounced than projected in the GCEE Annual Report 2017.

With regard to private consumption, the GCEE expects a return to stable positive quarterly growth rates in the region of around 0.4 %, in light of the positive employment outlook and robust wage growth. This is also supported by surveys on consumer confidence and propensity to consume. The result is a projected increase of 1.2 % for 2018. ↘ TABLE 4 On the basis of assumptions made, private consumption is likely to receive additional stimulus in 2019 with the implementation of certain measures in the coalition agreement. Above all, these include the reduction in the contribution to unemployment insurance and the return to the equal financing by employers and employees of health insurance contributions. ↘ ITEM 41

31. In the forecast period through to 2019, the expectation is that capacity bottlenecks and labour shortages will become an increasing impediment to growth.

↘ CHART 5
Selected indicators for the economic forecast



1 – Thin line: monthly values; thick line: 3-month moving averages. 2 – Volume index; seasonally adjusted values. 3 – Production sector excluding construction and energy. 4 – Manufacturing sector excluding manufacture of food products and tobacco. 5 – The purchasing managers' index is based on a monthly survey in manufacturing with about 500 participating purchasing managers and managing directors. 6 – Manufacturing, construction industry, retail and wholesale trade.

Sources: ifo, IHS Markit, Federal Statistical Office, own calculations

While there are **no signs of overheating** so far given the moderate development in prices, the level of **capacity overutilization in the economy** has continued to rise. According to the latest estimate, the output gap was already at 0.8 % of potential in 2017, instead of 0.6 % as previously estimated. At the same time, the survey-based indicators for capacity utilisation have risen further, and the number of vacant positions has reached a new record once more. The estimated output gap in Germany is expected to rise to over 2 % in the forecast period. ↘ CHART 3, RIGHT

32. As capacity shortages will continue to intensify, the GCEE expects a slight slowdown in economic growth over the full forecast horizon. Nevertheless **growth rates** are likely to **exceed potential growth**. The consistently strong foreign demand, in addition to monetary and fiscal policy, will be a particularly im-

↘ TABLE 4

Key economic indicators for Germany

	Unit	2016	2017	Forecast[1]		
				2018		2019
				Update	Difference to AR 2017 / 18[2]	
Gross domestic product[3]	%	1.9	2.2	2.3	(0.1)	1.8
Final consumption expenditure	%	2.5	1.8	1.3	(– 0.5)	1.7
Private consumption[4]	%	2.1	1.9	1.2	(– 0.6)	1.7
Government consumption	%	3.7	1.6	1.7	(– 0.1)	1.9
Gross fixed capital formation	%	3.1	3.3	2.7	(– 1.1)	2.7
Investment in machinery & equipment[5]	%	2.2	4.0	5.2	(0.1)	4.3
Buildings	%	2.7	2.7	0.9	(– 1.7)	1.4
Other products	%	5.5	3.5	3.1	(– 1.8)	3.0
Domestic uses	%	2.4	2.2	1.9	(– 0.4)	2.0
Net exports (growth contribution in percentage points)		– 0.3	0.2	0.6	(0.6)	0.0
Exports of goods and services	%	2.6	4.7	6.6	(2.1)	4.3
Imports of goods and services	%	3.9	5.1	6.4	(1.1)	5.2
Current account balance[6]	%	8.2	7.9	8.2	(0.6)	8.2
Persons employed (domestic)	1,000	43,638	44,291	44,893	(84)	45,407
Employees subject to social security contributions	1,000	31,508	32,228	32,895	(163)	33,465
Registered unemployment, stocks	1,000	2,691	2,533	2,373	(– 100)	2,275
Unemployment rate[7]	%	6.1	5.7	5.3	(– 0.2)	5.1
Consumer prices[8]	%	0.5	1.8	1.7	(– 0.1)	1.9
General government balance[9]	%	0.8	1.1	1.4	(0.3)	1.3
Gross domestic product per capita[10]	%	1.0	1.7	1.9	(0.1)	1.4
Annual rate of change of GDP, calendar-adjusted	%	1.9	2.5	2.3	(0.1)	1.8

1 – Forecast by the GCEE. 2 – Difference in percentage points except for unit 1,000. 3 – Change on previous year. Also applies to all listed components of GDP. 4 – Including non-profit institutions serving households. 5 – Including military weapon systems. 6 – In relation to nominal GDP. 7 – Registered unemployed in relation to civil labour force. 8 – Change on previous year. 9 – In relation to nominal GDP; Regional authorities and social security in according to national accounts. 10 – Population development according to medium-term projection of the GCEE; change on previous year.

