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(ECONOMIC) UPTURN FAILS TO MATERIALISE DESPITE IMPROVED GLOBAL ECONOMY

This is a translated version of the original German-language chapter "Aufschwung bleibt trotz besserer Weltkonjunktur aus", which is the sole authoritative text. Please cite the original German-language chapter if any reference is made to this text.

KEY MESSAGES

↘ The German economy is stagnating. Gross domestic product (GDP) has grown by only 0.1 % in real terms over the past five years. One reason is that the German economy is benefitting less from global economic growth than in the past.

↘ The GCEE expects GDP in Germany to fall by 0.1 % this year. Given weak industry performance and low consumption expenditures, German GDP is expected to grow by only 0.4 % in 2025.

↘ Consumer price inflation is expected to be 2.2 % this year and 2.1 % next year.

SUMMARY

Global economic growth was marginally below its long-term average in 2024. Inflation continued to decline in the major economies, though at a diminishing rate. The GCEE expects **global gross domestic product (GDP) to grow by around 2.6 % in 2024 as well as in 2025 and consumer prices to rise by 4.6 % in 2024 and 3.0 % in 2025**.

Economic activity in the euro area has gained momentum in recent quarters. Growth was strongly driven by the export sector following the moderate recovery of the global economy. At the same time, investment activities remained weak and private consumption expenditure is subdued despite rising real wages. However, due to the continued growth in employment and real wages, private consumption is likely to increase in many euro area member states over the forecast horizon. The easing of monetary policy should stimulate both private consumption and investment activities in the coming year. **Price momentum is continuing to slow and the inflation rate** is approaching the European Central Bank's (ECB) inflation target. The GCEE expects **GDP in the euro area to grow by around 0.7 % and 1.3 % in 2024 and 2025, respectively, while consumer prices are expected to grow by 2.4 % in 2024 and 2.1 % in 2025**.

In contrast to the euro area and the global economy, the German economy is stagnating and the outlook remains gloomy. Although real income has improved, private consumption shows few signs of recovery. Pessimistic expectations and the high level of economic uncertainty continue to weigh on private households. Due to the poor consumer sentiment and slowing income growth, private consumption is likely to expand only slightly in 2025. On the corporate side, the manufacturing industry is particularly weak. Global economic growth and the recovery of the euro area are likely to support German exports. However, this effect is likely to be weaker than in the past due to reduced competitiveness. The GCEE expects **German GDP to grow by around –0.1 % and 0.4 % in 2024 and 2025 respectively, while consumer prices are expected to rise by 2.2 % in 2024 and 2.1 % in 2025**.

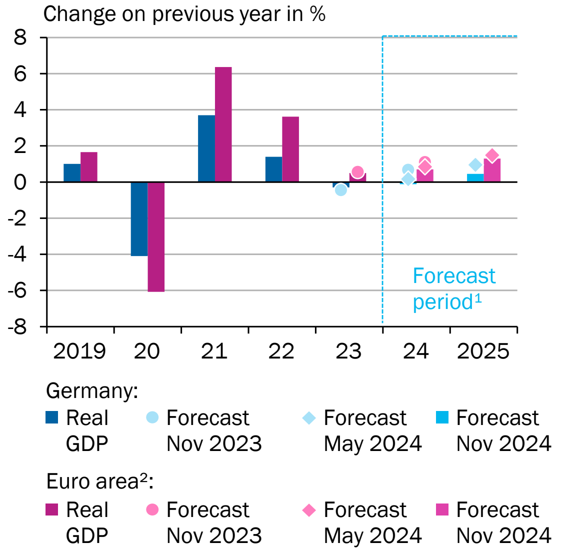
I. BRIEF SUMMARY

1. The **GCEE expects** Germany's real **gross domestic product** (GDP) to **decline by 0.1 % in 2024**. The council is thus revising its forecast downwards by 0.3 percentage points compared to Spring 2024. Only a **slight growth of 0.4 %** is expected for **2025**, which is 0.5 percentage points less than was expected in Spring 2024. ↘ CHART 1 ↘ ITEM 40 ↘ BOX 5 Inflation is expected to average 2.2 % in 2024, 0.2 percentage points lower than predicted in Spring 2024. In 2025, the inflation rate is expected to be 2.1 %. Core inflation will amount to 3.0 % in 2024 and 2.6 % in 2025. ↘ ITEM 64

2. The German economy is not recovering from a phase of stagnation that has persisted since the start of the pandemic and the crisis years since 2020. GDP has grown by only 0.1 % overall in real terms over the past five years. The weak current economic performance is largely due to **declines in production and value added in the manufacturing sector**. ↘ CHART 2 Although energy-intensive sectors such as the chemical industry have recovered somewhat this year, production in other core areas, such as mechanical engineering, is declining. ↘ ITEM 41 With respect to the overall economy, these declines are particularly relevant in Germany, as the industrial sector plays a major role in Germany's economic growth in an international comparison. In addition, the construction industry also continues to dampen growth.

↘ CHART 1
Economic outlook for Germany and Europe

GDP in Germany and the euro area



Key economic indicators (in %)

	2023	2024[1]	2025[1]
Germany			
GDP growth[3]	– 0.3	– 0.1	0.4
Inflation rate	5.9	2.2	2.1
Unemployment rate[4]	5.7	6.0	6.1
Wage growth[5]	6.6	5.2	3.5
Budget balance[6]	– 2.6	– 2.1	– 1.9
Euro area			
GDP growth[2,3]	0.5	0.7	1.3
Inflation rate[7]	5.4	2.4	2.1
Global economy			
GDP growth[2,3]	2.8	2.6	2.6
Inflation rate	5.3	4.6	3.0

1 – Forecast by the GCEE. 2 – Values are based on seasonal and calendar-adjusted quarterly figures. 3 – Constant prices. 4 – Registered unemployed in relation to civil labour force. 5 – Change of gross wages and salaries (domestic concept) per employees' hour worked. 6 – In relation to nominal GDP; territorial authorities and social security according to national accounts. 7 – Change of the Harmonised Index of Consumer Prices.

Sources: Eurostat, Federal Statistical Office, national statistical offices, own calculations

↘ CHART 2
Determining factors for the forecast

	Current situation	Forecast horizon	Opportunities and risks
Consumers	Income growth has small effect on consumer demand	Cautionary motive keeps savings rate high, real income growth declines	Opportunity/risks: Savings rate falls more than expected / Geopolitics and rise in inflation
Industry	Dampening effect of cost increases, high uncertainty, and monetary policy	Weakness affects service sectors, monetary policy is supportive of growth	Risk: Deepening industrial weakness due to low investment and export demand
Labour market	Labour market still robust	Job cuts in industry, stagnation in the overall economy	Opportunity/risk: Reallocation in productive sectors / Unemployment

Source: own representation

3. Global GDP is expected to grow by 2.6 % in 2024 and 2025. GDP in the euro area is expected to grow by 0.7 % and 1.3 %, respectively, and in the euro area excluding Germany even by 1.1 % and 1.5 %. The more positive **development of global industrial production and the global economy** ↘ ITEM 13 reveals that the **industrial weakness in Germany** has **domestic causes**. This insight and the duration of the weakness suggest that the German industry is being **held back by both cyclical and structural problems**. First, there is a high level of uncertainty regarding general economic and political developments, which has further increased. ↘ ITEM 43 Second, production costs have risen sharply relative to other countries, which is associated with weak productivity growth in the manufacturing sector. ↘ ITEMS 45 F. This increase is likely to have increased product prices and reduced competitiveness, in particular relative to China. As a result, the German economy benefits less from international demand than in the past, ↘ BOX 6 Net exports are likely to weigh down growth in 2025, while they were still providing support in 2024.

4. The weak industry performance **affects also other sectors of the economy**. While services are still robust and support economic growth, business services will likely decline, following the decline in manufacturing production. ↘ ITEM 47 In addition, the weakness in industry performance will likely reinforce itself as the low capacity utilisation in manufacturing will further dampen corporate investment. The latter fell sharply in 2024 and is expected to grow only slightly in 2025. ↘ ITEM 58

5. The low economic **growth** is increasingly leaving **its mark on the German labour market**. Due to labour shortages and widespread labour hoarding, labour markets have been rather stable so far. ↘ BOX 7 However, overall employment growth has weakened significantly. In sectors that are particularly affected by the

economic downturn, such as manufacturing, trade and construction, employment is already declining. In addition, unemployment in core industrial sectors such as automotive and mechanical engineering has risen at a higher rate than in the overall economy. For the overall economy, the GCEE expects the unemployment rate to rise from 5.7 % in 2023 to 6.0 % in 2024 and 6.1 % in 2025. Employment growth is likely to come to a standstill in 2025. ↘ ITEM 65

6. On the side of **private households**, the significant increase in real wages that began in 2023 has so far led only to **an unusually weak increase in consumption spending**. Consumer uncertainty and persistently negative expectations for the future are likely to play a major role here. ↘ ITEM 53 In view of the weakening economy and the decline in inflation, wage settlements are expected to be lower in 2025 than in the previous year. ↘ ITEM 67 Nevertheless, real wage growth is likely to be positive, also because of strong wage increases that have already been negotiated. Real net earnings are expected to rise by 3.2 % in 2024 and by 0.4 % in 2025. As a result, real private consumption is likely to grow at rates of 0.4 % and 0.5 % in 2024 and 2025 respectively. ↘ ITEM 54

7. The **European Central Bank (ECB) started lowering interest rates back in June 2024** and cut key policy rates a total of three times. While monetary policy is still restrictive and dampening investment demand, ↘ BOX 3 the degree of restriction has reduced. ↘ ITEM 32 Given the expected decline in inflation, further **policy rate cuts** are likely to follow, which **should stimulate growth in 2025**. Mortgage lending has already increased, and the four-year decline in gross fixed capital formation in construction in Germany should end at the beginning of 2025. ↘ ITEM 34

8. The expiration of the support measures responding to the energy crisis and the reformed EU fiscal rules will likely lead to a negative fiscal impulse in the euro area over the forecast horizon. ↘ ITEM 27 **German fiscal policy** is expected to have a slightly **dampening effect on the economy**. The general government budget balance is likely to improve slightly over the forecast period. After –2.6 % in 2023, it is expected to amount to –2.1 % and –1.9 % of GDP in 2024 and 2025 respectively. Nevertheless, the debt ratio will increase slightly, from 62.7 % in 2023 to 63.1 % in 2024 and 63.7 % in 2025. ↘ ITEM 71

9. Internationally, the conflict in the Middle East and Russia's war of aggression in Ukraine continue to create considerable **risks to the economy**. **An intensification of the conflicts** is likely to further increase the high level of uncertainty. Additional measures in support of Ukraine could put a strain on public budgets. An escalation of the conflict in the Middle East could cause energy prices to rise again. ↘ ITEM 20 **Core inflation in the euro area** could be higher due to an unexpectedly strong pass-through of labour costs, which could in turn prompt the ECB to postpone further interest rate cuts. ↘ ITEM 37

In Germany, the expected slow **recovery in manufacturing**, exports and investments in machinery and equipment might fail to materialise over the forecast horizon. Losses in competitiveness and adverse geopolitical developments could have a greater impact on exports than assumed. In Germany, low capacity utilisation could dampen demand for capital goods more than expected. ↘ ITEM 72 As a

result, weak industry production could increase **unemployment** more than assumed. However, dismissed **workers might find employment in more productive sectors of the economy**. It is also possible that the propensity to save could fall more sharply and private consumption increase more than expected in the forecast. Finally, the ongoing negotiations on the federal budget pose a risk. Additional savings efforts may be required to comply with the debt brake in 2025.
↘ ITEM 76

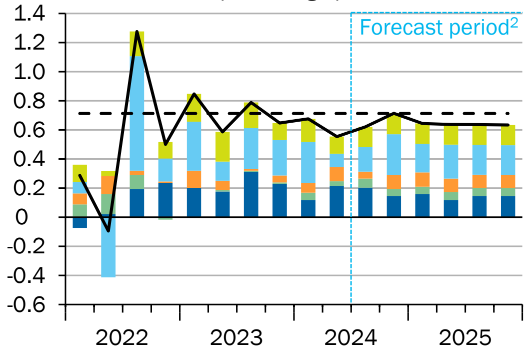
II. GLOBAL ECONOMY

10. At 0.6 %, quarterly GDP growth in the global economy over the course of the year was only slightly below its long-term average of 0.7 %. ↘ CHART 3 LEFT Although the tight monetary policy in the advanced economies and geopolitical tensions will weigh on the global economy over the forecast horizon, global trade and global industrial production are likely to continue to grow. Consumer price inflation in the advanced economies is approaching the inflation targets of the major central banks. Falling inflation is accompanied by rising real wages, which will support private demand over the forecast horizon. The incipient easing of monetary policy will further improve financing conditions in the advanced economies and strengthen overall economic demand worldwide, especially in the coming year.

↘ CHART 3
Global growth and purchasing managers' indices

Global GDP growth[1] is just below the the long-term average

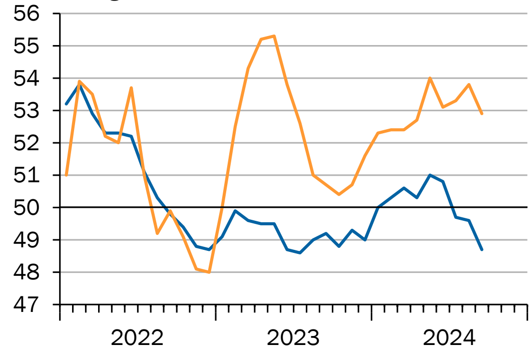
Contributions in percentage points



USA · Euro area · Other advanced economies[3]
China · Other emerging economies[4]
Change on previous quarter (%)
Change on previous quarter (%) (average 2015 – 2023)

Service sector supports the global economy

50 = growth threshold



Purchasing managers' indices[5]:
Manufacturing · Services

1 – Averages of seasonally adjusted quarterly values. Global GDP is approximated by the sum of the countries in Table 1 (total). 2 – Forecast by the GCEE. 3 – Definition as in footnote 9 in Table 1. 4 – Definition as in footnote 10 in Table 1. 5 – Global purchase managers's indices based on a monthly survey of purchasing managers and managing directors.

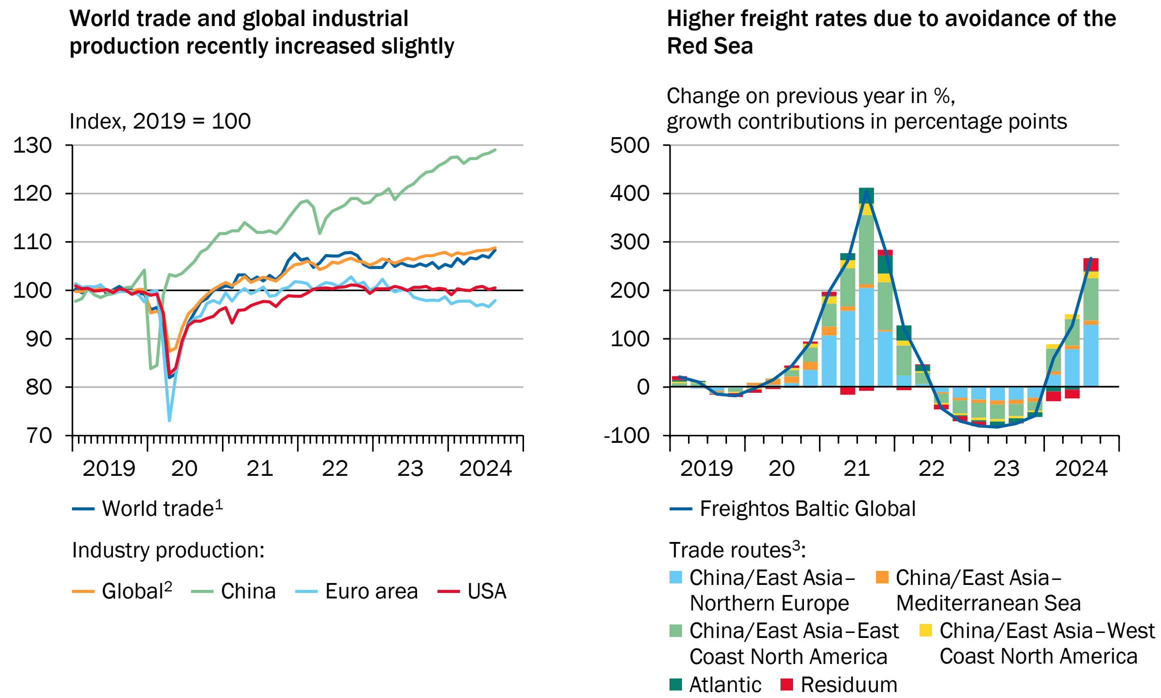
Sources: Eurostat, IMF, national statistical offices, OECD, S&P Global, own calculations

Global GDP is expected to grow by 2.6 % in both 2024 and 2025. ↘ ITEM 13 ↘ TABLE 1 Global consumer price inflation is expected to be 4.6 % in 2024 and 3.0 % in 2025.

1. Global economy on course for moderate expansion

11. Global GDP grew by 0.7 % and 0.6 % in the first and second quarters of 2024 compared to the previous quarter. ↘ CHART 3 LEFT **The global economy is currently being supported by the service industry in particular.** ↘ CHART 3 RIGHT However, global industrial production has also been growing significantly since summer 2023. ↘ CHART 4 LEFT Nevertheless, global trade is only slowly catching up with global industrial production. ↘ CHART 4 LEFT The subdued development of global trade is partly due to the fact that (intermediate) goods are increasingly being produced by some major economies such as China and the USA themselves and less is being imported (GCEE Spring Report 2024 box 7). For example, the trade intensity of the manufacturing sector in China has recently fallen particularly sharply (Joint Economic Forecast, 2024a). In addition, global trade in goods

↘ CHART 4
Global development of industry production, trade of goods and container freight rates



1 – Coverage of seasonally adjusted trade volumes in 81 countries and about 99 % of global trade balances. 2 – Coverage of industry production in 85 countries and about 97 % of global industry production. 3 – Freight rates on the spot market of 40-foot containers for twelve trade routes. 4 – The global price change can be explained by price changes of the twelve trade routes. To estimate the weights for each trade route, the global price change is regressed on the price changes of the trade routes under the following two constraints: Each weight is greater than or equal to zero and the sum of the weights is one. The underlying estimation period is 2017Q3 to 2024Q3.

Sources: CPB, Freightos, own calculations is being impacted by trade restrictions (Joint Economic Forecast, 2024a) and geopolitical instability on the trade routes through the Red Sea (Hinz and Kamin, 2024). This has led to rising container freight rates again since the start of the year. ↘ CHART 4 RIGHT

12. The **global economy was supported by the advanced economies in the second quarter of 2024**, after still being driven by strong growth in China at the start of 2024. ↘ CHART 3 LEFT ↘ BOX 1 GDP expanded comparatively strongly in the US and the United Kingdom in the first and second quarters of the current year, at 0.4 % and 0.7 % and 0.7 % and 0.5 % respectively, adjusted for price and seasonal effects, compared to the previous quarter. ↘ BOX 1 According to the advance estimate for the third quarter of 2024, GDP growth in the US was 0.7 % compared to the previous quarter. In contrast, growth in the euro area was rather weak at 0.3 % and 0.2 % respectively in the first two quarters of 2024 and is unlikely to have improved significantly as the flash estimate signaled a 0.4 % increase in the third quarter of 2024 when compared to the previous quarter. ↘ ITEM 24

After a strong start to 2024, the Chinese economy grew by 1.5 % in the first quarter, just 0.5 % in the second quarter and 0.9 % in the third quarter of 2024. ↘ BOX 1 Many Southeast Asian **emerging markets**, such as Thailand and Vietnam, are benefiting from a strong external economy and are also being supported by strong domestic demand. In Asia, India in particular saw GDP growth of 1.7 % and 1.2 % in the first and first quarters compared to the previous quarter.

↘ BOX 1

Focus: The major economies of the USA and China

The **US economy grew by 0.4 % and 0.7 % in the first and second quarters of 2024** compared to the previous quarter. Growth was driven in particular by robust private consumption expenditure, especially in services, but also by government consumption and private capital formation. As imports rose more strongly than exports, net exports had a dampening effect on growth. Although the unemployment rate rose from 3.7 % in January to 4.1 % in September 2024, this is likely to be due in part to positive net immigration and therefore not necessarily to economic weakness. Despite a further increase in core inflation, particularly due to rising service prices, the decline in inflation in the US continued. Consumer price inflation, as measured by the Personal Consumption Expenditure Index, was 2.3 % in the third quarter compared to the previous year. In September 2024, the Federal Reserve lowered key policy rates for the first time since 2020, heralding a phase of monetary policy easing.

In the third quarter of 2024, GDP growth in the United States remained the same as in the previous quarter at 0.7 %. In the current year, domestic consumer demand in particular should continue to support US growth. **The GCEE expects GDP growth of 2.7 % for the current year. For 2025**, the council expects economic activity to cool to a growth rate of **2.1 %** due to subdued domestic demand, even though monetary policy easing is likely to boost overall economy demand, particularly in the second half-year 2025. Consumer prices, as measured by the Consumer Price Index, are expected to rise by 2.9 % and 2.5 % in 2024 and 2025 respectively.

The **Chinese economy** expanded strongly by 1.5 % in the first quarter of 2024 compared to the previous quarter. In the second quarter of 2024, however, GDP growth was significantly weaker at 0.5 %. The main reason for the lower growth is weak domestic demand, and weak retail sales in China continue to indicate a reluctance to spend on private consumption. In addition to the tense property market (H1 2022 item 17) and the difficult financial situation of

Chinese municipalities (H1 2023 item 24), extreme natural events related to storms and floods also dampened China's economic performance in the first half-year 2024. However, **Chinese exports** increased significantly more than imports and thus **supported Chinese GDP growth**. With an increase of 1.0 % in July and August 2024 compared to the average of the previous quarter, Chinese industrial production was weaker than at the beginning of the year, when it expanded by 1.2 % in the first quarter of 2024 compared to the previous quarter. ↘ CHART 4 LEFT

In the third quarter of 2024, Chinese GDP rose by 0.9 % compared to the previous quarter. **However,** the **growth outlook remains cautious over the forecast horizon.** Following the strong start to 2024, the Chinese economy recorded weaker growth rates in the second half-year 2024 than in the same period of the previous year. Survey-based indicators such as the purchasing managers' indices for the Chinese manufacturing industry and for services fell sharply in September 2024 compared to the previous month. For the moment, this does not signal any significant improvement in economic activity in China. In view of the weak domestic demand, the Chinese central bank cut interest rates for one-year and five-year loans twice in succession in September and October 2024. In addition to the reserve requirement ratio, which is important for the Chinese banking system, the interest rates for medium-term credit facilities and the repo rate were also lowered at the end of September 2024. In addition, the Chinese central government also announced a comprehensive package of fiscal policy measures at the end of September 2024 aimed at supporting the property sector and private consumers (Shen and Westbrook, 2024). After short-term gains in share prices, the Chinese financial markets reacted with sharp price corrections at the beginning of October 2024. Behind such a market reaction remain doubts about the actual impact of the stimulus package (Reuters, 2024). It is currently unclear how much the monetary and fiscal policy measures will support the Chinese economy overall. The **GCEE forecasts Chinese GDP growth of 4.7 % and 4.6 % for the years 2024 and 2025.** The GCEE expects inflation of 0.4 % and 1.3 % for the years 2024 and 2025.

13. The **service industryremains an important pillar of the global economy over the forecast horizon**. The global purchasing managers' index for services has continued its upward momentum since the second half-year 2023 and, at around 53 points in September 2024, was well above the growth threshold. In view of continued strong nominal wage increases, the global decline in consumer price inflation ↘ ITEM 14 ↘ TABLE 1 is increasing the purchasing power of private households. Global trade should also continue to grow over the forecast horizon. Global container throughput (RWI, 2024) in the third quarter of 2024 indicates a positive outlook for global trade over the forecast horizon compared to the subdued development in the spring. The interest rate cuts initiated by the central banks in the advanced economies ↘ CHART 6 LEFT will have a positive impact on global overall economic demand in the coming year. **Global GDP is expected to grow by around 2.6 % in both 2024 and 2025**. Global trade in goods is expected to grow by 1.7 % in 2024 and 2.3 % in 2025. ↘ TABLE 1

↘ TABLE 1

Gross domestic product and consumer prices of selected countries

Country/country group	Weight in %[1]	Gross domestic product[2]			Consumer prices		
		Change on previous year in %					
		2023	2024[3]	2025[3]	2023	2024[3]	2025[3]
Europe	**27.8**	**0.9**	**1.2**	**1.5**	**8.0**	**5.3**	**3.9**
Euro area	16.6	0.5	0.7	1.3	5.4	2.4	2.1
United Kingdom	3.6	0.3	0.9	1.5	7.3	2.5	2.2
Russia	2.1	3.3	3.5	1.7	5.9	8.3	6.9
Central and Eastern Europe[4]	1.9	0.5	2.1	3.0	11.4	3.8	3.9
Türkiye	1.2	5.1	3.6	2.6	53.9	58.7	34.3
Other countries[5]	2.5	0.8	1.5	1.6	4.0	1.8	1.6
America	**37.0**	**2.7**	**2.4**	**2.1**	**6.7**	**7.1**	**3.5**
United States	29.1	2.9	2.7	2.1	4.1	2.9	2.5
Latin America[6]	3.3	1.6	0.2	1.6	32.8	49.2	13.8
Canada	2.3	1.2	1.1	1.9	3.9	2.4	2.0
Brazil	2.3	2.9	3.1	2.6	4.6	4.4	4.2
Asia	**33.4**	**4.7**	**4.1**	**4.1**	**1.9**	**1.5**	**1.9**
China	18.7	5.5	4.7	4.6	0.2	0.4	1.3
Japan	4.4	1.7	– 0.2	1.1	3.3	2.6	1.7
India	3.7	7.7	7.0	6.6	5.7	4.8	4.6
Asian advanced economies[7]	3.7	1.5	2.8	2.3	3.4	2.3	2.5
Southeast Asian emerging economies[8]	2.9	4.3	4.7	4.8	3.4	2.1	1.8
Total	**100**	**2.8**	**2.6**	**2.6**	**5.3**	**4.6**	**3.0**
Advanced economies[9]	65.8	1.7	1.7	1.8	4.6	2.6	2.2
Emerging economies[10]	34.2	5.0	4.3	4.2	6.7	8.5	4.6
memorandum:							
weighted by exports[11]	100	1.5	1.8	2.1	.	.	.
following IMF concept[12]	100	3.3	3.1	3.1	.	.	.
World trade[13]		– 1.2	1.7	2.3	.	.	.