Sources: Federal Employment Agency, Federal Statistical Office, own calculations portant contributing factor. The GCEE is raising its forecast for 2018 slightly by 0.1 percentage points and now expects GDP growth of 2.3 %. Growth of 1.8 % is expected for 2019.

33. Assuming that oil prices will develop in the forecast period as indicated by the available prices of oil futures, the GCEE expects a **moderate increase in consumer price inflation** of 1.7 % and 1.9 %, respectively, in 2018 and 2019. ↘ TABLE 4 This increase in inflation is primarily attributable to a gradual rise in the core inflation rate, which is likely to reach around 1.9 % in 2019, in light of the overutilisation of capacity and the stronger growth in wages. This would mean that the core inflation rate would lie well above its long-term average of 1.2 % since 1999.

4. Employment growth remains strong

34. The number of persons in employment rose on an annual average in 2017 to a new **record high of 44.3 million people**. ↘ TABLE 5 Overall the number of persons in employment increased by around 650,000, as anticipated by the GCEE in the GCEE Annual Report 2017. Employment subject to social security contributions rose by 720,000 people, while marginal employment dropped by around 60,000 to 4.7 million people. Therefore, atypical employment continued to decline in importance in 2017 (GCEE Annual Report 2017, Items 715 ff.).

35. As a result of the positive economic outlook, a **consistently high demand for labour** can be expected in the forecast period. In some regions and industries, this demand coincides with an already scarce supply of labour and existing shortages of skilled workers. The number of vacancies recently increased sharply, rising to 1.2 million in the fourth quarter of 2017. In addition, at 2.0 the ratio of unemployed persons to open positions realized its lowest value throughout the past 25 years.

36. **Labour migration** has played an increasingly important role in employment growth since 2011 (GCEE Annual Report 2017, Item 307). The absolute growth in employment subject to social security contributions was even higher among the population of foreign nationals than among the German population in the fourth quarter of 2017 compared with the prior-year quarter. Nationals of Romania, the Balkan States, Poland and Syria, in particular, each accounted for over 30,000 new hires in employment subject to social security contributions in Germany last year.

The continued recruitment of international labour is likely to be crucial for positive employment growth in the coming years. The coalition agreement makes provisions for an **Act on the Immigration of Skilled Workers** (*Fachkräfteeinwanderungsgesetz*). As the plans formulated in the agreement are still vague, the impact the Act will have is still unclear. For the forecast, the assumption is that these plans will not be implemented until after 2019. The planned **restriction on fixed-term employment,** on the other hand, could dampen the dynamic employment growth.

↘ TABLE 5

Labour market in Germany

1,000 persons

	2016	2017	Forecast[1]					
			2018		2019	2018		2019
			Update	Diff. to AR 2017/18		Update	Diff. to AR 2017/18	
	Annual averages					Change on previous year in %; diff. in percentage points		
Labour force[2]	45.318	45.822	46.343	(14)	46.815	1,1	(0,1)	1,0
Unemployed persons[3]	1.774	1.633	1.556	(– 72)	1.518	– 4,7	(– 2,7)	– 2,4
Commuter balance[4]	94	102	106	(– 3)	110	3,9	(– 0,9)	3,8
Employed persons[5]	43.638	44.291	44.893	(84)	45.407	1,4	(0,2)	1,1
Employees subject to social security contributions	31.508	32.228	32.895	(163)	33.465	2,1	(0,4)	1,7
Exclusively marginally employed[6]	4.804	4.742	4.739	(– 7)	4.730	– 0,1	(0,4)	– 0,2
Registered unemployed persons	2.691	2.533	2.373	(– 100)	2.275	– 6,3	(– 2,9)	– 4,1
Underemployment excluding short-time work[7]	3.577	3.517	3.443	(– 262)	3.406	– 2,1	(– 4,7)	– 1,1
Unemployment rate (FEA)[8,9]	6,1	5,7	5,3	(– 0,2)	5,1	– 0,4	(– 0,2)	– 0,2
Unemployment rate (ILO)[9,10]	4,1	3,8	3,5	(– 0,2)	3,4	– 0,3	(– 0,2)	– 0,1