1 – GDP (US dollar) of the named countries or country groups in 2023 as a percentage of total GDP of the named countries or country groups, corresponding to 90 % of the IMF country group weighted by US dollars and 85 % of the IMF country group weighted by purchasing power parities. 2 – Price-adjusted. Values are based on seasonal and calendar-adjusted quarterly figures. 3 – Forecast by the German Council of Economic Experts. 4 – Bulgaria, Czechia, 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, Central and Eastern Europe, Australia, Canada, Denmark, Japan, Norway, Sweden, Switzerland, United Kingdom, United States. 10 – Latin America, Southeast Asian emerging economies, Brazil, China, India, Russia, Türkiye. 11 – Total of all listed countries. Weighted by the respective shares of German exports in 2023. 12 – Weights according to purchasing power parities and extrapolated to the countries covered by the IMF. 13 – As measured by the Dutch Centraal Planbureau (CPB).

Sources: CPB, Eurostat, IMF, national statistical offices, OECD, own calculations

2. Inflation: Services slow down decline

14. Inflation has been falling in the major economies since mid-2022, although this decline slowed in the first half-year 2024. In particular, the continued above-average rise in prices for services contributed to sustained price pressure. Due to geopolitical tensions, wholesale prices for natural gas and oil prices rose slightly at the start of the year. Central banks in the euro area and the UK began to loosen their monetary policy in the summer of 2024. The US Federal Reserve followed suit in September 2024. Global **consumer price inflation is likely to weaken further in the coming year**.

15. In October 2024, **natural gas prices**, as measured by the European Gas Index (EGIX), rose to around EUR 41 per megawatt hour (MWh) and were therefore around EUR 8 per MWh higher than at the start of 2024. ↘ CHART 5 LEFT **Crude oil prices** rose significantly in the first half-year 2024, particularly in the first quarter. This was due to concerns about supply reliability as a result of the Middle East conflict (Liu, 2024). Following the announcement by the OPEC+ states in June 2024 that they would gradually reduce production volumes, market participants expected supply to increase (OPEC, 2024). In its August 2024 report, the International Energy Agency (IEA) assumes that growth in oil demand will continue to decline until the end of 2024 due to the weakness of the Chinese industry ↘ BOX 1, which is likely to dampen oil prices (IEA, 2024).

The **futures prices** for natural gas for Europe, the USA and North East Asia indicate a sideways movement for the forecast period, meaning that no additional inflationary impetus is currently expected from natural gas prices. The futures prices for Brent crude oil indicate a slight decline over the forecast horizon.

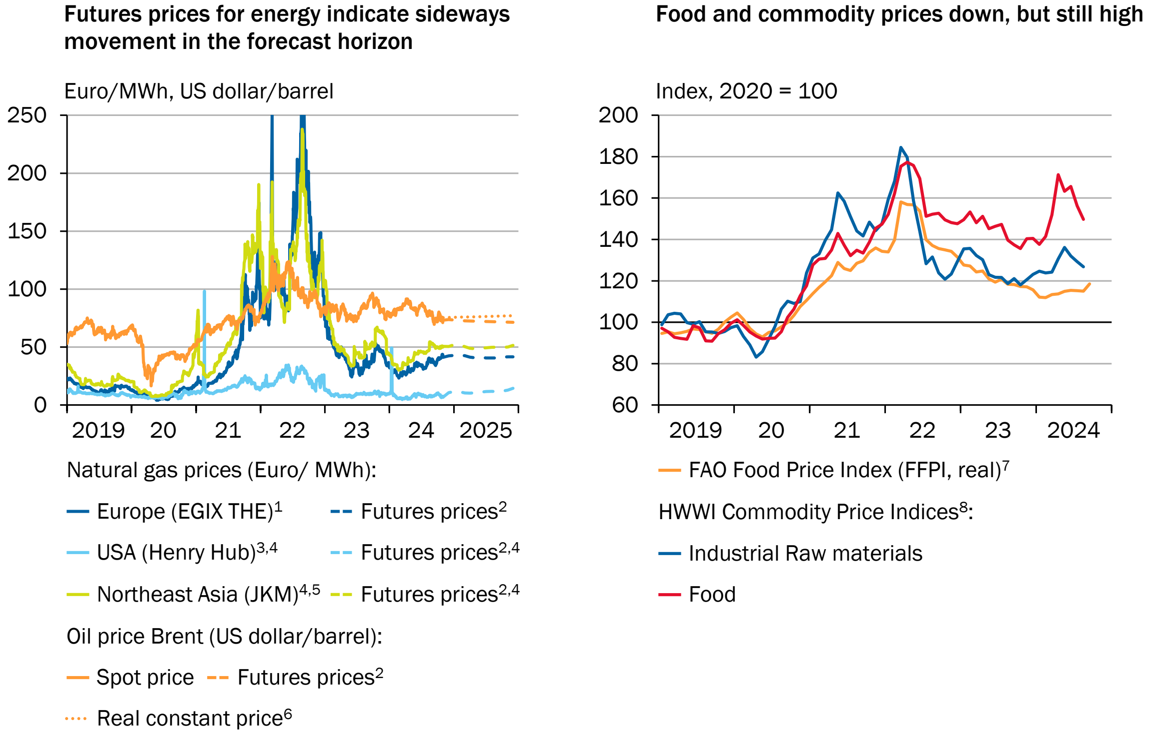
16. Prices for industrial raw materials were higher in the first quarter of 2024 in particular due to higher prices for non-energy metals. However, they have stabilised slightly above the previous year's level, meaning that the pass-through to global producer prices is likely to be low to moderate. Prices for luxury foods also rose sharply in the first half-year 2024 due to massive increases in coffee and tea prices and have only fallen moderately so far. These price increases are likely to have a minor impact on global food price inflation over the forecast horizon. Overall, however, the **price increases** for **commodities and consumer goods** in the first half-year 2024 are likely to exert only **moderate upward pressure on** the global **price level** over the forecast horizon. ↘ CHART 5 RIGHT ↘ ITEM 11

17. **Inflation in the major economies** is continuing to fall in the current year and **is approaching the respective central bank targets**. However, the decline has recently slowed. The price level in the euro area rose only moderately by 2.6 %, 2.5 % and 2.1 % in the first, second and third quarters of 2024 compared to the previous year. Nevertheless, the decline has slowed due to increased service inflation. In the US, the increase in consumer prices, measured by the Personal Consumption Expenditure Index, was 2.6 % and 2.5 % in the first and second quarters of 2024 compared to the previous year. In the UK, consumer price inflation fell from 3.6 % to 2.1 % year-on-year from the first to the second quarter, bringing it closer to the Bank of England's inflation target. Nonetheless, the increase in

service prices in the UK during the year is still significantly higher than overall inflation. Following the slightly negative inflation rates in the second half-year 2023, China recorded low inflation rates of around 0.0 %, 0.1 % and 0.4 % in the first, second and third quarters of 2024 compared to the previous year. ↘ ITEMS 25 AND 31

18. The **central banks of the major economies initiated an easing of their monetary policy in the summer of 2024**. The European Central Bank lowered the deposit facility by 25 basis points each in June, September and October 2024 to a level of 3.25 %. Following a cut of 25 basis points in August 2024, the Bank of England's key policy rate stands at 5.0 %, and the Federal Reserve followed suit in September 2024 with a rate cut of 50 basis points to a target range of 4.75 % to 5.0 %. These interest rate adjustments mark the first cuts since the start of monetary policy tightening in 2022 (GCEE Annual Report 2022 items 87

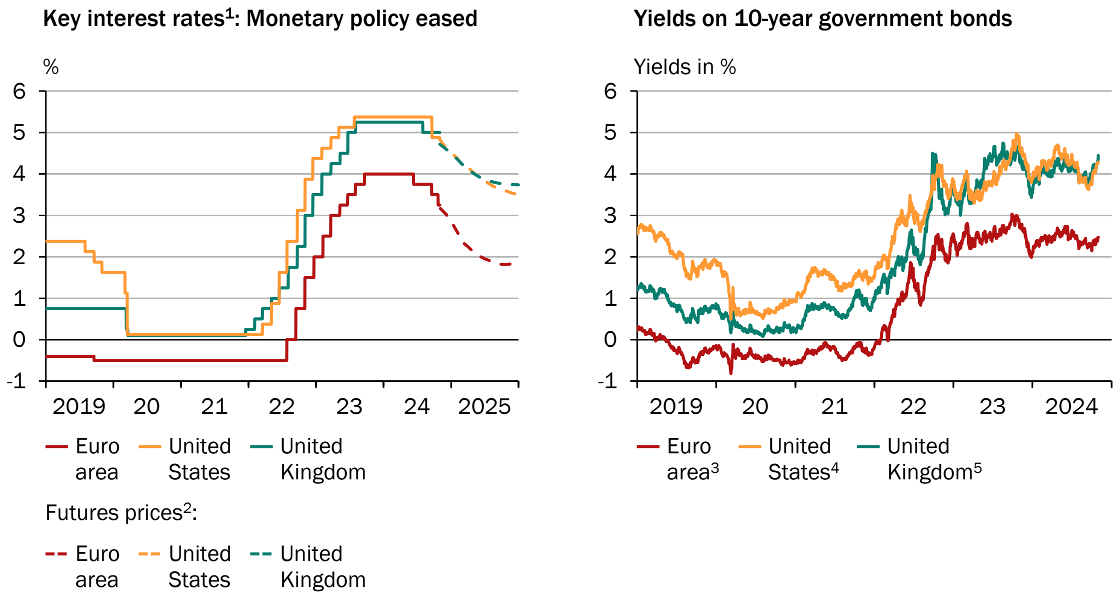
↘ CHART 5
Energy and commodity prices



1 – The European Gas Index (EGIX) is based on exchange trades with the respective current front month contracts of the Trading Hub Europe (THE). A front month contract is defined as a contract maturing in the next month that is traded on the futures exchanges. 2 – Average futures prices of the last 10 trading days for November 2024 and the following months, as of 1 November 2024. 3 – Prices are based on delivery at the Henry Hub in Louisiana. Official daily closing prices at 2:30 p.m. from the trading floor of the New York Mercantile Exchange (NYMEX) for a specific delivery month. 4 – Price in US dollar/ MMBtu (1 million British thermal units) converted into €/MWh. For the conversion of the futures prices, the last available daily rate is used. 5 – Japan Korean Marker (JKM) is the Northeast Asia spot price index for LNG delivered ex-ship to Japan und Korea. 6 – Oil price extrapolated with an annual inflation rate of 2 %. 7 – Food price index of the FAO (Food and Agriculture Organisation of the United Nations). Nominal price index deflated by the World Bank's Manufactures Unit Value (MUV) Index. In contrast to the HWWI index for food and beverages, prices for coffee and tea, which rose sharply in 2024, are not included in the FAO Food Price Index. 8 – US dollar basis and OECD import weighting scheme. The data is being calculated on weighting period average figures of the years 2017 to 2019 to exclude the crises years (2020–2021) from the calculation.

Sources: ECB, EEX, EIA, FAO, HWWI, ICE, LSEG Datastream, NYMEX, own calculations

↘ CHART 6
Monetary policy easing improves financing conditions



1 – The considered key interest rates are the ECB deposit facility rate for the euro area, the federal funds rate for the United States and the bank rate for the UK. 2 – Market participants' expectations of central bank interest rates derived from the 30-day Federal Funds Futures for the United States, Euro Short Term Rate (STR) Overnight Index Swaps implied forward interest rates for the 1-month Euro STR for the euro area and the overnight index swap forwards for the United Kingdom. Retrieved on 1 November 2024. 3 – For the euro area, only AAA-rated government bonds are considered. This currently includes Germany, the Netherlands and Luxembourg. 4 – The United States is currently rated AA+ by Standard & Poor's. 5 – The United Kingdom is currently rated AA by the Standard & Poor's.

Sources: BoE, CME, ECB, Fed, ICE, LSEG Datastream, LSEG Refinitiv, own calculations

ff.). ↘ CHART 6 RIGHT The global increase in government bond yields ↘ CHART 6 RIGHT in the course of monetary policy tightening has fallen again since the second half-year 2023 and especially since spring 2024. This means that monetary policy is likely to have a less restrictive effect on financing conditions. ↘ BOX 3

Further interest rate cuts are expected over the forecast horizon due to the decline in overall inflation. Market expectations suggest that key policy rates in the US and the UK are likely to be around 3.5 % and 3.7 % respectively by the end of 2025. In the euro area, they are likely to fall to around 1.8 %. ↘ ITEM 24 The respective interest rate expectations contained in market expectations correspond to an average reduction of around 25 basis points per quarter. Monetary policy transmission is likely to support the real economy in the coming year in particular (GCEE Annual Report 2024 item 22).

19. Although consumer price inflation will initially remain at an elevated level due to increased service inflation, **the GCEE expects** global **inflation to** continue to fall and **reach 4.6 % in 2024**. ↘ TABLE 1 Global inflation is likely to fall to **3.0 % in 2025**, as the particularly high inflation in Turkey and Latin America is expected to decline significantly.

3. Opportunities and risks: Conflicts and US economic policy

20. An escalation of geopolitical tensions continues to pose a substantial risk to the development of the global economy over the forecast horizon (GCEE Annual Report 2024 item 16). **An escalation of armed conflicts** in the Middle East could increase geopolitical uncertainty and the price of oil compared to current expectations, which could weigh on private consumption in particular (Edelstein and Kilian, 2009; De Michelis et al., 2019).

21. The **US presidential elections will lead to an adjustment in the direction of US economic policy** (McKibbin et al., 2024). A more expansionary fiscal policy, for example due to tax cuts, an increase in social spending or an expansion of industrial policy subsidies, could increase the US budget deficit and, in the short term, GDP growth in the United States, but also contribute to increasing price pressure. The risk of a potentially even larger budget deficit in the United States is also currently reflected in the slight upward trend in yields on US government bonds. ↘ CHART 6 RIGHT

A more restrictive **immigration policy** could reduce the labour supply and contribute to increasing price pressure. McKibbin et al. (2024) estimate that the deportation of 1.3 million people could reduce the supply of labour in the US by around 0.8 % by 2028. There is also the possibility that US **trade** policy could become **more protectionist** than it currently is. Obst et al. (2024) estimate that a drastic increase in US tariffs to 60 % for US imports from China or to 10 % for all other US imports could reduce US GDP by up to 1.4 % in the short term compared to a scenario without tariff increases. In this case, domestic prices are also likely to rise due to higher import prices. Changes to US trade policy are likely to have an impact on the global economy and on countries for which the United States is an important trading partner. Baur et al. (2024), for example, estimate that German exports could fall by around 2 % overall in this scenario.

22. The extent of the **effects of changes to US economic policy** in the United States and abroad is likely to depend on whether the winner of the presidential election has a majority in Congress for many possible policy measures. Furthermore, in many cases the direct effects of a change in the direction of US economic policy in the European Union (EU) are not likely to become apparent until the end of the current forecast horizon, as the measures will first have to be codified and implemented after the installment of the new government, probably by the end of January 2025. However, in addition to the direct effects of possible policy changes, adjustments to the expectations of private households and companies are also likely to have an impact on global economic activity.

III. EURO AREA

23. **Economic activity in the euro area gained some momentum in the first half-year 2024**, although the weak economic activity in Germany slowed this growth. On the production side, growth in gross value added in the manufacturing sector remained weak, while services recorded solid growth. ↘ CHART 7 LEFT In the wake of the moderate recovery in global trade and the increase in global industrial production ↘ CHART 11, exports grew noticeably, ↘ CHART 8 LEFT while gross fixed capital formation declined. Private consumption expenditure recovered only slightly and made a small contribution to GDP growth.

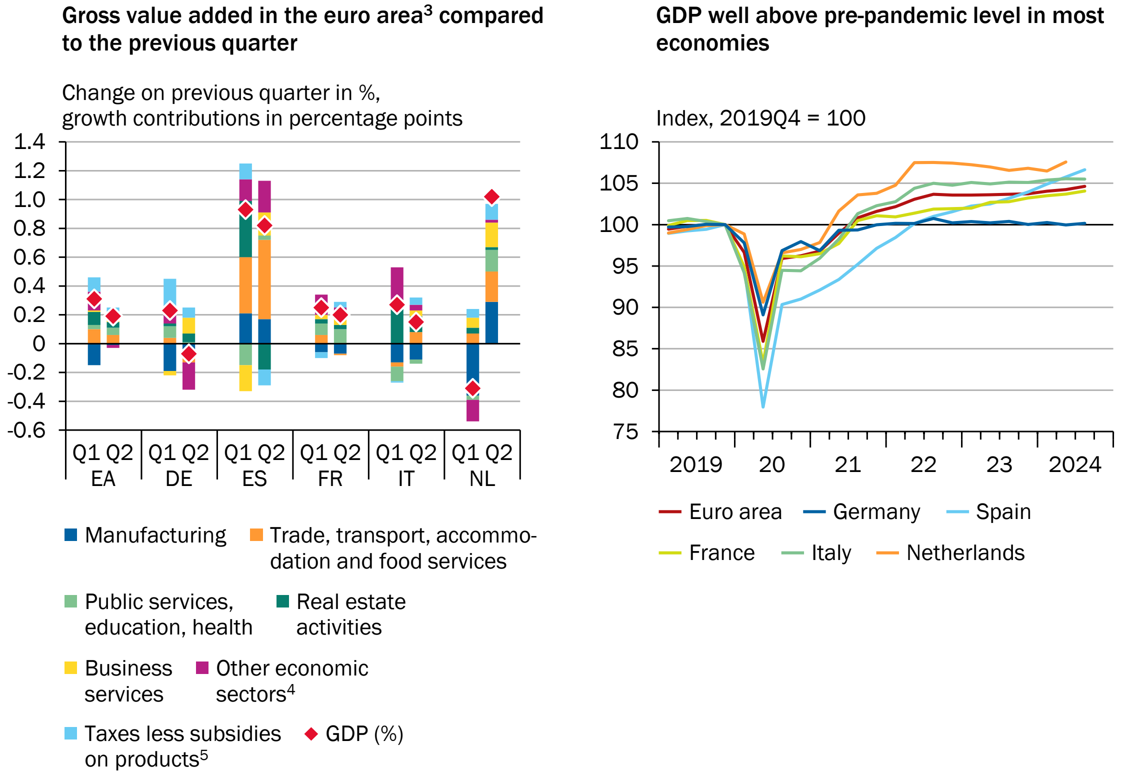
Nevertheless, private consumption expenditures are now likely to increase due to rising real incomes ↘ CHART 9 LEFT and due to further improvement in consumer confidence and therefore support growth in the euro area in 2025. The easing of monetary policy that has already taken place this year and further policy rate cuts ↘ CHART 6 LEFT should also provide positive impulse for growth in 2025. Furthermore, growth in the global economy should support the recovery of economic activity in the euro area through higher demand. By contrast, the fiscal policy of the euro area countries is likely to provide a negative impulse in 2025 in view of the expiry of the crisis measures and the upcoming need for consolidation as part of the application of the new EU fiscal rules. **The GCEE expects GDP in the euro area to grow by 0.7 % in 2024 and by 1.3 % in 2025**. Inflation is expected to amount to 2.4 % in 2024 and fall to 2.1 % in 2025.

1. Real economy gains slight momentum

24. **GDP in the euro area grew by around 0.4 % in the first half-year 2024 when** compared to the second half-year 2023 and after price, seasonally and calendar adjustments.Throughout 2023, economic output remained, however, at the same level. According to the first flash estimate, economic growth in the third quarter of 2024 was just under 0.4 % compared to the previous quarter. GDP in the euro area in Q3 2024 was already 4.6 % above the pre-pandemic level from Q4 2019.↘ CHART 7 RIGHT Among the five largest economies, the Netherlands and Spain recorded the highest GDP growth by Q2 2024 and Q3 2024 compared to the pre-crisis level in Q4 2019, with increases of 7.6 % and 6.6 % respectively. In contrast, Germany's economic output is only just 0.1 % above its pre-coronavirus pandemic level and is increasingly lagging behind the rest of the euro area. The southern European member states in particular recorded a dynamic recovery, partly because services account for a higher share of total gross value added there and were less affected by material shortages and the energy crisis (GCEE Annual Report 2023 Box 3).

The **decline in gross value added in the manufacturing sector weighed on growth in the euro area**, particularly in the first quarter of 2024.↘ CHART 7 LEFT By contrast, services proved to be a growth driver in the first half-year 2024. Among the services, trade, transport and hospitality made the largest contribution to growth in gross value added across the overall economy.

↘ CHART 7
Growth contributions of various economic sectors[1] and GDP development[2]



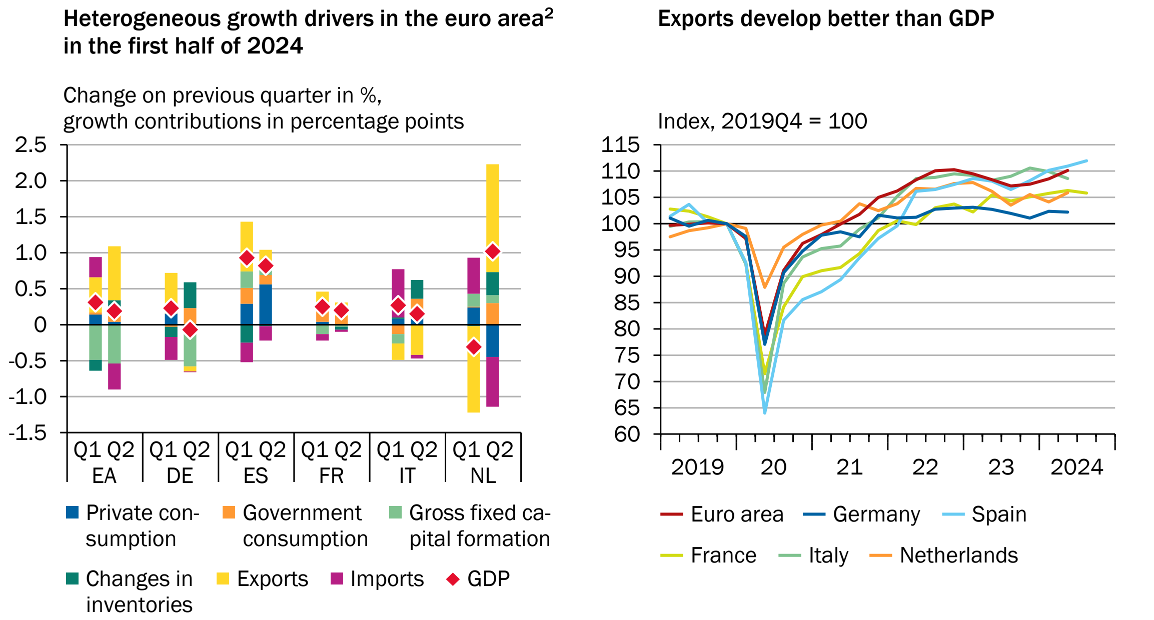
1 – According to the statistical classification of economic activities in the European Community (NACE Rev. 2). 2 – Price-, seasonally and calendar-adjusted. 3 – EA-Euro area, DE-Germany, ES-Spain, FR-France, IT-Italy, NL-Netherlands. 4 – Industry excluding manufacturing; agriculture, forestry and fishing; information and communication; financial and insurance services; other services. 5 – Growth contributions to GDP for Germany calculated from the difference between GDP growth and the growth contribution of total gross value added, as no data is available.

Sources: Eurostat, own calculations

25. Despite the increase in real incomes, **private consumption expenditure** in the euro area **developed weakly** and only made a slightly positive contribution to GDP growth in the euro area. ↘ CHART 8 LEFT Net exports made a positive contribution to GDP growth in the first and second quarters of 2024 due to dynamic export growth (0.9 % and 1.5 % respectively compared to the previous quarter). ↘ CHART 8 RIGHT Meanwhile, imports fell by 0.7 % in the first quarter of 2024 compared to the previous quarter and increased by 0.8 % in the following quarter. Gross fixed capital formation, on the other hand, significantly reduced GDP growth in both quarters, with contributions to growth of –0.5 percentage points in each case.

26. The seasonally adjusted net savings rate of private households in the euro area has recently risen significantly. At around 8.8 % in the second quarter of 2024, it was above the 1999 to 2019 average of 7 % and was therefore slightly lower than the peak value in the period before the coronavirus pandemic (9.0 % in the first quarter of 1999). The trend in private consumption expenditure is correspondingly weak despite rising real wages. ↘ CHART 9 **The weak development of private consumption expenditure** and the **increased saving ratio** show that private households are only adjusting their consumption expenditure to their

↘ CHART 8
Growth drivers and development of exports[1]



1 – Price-, seasonally and calendar-adjusted. 2 – EA-Euro area, DE-Germany, ES-Spain, FR-France, IT-Italy, NL-Netherlands.

Sources: Eurostat, own calculations

increased income (GCEE Spring Report 2024 box 3) with a time lag. On the other hand, the real asset losses during the past hyperinflationary phase and the long-term crisis effects on expectations (scarring effects, see Fornaro and Wolf, 2023) and the associated uncertainty are likely to have dampened private consumption expenditure so far. Furthermore, the net saving ratio is likely to decline only gradually over the forecast horizon or even remain elevated for a longer period of time. ↘ ITEM 53

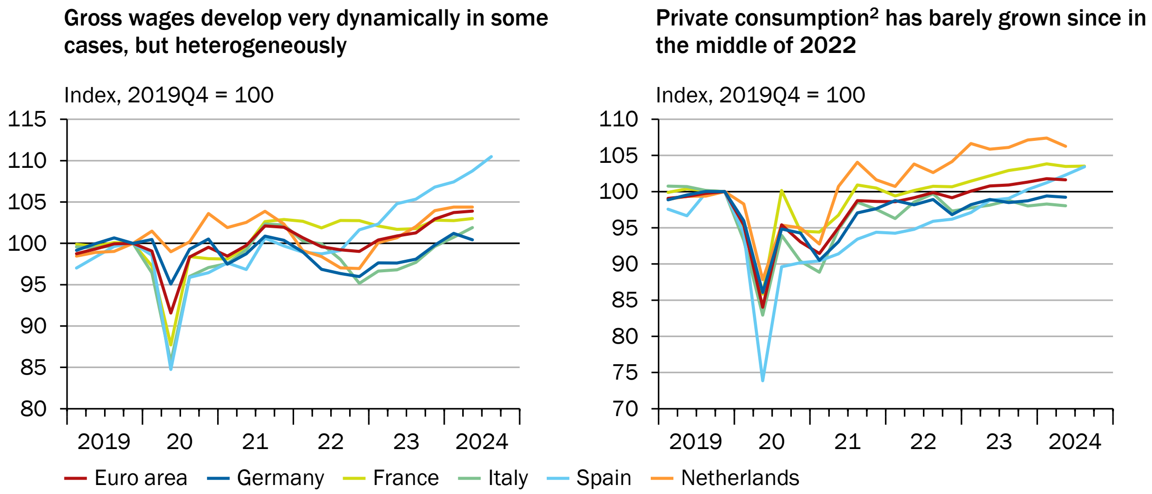
Gross real wages in the five major euro area economies have recovered from their low in the fourth quarter of 2022 and are currently well above the level of the fourth quarter of 2019 in some member states. ↘ CHART 9 LEFT As the loss of purchasing power is now likely to have been largely offset and many member states have comparatively low labour unemployment rates, ↘ ITEM 28 further real wage increases are likely to provide moderate support for growth in private consumption expenditure in the euro area over the forecast horizon.

27. The extensive government support measures in response to the coronavirus pandemic in 2020 and the energy crisis in 2022 temporarily increased government spending in the euro area member states considerably (GCEE Economic Outlook 2021 item 6; GCEE Annual Report 2022 items 207 ff.). The measures were accompanied by higher deficits, which in France, Italy and Spain still amounted to between 3.5 % and 7.5 % of GDP in 2023. The expiry of the measures and **the need for adjustment due to the reformed EU fiscal rules** are likely to lead to a **negative fiscal impulse** in the affected member states **in 2025**. ↘ BOX 2 The financial aid still available from the NextGenerationEU (NGEU) fund will support

government spending over the forecast horizon. However, due to the limited volume of financial aid, this effect is likely to be small.

↘ CHART 9

Private consumption growth partly subdued despite strong gross wage increases[1]



1 – Seasonally adjusted values, price-adjusted using the Harmonised Index of Consumer Prices (HICP). 2 – Including non-profit institutions serving households.

Sources: Eurostat, own calculations

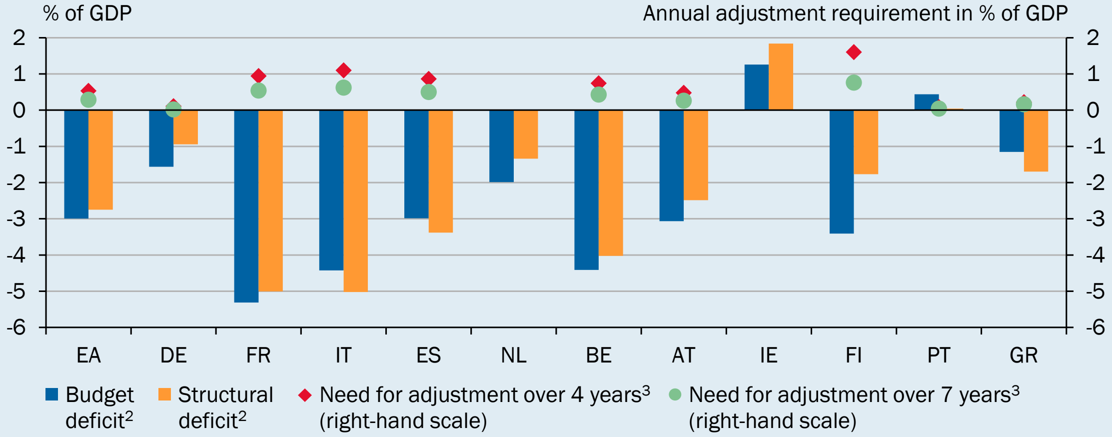
↘ BOX 2

Background: Fiscal adjustments and their impact on GDP growth in the euro area

The **discretionary fiscal policy measures** in response to the **coronavirus pandemic** and the **energy crisis** in 2022 were accompanied by **high deficits.** Together with the automatic stabilisers ↘ GLOSSAR, these measures have led to a significant increase in public debt in the euro area (GCEE Annual Report 2022 item 208). To enable the member states to react appropriately in fiscal terms, the exception clause of the EU fiscal rules has been activated since 2020 (GCEE Annual Report 2020 item 179).

In April 2024, the **European fiscal rules** were **fundamentally reformed** in order to improve medium-term debt sustainability and increase liability. ↘ BOX 11 The new framework **provides** for **country-specific reference paths for net primary expenditure** ↘ GLOSSARY. The new rules are intended to increase the debt sustainability of European budgets to secure future growth and expand the options for responding to future crises (GCEE Annual Report 2022 items 218 ff.). To fulfil these criteria, the European Commission estimates that significant annual reductions in the primary deficit, i.e. the difference between government expenditure and government revenue after adjusting for cyclical effects, are necessary in some member states. ↘ CHART 10 LEFT Italy, for example, would have to reduce its primary deficit by just under 1.1 % of GDP per year from 2025 if it were to adjust within four years, or by a good 0.6 % of GDP if it were to adjust within seven years. In France, annual adjustments of a similar magnitude are likely to be necessary due to the persistently high deficit. In Spain, the necessary adjustments to ensure debt sustainability are also high, but the deficit is lower than in the United Kingdom. France or Italy. The German state would have to achieve an annual reduction in the primary deficit of just under 0.1 % of GDP (around €4bn) within four years.

↘ CHART 10
Fiscal policy stimulus through EU fiscal rules[1]
Member states' need for adjustment partly high due to high deficits



1 – EA-euro area, DE-Germany, FR-France, IT-Italy, ES-Spain, NL-Netherlands, BE-Belgium, AT-Austria, IE-Ireland, FI-Finland, PT-Portugal, GR-Greece. 2 – Forecast by the European Commission for 2024. 3 – European Commission reference paths sent to the member states in May 2024 and published by the data deadline on 1. November 2024. No reference paths were published for the member states DE, FR, BE, AT by the data deadline. Instead, the estimate by Darvas et al. (2024) is shown. The European Commission does not show a numerical adjustment for the member states NL and IE. The weighted average measured by GDP is reported for the euro area.

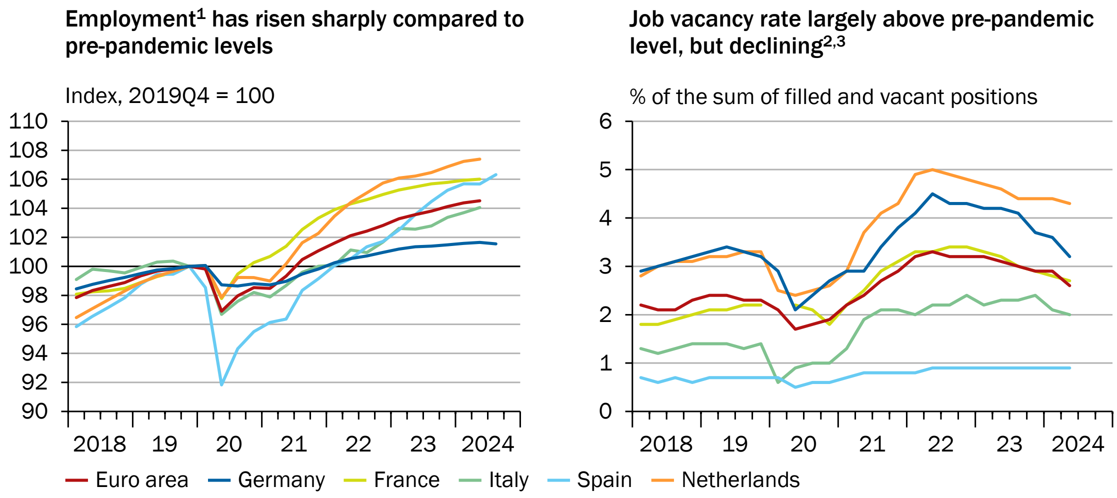
Sources: Darvas et al. (2024), European Commission, own calculations

Numerous member states submitted their medium-term structural financial plans in autumn 2024 based on guidelines from the European Commission, which are now being coordinated between the European Commission and the respective member state. ↘ BOX 11 The average adjustments deviate in some cases from the reference paths submitted by the European Commission, for example due to new forecasts by the individual member states or different assumptions about the regulatory framework (Gobierno de España, 2024; MEF Italia, 2024). Overall, however, the fiscal impulse in the euro area is likely to be negative. ↘ CHART 10 LEFT

28. Against the backdrop of the subdued economic recovery in the euro area, the **unemployment rate** largely stagnated in the first half of 2024 and has only fallen very slightly so far in the second half of the year. Nevertheless, **at 6.3 % in September 2024, it was at its lowest level since the introduction of the euro in 1999**. Employment increased by around 0.2 % and 0.1 % respectively in the first two quarters of the current year compared to the previous quarter. ↘ CHART 11 LEFT ↘ ITEM 65 The labour market continues to be characterised by a shortage of labour. The vacancy rate in the second quarter has decreased and is only slightly above the level before the coronavirus pandemic. ↘ CHART 11 RIGHT As the euro area economy recovers moderately, the unemployment rate is likely to fall slightly in 2025. The loss of purchasing power suffered during the energy crisis was partly offset by the subsequent real wage increases ↘ CHART 9 LEFT largest. However, due to the low unemployment rate and the high rate of job vacancies, **real wages are expected to continue to grow** over the forecast horizon. Against the backdrop of subdued GDP growth, however, wage growth is likely to gradually decline in parallel with the cooling of the labour market.

↘ CHART 11

Employment rises despite subdued growth, but signs of a slowdown emerge



1 – Employment measured in thousands of persons, where the individual values were standardised to the 4th quarter of 2019. Seasonally and calendar-adjusted (France seasonally adjusted). 2 – Seasonally adjusted. According to the Statistical Classification of Economic Activities in the European Community (NACE Rev. 2). Includes industry, construction and services (excluding private households with domestic staff and extra-territorial organisations and bodies). 3 – No value for France for 2020Q1.

Sources: Eurostat, own calculations

29. **Sentiment indicators do not** point to **any noticeable improvement in economic development in the second half of 2024**. After rising in the first half of 2024, the Purchasing Managers' Index in the euro area fell again and was slightly below the growth threshold of around 50 index points in October. ↘ CHART 12 LEFT The confidence indicators for the various economic sectors developed unevenly. ↘ CHART 12 RIGHT In the services and trade industries, a sideways movement in confidence indicators can be observed. There is a slight upward trend in the construction sector, while confidence in industry has been declining for some time and has recently even fallen significantly. Consumer confidence, on the other hand, is continuing to rise and is approaching its long-term average. The European Commission's Economic Sentiment Index (ESI) and Employment Expectations Indicator (EEI) - indicators for the confidence and expectations of companies and consumers and for companies' employment expectations - have recovered from their annual lows over the course of the year. However, the ESI has recently fallen again and is close to its low for the year at 95.6 index points. The EEI, which rose to 99.4 index points after a brief recovery in August, also fell slightly again in October to 99.2 index points and appears to be continuing its negative trend.

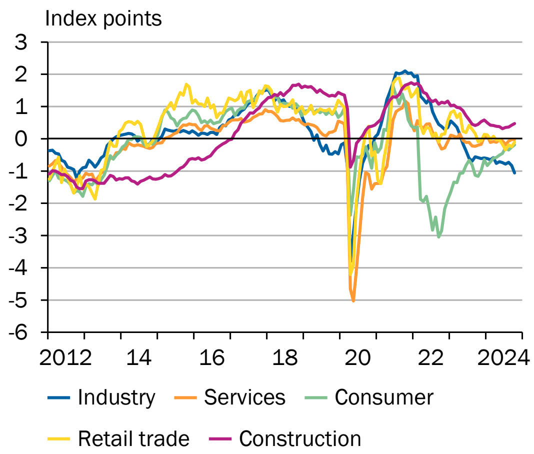
30. The **GCEE expects GDP growth of 0.7 % in the euro area in 2024**. ↘ TABLE 2 The overall economy is expected to continue to recover in **2025**, with GDP growth averaging **1.3 %** for the year. Real GDP growth is likely to be supported by rising real incomes and a gradual recovery in private consumption. The expanding global economy and the resulting stronger foreign demand should also provide growth impetus. Although the ECB has already initiated the turnaround in interest rates, ↘ BOX 3 due to delayed effects, monetary policy is only likely to gradually

↘ CHART 12

Real-time and leading indicators are signalling slight recovery in the euro area economy

Purchasing managers' index[1] recently back below the growth threshold

Consumer confidence has recovered from its low, industry confidence indicator fallen significantly recently[2]



1 – HCOB Eurozone Composite PMI Output Index. Purchasing Managers' Index (PMI) of the Hamburg Commercial Bank (HCOB). 2 – Sectoral confidence indicators from the European Commission's Business and Consumer Survey.

Sources: European Commission, Eurostat, S&P Global, own calculations

provide positive growth impetus over the course of 2025, including with regard to capital formation. Fiscal policy is likely to dampen growth in 2025 against the backdrop of the reduction in structural deficits in many member states.

↘ TABLE 2

Gross domestic product, consumer prices and unemployment rate in the euro area

Country/ country group	Weight in %[1]	Gross domestic product (calendar-adjusted)[2]			Consumer prices (HICP)[3]			Unemployment rate[4]		
		Change on previous year in %						%		
		2023	2024[5]	2025[5]	2023	2024[5]	2025[5]	2023	2024[5]	2025[5]
Euro area[6]	**100**	**0.5**	**0.7**	**1.3**	**5.4**	**2.4**	**2.1**	**6.6**	**6.4**	**6.3**
including:										
Germany	28.7	– 0.1	– 0.1	0.6	6.0	2.4	2.1	3.0	3.4	3.5
France	19.4	1.1	1.2	1.1	5.7	2.4	1.7	7.3	7.5	7.4
Italy	14.6	0.8	0.5	0.7	5.9	1.3	2.2	7.7	6.5	6.3
Spain	10.3	2.7	3.0	2.4	3.4	2.8	2.0	12.2	11.5	11.1
Netherlands	7.3	0.1	0.6	1.7	4.1	3.4	2.6	3.5	3.7	3.8
Belgium	4.0	1.3	1.0	1.2	2.3	4.3	2.1	5.5	5.6	5.5
Ireland	3.5	– 5.7	– 1.3	3.9	5.2	1.5	1.7	4.3	4.4	4.3
Austria	3.3	– 0.8	– 0.5	0.9	7.7	2.9	2.1	5.1	5.2	5.3
Finland	1.9	– 1.2	– 0.2	1.5	4.3	0.9	1.9	7.2	8.2	8.1
Portugal	1.8	2.5	1.6	1.7	5.3	2.7	2.1	6.6	6.4	6.3
Greece	1.5	2.0	2.5	2.1	4.2	3.0	2.1	11.1	10.0	9.5
memorandum:										
Euro area without Germany	**71.3**	**0.8**	**1.1**	**1.5**	**5.1**	**2.4**	**2.0**	**7.8**	**7.4**	**7.3**

1 – GDP in the year 2023 as a percentage of the GDP of the euro area. 2 – Price-adjusted. Values are based on seasonal and calendar-adjusted quarterly figures. 3 – Harmonised Index of Consumer Prices. 4 – According to the measuring concept of the International Labour Organization (ILO). For the total euro area and euro area without Germany weighted by the labour force of 2023. 5 – Forecast by the German Council of Economic Experts. 6 – Weighted average of the 20 euro area member states.

Sources: Eurostat, own calculations

2. Gradual return to the inflation target

31. **Inflation in the euro area,** as measured by the Harmonised Index of Consumer Prices (HICP), was still at 2.8 % year-on-year at the beginning of the year, but **declined overall over the course of the year** and was only 2.0 % in October 2024. ↘ CHART 13 LEFT However, the significant decline in August and September is due to the decline in the energy price component and the base effects of energy prices from 2023. Although the downward trend in overall inflation has thus continued, it has slowed considerably. This is primarily due to the **still significantly higher and persistent core inflation**, which remained slightly below 3 % after falling in the first quarter of 2024 (2.7 % in October 2024). The growth rate of the GDP deflator in the euro area was 3.0 % in the second quarter of 2024 and also points to continued increased domestic price pressure.

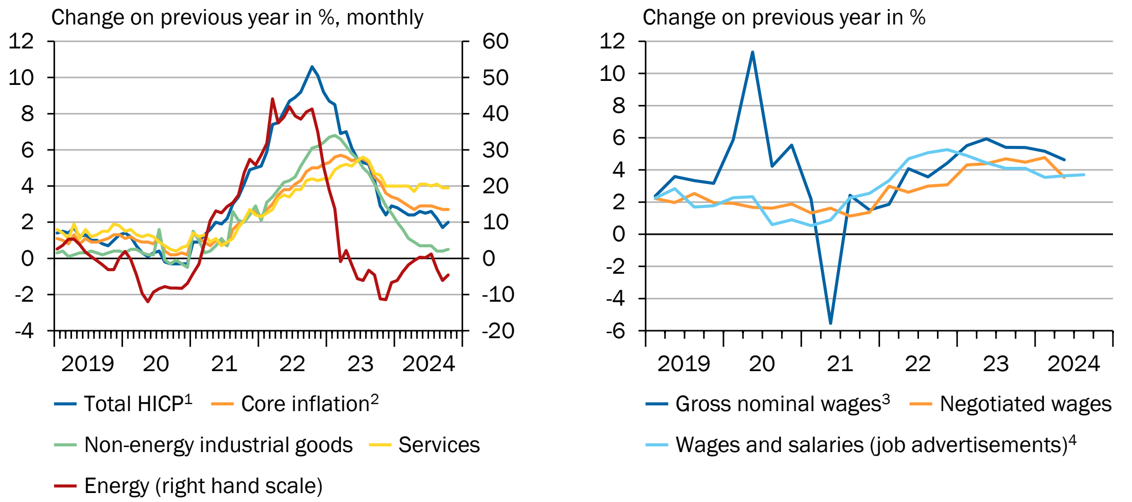
The **high core inflation is in turn due to the high inflation in the service industry**, where prices have risen by around 4 % year-on-year in recent months. This is probably also due to higher nominal wage growth (GCEE Annual Report 2023 box 7), which peaked in 2023 but has slowed only slightly since then.

↘ CHART 13

HICP inflation in the euro area at inflation target, core inflation remains significantly higher

Total inflation has risen again recently, services inflation remains very high

Nominal wage growth stagnates at a high level



1 – Harmonised Index of Consumer Prices. 2 – Total index excluding energy, food, alcohol and tobacco. 3 – Values per hour worked; seasonally and calendar-adjusted. 4 – Indeed Wage Tracker, quarterly averages from monthly values.

Sources: ECB, Eurostat, Indeed, own calculations

↘ CHART 13 RIGHT Among services, price increases for package holidays and accommodation were the highest at 6.1 % in September 2024 compared to the same month of the previous year. Among the five largest economies, the annual inflation rate for services in September 2024 was highest in the Netherlands at 5.6 % and lowest in France at 3.0 %. In contrast to services, the rate of price increases for non-energy industrial goods in the euro area fell over the course of the year and has recently risen only slightly. At the current margin, it is therefore slightly above the pre-pandemic rates.

32. **The Governing Council of the ECB initiated the turnaround in interest rates in June 2024** by lowering the key policy **rates** and has since **lowered** them twice more. ↘ ITEM 18 Since 23 October 2024, the interest rates for the deposit facility, the main refinancing operations and the marginal lending facility have been 3.25 %, 3.40 % and 3.65 % respectively (ECB, 2024a). The Governing Council of the ECB justified its decision at the October meeting by stating that the disinflation process was progressing adequately and that the current economic indicators were weaker than expected, which mitigated the risk of further price increases. In addition, in accordance with the decision of 13 March 2024 regarding the changes to the monetary policy framework, the Governing Council of the ECB reduced the spread between the interest rate for the main refinancing operations and the interest rate for the deposit facility from 50 to 15 basis points with effect from 18 September 2024 (ECB, 2024b). In addition, the spread between the interest rate for the marginal lending facility (upper limit) and the interest rate for the deposit facility (lower limit) has fallen from 75 to 40 basis points. The Governing Council of the ECB also emphasised that it will continue to steer the monetary policy course via the deposit rate. In view of the inflation trend, the markets

expect key policy rates to be cut significantly further over the course of 2025. ↘ CHART 6 LEFT Common interest rate rules also suggest a gradual but significant easing of monetary policy in the euro area in view of the further decline in price pressure. ↘ BOX 3 ↘ BOX 4

The securities holdings purchased under the Asset Purchase Programme (APP) are currently being reduced at a predictable pace, as redemption amounts of securities are not reinvested upon maturity (ECB, 2024a). In addition, the Governing Council of the ECB intends to discontinue the reinvestment of redemption amounts from the Pandemic Emergency Purchase Programme (PEPP) in full at the end of 2024. In total, the securities portfolio from the two purchase programmes amounted to €4,398bn at the end of September 2024. The **accelerated decline in securities holdings** of around €40bn per month **from 2025** (Joint Economic Forecast, 2024b) **is likely** to **boost long-term yields**.

↘ BOX 3

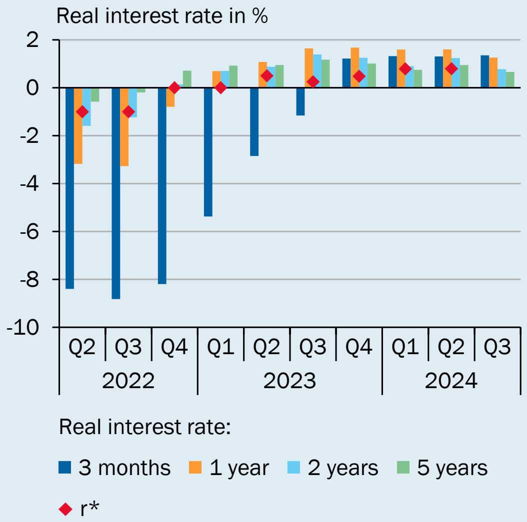
Analysis: Restrictive monetary policy in the euro area

As a result of the decline in inflation in the euro area, the ECB initiated a turnaround in interest rates in the summer of 2024. ↘ CHART 6 LEFT The extent to which monetary policy is having a restrictive effect on the economy can be assessed by comparing the prevailing real interest rates with the estimated neutral real interest rate (r*), i.e. the real interest rate that is associated with a stable inflation rate in an economy operating at full capacity in the medium term. Accordingly, **monetary policy** is likely to remain **restrictive** despite the estimated increase in r* to around 0.8 % in the second quarter of 2024. ↘ CHART 14 LEFT **The policy rate cuts by the ECB** ↘ CHART 6 LEFT that have already taken place since June 2024 and are expected in the future should, however, ensure that **monetary policy** has a **less restrictive** effect over the forecast horizon, provided that r* does not fall and inflation expectations remain stable. On the other hand, the reduction in securities holdings from the various securities purchase programmes is likely to cause nominal interest rates at the longer end of the yield curve to tend to rise.

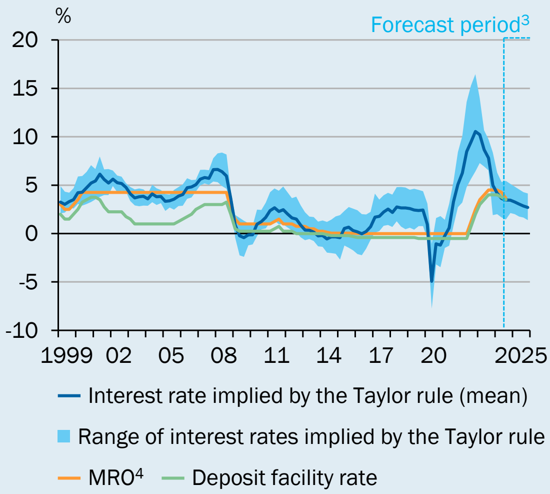
Monetary policy reaction functions (interest rate rules), such as the Taylor rule, are regularly used to categorise the direction of monetary policy (GCEE Annual Report 2022 items 135 ff.; GCEE Annual Report 2024 box 4). As they are also frequently used by monetary policy decision-making bodies as a guide, they can provide indications of the key interest rate path to be expected in the future. The current **key interest rate level roughly corresponds to the value determined by applying the Taylor rule.** If the forecasts of the ECB and Eurosystem experts materialise, **further interest rate cuts** would be **in line with the Taylor rule.** Monetary policy is likely to become less restrictive over the forecast horizon, thereby supporting the economy in the euro area. However, the interest rates ↘ CHART 6 LEFT currently expected by the markets are falling more sharply than the mean value of the key policy rates calculated using the Taylor rule. At around 1.8 %, the expected interest rates at the end of 2025 are at the lower end of the range implied by the Taylor interest rates.