1 – Forecast of the GCEE. 2 – Persons in their working age with residence in Germany (national concept); as defined by the national accounts systems. 3 – ILO concept. 4 – Difference of employed workers commuting from foreign countries to Germany and those commuting from Germany to foreign countries. 5 – Employed persons in Germany independent of their residence (domestic concept). 6 – Employed workers with a wage up to 450 euro. 7 – According to the concept of underemployment by the Federal Employment Agency. 8 – Registered unemployed persons in relation to civilian labour force. 9 – Yearly averages in %; change on previous year in percentage points. 10 – Unemployed persons in relation to the labour force, in each case persons in private households aged from 15 to 74 years.

Sources: Eurostat, Federal Employment Agency , Federal Statistical Office, own calculations

37. The GCEE expects that employment in the coming years will continue to expand, particularly through continued economic immigration. Overall **the number of persons in employment** is expected to rise to 44.9 million and 45.4 million persons, respectively, in 2018 and 2019. Of these, around 32.9 million (2018) and 33.5 million (2019) are expected to be in employment subject to social security contributions. ↘ TABLE 5 After rising by 2.8 % in 2017, real wages are likely to increase by 2.8 % and 3.0 %, respectively, in 2018 and 2019. ↘ TABLE 7 Wage growth in Germany, therefore, is not unusually weak (GCEE Annual Report 2017, Item 280).

38. The number of **registered unemployed is likely to continue to decline**. Following an annual average of roughly 2.5 million unemployed in 2017, the GCEE expects this figure to drop to 2.4 million and 2.3 million, respectively, in 2018 and 2019. The unemployment rate is expected to drop to 5.3 % in 2018 and to 5.1 % the following year. ↘ TABLE 5

5. Highest tax ratio since German reunification

39. At €36.6 billion (1.1 % in relation to nominal GDP), the **general-government budget surplus** in 2017 was somewhat higher than projected in the GCEE Annual Report 2017. ↘ TABLE 6 Expenditures for transfers and social benefits-in-kind increased at a slower pace, while growth in tax revenues was somewhat more pronounced than forecasted both owing to a remarkably good economic situation, even slightly better labour market development and high corporate profits.

In particular, revenues from direct taxes experienced very dynamic growth last year, rising to around 13 % of nominal GDP. The rate increased by 2.3 percentage points compared with 2010, the year comprehensive tax reforms were last implemented. Overall, the **tax ratio** amounts to 23.9 % and now is at its **highest since German reunification**. The tax burden is likely to increase slightly this year and next year.

40. The coalition agreement makes provisions for many **expansionary fiscal policy measures**, which are primarily concentrated on the **expenditure side**. The specific design and implementation date of most of the measures are still unclear. The majority of the budgetary burden is likely to be incurred in the second half of the legislative term and therefore outside the forecast period.

From a fiscal policy perspective, the coalition agreement contains, in particular, plans for a pension top-up for long-term contributors and a mothers' pension II, which would result in a considerable burden for the statutory pension insurance and for the federal budget. A planned child benefit for homebuyers and home builders is supposed to support home ownership among families. In addition, wage subsidies for long-term unemployed and additional expenditures in the area of education, long-term care, social housing, infrastructure, development assistance, defence, and the promotion of research and development are also envisaged. The majority of the budgetary burdens are likely to be incurred at the end of the legislative term. This is true, for example, for the largest measure on the revenue side, namely the change in the solidarity surcharge. Revenues from the surcharge will then likely be reduced by around 50 % as a consequence of the partial phase-out planned for 2021.

41. The forecast is based on the assumptions that the planned substantial increase in the child benefit will be implemented next year as indicated in the **coalition agreement,** and that the contribution rate to unemployment insurance will be reduced by 0.3 percentage points at the start of 2019. It is also assumed that the mothers' pension II will be introduced in the second half of 2018. Furthermore, additional expenditures for child care, development assistance and infrastructure are also considered in the forecast. The return to a system of health insurance which is financed pari passu by employers and workers next year is likely to encumber the statutory pension insurance in particular.

42. Taking into account these plans and other measures that have already been adopted, **discretionary measures** amounting to 0.3 % and 0.4 % of nominal GDP will apply, respectively, in the current year and in 2019. The coalition agreement is responsible for 0.1 and 0.2 percentage points, respectively, in these

years. Fiscal policy will therefore remain expansionary even if the remaining plans in the coalition agreement are only implemented after the forecast period.

43. In light of the continuing good economic situation in Germany, the GCEE expects **significant budget surpluses** amounting to €47.2 billion (1.4 % of nominal GDP) this year and €45.5 billion (1.3 % of nominal GDP) next year. The structural budget balance, which factors out one-off measures and cyclical influences, is expected to be 0.5 % this year and 0.1 % next year; thus continuing its downward trend. At the end of the forecast period, the debt-to-GDP ratio is expected to have fallen below the Maastricht reference value of 60 % for the first time since 2002.

↘ TABLE 6

Public revenues and expenditures and fiscal indices[1]

	2017	Forecast[2]			Forecast[2]		
		2018		2019	2018		2019
		Update	Diff. to AR 2017/18		Update	Diff. to AR 2017/18	
	Billion euro				%[3]	Percentage points	%[3]
Total revenues	**1,474.6**	**1,538.7**	**(10.3)**	**1,596.9**	**4.3**	**(0.4)**	**3.8**
Taxes	767.2	804.2	(6.8)	838.9	4.8	(0.7)	4.3
Social contributions	548.1	571.4	(2.8)	590.9	4.3	(0.4)	3.4
Other revenues[4]	159.3	163.1	(0.8)	167.1	2.4	(– 0.8)	2.5
Total expenditures	**1,438.0**	**1,491.5**	**(1.9)**	**1,551.4**	**3.7**	**(0.2)**	**4.0**
Intermediate consumption	155.3	161.8	(0.9)	168.8	4.2	(0.6)	4.3
Compensation of employees	246.5	256.6	(2.5)	267.2	4.1	(0.2)	4.1
Property income (including interest) payable	38.9	37.9	(– 0.6)	37.3	– 2.6	(– 0.2)	– 1.5
Subsidies payable	27.6	28.3	(– 0.9)	29.0	2.5	(– 0.2)	2.5
Social benefits other than social transfers in kind	505.5	522.5	(– 0.1)	543.8	3.4	(0.3)	4.1
Social benefits in kind	277.9	288.7	(– 2.3)	299.8	3.9	(– 0.1)	3.8
Gross capital formation	70.3	75.7	(0.9)	80.8	7.7	(1.0)	6.8
Other expenditures[5]	115.9	119.9	(1.4)	124.7	3.5	(0.0)	4.0
General government budget balance	**36.6**	**47.2**	**(8.4)**	**45.5**	x	x	x
Fiscal indices (%)[6]							
Public spending ratio[7]	**44.1**	**43.9**	**(0.1)**	**43.9**	x	x	x
Tax ratio[8]	23.9	24.0	(0.2)	24.1	x	x	x
Tax and contribution ratio[9]	39.5	39.6	(0.4)	39.6	x	x	x
General governement budget balance	1.1	1.4	(0.3)	1.3	x	x	x
Structural balance[10]	0.8	0.5	(0.1)	0.1	x	x	x
Debt-to-GDP ratio[11]	65.1	61.4	(– 0.5)	58.5	x	x	x

1 – National accounts (nominal values). 2 – Forecast by the GCEE. 3 – Change on the previous year in %. 4 – Sales, other subsidies on production, property income, other current transfers, capital transfers. 5 – Other current transfers, capital transfers, other taxes on production, and net acquisition of non-financial non-produced assets. 6 – In relation to nominal GDP. 7 - Total expenditures. 8 - Taxes including inheritance tax and taxes entitled to the EU. 9 - Taxes including inheritance tax and taxes entitled to the EU, and actual social contributions. 10 - Cyclically adjusted budget balance net of temporary measures. 11 - Forecast by the GCEE for the general government gross debt as defined in the Maastricht Treaty.