↘ CHART 14
Monetary policy is likely to become less restrictive in the forecast period

Monetary policy is currently likely to be restrictive despite an increase in r* and key interest rate cuts



Interest rate according to the Taylor rule[1] accounting for additional factor variation[2]



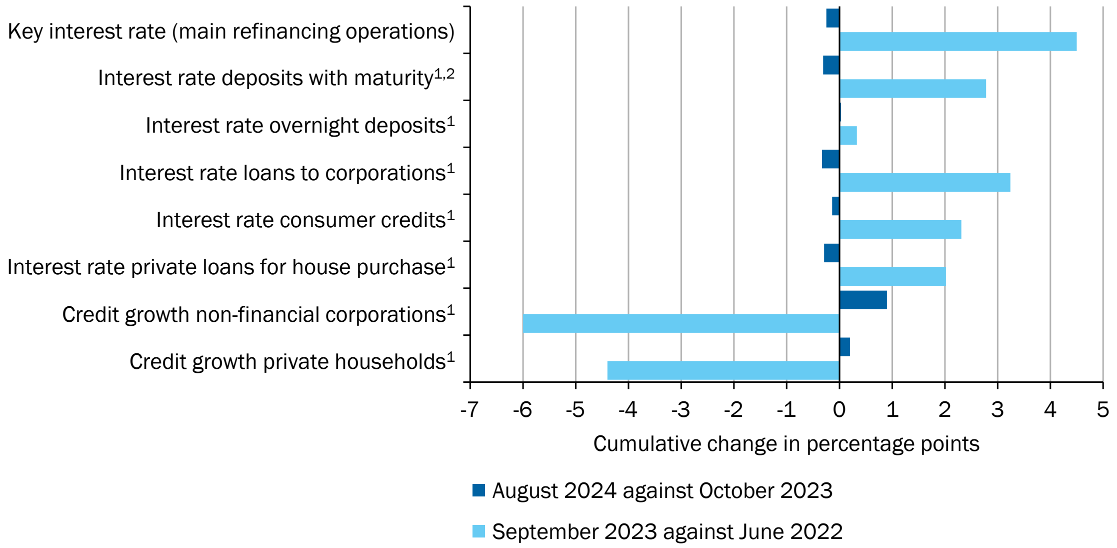
1 – Equation: i = 2 + π + 0,5(π – π*) + 0,5y. i is the interest rate implied by the Taylor rule for the money market; it depends on the real interest rate in long-term equilibrium (estimated at 2 %), the current inflation rate in deviation from the central bank's target, (π – π*), and the output gap, y. y = 100(Y–Y*)/Y*, where Y is real GDP and Y* is potential output. 2 – Refers to the euro area with 20 member states. The calculation is based on all combinations of three inflation measures (HICP, core HICP and GDP deflator), three output gaps (AMECO, IMF and OECD) and three different equilibrium interest rates (2 % constant, floating r* following Holston et al. (2017) and floating r* following Berger and Ochsner (2024). Due to the high volatility of r*, the average value from 2023Q3 to 2024Q2 was used to calculate the forecast values). The core HICP was approximated by the HICP excluding energy and unprocessed food (time-varying country composition) for the period between 1999 and 2001. 3 – Based on forecasts by AMECO, ECB, IMF and OECD.

Sources: ECB, European Commission, Fed, IMF, OECD, own calculations

33. The slow easing of key policy rates is having an impact on financial conditions for companies and households. Between September 2023 and August 2024, **interest rates for loans** to both companies and private households **fell slightly** after having risen sharply in the monetary policy tightening cycle from June 2022 to September 2023. ↘ CHART 15 **Growth** in **company and consumer credits increased** again **slightly in the same period**. ↘ CHART 15 According to an ECB survey of banks, demand for credit from companies rose slightly again in the third quarter of 2024 for the first time in two years, particularly in Germany, Spain and France (ECB, 2024c). In Italy, demand for corporate credits continues to decline (ECB, 2024c).

34. The growth in loans to private households ↘ CHART 15 was strongly characterised by the development of mortgage loans. After the increase in key policy rates by the ECB in mid-2022 had a negative impact on **mortgage financing**, **the trend has reversed since the interest rate reversal in June 2024**. ↘ CHART 16 RIGHT There has been an upward trend in the granting of new loans since the second

↘ CHART 15
Little change in financing conditions
Interest rates and lending in the euro area



1 – Loans and deposits from credit institutions and other financing institutions (excluding money market funds and central banks) for new business. 2 – Across all maturities.

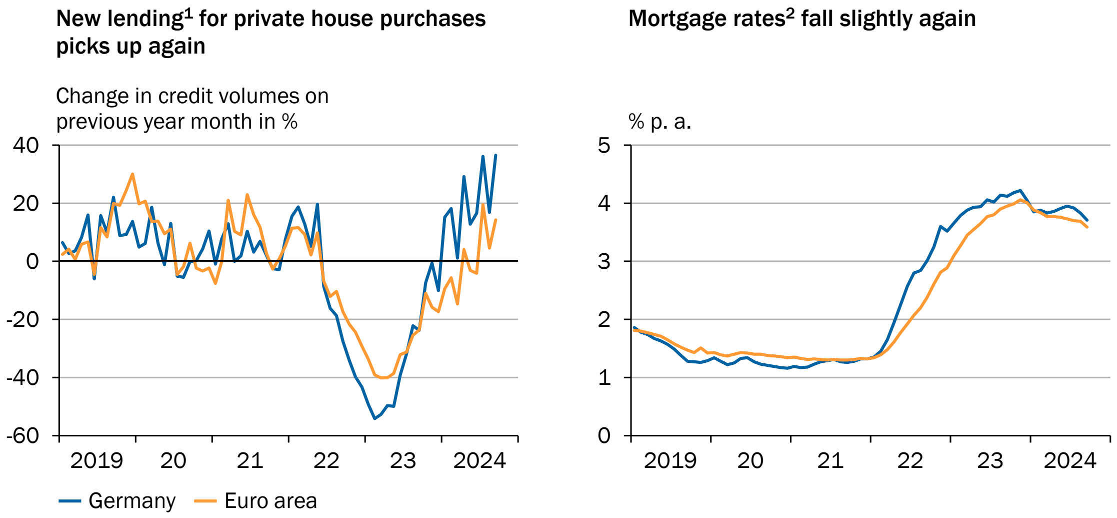
Sources: ECB, own calculations

quarter of 2023. This trend is likely to be related to rising demand due to lower real estate prices and slightly falling interest rates (ECB, 2024c).

35. The GCEE expects the annual average **HICP** for the euro area to **rise by 2.4 % in 2024 and by 2.1 % in 2025 compared to the previous year**. Against the backdrop of the base effect in energy prices coming to an end, overall inflation is likely to rise again initially in the fourth quarter of 2024. The monetary easing that has already taken place and will continue monetary easing should increase overall demand and therefore dampen overall inflation in 2025 to a lesser extent than before. Inflation for non-energy industrial goods is likely to rise again slightly over the forecast horizon and stabilise at the historical average. As services inflation is likely to decline only gradually as further nominal wage increases are passed on to prices, it will remain the dominant component of overall inflation. However, the easing tension on the labour markets and the resulting decline in nominal wage growth should contribute noticeably to the normalisation of price increases in the service industry as well. Overall, **core inflation** is likely to **fall noticeably over the course of 2025**.

↘ CHART 16

Mortgage financing recovers



1 – Genuine new business (excluding prolongations). Lending to households for the purchase of residential property.
2 – Average agreed interest rates over all fixed-interest periods.

Sources: ECB, own calculations

↘ BOX 4

Forecast assumptions for the euro area and Germany

The GCEE assumes that Brent **crude oil prices** will **fall** again **slightly** over the forecast horizon following their decline in the third quarter of 2024 ↘ ITEM 15. Forward prices also suggest this. ↘ TABLE 3 Following the rise in wholesale prices for natural gas between the first and third quarters of 2024, the price of natural gas can be expected to stabilise at a higher level based on the development of forward prices**. Wholesale prices for electricity in Germany** are expected to **rise significantly in** the second half-year 2024/2025 based on the forward prices. Despite another moderate decline, average electricity prices are expected to be higher than in 2024, particularly in the second half of 2025.

Key policy rates are likely to **be lowered significantly in 2025** against the backdrop of the favourable development of inflation rates. The exchange rate of the euro against the US dollar has shown little momentum since the beginning of 2023 and is at almost the same level as assumed in the spring forecast. The exchange rate level of USD 1.09 per euro observed at the end of the data period is assumed to remain constant over the forecast horizon.

↘ TABLE 3

Forecast assumptions[1]

	2023				2024				2025			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Oil price (Brent) US dollar/barrel	82.2	77.9	85.9	83.0	81.9	85.0	78.9	73.7	73.8	73.2	72.8	72.4
Gas price (EGIX THE) €/MWh	54.3	35.9	34.2	43.5	28.0	31.8	35.8	38.4	40.3	38.8	38.4	39.7
Electricity price (EEX Phelix) €/MWh	122.9	99.5	98.3	87.6	69.9	74.3	84.0	84.0	93.1	75.3	84.0	93.5
Overnight rate (ECB)[2] % p. a.	2.3	3.2	3.7	4.0	4.0	3.9	3.7	3.2	2.6	2.1	1.9	1.8
Exchange rate (ECB) € in US dollar	1.07	1.09	1.09	1.08	1.09	1.08	1.09	1.09	1.09	1.09	1.09	1.09

1 – Values observed until 2024Q3; assumptions from 2024Q4 onwards. 2 – Deposit facility rate.

Sources: ECB, EEX, ICE, LSEG Datastream, NYMEX, own calculations, own calculations

3. Opportunities and risks: Economic policy and inflation

36. The upcoming **easing of monetary policy** could boost capital formation and private consumption expenditure **more strongly than expected**. A **further escalation of the war in Ukraine**, on the other hand, could further increase uncertainty, which could result in further restraint in private consumption expenditure and capital formation. ↘ ITEMS 53 AND 58 Additional support measures for Ukraine could also become necessary.

37. One **risk to inflation** in the euro area is a possible rise in energy prices due to the conflict in the Middle East. Furthermore, nominal wage increases in the euro area remain high despite levelling off and could result in an increased pass-through to consumer prices (GCEE Annual Report 2023 box 7) as well as further second-round effects. Losses in purchasing power resulting from a renewed rise in inflation could dampen consumer demand. In addition, the ECB could lower key policy rates less than the markets currently expect.

IV. GERMANY

38. **The German economy continues to stagnate**. In earlier forecasts (GCEE Economic Outlook 2023 items 29 ff.; GCEE Annual Report 2023 items 47 ff.; GCEE Spring Report 2024 items 36 ff.) an economic upturn **in 2024** was expected due to declining inflation and the recovery of the global economy. However, the upswing did not materialise. The real wage increases in 2023 and 2024 have not yet prompted private households to substantially increase their private consumption expenditure. In addition, there have been significant losses in production and value added in the construction and manufacturing industries. This is reflected in weak exports and a sharp decline in corporate investment in the current year. The German export industry is benefiting less from the growing global economy than in the past, although the traditional German export markets are proving robust. This indicates that the economic weakness is largely due to high cost increases and non-price competitive factors in an international comparison. In addition, there are domestic negative factors such as high economic uncertainty and tight financing conditions.

39. Against this backdrop**, a strong economic recovery is** still **not expected in 2025**. Corporate investment is likely to remain weak due to the high level of uncertainty and low capacity utilisation in the manufacturing sector. Net exports are even expected to be clearly negative in 2025 due to the manufacturing sector‘s declining international competitiveness and increasing imports. By contrast, private and public consumption should provide support. Although the sentiment among consumers is persistently gloomy, positive real wage growth can still be expected over the forecast horizon.

40. Overall, the GCEE expects **GDP to decline by 0.1 % in 2024**. **In 2025, growth is likely to be 0.4 %**. This means that average GDP in 2025 will only be 0.1 % higher than in 2022 and thus stagnate for three years. Economic development in Germany is significantly weaker than in other advanced economies, both within and outside the euro area. Inflation is likely to fall in line with the euro area as a whole and amount to 2.2 % and 2.1 % in 2024 and 2025 respectively.

1. Industrial weakness weighs on the economy

41. Following slight growth of 0.2 % in the first quarter of 2024**, GDP declined by 0.3 % in the second quarter of 2024**. ↘ CHART 20 LEFT On the output side, construction and the trade, transport and hospitality sector were responsible for the contraction, contributing –0.2 and –0.1 percentage points respectively to the decline in overall economy growth in the second quarter of 2024. **Growth was also dampened by the development of the manufacturing sector**. In the first and second quarters of 2024, its gross value added (GVA) shrank by 1 % and 0.2 % respectively compared to the previous quarter. The production figures in manufacturing, which are an approximation for the development of value added, ↘ BACKGROUND INFO 1 indicate a further decline of 1.5 % in the third quarter of 2024. Important economic sectors such as mechanical engineering and electrical

equipment fell in particular, while the chemical industry stabilised at a low level following the sharp declines in 2023.

↘ BACKGROUND INFO 1

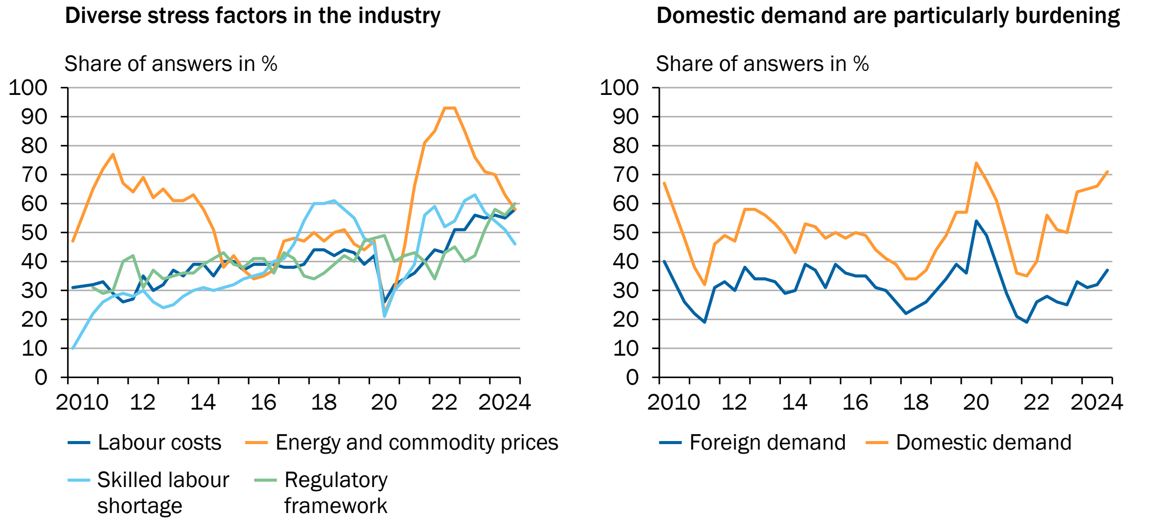
Background: Revision of gross value added in the manufacturing sector

In the long term, the production index differs substantially from GVA in the manufacturing sector (Gemeinschaftsdiagnose 2024a; Lehmann and Wollmershäuser, 2024; GCEE Spring Report 2024 box 6). GVA has grown since 2015, while the production index has declined. The difference can be attributed to changes in the intermediate input ratio. A decline in this ratio increases GVA while production remains constant. In addition, differences in the survey method and the weighting of industrial sectors may play a role.
The cost structure survey is decisive for GVA. However, as this survey is not published until 20 months after the end of the reporting year, the Federal Statistical Office provisionally updates the GVA figures during this period using the more rapidly available production index. With the publication of the next cost structure survey in summer 2025, the GVA will be revised in 2023. The downward trend in GVA and the production index between the second quarter of 2023 and the second quarter of 2024 is likely to be only an approximation of the actual decline in GVA against the backdrop of future revisions. However, due to the sharp decline in the production index during this period, a general trend reversal through future revisions of GVA is questionable.

42. In a survey conducted by the ifo Institute in the fourth quarter of 2024, 43 % of industrial companies reported that they were limiting their production of industrial goods due **to a lack of demand**. Declines in capacity utilisation, ↘ CHART 18

↘ CHART 17

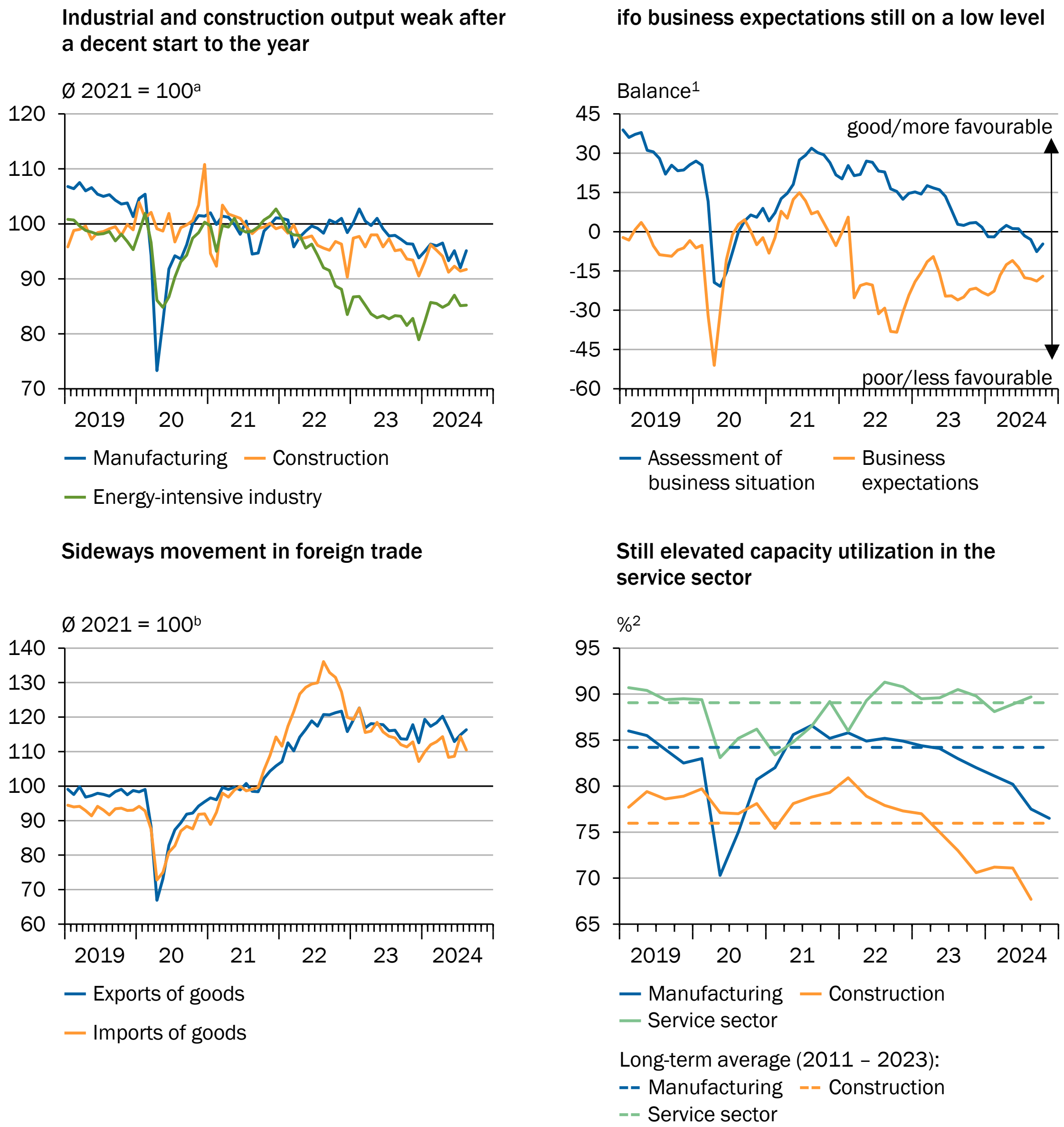
Risks[1] for industrial companies[2]



1 – Based on the DIHK economic survey. Answers to the question "Where do you see the greatest risks to your company's economic development in the coming 12 months?" (multiple answers possible). The survey is conducted annually in three waves (beginning of the year, early summer and fall). There was no early summer wave in 2010. 2 – Excluding the construction industry.

Source: DIHK

↘ CHART 18
Economic indicators in Germany



1 – Business expectations in the next six months. Difference in the percentages of firms expecting/reporting an improvement and firms expecting/reporting a deterioration. 2 – Seasonally adjusted values. a – Volume index; seasonally and calendar-adjusted values. b – Seasonally and calender-adjusted values.

Sources: European Kommission, Federal Statistical Office, ifo Institut, own calculations

BOTTOM RIGHT a build-up of finished goods inventories and continued low order intake also point to weak demand. Export demand is weak, despite robust growth in the global economy and global industrial production, ↘ CHART 4 LEFT a better economic development in the euro area compared to Germany and, most recently, an upward trend in global trade. ↘ ITEM 60 However, **domestic demand** is still weaker than foreign **demand.** ↘ CHARTS 17 RIGHT AND 22 RIGHT In 2024, imports are expected to decline significantly more than exports and capital formation will fall sharply.

43. **The high level of uncertainty** surrounding economic development **in Germany** is likely to be **a negative factor for domestic demand for industrial goods**. Indicators of general economic and economic policy uncertainty in Germany, which are based on the evaluation of country reports and newspaper articles (Baker et al., 2016; Ahir et al., 2022), are at a high level compared to their long-term average and to other countries and have recently risen again. ↘ CHART 22 LEFT ↘ ITEM 58 The uncertainty is reflected in a deterioration in sentiment and reduced investment intentions among companies. In addition, **monetary policy, which** remains restrictive despite the interest rate cuts, is weighing on investment activity. This is reflected in the order situation for residential construction and capital goods manufacturers. ↘ ITEM 32 For instance, the lack of gross fixed capital formation in construction in 2023 contributed the most to the downward trend in the overall economy. ↘ ITEM 56

44. In addition**, production costs** have **risen sharply in an international comparison**, especially since the energy crisis in 2022. The electricity and natural gas prices paid by industrial customers in Germany are currently higher than the average for non-European countries and also higher than the EU average (Borger et al., 2024), ↘ CHARTS 5 LEFT AND 19 TOP RIGHT especially for major customers. This is likely to have a particularly negative impact on the energy intensive manufacturing sectors that are exposed to international trade (Schaller and Schasching, 2024; GCEE Annual Report 2022 Table 19). More important than energy in terms of costs, however, is labour, which is not only scarce in Germany, but also expensive by international standards and has become even more expensive in recent years. This is reflected in the fact that unit labour costs have fallen in many countries relative to Germany. ↘ CHART 19 BOTTOM LEFT

45. The large cost increases in international comparison and weak productivity development in the manufacturing sector ↘ BOX 7 are reflected in a **deterioration in price competitiveness**, especially since 2022. The deterioration is reflected not only in relative consumer prices, ↘ CHART 23 RIGHT but also, and to a particular extent, in relative export prices. ↘ CHART 19 BOTTOM RIGHT Against this backdrop, the competitiveness indicator for industrial companies, which is based on surveys conducted by the ifo Institute, has fallen compared to other European countries as well as non-European countries. ↘ CHART 23 RIGHT ↘ ITEM 61 Accordingly, the industrial weakness is also evident in an international comparison. A breakdown of production in the manufacturing sector into an international and a specifically German component shows that the latter has been declining since 2018 and has been negative since the coronavirus pandemic. ↘ CHART 19 TOP LEFT

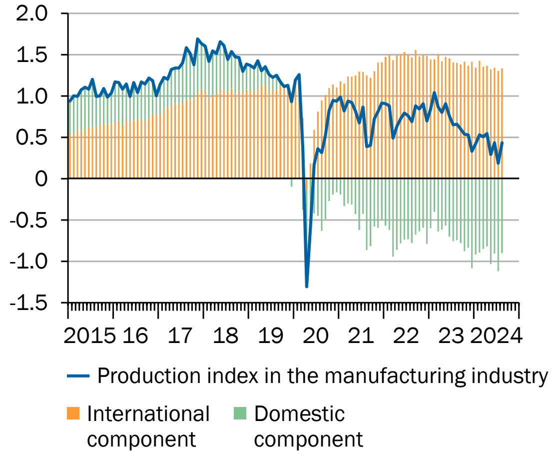
46. German **export prices have risen, especially compared to China**. ↘ CHART 19 TOP RIGHT As the manufacturing industry is in strong and increasing competition with China, this competitive price disadvantage is having a particularly unfavourable effect. This is reflected in China's rising market share at the expense of Germany in Europe and globally (GCEE Spring Report 2024 box 7). In addition, Chinese demand for intermediate and end products from Germany has declined.

↘ CHART 19

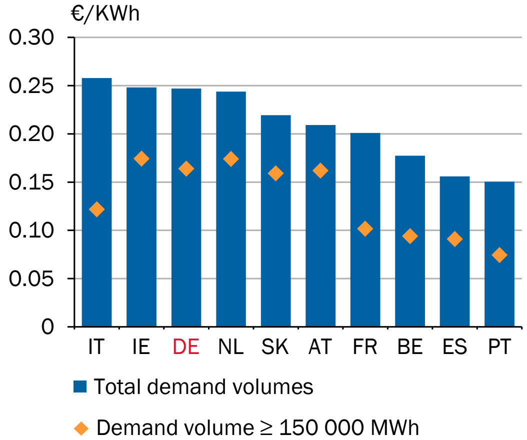
Competitiveness of German manufacturing industry

Declining production is due to factors specific to Germany[1]

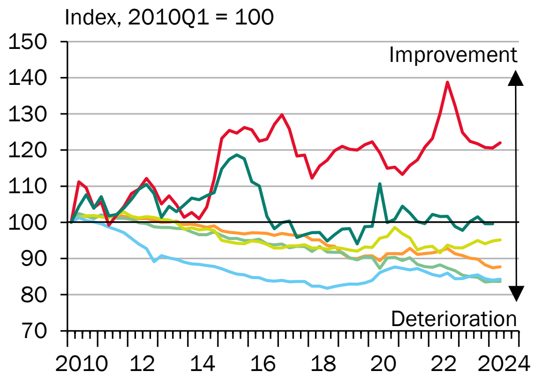
Standard deviation from the long-term average



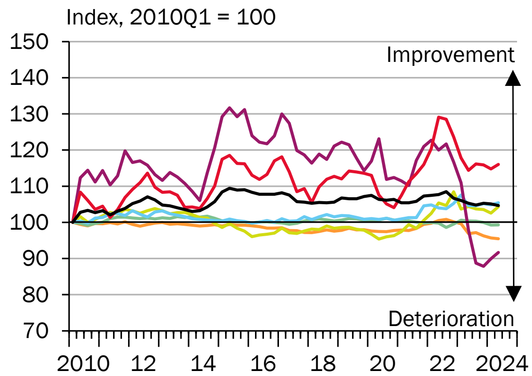
Commercial electricity prices[2] in Germany in the first half of 2024 higher than in most other euro area member states[3]



Low productivity growth and wage gains increase labour costs in Germany
Relative unit labour costs[4]



German goods export prices to China have risen particularly sharply since 2022
Relative export prices[4]



— France — Italy — Netherlands — Spain — China — USA — United Kingdom
— Price competitiveness (inverted)[5]

1 – The standardised production indices in the manufacturing sector of 25 OECD member states are broken down into two common components and one idiosyncratic or country-specific component each using a principal component analysis. 2 – Electricity prices for non-households for all demand volumes or for demand volumes ≥ 150,000 MWh, including taxes and levies. 3 – Only member states for which both demand volumes are available are shown: IT-Italy, IE-Ireland, DE-Germany, NL-Netherlands, SK-Slovakia, AT-Austria, FR-France, BE-Belgium, ES-Spain, PT-Portugal. 4 – Seasonally and calendar-adjusted values in relation to the value for Germany. A value above 100 means an improvement for Germany compared to the respective country. Values for China, the USA and the United Kingdom were adjusted with the respective ECB exchange rates. 5 – The original indicator (monthly values) of the Deutsche Bundesbank is based on Germany's seasonally adjusted inflation rates relative to those of 37 trading partners and exchange rates and is standardised to 1999Q1. The values were rebased to 2010Q1 and inverted to show the improvement.