Sources: Federal Statistical Office, own calculations

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APPENDIX

↘ TABLE 7

Wage developments in Germany

Change on the previous year in %

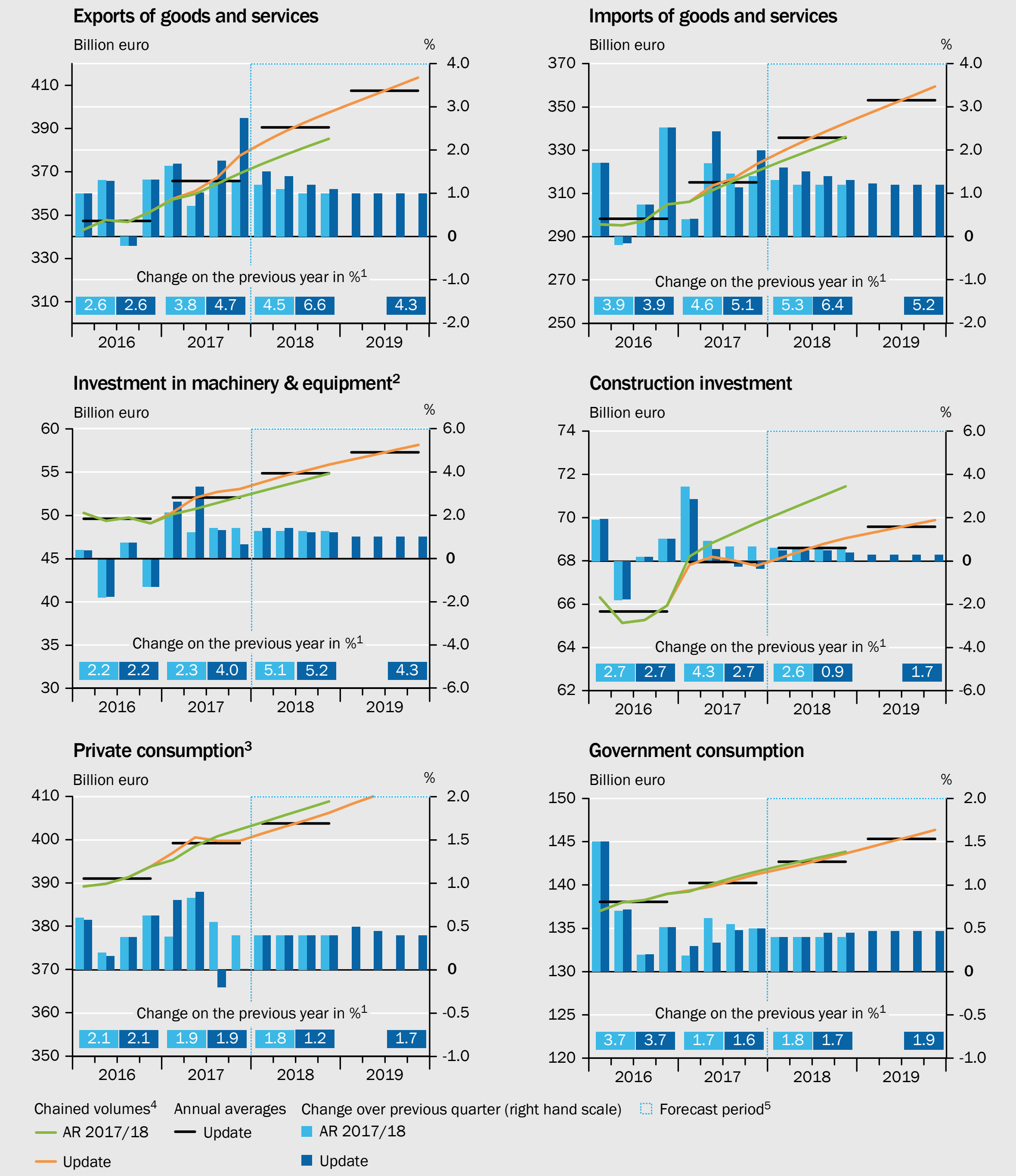
	Collectively agreed wages (hourly concept)	Effective wages[1]	Wage drift[2]	Compensation of employees per working hour	Labour productivity[3]	Unit labour costs (nominal)[4]	Unit labour costs (real)[5]
2014	2.9	2.2	– 0.7	2.2	0.8	1.4	– 0.4
2015	2.3	2.6	0.4	2.5	0.7	1.8	– 0.3
2016	2.1	3.2	1.0	2.9	1.3	1.6	0.2
2017	2.2	2.8	0.6	2.7	1.1	1.6	0.1
2018[6]	2.4	2.8	0.4	2.8	1.3	1.5	– 0.3
2019[6]	2.5	3.0	0.5	3.1	1.2	1.9	– 0.2

1 – Gross wages and salaries (domestic concept) per employees hour worked. 2 – Difference between the increase in effective wages and the increase in collectively agreed wages in percentage points. 3 – GDP per working hour (employed person concept). 4 – Compensation of employees per working hour (employee concept) in relation to GDP per working hour (employed person concept). 5 – Compensation of employees per working hour (employee concept) in relation to nominal GDP per working hour (employed person concept). 6 – Forecast of the GCEE.

Sources: Deutsche Bundesbank, Federal Statistical Office, own calculations

↘ CHART 6

Components of the German GDP



1 – Not adjusted. 2 – Including military weapon systems. 3 – Including non-profit institutions serving households. 4 – Reference year 2010, seasonally and calendar-adjusted. 3 – Forecast by the GCEE.

Sources: Federal Statistical Office, own calculations

↘ TABLE 8

Key figures of the national accounts

Absolute values

	Unit	2017	2018[1]	2019[1]	2018[1]		2019[1]	
					1. half-year	2. half-year	1. half-year	2. half-year
Use of domestic product								
at current prices								
Final consumption expenditure	billion euro	2,373.6	2,451.1	2,541.4	1,194.4	1,256.7	1,236.3	1,305.1
Private consumption[2]	billion euro	1,735.0	1,785.8	1,848.4	870.9	914.9	899.7	948.7
Government consumption	billion euro	638.7	665.3	693.0	323.5	341.8	336.6	356.4
Gross fixed capital formation	billion euro	662.7	695.6	729.9	334.6	361.0	350.2	379.7
Investment in machinery & equipment[3]	billion euro	214.6	226.8	237.8	107.7	119.1	112.5	125.3
Construction investment	billion euro	322.7	337.7	355.5	163.0	174.7	170.9	184.6
Other products	billion euro	125.4	131.1	136.7	63.9	67.2	66.8	69.8
Domestic demand	billion euro	3,015.0	3,126.5	3,251.0	1,527.0	1,599.5	1,585.3	1,665.7
Exports of goods and services	billion euro	1,542.1	1,659.0	1,747.4	819.9	839.1	862.9	884.5
Imports of goods and services	billion euro	1,293.7	1,388.6	1,466.4	677.1	711.5	715.2	751.2
Gross domestic product	**billion euro**	**3,263.4**	**3,396.9**	**3,532.0**	**1,669.7**	**1,727.2**	**1,733.0**	**1,799.0**
Chained volumes								
Final consumption expenditure	billion euro	2,157.4	2,186.0	2,224.1	1,073.1	1,112.9	1,090.3	1,133.8
Private consumption[2]	billion euro	1,596.1	1,614.8	1,642.3	790.8	824.0	802.8	839.5
Government consumption	billion euro	561.0	570.8	581.4	282.0	288.8	287.1	294.2
Gross fixed capital formation	billion euro	590.9	607.1	623.2	292.8	314.2	300.1	323.1
Investment in machinery & equipment[3]	billion euro	207.6	218.4	227.8	103.2	115.2	107.3	120.5
Construction investment	billion euro	270.9	273.4	277.3	133.0	140.4	134.5	142.7
Other products	billion euro	113.2	116.7	120.3	57.1	59.7	59.0	61.3
Domestic demand	billion euro	2,716.2	2,768.1	2,822.5	1,364.4	1,403.7	1,389.4	1,433.0
Exports of goods and services	billion euro	1,460.1	1,556.5	1,623.9	771.4	785.1	803.4	820.6