Sources: BEA, Deutsche Bundesbank, Eurostat, EZB, National Bureau of Statistics of China, OECD, own calculations

↘ BOX 6 ↘ CHART 24 RIGHT Important reasons for this are a shift in industrial value creation from Germany to China and increasing vertical integration in Chinese industry (GCEE Spring Report 2024 Box 7). China's low demand is not limited to Germany, as exports of goods from the rest of the euro area to China also fell significantly between 2020 and 2023. However, the decline in German exports during this period was greater than in the other euro area member states.

47. The **weakness in manufacturing is likely to have a significant impact on other sectors of the economy**. Business services are currently relatively robust and are supporting the overall economy. ↘ CHART 18 BOTTOM RIGHT However, business services are lagging behind the development in manufacturing and are therefore likely to be impacted by the economic weakness in industry over the forecast horizon (Eickelpasch, 2014; Lang and Lichtblau, 2021). The most important areas for vehicle construction include consulting, trade, transport and maintenance services. The relevance of transport services can be seen in the high correlation between the truck toll mileage index and industrial production.

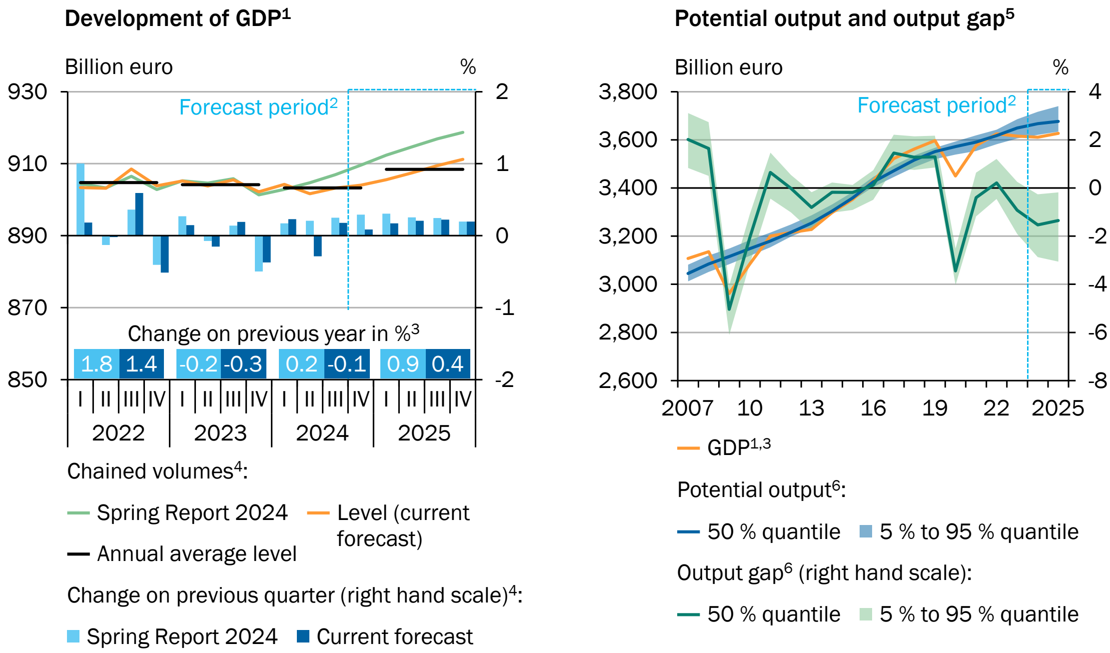
Last but not least, industrial weakness and the associated decline in capacity utilisation are likely to have a negative impact on investment activity. ↘ CHART 18 BOTTOM RIGHT ↘ ITEM 59 As around three quarters of industrial goods produced in Germany are capital goods (Grömling, 2024), **the weakness in industry** is likely **to have a self-reinforcing effect**.

48. The **weak performance of the German economy is increasingly affecting the labour market**. Growth in the number of employees has slowed considerably, partly because jobs that become vacant due to the demographic increase in retirements are not being filled. In addition, the number of vacancies is currently falling and the unemployment rate is rising. The weakening of the labour market is reflected in particular in falling employment figures in the manufacturing, trade and construction sectors, which are particularly characterised by low growth. ↘ ITEM 65 Starting from an unemployment rate of 3.2 % in autumn 2023, the number of unemployed people in the mechanical and automotive engineering occupations, which are important for the manufacturing industry, rose by 13.3 % between October 2023 and October 2024, significantly more than in the overall economy. Starting from an unemployment rate of 5.8 % in autumn 2023, the increase here was only 7.0 % in the same period. In addition, employment in temporary work, which is primarily in demand in the manufacturing sector, fell by almost 11 % year-on-year in the last reporting month of July 2024 to a level last seen in spring 2010.

49. **The weak growth of the overall economy is reflected** both **in low potential growth** ↘ ITEM 77 **and** in underutilisation of capacity due to **cyclical factors**. The output gap will widen further in 2024 compared to the previous year to –1.5 % of potential output. ↘ CHART 20 RIGHT Calculations by the GCEE show that the estimated persistence of the gap in total factor productivity, which explains the majority of the output gap, has increased significantly since 2021. Against this backdrop, convergence to the normal situation is likely to be slower than in the past. The growth momentum resulting from the combination of the output gap and persistence is likely to amount to around 0.6 percentage points in 2025 based on the latest medium-term forecast. If, on the other hand, the estimated persistence for 2021 were used, the growth momentum would be 0.9 percentage points in 2025 if the gap remained the same. The gap would therefore close more quickly.

↘ CHART 20

Expected economic development of the German economy



1 – Chained volumes, price adjusted, reference year 2020. 2 – Forecast by the GCEE. 3 – Not adjusted. 4 – Seasonally and calendar-adjusted. 5 – Estimate by the GCEE. 6 – Quantiles of the sample.

Sources: Federal Statistical Office, own calculations

50. **GDP growth in the third quarter of 2024** was around 0.2 % according to the flash report from the Federal Statistical Office on 30th October 2024. The GCEE's indicator- and model-based nowcast for the fourth quarter points to slight GDP growth of 0.1 %. **GDP is likely to decline by 0.1 % in 2024 as a whole**. ↘ TABLE 5 ↘ BOX 5 The statistical overhang alone implies a GDP growth rate of 0.1 % in 2025. Over the course of 2025, GDP growth rates are likely to be only slightly positive compared to the previous quarter, averaging 0.2 %. The GCEE expects **GDP growth to average 0.4 % in 2025**. At –1.4 %, the output gap will close only slightly in 2025 compared to 2024.

↘ BOX 5

Background: Forecast revision

Changes to the GDP forecast for 2024 compared to the spring 2024 forecast are discussed below. **Compared to May 2024**, the GCEE's **forecast** for German GDP growth in 2024 **is 0.3 percentage points lower.** ↘ TABLE 4

The Federal Statistical Office reported GDP growth of 0.2 % for the first quarter of 2024, which is in line with the forecast from the spring report. In the second quarter of 2024, GDP contracted by 0.3 %, contrary to the spring forecast, in which growth of 0.2 % was expected. However, growth in the second quarter of 2024 was revised downwards by 0.2 percentage points in the flash report of 30th October 2024 compared to the previous national accounts. GDP **growth for the second half of 2024 is also** likely to be **worse** than forecast in the spring. While quarterly growth rates of 0.3 % were still assumed in spring 2024, the Federal Statistical Office reported growth of 0.2 % in the third quarter of 2024. For the fourth quarter of 2024, the

GCEE is forecasting slight growth of 0.1 %. With the downward revision of the forecast in the second half of 2024, the overhang for 2025 is also declining. While this was still 0.4 % in the spring, it is now 0.1 %.

On the expenditure side, the **overestimation of** capital formation was particularly pronounced in the spring forecast, especially for capital formation in machinery and equipment. This collapsed in the first half of 2024 and is expected to fall by 5.6 % in 2024 as a whole. In the spring, the GCEE predicted a decline, but only by 1.6 %. A decline in gross fixed capital formation in construction was also anticipated, although this was much sharper than assumed, partly due to the weather. The extrapolation of capital formation trends in the second half of 2024 is correspondingly more pessimistic in this forecast than in spring 2024. Finally, there were substantial forecasting errors in private consumption up to the second quarter of 2024, as an upward trend over the course of 2024 was assumed in spring. However, after slight growth at the beginning of 2024, private consumption actually contracted in the second quarter of 2024. The forecast for the fourth quarter of 2024 was also revised downwards.

↘ TABLE 4

Comparison of the spring and the autumn forecasts for the year 2024

	Forcast by the German Council of Economic Experts					
	May 2024		Annual Report 2024		Difference	
	Change on previous year[1]	Growth contri-butions[2]	Change on previous year[1]	Growth contri-butions[2]	Change on previous year[1]	Growth contri-butions[2]
Gross domestic product[4]	**0.2**	x	**– 0.1**	x	**– 0.3**	x
Domestic demand[4]	0.0	0.0	– 0.5	– 0.5	– 0.5	– 0.5
Final consumption expenditure	0.8	0.6	1.0	0.7	0.2	0.1
Private consumption[5]	0.6	0.3	0.4	0.2	– 0.2	– 0.1
Government consumption	1.3	0.3	2.2	0.5	0.9	0.2
Gross fixed capital formation	– 1.0	– 0.2	– 2.7	– 0.6	– 1.7	– 0.4
Investment in machinery & equipment[6]	– 1.6	– 0.1	– 5.6	– 0.4	– 4.0	– 0.3
Construction investment	– 1.5	– 0.2	– 3.4	– 0.4	– 1.9	– 0.2
Other products	1.8	0.1	4.1	0.2	2.3	0.1
Changes in inventories[4]	x	– 0.3	x	– 0.6	x	– 0.3
Net exports	x	0.1	x	0.3	x	0.2
Exports of goods and services	– 0.3	– 0.2	– 0.2	– 0.1	0.1	0.1
Imports of goods and services	– 0.6	0.3	– 1.1	0.4	– 0.5	0.1

1 – Price-adjusted. In %. 2 – Contributions to growth of price-adjusted GDP. In percentage points; Deviations in the differences due to rounding. 3 – In percentage points. 4 – As the expenditure-side composition of the revisions to GDP in the first half of 2024 is still pending, it is assumed that they represent an adjustment to the changes in inventories. 5 – Including non-profit institutions serving households. 6 – Including military weapon systems.

Source: own calculations

Final consumption expenditure

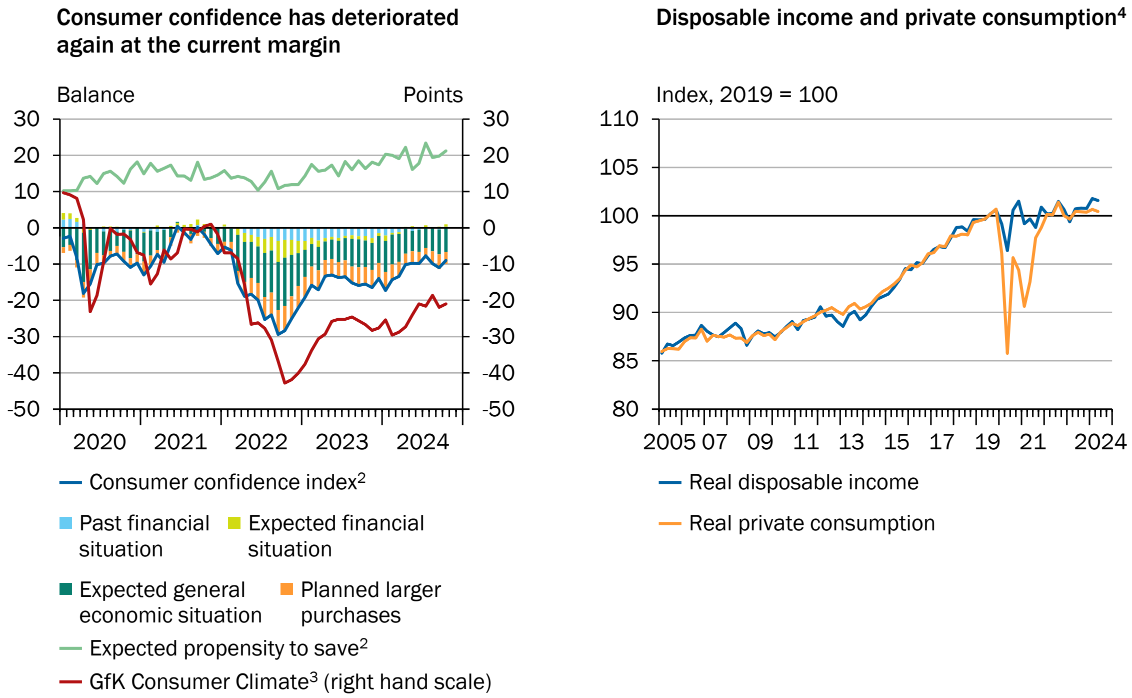
51. The upward momentum of real disposable income ↘ CHART 21 RIGHT suggested an upturn in private consumption expenditure at the beginning of 2024. The national accounts data show that private consumption follows income development in

particular when a rise in income occurs over a longer period of time (GCEE Spring Report 2024 box 3). ↘ CHART 21 RIGHT **However,** the **expected recovery in private consumption has not yet materialised**. Private consumption expenditure fell by 0.2 % in the second quarter of 2024, after rising by 0.3 % in the first quarter of 2024.

52. **The reluctance to consume continues to be reflected in the savings behaviour of private households**. The net savings rate rose from 11.0 % to 11.3 % in the second quarter of 2024, remaining at a higher level than the average of 10.1 % from 2010 to 2019. Savings intentions have been on an upward trend since the beginning of 2023 and have recently increased again slightly. ↘ CHART 21 LEFT In addition to the high level of economic policy uncertainty ↘ ITEM 43, **persistently negative future expectations about the economy on the part of consumers** are likely to have to have contributed to this (Giavazzi and McMahon, 2012; GCEE Spring Report 2024 item 37). The latter remain below their historical average and are currently also accompanied by a below-average propensity to buy. ↘ CHART 21 LEFT

53. The **spending behaviour of private households** is likely to continue to be characterised by **pessimism**. Consumer confidence, as measured by the GfK Consumer Confidence Index, remains well below the historical average at the

↘ CHART 21
Consumption indicators in Germany[1]



1 – Seasonally adjusted values. 2 – The consumer confidence index and the saving propensity indicator are based on selected questions answered by consumers according to the Joint Harmonised EU Programme of Business and Consumer Surveys. They relate to the past or coming 12 months. 3 – Based on about 2,000 consumer interviews per month.
4 – Deflated with the private consumption deflator. 5 – Disposable income including the increase in pension entitlements of private households and non-profit institutions serving households.

Sources: European Commission, Federal Statistical Office, GfK, own calculations current margin. ↘ CHART 21 LEFT A deterioration in consumer sentiment generally has a negative impact on private consumption (ECB, 2024d). ↘ CHART 21 LEFT In addition, the effects of prolonged crisis events are likely to continue to have a dampening effect on consumer sentiment (Pistaferri, 2016; Malmendier and Shen, 2024).

54. Price-adjusted retail sales rose by 1.3 % in the third quarter of 2024 compared to the average for the second quarter of 2024. This increase was more than offset by a sharp 12.6 % decline in new private vehicle registrations in the third quarter of 2024 compared to the previous quarter. In addition, the production index in consumer-related services fell by 2.4 % in July 2024 compared to the average for the second quarter of 2024. Nevertheless, **private consumption expenditure** is likely to **have supported** GDP growth **slightly** in the third quarter of 2024**, according to the Federal Statistical Office's flash GDP release**.

Private households' income is likely to **lose growth momentum** over the forecast horizon and thus only provide a moderate boost to private consumption. Net wages and salaries are expected to rise by only 2.5 % in nominal terms in 2025, following an increase of 5.5 % in 2024. The difficult economic situation is likely to have a dampening effect on wage settlements. ↘ ITEM 67 **Slower employment growth** ↘ ITEM 66 and increasing **fear of job losses** according to consumer surveys by the European Commission are also likely to have a dampening effect on private consumption expenditure. Against this backdrop, private consumption is only likely to increase by 0.4 % in 2024 and 0.5 % in 2025.

55. While **government consumption** in 2023 was still characterised by the phasing out of additional expenditure due to the pandemic and fell by 0.1 % in real terms, it is expected to rise significantly in 2024. A price-adjusted increase of 2.2 % was already realised in the first half-year 2024 compared to the same period of the previous year. Among other things, this is likely to be due to additional expenditure in the health and care sector, which is reflected in social benefits in kind. There are also signs of higher advance payments in the area of military procurement. These developments are likely to continue for the remainder of the year, meaning that **government consumption** should **increase by 2.2 % in 2024**. **In 2025**, government consumption is likely to increase **by 1.4 %**.

Capital formation

56. **Gross fixed capital formation in construction fell by 2.0 % in the second quarter of 2024**, following **a weather-related increase of 0.8 % in the first quarter of 2024**. Residential construction in particular, which continues to be severely impacted by difficult financing conditions in 2024, recorded a decline of 2.3 % in the second quarter of 2024. This figure can be interpreted as a countermovement to the weather-related strong first quarter. In August 2024, the average interest rate of newly granted loans for residential construction was just under 3.9 %. They recently fell slightly, but were not far below the high of around 4.3 % in November 2023. In addition, capital formation in non-residential construction fell by 1.6 % in the second quarter of 2024. Private civil and

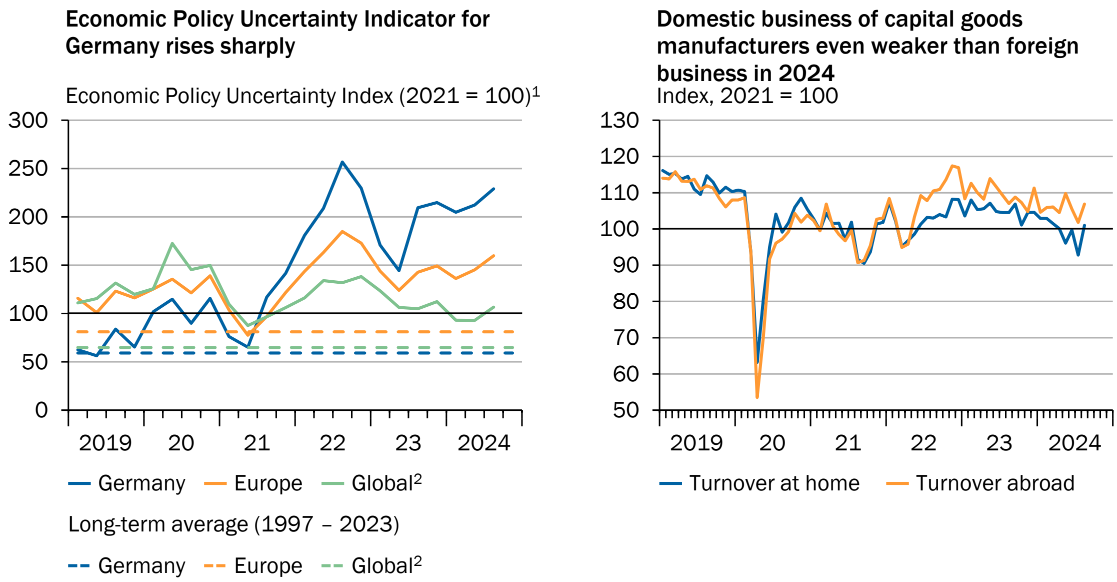
underground engineering construction had a supporting effect in the second quarter of 2024 with growth of 2.6 %. ↘ ITEMS 32 AND 34

57. Production in the construction industry as a whole fell by 1.1 % in July and August 2024 compared to the average for Q2 2024. This indicates that gross fixed capital formation in construction is likely to have fallen again in the third quarter of 2024. ↘ CHART 18 TOP LEFT **Construction activity** is likely to **increase slowly over the further forecast horizon**, however. The ECB's monetary policy easing is likely to have a fully positive impact on residential construction capital formation during the second half-year 2025, as the effect is strongly delayed (Musso et al., 2011; BBSR, 2016). ↘ ITEM 32 ↘ BOX 4 The increase in new lending for residential construction projects since spring 2024 ↘ CHART 16 RIGHT and the slight decline in the lack of orders in residential construction since spring 2024 (ifo Institute, 2024a) point to a subdued expansion in residential construction investment over the course of 2025. Over the forecast horizon, non-residential construction is likely to benefit from the expansion of the electricity grid, orders from Deutsche Bahn for the refurbishment of its infrastructure and other public infrastructure measures (DB, 2024; Deutscher Bundestag, 2024). This can already be seen in the rising order intake in civil engineering as a whole and in civil engineering excluding road construction since the start of the year. Overall, gross fixed capital formation in construction is expected to fall by 3.4 % in 2024, the fourth consecutive year of decline. The expected development in 2025 can be explained by the statistical carryover of –0.8 % from 2024. Despite the positive development in an year-on-year perspective, a slight annual average decline in gross fixed capital formation in construction of 0.3 % is therefore expected in 2025.

58. **Investments in machinery, equipment and vehicles fell by 4.1 % in the second quarter of 2024** compared to the previous quarter, marking the third consecutive quarterly **decline**. This decline is primarily due to private gross fixed capital formation in machinery and equipment, which fell by 5.6 % in Q2 2024. As in the manufacturing sector as a whole, the sharp decline in gross fixed capital formation in machinery and equipment since the beginning of the year 2024 can be explained primarily by domestic specific (Joint Economic Forecast, 2024b). ↘ CHART 19 TOP LEFT This can be seen both in the surveys of industrial companies and in the **domestic sales of capital goods manufacturers**, which will fall more sharply than foreign sales in 2024. ↘ CHARTS 17 RIGHT AND 22 RIGHT In addition to the higher interest rates compared to the last 10 years, the high level of economic and economic policy uncertainty is also having a negative impact on investment activity (Rieth et al., 2016; Grimme and Stöckli, 2017; Meinen and Roehe, 2017). This is consistent with current company surveys regarding their investment plans (DIHK, 2024; ifo Institute, 2024b).

59. **Gross fixed capital formation in machinery and equipment is likely to have risen slightly in the third quarter of 2024 as part of a countermovement to the sharp decline in the second quarter of 2024**. Only a slight increase in gross fixed capital formation in machinery and equipment is expected in the further forecast horizon. Although the business expectations of capital goods manufacturers improved in October 2024 compared to the previous month, they remain at a low level. In addition to the high level of uncertainty

↘ CHART 22
Investment indicators for Germany



1 – The index measures the relative frequency with which the words „uncertainty", „economy" and specific policy-related keywords occur together in newspaper articles. 2 – Index weighted with purchasing power-adjusted GDP for 21 countries.

Sources: Baker et al. (2016), Federal Statistical Office, own calculations

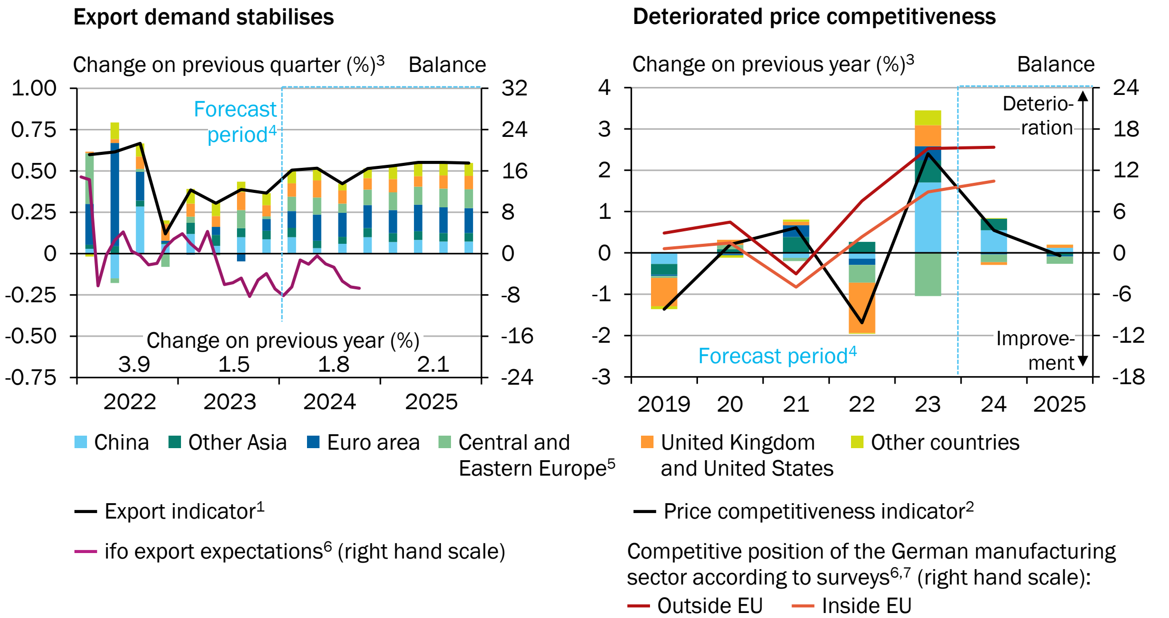
↘ ITEM 43, the continued low and downward trend in capacity utilisation in the manufacturing sector in the fourth quarter of 2024 is also having a dampening effect on corporate investment. ↘ CHART 18 BOTTOM RIGHT Falling interest rates are likely to provide supportive impulse. ↘ ITEM 32 Against this backdrop, the outlook for private gross fixed capital formation in machinery and equipment remains subdued overall. Public investment in military weapons systems, on the other hand, is likely to stimulate gross fixed capital formation in machinery and equipment over the entire forecast horizon. **In 2024, gross fixed capital formation in machinery and equipment is likely to fall again by 5.6 %**, while it is expected to **rise by 0.7 % in 2025**.