Imports of goods and services	billion euro	1,258.2	1,339.3	1,408.3	653.9	685.4	686.6	721.7
Gross domestic product	**billion euro**	**2,918.8**	**2,986.8**	**3,041.0**	**1,481.9**	**1,504.9**	**1,506.8**	**1,534.2**
Price Development (deflators)								
Final consumption expenditure	2010=100	110.0	112.1	114.3	111.3	112.9	113.4	115.1
Private consumption[2]	2010=100	108.7	110.6	112.5	110.1	111.0	112.1	113.0
Government consumption	2010=100	113.8	116.6	119.2	114.7	118.4	117.2	121.1
Gross fixed capital formation	2010=100	112.2	114.6	117.1	114.3	114.9	116.7	117.5
Investment in machinery & equipment[3]	2010=100	103.4	103.8	104.4	104.3	103.4	104.8	104.0
Construction investment	2010=100	119.1	123.5	128.2	122.5	124.5	127.1	129.3
Other products	2010=100	110.8	112.3	113.6	112.0	112.6	113.3	113.9
Domestic demand	2010=100	111.0	112.9	115.2	111.9	114.0	114.1	116.2
Terms of Trade	2010=100	102.7	102.8	103.3	102.6	103.0	103.1	103.6
Exports of goods and services	2010=100	105.6	106.6	107.6	106.3	106.9	107.4	107.8
Imports of goods and services	2010=100	102.8	103.7	104.1	103.6	103.8	104.2	104.1
Gross domestic product	**2010=100**	**111.8**	**113.7**	**116.1**	**112.7**	**114.8**	**115.0**	**117.3**
Production of domestic product								
Employed persons (domestic)	1,000	44,291	44,893	45,407	44,591	45,195	45,115	45,699
Labour volume	million hours	59,965	60,590	60,975	29,792	30,798	29,913	31,062
Labour productivity (per hour)	2010=100	107.6	108.9	110.2	109.9	108.0	111.3	109.1
Distribution of net national income								
Net national income	billion euro	2,434.4	2,533.9	2,633.8	1,230.2	1,303.7	1,276.6	1,357.3
Compensation of employees	billion euro	1,669.9	1,744.7	1,818.2	834.6	910.1	870.7	947.5
Gross wages and salaries	billion euro	1,370.3	1,431.8	1,491.0	682.9	748.9	711.7	779.3
among them: net wages and salaries[4]	billion euro	905.9	942.3	979.1	444.9	497.4	462.4	516.7
property and entrepreneurial income	billion euro	764.5	789.2	815.6	395.6	393.6	405.8	409.8
Disposable income of private households[2]	billion euro	1,875.2	1,932.6	2,002.1	957.2	975.4	990.6	1,011.5
Savings rate of private households[2,5]	%	9.9	9.9	9.9	11.3	8.6	11.4	8.5
For information purposes:								
Nominal unit labour costs[6]	2010=100	112.1	113.8	115.9	109.8	117.7	112.2	119.6
Real unit labour costs[7]	2010=100	100.3	100.0	99.8	97.5	102.6	97.6	102.0
Consumer prices	2010=100	109.3	111.2	113.2	110.6	111.7	112.7	113.7

1 – Forecast of the GCEE. 2 – Including non-profit institutions serving households. 3 – Including military weapon systems. 4 – Compensation of employees minus social contributions of employers and employees and income tax of employees. 5 – Savings relative to disposable income.
6 – Compensation of employees per working hour (employee concept) in relation to GDP per working hour (employed person concept).
7 – Compensation of employees per working hour (employee concept) in relation to nominal GDP per working hour (employed person concept).