Foreign trade

60. Despite the positive development on the German export markets, **German foreign trade has not yet recovered** from the crisis years 2020 to 2022. In the first quarter of 2024, there was still a positive net export of 0.2 percentage points due to increased exports. However, the boost evaporated again in the second quarter of 2024, as exports fell again while imports remained almost constant. The decline in exports up to August 2024 is broad-based among the important product groups. The increase in imports in Q3 2024 can be seen in the mechanical engineering and electrical engineering product groups, which are also important for the German export industry, among others. Imports of motor vehicles declined in line with the development of new private and commercial car registrations. ↘ ITEM 53

↘ CHART 23

Export indicator[1] and price competitiveness[2]



1 – The indicator is based on the GDP development of 50 trading partners. The weighting of each country corresponds to its share of German exports. Country definitions as in Table 1. Seasonally and calendar-adjusted. 2 – The indicator is based on Germany's inflation rates relative to those of 37 trading partners as well as exchange rates and corresponds to the sum of contributions to growth; a positive change indicates reduced price competitiveness of German products. Calculation and country definitions based on the approach of the Deutsche Bundesbank. Forecast by the GCEE. 3 – Growth contributions of the respective regions. 4 – Forecast by the GCEE for the export indicator and the price competitiveness indicator. 5 – Bulgaria, Czechia, Hungary, Poland, Romania. 6 – Seasonally adjusted. 7 – Annual averages of the quarterly survey values of the European Commission. Values shown with reversed sign.

Sources: Deutsche Bundesbank, European Commission, ifo, national statistical offices, own calculations

61. The monthly foreign trade statistics available until August 2024 **do not** signal **a turnaround in foreign trade in** the second half-year 2024. The development of exports in the second quarter was already clearly negative and was only partially offset by growth in July and August. In relation to the previous quarter, exports fell by 0.9 %, while imports rose by 1.8 %. ↘ CHART 18 BOTTOM LEFT The foreign trade balance fell accordingly.

The **sales markets for German products** are likely to remain **robust** over the remainder of the forecast horizon. In particular, economic growth in the euro area, the most important sales market for German exports, is likely to increase over the forecast horizon. ↘ CHART 23 LEFT ↘ ITEM 30 However, estimates by the GCEE show that the **influence of the economy in the euro area, the USA and China on export demand in Germany has declined** noticeably compared to previous years. ↘ BOX 6 Overall, exports are expected to decline by 0.2 % in 2024, while they are likely to increase only slightly by 0.8 % in 2025. The weak development of exports in 2025 will be overshadowed by faster growing imports. Following a 1.1 % decline in imports in 2024, which was strongly driven by the negative statistical overhang due to a weak fourth quarter in 2023, imports are expected to increase by 1.5 % in 2025. Net exports are therefore likely to have a supporting effect in the current year and a significant negative impact in 2025.

↘ BOX 6

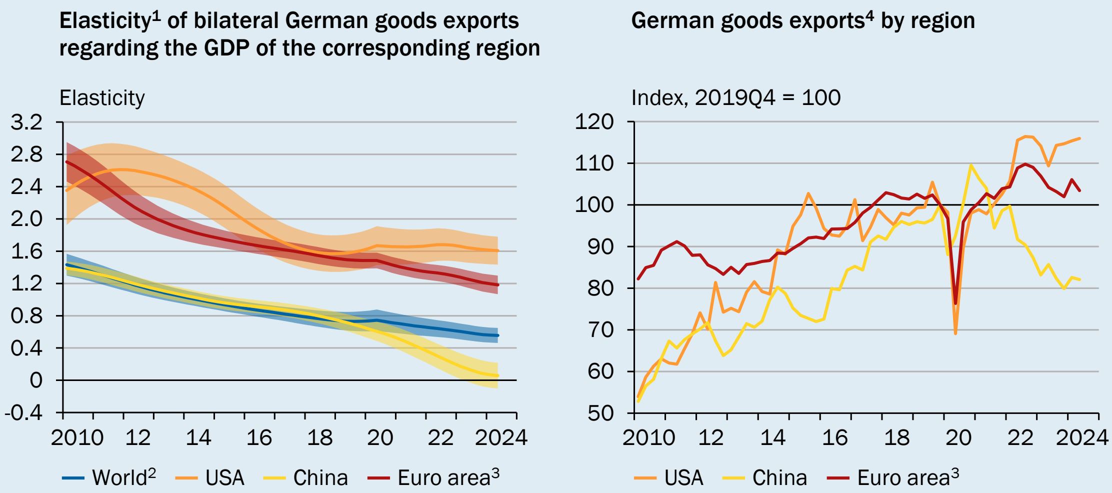
Focus: Are German exports benefiting less from global growth than earlier?

Global growth has always been an **important driver of German exports.** In 2023, however, global GDP recorded a real increase of 2.8 %, while German exports fell by 0.2 % in real terms. This raises the question of whether the correlation between German exports and the global economy or the economic development in the sales markets – particularly in the euro area, the USA and China – has recently changed.

The following analyses how the **elasticity of German exports has changed in relation to the global economy.** To this end, time-rolling regressions are used that can map a change in elasticity over time. All available observations are used for the estimation, although the weighting of the observations decreases with time from the point for which the elasticity is estimated. To estimate the elasticity, the logarithmised real value of German goods exports is first regressed on the logarithmised real world GDP. In addition, Germany's logarithmised real exports of goods to the euro area, the USA and China are regressed on the logarithmised real GDP of the corresponding region.

↘ CHART 24

Declining influence of the global economy on German exports



1 – Estimates are based on the period from 1995Q1 (world) or 2000Q1 (USA, China, euro area) to 2024Q2 using time-rolling regressions. Quarter t is weighted with 1, neighbouring quarters are weighted decreasingly with increasing distance. Calculations are based on price, seasonally and calendar-adjusted data. The areas correspond to the 95 % confidence interval. 2 – World GDP is approximated by the sum of the countries in Table 1 (total). 3 – Excluding Germany. 4 – Seasonally adjusted.

Sources: Eurostat, Federal Statistical Office, national statistical offices, own calculations

Since 2010. an almost monotonic decrease in the elasticity of German goods exports in relation to global GDP from 1.4 to 0.6 is found. ↘ CHART 24 LEFT This has direct consequences for the export forecast. Based on the average elasticity of 2010 and the GCEE's global GDP forecast for 2025, goods exports are expected to increase by 3.2 % in 2025. Based on the average elasticity for 2023, an increase of just 1.3 % can be expected.

The bilateral regressions confirm the picture **of declining export elasticities.** A decline in German export elasticity is also found in relation to the **euro area**, particularly at the beginning of the 2010s. At the current margin, the elasticity is 1.2. The export elasticity to **China** is also falling significantly over time and most recently stood at just 0.1. The elasticity of goods exports to the **USA** is currently 1.6, following a decline since the beginning of the 2010s and a slight increase in recent years.

The inclusion of various control variables does not lead to significantly different results. This applies, for example, to global trade, which was also weak in 2023 and whose correlation with global GDP has also declined (Joint Economic Forecast, 2024a). The decline in export elasticity is also robust to the inclusion of competitiveness indicators.

Economically, the decline in elasticities cannot be attributed to a single cause. However, the **loss of price competitiveness** is likely to be a major reason. ↘ ITEM 46 If an interaction term between unit labour costs or various indicators of price competitiveness and global GDP is included in the regression under the assumption of time-constant parameters, negative estimation coefficients are obtained for this interaction term. Accordingly, the elasticity of demand for German exports falls when competitiveness deteriorates. Based on the estimates, price competitiveness ↘ CHART 23 RIGHT made a negative contribution to export growth of 2.2 percentage points in 2023.

↘ TABLE 5

Key economic indicators for Germany

	Unit	2022	2023	2024[1]	2025[1]
Gross domestic product[2,3]	**Growth in %**	**1.4**	**– 0.3**	**– 0.1**	**0.4**
Final consumption expenditure	Growth in %	3.9	– 0.3	1.0	0.7
Private consumption[4]	Growth in %	5.6	– 0.4	0.4	0.5
Government consumption	Growth in %	0.1	– 0.1	2.2	1.4
Gross fixed capital formation	Growth in %	– 0.2	– 1.2	– 2.7	0.5
Investment in machinery & equipment[5]	Growth in %	4.5	– 0.8	– 5.6	0.7
Construction investment	Growth in %	– 3.9	– 3.4	– 3.4	– 0.3
Other products	Growth in %	2.6	4.7	4.1	2.4
Domestic demand[3]	Growth in %	2.8	– 0.4	– 0.5	0.7
Net exports	Growth contribution in percentage points	– 1.3	0.1	0.3	– 0.2
Exports of goods and services	Growth in %	3.1	– 0.3	– 0.2	0.8
Imports of goods and services	Growth in %	7.0	– 0.6	– 1.1	1.5
Current account balance[6]	**%**	**4.4**	**5.9**	**6.7**	**6.4**
Persons employed (domestic)	**1,000**	**45,675**	**46,011**	**46,155**	**46,153**
Persons employed, covered by social security	**1,000**	**34,507**	**34,790**	**34,937**	**34,990**
Registered unemployment, stocks	**1,000**	**2,418**	**2,609**	**2,792**	**2,869**
Unemployment rate[7]	**%**	**5.3**	**5.7**	**6.0**	**6.1**
Consumer prices[8]	**Growth in %**	**6.9**	**5.9**	**2.2**	**2.1**
Budget balance[9]	**%**	**– 2.1**	**– 2.6**	**– 2.1**	**– 1.9**
Gross domestic product per capita[10,11]	**Growth in %**	**0.6**	**– 0.1**	**– 0.4**	**0.2**
Gross domestic product, calendar-adjusted[11]	**Growth in %**	**1.5**	**– 0.1**	**– 0.1**	**0.6**

1 – Forecast by the GCEE. 2 – Price-adjusted. Change on previous year. Also applies to all listed components of GDP. 3 – As the expenditure-side composition of the revisions to GDP in the first half of 2024 is still pending, it is assumed that they represent an adjustment to the changes in inventories. 4 – Including non-profit institutions serving households. 5 – Including military weapon systems. 6 – In relation to GDP. 7 – Registered unemployed in relation to civil labour force. 8 – Change on previous year. 9 – Regional auhorities and social security according to national accounts; in relation to GDP. 10 – Population development according to medium-term projection of the GCEE calculations. 11 – Price-adjusted. Change on previous year.

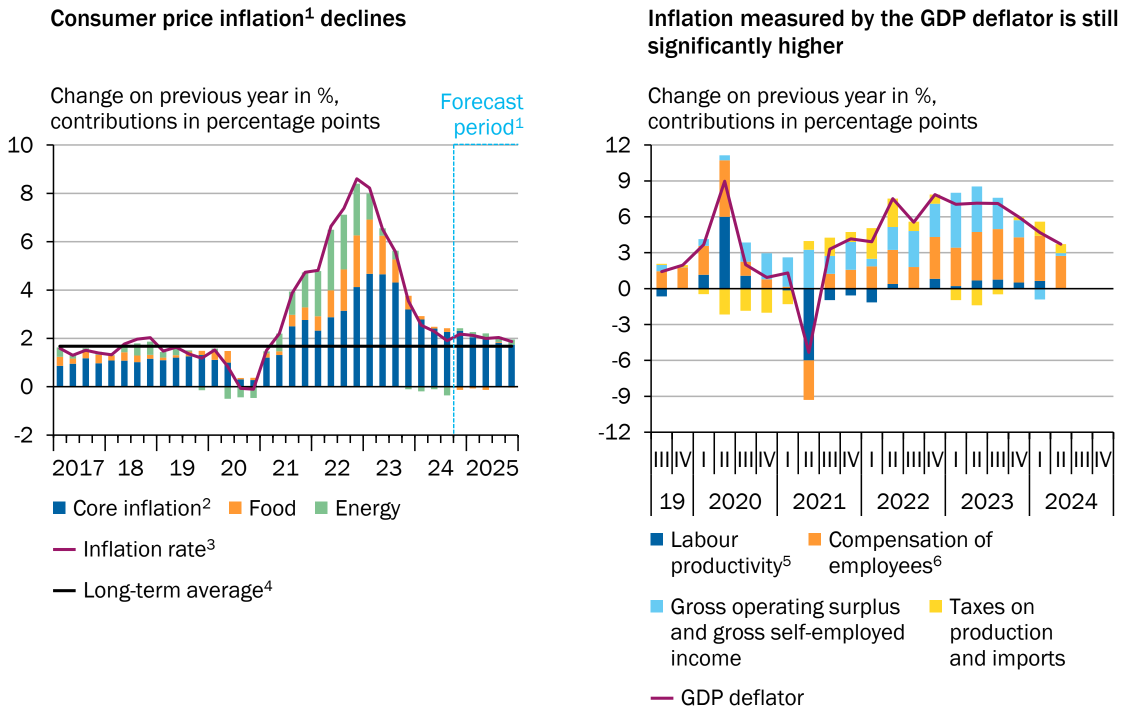
Sources: Deutsche Bundesbank, Federal Employment Agency, Federal Statistical Office, own calculations

2. Inflation back on track

62. Based on the national consumer price index, inflation in October 2024 was 2.0 % according to the Federal Statistical Office's flash estimate and was therefore at a similar level to the euro area. **In the third quarter of 2024, consumer prices rose by 1.9 % year-on-year**, compared to 2.3 % in the second quarter and 2.5 % in the first quarter of 2024.↘ CHART 25 LEFT The decline in overall inflation was primarily due to energy prices, which have been falling for four quarters in a year-on-year comparison. Food prices have risen only slightly since the beginning of the year 2024 in a year-on-year perspective. In contrast, the core inflation rate remains elevated and was still at 2.9 % year-on-year in October 2024.

63. **Over the forecast horizon, consumer price inflation is likely to be close to the ECB's target**. On the goods side, price pressure is likely to increase slightly in the winter half-year 2024/25. Producer prices for non-energy goods have been rising again at positive rates since February 2024 after recording significant declines in the second half-year 2023. According to calculations by the GCEE, these changes have the greatest impact on the sub-index of the consumer price index for industrial goods (excluding energy) with an average time lag of eight months. Accordingly, consumer prices for non-energy goods have also recently risen again somewhat. In addition, the contribution of the energy

↘ CHART 25
Inflation in Germany



1 – Based on seasonally and calender-adjusted data. 2 – Forecast by the GCEE. 3 – Overall index excluding food and energy. 4 – Consumer price index, seasonally and calender-adjusted. 5 – Average over the period from 1999 to 2022. 6 – Increases in labour productivity have a negative impact on the GDP deflator. 7 – According to the domestic concept.

Sources: Deutsche Bundesbank, Eurostat, Federal Statistical Office, own calculations component to consumer price inflation in Q4 2024 is likely to be low. Although oil prices rose by 3.0 % in October 2024 compared to the previous month, they are 4.4 % below the average for the previous quarter. ↘ ITEM 15 In the later forecast horizon, energy price inflation in particular is expected to be low and contribute to a reduction in consumer price inflation. ↘ BOX 4

64. **Unit labour costs are likely to have a price-driving effect**. These rose only minimally in the second quarter of 2024 by 0.1 % (annualised). In the previous quarters, however, the increases were significantly higher at 4.4 % and 9.5 % compared to the previous quarter, and the pass-through of these higher unit labour costs is likely to continue into 2025 (GCEE Annual Report 2023 box 7). This is **particularly** true **in the service industry**, where inflation is already well above the overall inflation rate at 3.9 % in Q3 2024. In addition, the decomposition of the GDP deflator shows that compensation of employees continues to make the largest contribution to inflation. However, the upward pressure on prices has weakened here too, meaning that the above-average inflation in service prices is likely to gradually weaken over the further forecast horizon. ↘ CHART 25 RIGHT Consumer restraint is also likely to have a dampening effect on companies' scope for setting prices. ↘ ITEM 54

Inflation is expected to average 2.2 % in 2024. In 2025, inflation is likely to be slightly lower **at 2.1 %.** Core inflation is likely to be 3.0 % in 2024 and 2.6 % in 2025. The GDP deflator is likely to rise by 3.3 % and 2.3 %.

3. Economic downturn weighs on the labour market

65. **The economic downturn is increasingly affecting the labour market**. ↘ CHART 27 ↘ BOX 7 Employment fell seasonally adjusted by 0.1 % in the third quarter of 2024 compared to the previous quarter. Employment subject to social insurance contributions recently declined in the construction and manufacturing sectors, while employment increased in the public administration and health and social services sectors, among others. ↘ CHART 27 TOP LEFT In the manufacturing sector, there has been a significant increase in reported short-time work since July 2024. ↘ CHART 27 TOP RIGHT Compared to the previous year, transitions from employment to unemployment have increased, particularly in the manufacturing sector. ↘ CHART 27 BOTTOM LEFT In addition, the decline in job vacancies shows that companies are less willing to hire. ↘ CHART 27 BOTTOM RIGHT As a result, the overall economy's unemployment rate has risen by 0.3 percentage points compared to the previous year and stands at 6.1 % in October 2024.

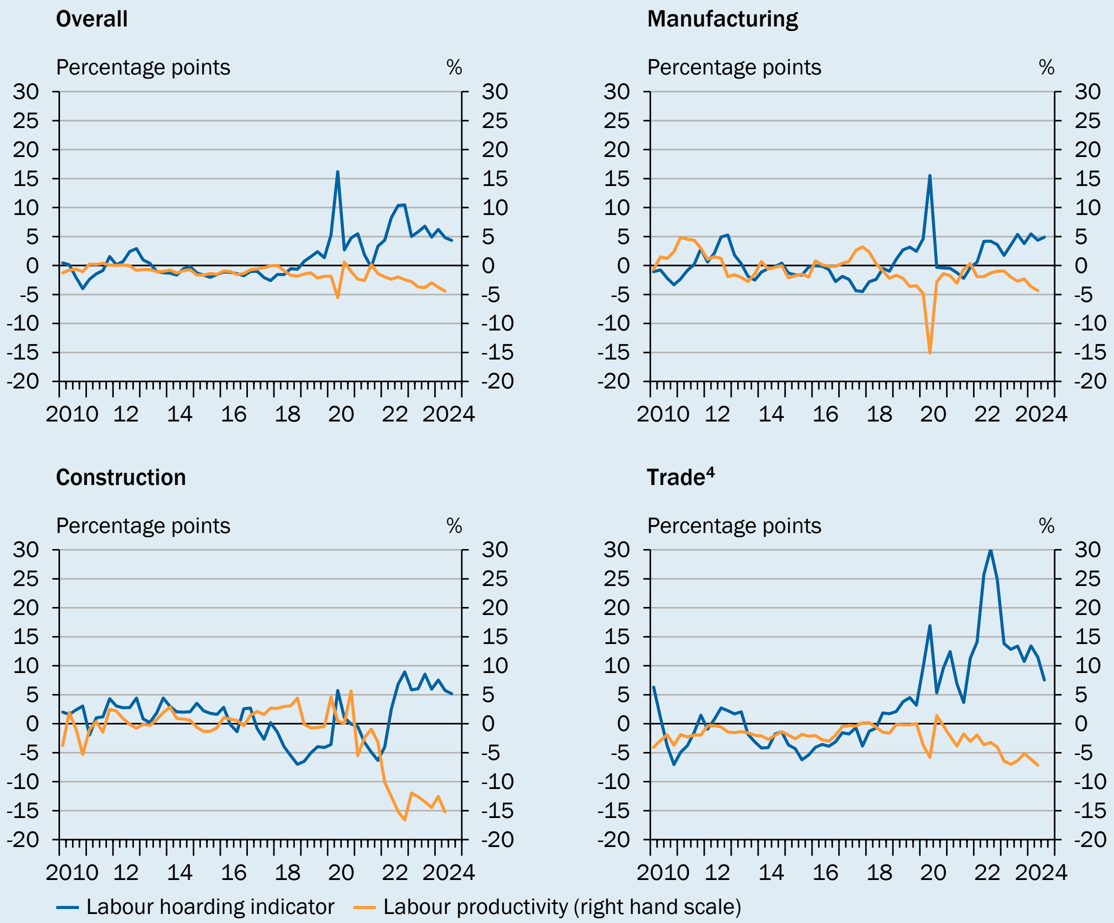
↘ BOX 7

Focus: Labour Hoarding and Labour Productivity

The **German labour market** has often proved **robust since the mid-2000s**, even during periods of economic weakness. This stability can be attributed to the retention of labour. Companies often start by reducing overtime and remaining vacation days. If this is not sufficient, further retention is subsidised by the state through the short-time working allowance. The number of overtime hours worked by the overall economy was at a historically low level in the second quarter of 2024. The utilisation of short-time working allowance has fallen sharply since the coronavirus pandemic and remained at a low level for a long time despite the economic weakness phase. The coronavirus-related easing of access to short-time working allowance (GCEE Annual Report 2020 item 131) expired on 30 June 2023. The rising number of new unemployed persons in the retail and construction sectors indicates ↘ CHART 27 BOTTOM LEFT that companies have recently refrained from retaining their employees in these sectors. The **labour hoarding indicator, which is higher** than the long-term trend, **is falling** accordingly. ↘ CHART 26 TOP LEFT The

↘ CHART 26

Labour hoarding indicator[1] and labour productivity[2] as a deviation from the long-term trend[3]



1 – Seasonally adjusted values. The indicator is based on data from the European Commission's harmonised Business and Consumer Surveys and measures the (weighted) percentage of companies that expect their production to fall but employment to remain the same or even rise. According to the statistical classification of economic activities in the European Community (NACE Rev. 2). 2 – Seasonally and calendar-adjusted values. Price-adjusted gross value added per hour of employment. According to the classification of economic activities, 2008 edition (WZ 2008). 3 – Linear trend in the period 1991 to 2019. 4 – Includes trade excluding wholesale for the labour hoarding indicator and trade, transport and hospitality for the labour productivity indicator.

Sources: European Commission, Federal Statistcal Office, own calculations

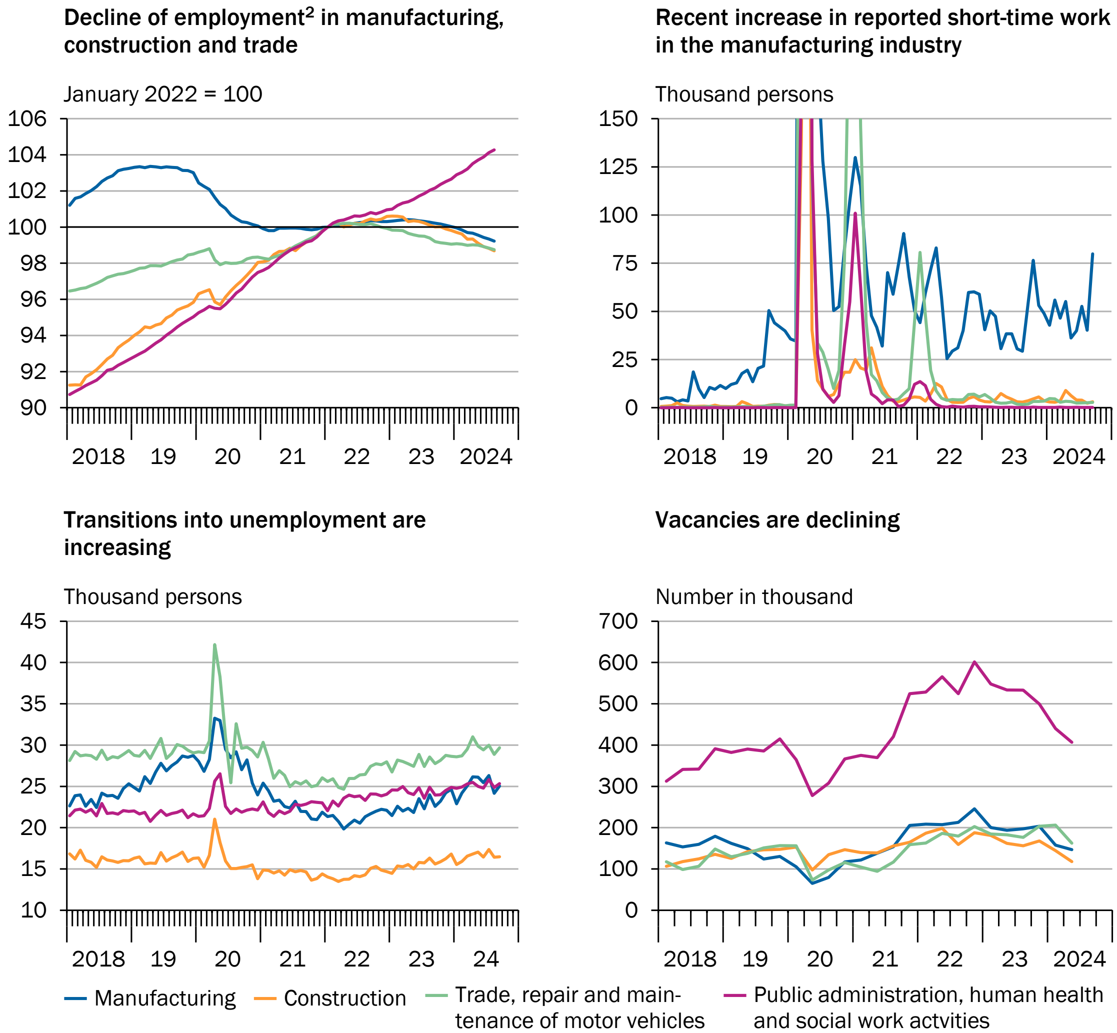
decline is particularly evident in construction and trade, while the indicator for manufacturing shows a sideways movement. ↘ CHART 26 At the current margin, however, the number of reported short-time work has risen more sharply again, especially in manufacturing. ↘ CHART 27 TOP RIGHT This could initially counteract a stronger reduction in employment there.