Sources: Federal Employment Agency, Federal Statistical Office, own calculations

Key figures of the national accounts
Change on the previous year in %

2017	2018[1]	2019[1]	2018[1] 1. half-year	2018[1] 2. half-year	2019[1] 1. half-year	2019[1] 2. half-year	
							Use of domestic product
							at current prices
3.7	3.3	3.7	3.0	3.5	3.5	3.8	Final consumption expenditure
3.6	2.9	3.5	2.4	3.4	3.3	3.7	Private consumption[2]
3.8	4.2	4.2	4.4	4.0	4.1	4.3	Government consumption
5.2	5.0	4.9	4.6	5.3	4.7	5.2	Gross fixed capital formation
4.3	5.6	4.9	5.7	5.6	4.5	5.2	Investment in machinery & equipment[3]
6.0	4.7	5.3	4.0	5.3	4.9	5.6	Construction investment
4.8	4.5	4.2	4.3	4.8	4.5	4.0	Other products
4.2	3.7	4.0	3.5	3.9	3.8	4.1	Domestic demand
6.3	7.6	5.3	7.7	7.4	5.2	5.4	Exports of goods and services
7.9	7.3	5.6	6.8	7.8	5.6	5.6	Imports of goods and services
3.8	**4.1**	**4.0**	**4.2**	**4.0**	**3.8**	**4.2**	**Gross domestic product**
							Chained volumes
1.8	1.3	1.7	1.1	1.6	1.6	1.9	Final consumption expenditure
1.9	1.2	1.7	0.8	1.5	1.5	1.9	Private consumption[2]
1.6	1.7	1.9	1.8	1.7	1.8	1.9	Government consumption
3.3	2.7	2.7	2.3	3.1	2.5	2.8	Gross fixed capital formation
4.0	5.2	4.3	5.3	5.2	4.0	4.6	Investment in machinery & equipment[3]
2.7	0.9	1.4	0.3	1.6	1.1	1.7	Construction investment
3.5	3.1	3.0	2.7	3.5	3.3	2.7	Other products
2.2	1.9	2.0	1.8	2.0	1.8	2.1	Domestic demand
4.7	6.6	4.3	7.1	6.1	4.1	4.5	Exports of goods and services
5.1	6.4	5.2	6.6	6.3	5.0	5.3	Imports of goods and services
2.2	**2.3**	**1.8**	**2.4**	**2.3**	**1.7**	**1.9**	**Gross domestic product**
							Price Development (deflators)
1.8	1.9	1.9	1.9	1.9	1.9	1.9	Final consumption expenditure
1.7	1.7	1.8	1.6	1.8	1.8	1.8	Private consumption[2]
2.2	2.4	2.3	2.6	2.2	2.2	2.3	Government consumption
1.9	2.2	2.2	2.2	2.1	2.2	2.3	Gross fixed capital formation
0.3	0.4	0.5	0.4	0.4	0.5	0.6	Investment in machinery & equipment[3]
3.2	3.7	3.8	3.7	3.7	3.7	3.9	Construction investment
1.3	1.4	1.2	1.5	1.3	1.2	1.2	Other products
2.0	1.8	2.0	1.7	1.8	1.9	2.0	Domestic demand
– 1.0	0.1	0.5	0.4	– 0.4	0.5	0.6	Terms of Trade
1.6	0.9	1.0	0.6	1.2	1.1	0.8	Exports of goods and services
2.6	0.8	0.4	0.2	1.4	0.6	0.3	Imports of goods and services
1.5	**1.7**	**2.1**	**1.8**	**1.7**	**2.1**	**2.2**	**Gross domestic product**
							Production of domestic product
1.5	1.4	1.1	1.4	1.3	1.2	1.1	Employed persons (domestic)
1.1	1.0	0.6	1.1	0.9	0.4	0.9	Labour volume
1.1	1.3	1.1	1.1	1.3	1.3	1.1	Labour productivity (per hour)
							Distribution of net national income
4.1	4.1	3.9	4.2	4.0	3.8	4.1	Net national income
4.3	4.5	4.2	4.6	4.4	4.3	4.1	Compensation of employees
4.5	4.5	4.1	4.5	4.4	4.2	4.1	Gross wages and salaries
4.2	4.0	3.9	4.0	4.0	3.9	3.9	among them: net wages and salaries[4]
3.6	3.2	3.4	3.5	2.9	2.6	4.1	property and entrepreneurial income
3.9	3.1	3.6	2.6	3.5	3.5	3.7	Disposable income of private households[2]
.	.	.	.	.	.	.	Savings rate of private households[2,5]
							For information purposes:
1.6	1.5	1.9	1.5	1.5	2.2	1.6	Nominal unit labour costs[6]
0.1	– 0.3	– 0.2	– 0.3	– 0.2	0.1	– 0.5	Real unit labour costs[7]
1.8	1.7	1.9	1.7	1.7	1.8	1.9	Consumer prices

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