The increased retention of labour compared to the long-term trend since 2021 has led to a **decline in labour productivity** and implies a lower utilisation of employment in these sectors. According to calculations by the GCEE, a return of labour productivity to the long-term trend would require a decline in the volume of work in the second quarter of 2024 of around 4.4 % or 685 million hours or an increase in gross value added of 4.6 %. A lack of economic recovery therefore harbours the risk of job losses in the affected sectors.

66. **Key employment indicators**, such as the ifo Employment Barometer and the employment component of the IAB Labour Market Barometer, point to **weaker employment growth** in October 2024 **than in previous years**. The number of people in employment is still expected to grow by 0.3 % in 2024, but is likely to

↘ CHART 27

Development of the labour market in selected economic sectors[1]



1 – Economic activities according to the Classification of Economic Activities, edition 2008 (WZ 2008). 2 – Employees subject to social insurance contributions. 3 – Addition of unemployed persons from employment subject to social insurance contributions.

Sources: Federal Employment Agency, Institute for Employment Research, own calculations

↘ TABLE 6
Labour market in Germany

	2022	2023	2024[1]	2025[1]	2024[1]	2025[1]
	Annual value				Change on previous year	
	1,000 persons				%	
Labour force[2]	46,807	47,136	47,466	47,458	0.7	0.0
Unemployed persons[3]	1,343	1,335	1,530	1,549	14.6	1.3
Employed persons[4]	45,675	46,011	46,155	46,153	0.3	0.0
Employees subject to social security contributions	34,507	34,790	34,937	34,990	0.4	0.2
Exclusively marginally employed[5]	4,125	4,198	4,220	4,166	0.5	– 1.3
Registered unemployed persons	2,418	2,609	2,792	2,869	7.0	2.8
Underemployment excluding short-time work[6]	3,185	3,449	3,603	3,709	4.5	2.9
Short-time work (Employment equivalence)	161	74	90	102	22.0	13.3
	Yearly averages in %				Percentage points	
Unemployment rate (FEA)[7]	5.3	5.7	6.0	6.1	0.3	0.1
Unemployment rate (ILO)[8]	3.1	3.0	3.4	3.5	0.4	0.0
	Change on previous year in %					
Collectively agreed wages (hourly concept)	2.2	3.7	4.9	2.8	.	.
Effective wages[9]	4.5	6.6	5.2	3.5	.	.

1 – Forecast by the GCEE. 2 – Unemployed and employed persons in their working age with residence in Germany (national concept); as defined by the national accounts systems. 3 – According to the measuring concept of the International Labour Organization (ILO). 4 – Employed persons in Germany independent of their residence (domestic concept). 5 – Employed workers with a monthly wage up to 450 Euro and, since 1 October 2022, with a wage of up to 520 euro (§ 8 Absatz 1 Nr. 1 SGB IV). 6 – According to the concept of underemployment by the FEA. 7 – Registered unemployed persons in relation to civilian labour force. 8 – Unemployed persons in relation to the civilian labour force, in each case persons in private households aged from 15 to 74 years. 9 – Gross wages and salaries (domestic concept) per employees' hour worked.

Sources: Federal Employment Agency (FEA), Federal Statistical Office, own calculations

stagnate in 2025. ↘ TABLE 6 Unemployment is likely to rise further in the current year and peak at 6.1 % in 2025. ↘ TABLE 6

67. **Effective wages are expected to rise sharply by 5.2 % in 2024**, largely as a result of wage agreements that have already been concluded. **In 2025**, this increase is likely to be lower at **3.5 %** due to the continuing weak economic development. Due to the expected low inflation, the nominal wage increases will nevertheless result in strong real wage increases.

4. Fiscal policy: Difficult consolidation after the crises

68. **Fiscal policy is slowly returning to a normalisation path after** the crisis-ridden years of 2020 to 2023. Temporary expansionary measures from the crisis years, such as the energy price brakes and the VAT reduction on natural gas, will

expire during the forecast period. ↘ TABLE 7 The debt brake is to be adhered to again in the forecast period.

↘ TABLE 7

Discretionary fiscal policy measures[1]

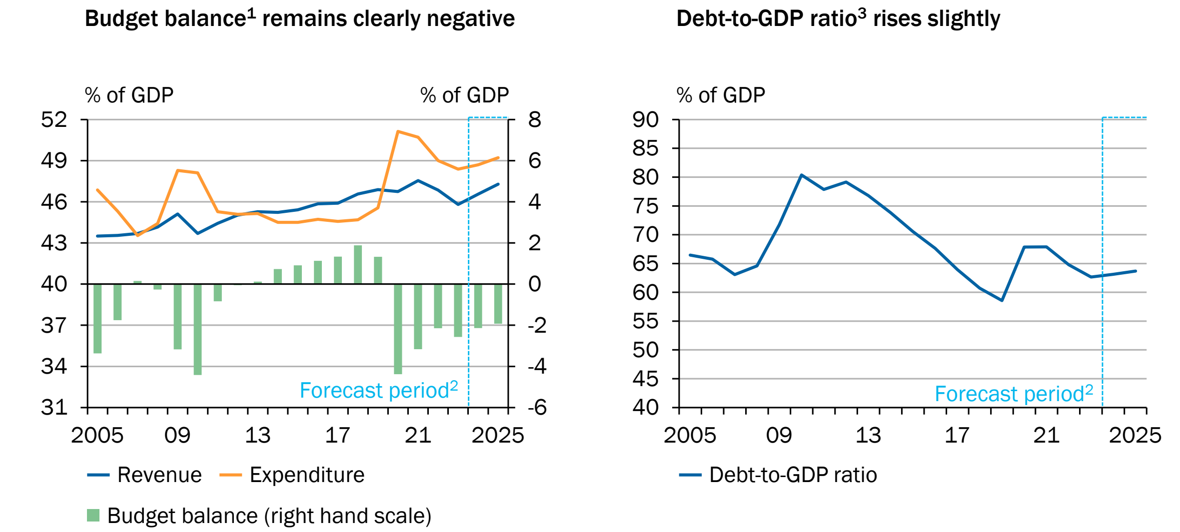
Burdens (–) and relief (+) of the general government budget compared to the previous year in billion euros

	2024	2025
Revenue of the territorial authorities		
Inflation Compensation Act: tariff shift and allowance 2023	–13.3	– 2.5
VAT reduction on gas from 1. October 2022 to 31. March 2024	3.5	0.7
Inflation equalisation premium	3.0	6.0
Reduction in electricity tax	– 2.5	– 0.5
Revenue from emission trading (BEHG)	4.4	3.2
Increase in truck toll	5.0	0.6
Other measures[2]	5.3	2.8
Revenue of the social security funds		
Increase in average additional contribution to statutory health insurance	2.7	6.9
Increase in the general contribution rate for statutory long-term care insurance	3.4	3.0
Inflation equalisation premium	4.0	8.0
Expenditure of the territorial authorities		
Electricity and gas price brakes	29.8	0.0
Climate and Transformation Fund (KTF)	– 6.0	2.2
Aid for hospitals and care facilities (energy crisis)	5.0	0.0
Special assets of the Bundeswehr	– 7.2	– 4.0
Funds for Deutsche Bahn	– 5.1	0.0
Expiry of the purchase premium for e-cars	2.5	0.0
Other measures[3]	– 0.2	1.1
Expenditure of the social security funds		
GKV-Financial Stabilisation Act	0.3	0.0
Act to Strengthen Nursing Staff and Care Reform	– 0.3	– 0.8
Care Support and Relief Act	0.2	– 3.0
Other measures[4]	– 0.7	– 0.2
Total	**33.8**	**23.5**
In % of GDP	**0.8**	**0.5**

1 – Quantification of the burden and relief on the general government budget compared to the previous year without macroeconomic repercussions. 2 – Other measures include the temporary VAT reduction in the catering sector, the increase in tobacco tax, the declining balance depreciation (2nd and 4th Corona Tax Assistance Act), the Annual Tax Act 2022, the Growth Opportunities Act, the Future Financing Act, the abolition of the peak equalisation electricity tax and the preferential treatment of agricultural diesel and the increase in the air traffic tax. 3 – Other measures include the energy cost subsidy for companies, the school start-up programme, the digital pact for schools, one-off payments to pensioners and students, the housing benefit reform, the Germany ticket, cuts to parental allowance, support for Ukraine, social housing, changes to student grants, coronavirus measures and the introduction of the citizens allowance. 4 – Other measures include the adjustment of pensions in Eastern Germany and changes to the reduced earning capacity pension and the basic pension.

Sources: Federal Ministry for Digital and Transport, Federal Ministry for Economic Affairs and Climate Action, Federal Ministry of Defence, Federal Ministry of Finance, Federal Ministry of Health, Federal Ministry of Labour and Social Affairs, own calcula

↘ CHART 28
Development of public finances



1 – National accounts (nominal values). 2 – Forecast by the GCEE. 3 – General government gross debt as defined in the Maastricht Treaty.

Sources: Deutsche Bundesbank, Federal Statistical Office, own calculations

69. **Government revenue is expected to increase by around 4.9 % in nominal terms in 2024, representing an increase of 0.7 percentage points in relation to GDP.** ↘ CHART 28 LEFT Social contributions will rise much more strongly than tax revenue. The increase in wage tax revenue due to the sharp rise in compensation of employees ↘ ITEM 67 will be dampened by the Inflation Equalisation Act. The economic weakness is also likely to have an impact on profit-related taxes. The increase in the truck toll in December 2023 will lead to additional revenue. Social security contributions are likely to rise sharply in the current year, particularly due to the ever lower utilisation of the tax-free inflation compensation premium and the increase in the contribution rate for long-term care insurance and the supplementary contribution for health insurance.

In 2025, government revenue is expected to increase by around 4.6 % in nominal terms and by a further 0.7 percentage points relative to GDP. Tax revenue is likely to continue to increase, albeit at a slower pace than in the current year. This is due, among other things, to the expected further shift in income tax rates to compensate for cold progression. The increase in the price of carbon emissions from €45 to €55 per tonne of CO2 is likely to have a noticeable impact on revenue from national emissions trading. Further substantial additional income is expected from social security contributions, as the contribution rates for health and long-term care insurance will have to be increased again.

70. **Government spending is expected to increase by 3.9 % in nominal terms and by 0.3 percentage points relative to GDP in 2024**, despite the expiry of measures to contain the energy crisis. ↘ CHART 28 LEFT In addition to higher defence spending and increasing capital formation in rail infrastructure, this is also due to additional expenditure from the Climate and Transformation Fund. This includes, for example, the EEG surcharge, the costs of which are rising

sharply due to the fall in electricity prices. In addition, social benefits in kind are likely to increase significantly in 2024. This is mainly due to higher expenditure in the health and care sector.

In 2025, government spending is expected to increase by 3.9 % in nominal terms and by 0.5 percentage points relative to GDP. Apart from the further increase in defence spending, no major discretionary measures are expected at federal level. In contrast, the expenditure on social security funds will rise due to the noticeably increase in long-term care benefits and the benefit amounts for outpatient benefits in kind under the Care Support and Relief Act.

71. The **government's financing deficit is expected to** decrease over the forecast period. After –2.6 % in 2023, it is **expected to amount to –2.1 % of GDP in 2024 and –1.9 % of GDP in 2025**. The discretionary measures paint a picture of a noticeably restrictive fiscal policy. In contrast, the structural net lending/borrowing ratio is likely to improve by 0.7 percentage points in 2024 and by 0.1 percentage points in 2025, which should have a slightly dampening effect over the forecast horizon. ↘ TABLE 7 The **debt ratio** is expected to **rise to 63.1 % of GDP in 2024** and **to 63.7 %** of GDP **in 2025**. ↘ CHART 28 RIGHT

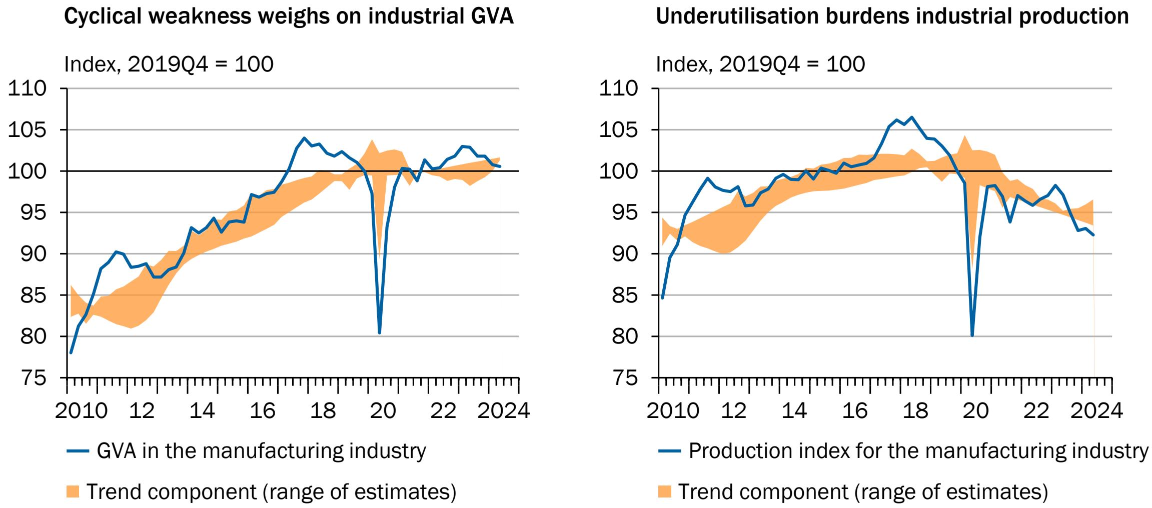
5. Opportunities and risks: Deepening industrial weakness and falling saving ratio

72. Various trend-cycle decompositions of production and gross value added in the manufacturing sector indicate that **Germany's industrial weakness** could be **partly cyclical** and therefore temporary. ↘ CHART 29 This suggests that exports and investment demand could pick up over the forecast horizon, as assumed in the forecast. ↘ ITEMS 59 AND 61 **However, there is a substantial risk that capacity utilisation in the manufacturing sector will not increase**. The decline in competitiveness ↘ ITEMS 44 F. compared to other countries since the energy crisis in 2022 is unlikely to be reversed in the short term. This and a possible worsening of the geopolitical situation could have a greater impact on export demand than assumed in this forecast. As a result of low capacity utilisation, demand for equipment could also fall more sharply than assumed in this forecast. On the other hand, financing conditions could improve more than assumed and increase demand for equipment goods. ↘ ITEM 37

73. The weakness of industry is increasingly leading to a reduction in employment in the affected economic sectors. ↘ CHART 27 TOP LEFT The impact on employment and unemployment in the overall economy will depend crucially on the extent of this reduction and the extent to which the workers who are laid-off find employment in other sectors. In the short term, it is to be expected that such a transition to other sectors will only be possible to a limited extent. There is therefore a **risk that unemployment will become entrenched** if there continues to be a mismatch between the qualifications of the unemployed and the requirements level of the vacancies. Currently, the former usually only have a qualification at helper level, while the latter generally require a professional qualification.

↘ CHART 29

Trend-cycle decompositions[1] of gross value added (GVA)[2] and production index[3] in the manufacturing sector



1 – Trend components were estimated using various filters based on the period 1991Q1 to 2024Q2: Hodrick-Prescott filter (λ = 1 600), Baxter-King filter (business cycle 6 to 32 quarters, k = 12), modified Hamilton filter (horizon: mean of forecast values for 4 to 12 quarters, p = 4). The trend component based on the Baxter-King filter can only be estimated up to 2021Q2. 2 – Calculations are based on seasonally, calendar and price-adjusted quarterly values. 3 – Calculations are based on seasonally and calendar-adjusted quarterly values.

Sources: Baxter and King (1999), Federal Statistical Office, Hodrick and Prescott (1981, 1997), Quast and Wolters (2022), own calculations

74. In response to the expected real income growth, **private households** could **expand their private consumption more strongly** and thus **boost growth more** than assumed in this forecast. The forecast assumes that the saving ratio will tend to decline, but will nevertheless remain high. Accordingly, private consumption expenditure will only increase moderately according to the forecast. In the event of a **faster normalisation of saving behaviour**, consumption could increase more strongly than expected.

75. The Federal Government's current **budget policy** is subject to great uncertainty. ↘ ITEMS 129 F. If it becomes apparent that the planned measures jeopardise compliance with the debt brake or EU fiscal rules, consolidation measures may become necessary in the forecast period. The impact of these on the economy will depend largely on the scope and nature of the measures.

76. The Federal Government's **Growth Initiative** could lead to higher growth in 2025 than assumed in the forecast. ↘ BOX 8 At the time the forecast was finalised, many measures were still in the legislative process and were therefore not taken into account. If the measures are implemented quickly, they could provide a slight boost to growth in 2025. However, the majority of the effect is only likely to unfold beyond the forecast horizon.

↘ BOX 8

Focus: The overall economic impact of the Federal Government's growth initiative

The Growth Initiative is a **package of policy measures** proposed by the Federal Government in summer 2024 **that is intended to lead to a long-term increase in economic growth in Germany (BMWK, 2024)**. It includes 49 measures designed to increase both the growth in the labour volume and capital use as well as total factor productivity (TFP).

Various measures are intended to **strengthen domestic labour supply**. These include tax incentives for overtime and the expansion of work incentives for women, older people and recipients of citizens' benefits. In addition, the barriers for foreign skilled workers to take up employment in Germany are to be lowered. To this end, the Western Balkans regulation is to be extended to other countries and administrative processes are to be accelerated. Tax concessions for highly qualified immigrants are also planned. The expansion of the Western Balkans regulation through higher quotas and better utilisation of existing quotas could increase immigration by around 25,000 people per year, which would increase potential output growth by around 0.03 percentage points. The tax incentives for highly qualified immigrants could lead to an additional immigration of around 19,000 people per year. The increase in labour supply achieved with this group of people could raise potential output growth by a further 0.04 percentage points. Together with the regulations to increase the labour supply of the domestic population, these measures could increase potential output growth by 0.1 to 0.2 percentage points. The effect of the increase in domestic labour supply is likely to be a one-off effect only.

The growth initiative also provides for several measures to **promote private capital formation**. In particular, the extension of the declining balance depreciation of equipment until 2028 could temporarily accelerate the accumulation of capital (House and Shapiro, 2008; Ohrn, 2019). The extension of the research allowance also favours capital formation in intangible assets (GCEE Annual Report 2023 item 158) and should have a positive effect on growth in total factor productivity in the medium term. With the measures provided for in the growth initiative, the investment volume could be around 1.8 % higher in 2028 than without the Growth Initiative (Michelsen et al., 2024).

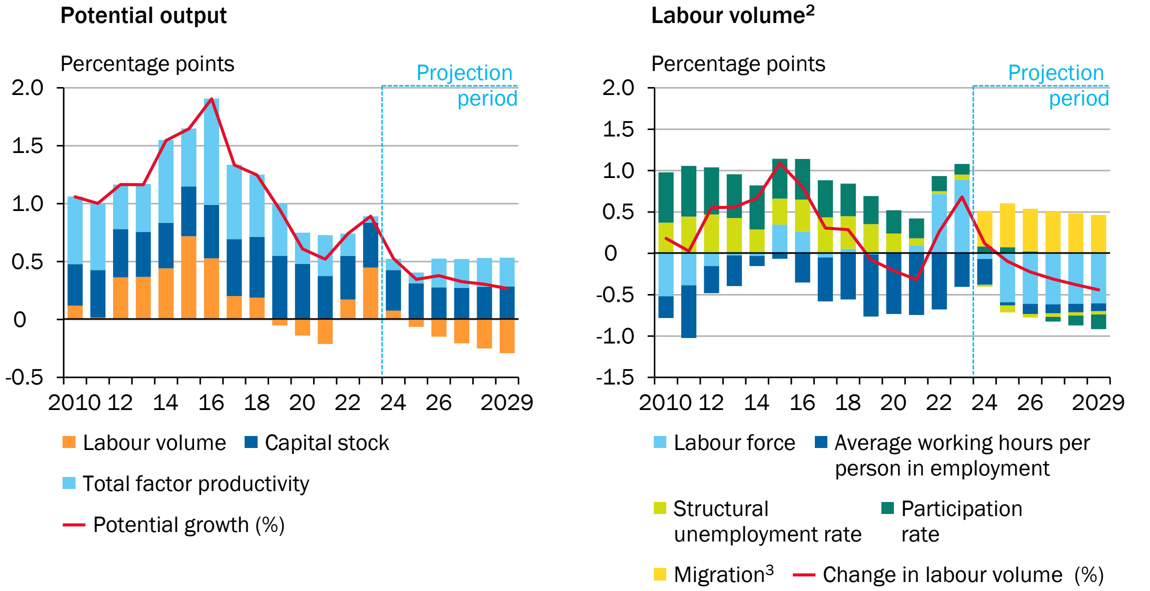
Other measures are aimed at **improving growth in total factor productivity**, such as the reduction of regulatory costs. However, the effect of these measures can only be quantified with great uncertainty. Even if they are implemented promptly, they are unlikely to take full effect in the coming year, meaning that the short-term growth impetus would be low.

The Federal Government expects the growth initiative to increase GDP growth by up to 0.5 percentage points in 2025 (BMWK, 2024). The Joint Economic Forecast assumes only a "small impetus" until 2026 (Joint Economic Forecast, 2024b). Optimistic estimates expect an overall increase in GDP levels of up to 0.4 % in 2025 compared to the development without the growth initiative. This difference could increase to 0.8 % by 2028 (Michelsen et al., 2024).

6. Total factor productivity hardly increases medium-term growth prospects remain subdued

77. The GCEE **estimates potential output growth at 0.5 % in 2024 and 0.3 % in 2025**. In the following years up to 2029, potential output growth is likely to be around 0.3 % to 0.4 % per year. ↘ CHART 30 LEFT Capital use is expected to make average contributions to growth of around 0.3 percentage points per year over the projection period. The contributions to growth from total factor productivity (TFP) are expected to be around 0.1 percentage points in 2024 and 2025 and

↘ CHART 30
Growth contributions of components to potential output and labour volume[1]



1 – Calculations by the GCEE. 2 – The output elasticity of labour is 0.66. 3 – Explicitly modelled from 2024; included in labour force until 2023.

Sources: Federal Statistical Office, own calculations

around 0.3 percentage points per year in the further projection horizon up to 2029.

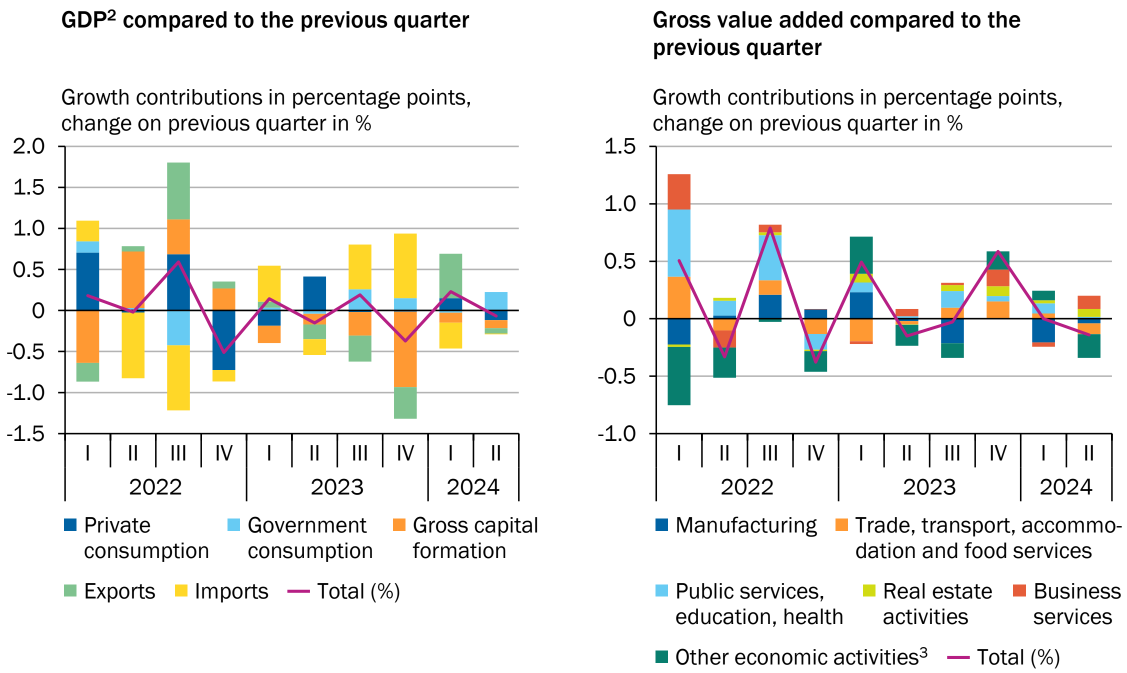
78. The GCEE assumes net migration of 475,000 people for the growth projection for the current year and 452,000 for the coming year. Due to a downward trend in net migration during 2024, this is around 75,000 fewer people in 2024 than expected in the spring (GCEE Spring Report 2024 box 9). Although the volume of labour continues to slow down the growth of potential output, ↘ CHART 30 RIGHT the **volume of labour** is likely to **increase slightly in the current year** due to positive net immigration and a slight increase in the labour force participation rate, contrary to expectations in the Spring Report 2024 (GCEE Spring Report 2024 item 59).

79. The **growth projection is subject to various uncertainties**. The Federal Government's Growth Initiative offers opportunities for medium-term overall economic development. ↘ BOX 8 However, the current estimates of the development of capital investment and TFP in particular are subject to downside risks. The persistent underutilisation of capacity in the economy since 2020 could lead to a permanent slowdown in investment activity. The capital use would therefore grow less strongly than currently assumed. Furthermore, the increase in employment is not currently reflected in an increase in production. ↘ BOX 8 If this trend continues, it could have a negative impact on TFP growth in future projections.

APPENDIX

↘ CHART 31

Growth contributions to GDP and gross value added[1]



1 – Seasonally, calendar and price adjusted. 2 – As no updated data on the expenditure components is yet available, the flash estimate for GDP was not taken into account here. 3 – Industry excluding manufacturing; agriculture, forestry and fishing; information and communication; financial and insurance services; other services.

Sources: Federal Statistical Office, own calculations

↘ TABLE 8

Components of the forecast for GDP growth[1] (in %)

	2019	2020	2021	2022	2023	2024[2]	2025[2]
Statistical overhang at the end of the previous year[3]	0.3	0.1	2.6	1.1	– 0.1	– 0.2	0.1
Growth rate over the course of the year[4]	0.9	– 2.0	2.1	0.2	– 0.2	0.2	0.8
Annual rate of change of GDP, calendar adjusted	1.0	– 4.5	3.6	1.4	– 0.1	– 0.1	0.6
Calendar effect (in percentage points)	0.0	0.4	0.0	– 0.1	– 0.2	0.0	– 0.1
Annual rate of change of GDP[5]	1.0	– 4.1	3.7	1.4	– 0.3	– 0.1	0.4

1 – Price adjusted. 2 – Forecast by the GCEE. 3 – Percentage difference between the level of GDP in the last quarter of year t and the average level of quarterly GDP in the total year t, seasonally and calendar adjusted. 4 – Percentage change of the fourth quarter on the fourth quarter of the previous year, seasonally and calendar adjusted. 5 – Deviations in sums due to rounding.

Sources: Federal Statistical Office, own calculations

↘ TABLE 9

Growth contributions of the economic sectors[1] to gross value added[2]

	2022				2023				2024	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	Growth contributions in percentage points									
Agriculture, forestry and fishing	0.01	0.01	0.01	0.00	–0.01	0.01	0.00	0.00	–0.01	0.00
Industry (excl. manufacturing and construction)	–0.44	0.03	0.00	–0.07	–0.16	–0.13	–0.13	0.20	–0.11	–0.07
Manufacturing	–0.22	0.03	0.21	0.08	0.23	–0.02	–0.21	0.00	–0.21	–0.04
Construction	–0.32	–0.17	–0.14	–0.11	0.29	–0.03	–0.06	–0.10	0.10	–0.17
Trade, transport, accommodation and food services	0.37	–0.10	0.13	–0.13	–0.20	–0.03	0.10	0.15	0.05	–0.09
Information and communication	–0.18	0.01	0.07	–0.02	0.15	–0.02	0.01	0.06	0.04	0.03
Financial and insurance services	–0.08	–0.14	–0.05	0.08	–0.03	0.00	–0.01	0.02	0.02	0.01
Real estate activities	–0.02	0.03	0.03	–0.01	0.08	0.00	0.05	0.09	0.03	0.07
Business services	0.31	–0.15	0.07	0.00	–0.02	0.06	0.02	0.15	–0.04	0.12
Public services, education, health	0.58	0.13	0.39	–0.14	0.08	0.02	0.14	0.05	0.09	0.02
Other services	0.50	–0.01	0.05	–0.08	0.11	–0.02	0.04	–0.04	0.07	–0.01
	Change on previous quarter in %									
Total gross value added	**0.51**	**–0.33**	**0.79**	**–0.38**	**0.49**	**–0.15**	**–0.03**	**0.59**	**0.00**	**–0.14**

1 – According to the Classification of Economic Activities, 2008 edition (WZ 2008). 2 – Price-, seasonally and calendar-adjusted. ■ <= –0.3; ■ > –0.3 to <= –0.2; ■ > –0.2 to <= –0.1; ■ > 0.1 to <= 0.2; ■ > 0.2 to <= 0.3; ■ > 0.3.

Sources: Federal Statistical Office, own calculations

↘ TABLE 10

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

	2019	2020	2021	2022	2023	2024[2]	2025[2]
Domestic demand[3]	**1.5**	**– 3.1**	**2.8**	**2.7**	**– 0.4**	**– 0.5**	**0.7**
Final consumption expenditure	1.5	– 2.6	1.9	2.8	– 0.2	0.7	0.6
Private consumption[4]	0.9	– 3.6	1.2	2.8	– 0.2	0.2	0.3
Government consumption	0.6	1.0	0.8	0.0	0.0	0.5	0.3
Gross fixed capital formation	0.4	– 0.6	0.1	0.0	– 0.3	– 0.6	0.1
Investment in machinery & equipment[5]	0.2	– 0.8	0.2	0.3	– 0.1	– 0.4	0.0
Construction investment	0.1	0.4	– 0.4	– 0.4	– 0.4	– 0.4	0.0
Other products	0.2	– 0.2	0.3	0.1	0.2	0.2	0.1
Changes in inventories[3]	– 0.4	0.1	0.7	– 0.1	0.1	– 0.6	0.0
Net exports	**– 0.5**	**– 1.0**	**0.9**	**– 1.3**	**0.1**	**0.3**	**– 0.2**
Exports of goods and services	0.8	– 4.0	3.9	1.3	– 0.1	– 0.1	0.3
Imports of goods and services	– 1.3	3.0	– 3.0	– 2.6	0.3	0.4	– 0.6
Gross domestic product (%)[3]	**1.0**	**– 4.1**	**3.7**	**1.4**	**– 0.3**	**– 0.1**	**0.4**

1 – Contributions to growth of price-adjusted GDP. Deviations in sums due to rounding. 2 – Forecast by the GCEE. 3 – As the expenditure-side composition of the revisions to GDP in the first half of 2024 is still pending, it is assumed that they represent an adjustment to the changes in inventories. 4 – Including non-profit institutions serving households. 5 – Including military weapon systems.

Sources: Federal Statistical Office, own calculations

↘ TABLE 11

Key figures of the national accounts

Absolute values

	Einheit	2023	2024[1]	2025[1]	2024		2025[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	3,110.8	3,231.2	3,324.0	1,573.6	1,657.6	1,620.5	1,703.4
Private consumption[2]	billion euro	2,205.6	2,277.6	2,337.1	1,112.3	1,165.3	1,139.6	1,197.5
Government consumption	billion euro	905.2	953.6	986.9	461.3	492.3	480.9	505.9
Gross fixed capital formation	billion euro	899.9	899.6	923.7	438.3	461.3	445.4	478.3
Investment in machinery & equipment[3]	billion euro	275.7	266.4	274.2	127.2	139.2	129.5	144.7
Construction investment	billion euro	466.1	464.1	472.3	230.2	234.0	230.7	241.5
Other products	billion euro	158.0	169.1	177.2	80.9	88.2	85.2	92.1
Domestic demand[4]	billion euro	4,017.9	4,116.0	4,244.0	2,011.9	2,104.1	2,077.4	2,166.6
Exports of goods and services	billion euro	1,816.6	1,828.3	1,865.2	911.3	917.0	921.4	943.9
Imports of goods and services	billion euro	1,649.0	1,625.3	1,670.3	797.6	827.7	814.9	855.3
Gross domestic product[4]	**billion euro**	**4,185.6**	**4,319.0**	**4,439.0**	**2,125.6**	**2,193.4**	**2,183.9**	**2,255.1**
Chained volumes								
Final consumption expenditure	billion euro	2,676.9	2,702.5	2,722.4	1,332.6	1,369.9	1,342.2	1,380.3
Private consumption[2]	billion euro	1,881.9	1,890.3	1,899.4	930.4	959.9	932.7	966.7
Government consumption	billion euro	795.2	812.5	823.6	402.3	410.2	409.8	413.7
Gross fixed capital formation	billion euro	730.8	710.9	714.6	348.0	362.9	345.6	368.9
Investment in machinery & equipment[3]	billion euro	239.3	225.9	227.5	108.3	117.6	107.7	119.9
Construction investment	billion euro	346.4	334.7	333.8	166.9	167.8	163.7	170.0
Other products	billion euro	147.4	153.4	157.1	73.8	79.6	75.6	81.5
Domestic demand[4]	billion euro	3,442.9	3,426.3	3,450.9	1,691.9	1,734.5	1,699.8	1,751.1
Exports of goods and services	billion euro	1,526.8	1,523.2	1,535.3	761.9	761.3	760.8	774.5
Imports of goods and services	billion euro	1,352.0	1,336.7	1,357.0	659.3	677.4	664.8	692.1
Gross domestic product	**billion euro**	**3,615.5**	**3,611.1**	**3,627.3**	**1,794.0**	**1,817.2**	**1,794.9**	**1,832.4**
Price Development (deflators)								
Final consumption expenditure	2020=100	116.2	119.6	122.1	118.1	121.0	120.7	123.4
Private consumption[2]	2020=100	117.2	120.5	123.1	119.5	121.4	122.2	123.9
Government consumption	2020=100	113.8	117.4	119.8	114.7	120.0	117.4	122.3
Gross fixed capital formation	2020=100	123.1	126.6	129.3	125.9	127.1	128.9	129.6
Investment in machinery & equipment[3]	2020=100	115.2	117.9	120.5	117.5	118.3	120.2	120.8
Construction investment	2020=100	134.6	138.7	141.5	137.9	139.4	140.9	142.0
Other products	2020=100	107.2	110.2	112.8	109.6	110.7	112.6	113.0
Domestic demand[4]	2020=100	116.7	120.1	123.0	118.9	121.3	122.2	123.7
Terms of Trade	2020=100	97.6	98.7	98.7	98.9	98.6	98.8	98.6
Exports of goods and services	2020=100	119.0	120.0	121.5	119.6	120.5	121.1	121.9
Imports of goods and services	2020=100	122.0	121.6	123.1	121.0	122.2	122.6	123.6
Gross domestic product[4]	**2020=100**	**115.8**	**119.6**	**122.4**	**118.5**	**120.7**	**121.7**	**123.1**
Production of domestic product								
Employed persons (domestic)	1,000	46 011	46 155	46 153	46 024	46 286	46 174	46 171
Labour volume	million hours	61 437	61 641	61 579	30 432	31 209	30 892	31 130
Labour productivity (per hour)	2015=100	100.8	100	101	101.1	99.7	100.7	100.7
Distribution of net national income								
Net national income	billion euro	3,134.5	3,204.5	3,289.5	1,557.9	1,646.6	1,595.3	1,694.2
Compensation of employees	billion euro	2,229.0	2,353.6	2,444.5	1,124.6	1,228.9	1,175.0	1,269.5
Gross wages and salaries	billion euro	1,846.0	1,949.6	2,014.8	931.0	1,018.6	967.3	1,047.4
among them: net wages and salaries[5]	billion euro	1,286.5	1,357.7	1,391.0	644.7	712.9	702.8	694.7
Property and entrepreneurial income	billion euro	905.4	851.0	845.0	433.3	417.7	420.3	424.7
Disposable income of private households[2]	billion euro	2,404.4	2,505.1	2,564.4	1,239.5	1,265.6	1,269.5	1,294.9
Savings rate of private households[2,6]	%	10.4	11.1	10.9	12.2	10.0	12.2	9.6
For information purposes:								
Nominal unit labour costs[7]	2020=100	111.0	117.2	121.2	112.5	121.6	120.9	118.6
Real unit labour costs[8]	2020=100	95.9	98.0	99.0	95.0	100.7	100.4	99.2
Consumer prices	2020=100	116.7	119.3	121.8	118.7	119.9	121.2	122.3

1 – Forecast by the GCEE. 2 – Including non-profit institutions serving households. 3 – Including military weapon systems. 4 – As the expenditure-side composition of the revisions to GDP in the first half of 2024 is still pending, it is assumed that they represent an adjustment to the changes in inventories. 5 – Compensation of employees minus social contributions of employers and employees and income tax of employees. 6 – Savings relative to disposable income. 7 – Compensation of employees per working hour (employee concept) in relation to real GDP per working hour (employed person concept). 8 – Compensation of employees per working hour (employee concept) in relation to GDP per working hour (employed person concept).

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

↘ STILL TABLE 11
Key figures of the national accounts
Change on the previous year in %

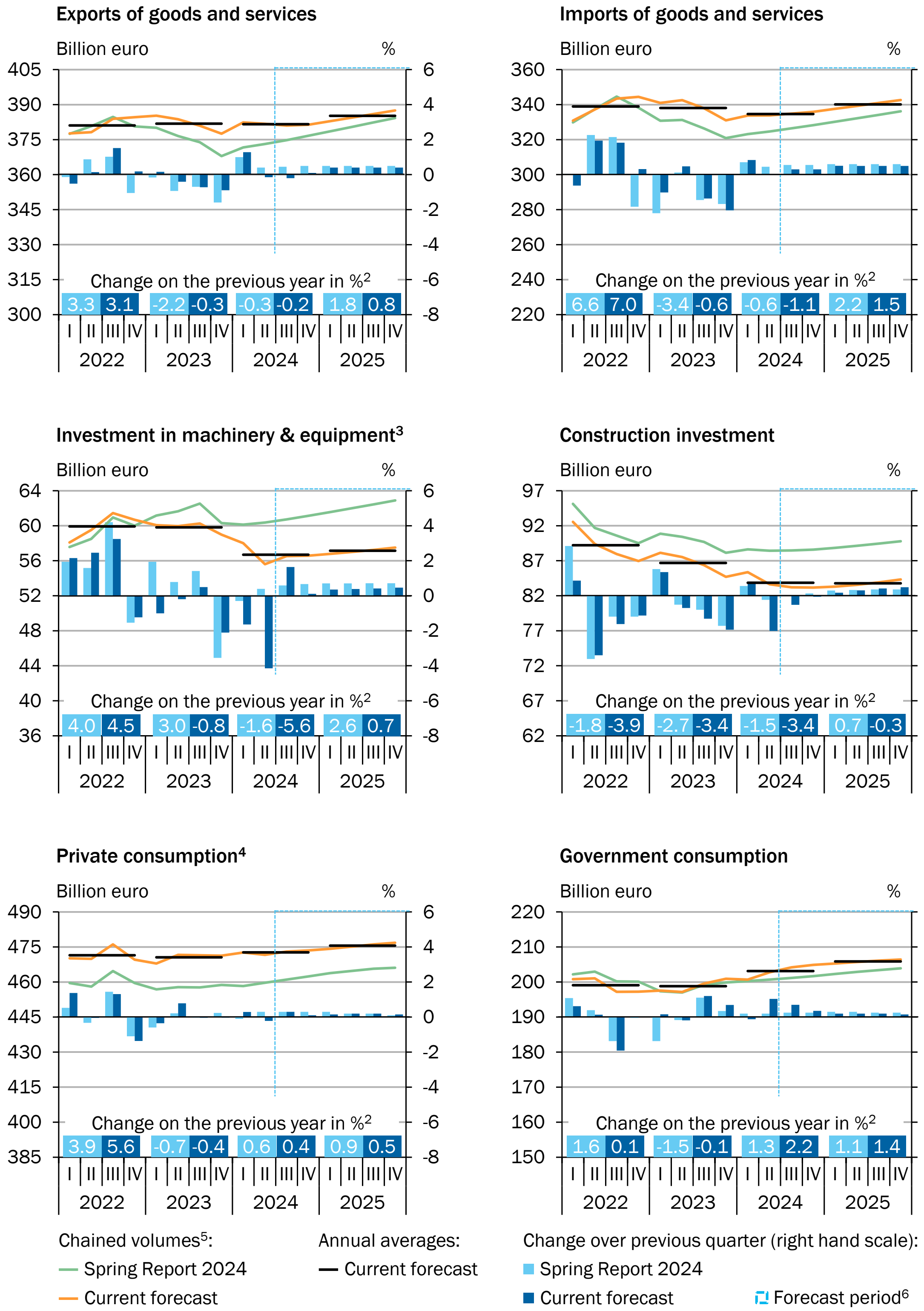
2023	2024[1]	2025[1]	2024 1. half-year	2024 2. half-year	2025[1] 1. half-year	2025[1] 2. half-year	
							Use of domestic product
							at current prices
5.6	3.9	2.9	4.0	3.7	3.0	2.8	Final consumption expenditure
6.3	3.3	2.6	3.4	3.2	2.5	2.8	Private consumption[2]
4.1	5.4	3.5	5.6	5.1	4.3	2.8	Government consumption
4.9	0.0	2.7	-0.8	0.7	1.6	3.7	Gross fixed capital formation
4.8	-3.4	2.9	-4.1	-2.7	1.8	4.0	Investment in machinery & equipment[3]
4.4	-0.4	1.7	-1.4	0.6	0.2	3.2	Construction investment
6.2	7.0	4.8	7.0	7.0	5.3	4.4	Other products
4.2	2.4	3.1	1.9	2.9	3.3	3.0	Domestic demand[4]
0.4	0.6	2.0	-0.5	1.8	1.1	2.9	Exports of goods and services
-3.6	-1.4	2.8	-4.1	1.2	2.2	3.3	Imports of goods and services
5.9	**3.2**	**2.8**	**3.3**	**3.1**	**2.7**	**2.8**	**Gross domestic product[4]**
							Chained volumes
-0.3	1.0	0.7	1.0	0.9	0.7	0.8	Final consumption expenditure
-0.4	0.4	0.5	0.4	0.4	0.2	0.7	Private consumption[2]
-0.1	2.2	1.4	2.2	2.2	1.9	0.9	Government consumption
-1.2	-2.7	0.5	-3.2	-2.3	-0.7	1.7	Gross fixed capital formation
-0.8	-5.6	0.7	-6.1	-5.1	-0.5	1.9	Investment in machinery & equipment[3]
-3.4	-3.4	-0.3	-4.1	-2.6	-1.9	1.3	Construction investment
4.7	4.1	2.4	4.6	3.6	2.5	2.3	Other products
-0.4	-0.5	0.7	-1.0	0.0	0.5	1.0	Domestic demand[4]
-0.3	-0.2	0.8	-0.9	0.5	-0.2	1.7	Exports of goods and services
-0.6	-1.1	1.5	-2.6	0.4	0.8	2.2	Imports of goods and services
-0.3	**-0.1**	**0.4**	**-0.3**	**0.1**	**0.1**	**0.8**	**Gross domestic product**
							Price Development (deflators)
6.0	2.9	2.1	3.0	2.8	2.2	**2.0**	Final consumption expenditure
6.7	2.8	2.1	2.9	2.7	2.2	2.0	Private consumption[2]
4.2	3.1	2.1	3.3	2.9	2.3	1.9	Government consumption
6.1	2.8	2.2	2.5	3.1	2.3	2.0	Gross fixed capital formation
5.7	2.3	2.2	2.1	2.5	2.4	2.1	Investment in machinery & equipment[3]
8.1	3.0	2.0	2.8	3.2	2.2	1.9	Construction investment
1.4	2.8	2.4	2.3	3.2	2.8	2.0	Other products
4.6	2.9	2.4	3.0	2.9	2.8	2.0	Domestic demand[4]
3.8	1.2	0.0	1.9	0.5	-0.1	0.0	Terms of Trade
0.7	0.9	1.2	0.4	1.3	1.3	1.2	Exports of goods and services
-3.0	-0.3	1.2	-1.5	0.8	1.3	1.1	Imports of goods and services
6.1	**3.3**	**2.3**	**3.6**	**3.0**	**2.7**	**2.0**	**Gross domestic product[4]**
							Production of domestic product
0.7	0.3	0.0	0.4	0.2	0.0	0.0	Employed persons (domestic)
0.4	0.3	-0.1	0.1	0.5	-0.5	0.3	Labour volume
-0.6	-0.4	0.6	-0.4	-0.4	0.5	0.6	Labour productivity (per hour)
							Distribution of net national income
6.8	2.2	2.7	2.5	2.0	2.4	2.9	Net national income
6.8	5.6	3.9	5.9	5.3	4.5	3.3	Compensation of employees
7.4	5.6	3.3	6.1	5.2	3.9	2.8	Gross wages and salaries
9.5	5.5	2.5	6.6	4.6	3.1	1.9	among them: net wages and salaries[5]
6.7	-6.0	-0.7	-5.5	-6.5	-3.0	1.7	Property and entrepreneurial income
6.9	4.2	2.4	4.7	3.7	2.4	2.3	Disposable income of private households[2]
.	.	.	.	.	.	.	Savings rate of private households[2,6]
							For information purposes:
6.7	5.5	3.4	5.8	5.1	4.5	2.5	Nominal unit labour costs[7]
0.5	2.1	1.1	2.2	2.0	1.7	0.5	Real unit labour costs[8]
5.9	2.2	2.1	2.4	2.1	2.1	2.0	Consumer prices

1 – Forecast by the GCEE. 2 – Including non-profit institutions serving households. 3 – Including military weapon systems. 4 – As the expenditure-side composition of the revisions to GDP in the first half of 2024 is still pending, it is assumed that they represent an adjustment to the changes in inventories. 5 – Compensation of employees minus social contributions of employers and employees and income tax of employees. 6 – Savings relative to disposable income. 7 – Compensation of employees per working hour (employee concept) in relation to real GDP per working hour (employed person concept). 8 – Compensation of employees per working hour (employee concept) in relation to GDP per working hour (employed person concept).

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

↘ CHART 32

Components of German GDP[1]

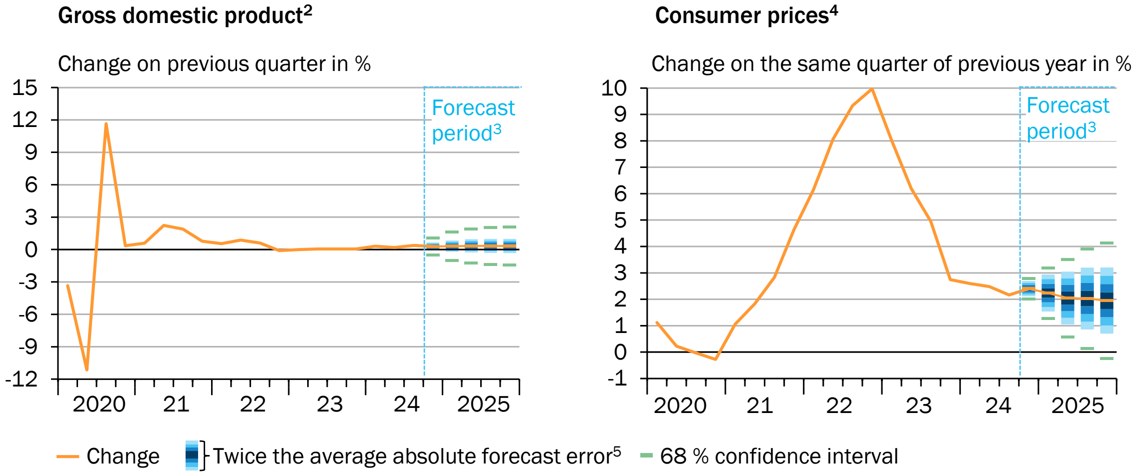


1 – All components of GDP reported price-adjusted. 2 – Not seasonally and calendar-adjusted. 3 – Including military weapon systems. 4 – Including non-profit institutions serving households. 5 – Reference year 2020, seasonally and calendar-adjusted. 6 – Current forecast period. Forecasts by the GCEE.

Sources: Federal Statistical Office, own calculations

↘ CHART 33

Forecast intervals for gross domestic product and consumer price growth in the euro area[1]

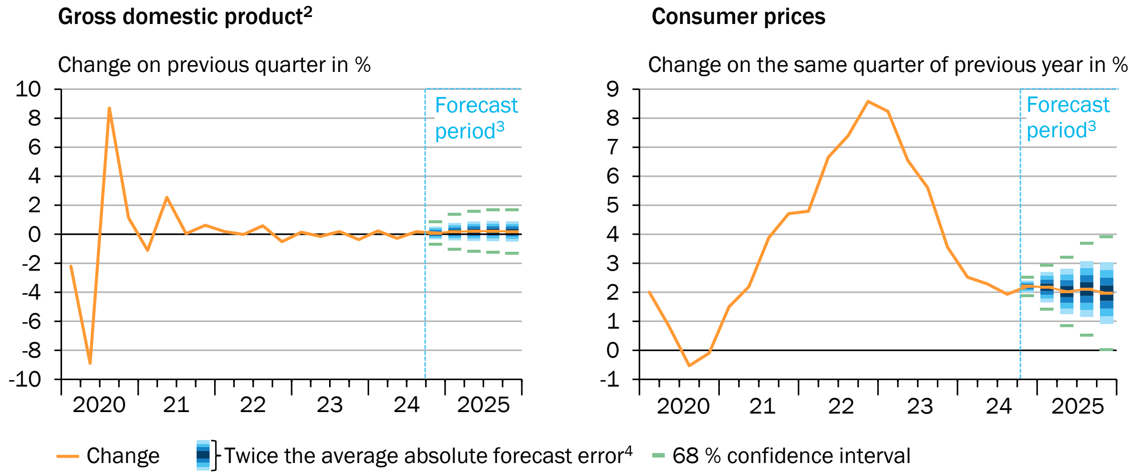


1 – Uncertainty margins calculated on base of the mean absolute forecast error in the period 1999 to 2023. 2 – Price-, seasonally and calendar-adjusted. 3 – Forecast by the GCEE. 4 – Harmonised index of consumer prices. 5 – The width of the confidence band, which is symmetric around the most likely value, is twice the average absolute forecast error.

Sources: Eurostat, own calculations

↘ CHART 34

Forecast intervals for gross domestic product and consumer price growth in Germany[1]



1 – Uncertainty margins calculated on base of the mean absolute forecast error in the period 1999 to 2023. 2 – Price-, seasonally and calendar-adjusted. 3 – Forecast by the GCEE. 4 – The width of the confidence band, which is symmetric around the most likely value, is twice the average absolute forecast error.

Sources: Federal Statistical Office, own calculations

↘ TABLE 12

General government revenues and expenditures and selected fiscal indicators[1]

	Billion euro			Change on previous year in %	
	2023	2024[2]	2025[2]	2024[2]	2025[2]
Total revenues	**1,917.4**	**2,011.0**	**2,099.0**	**4.9**	**4.4**
Taxes	957.6	996.6	1,028.2	4.1	3.2
Net social contributions	709.9	753.2	799.8	6.1	6.2
Sales	165.5	176.1	183.6	6.4	4.3
Other current transfers	33.4	31.3	33.9	– 6.3	8.3
Capital transfers	19.4	20.1	20.0	3.2	– 0.4
Property income	31.4	33.6	33.3	6.9	– 0.7
Other subsidies on production	0.2	0.2	0.2	– 10.4	0.0
Total expenditures	**2,025.0**	**2,103.2**	**2,184.5**	**3.9**	**3.9**
Social benefits other than social transf. in kind	657.0	698.1	731.3	6.3	4.8
Social benefits in kind	362.1	388.9	401.7	7.4	3.3
Compensation of employees	337.6	354.4	365.9	5.0	3.3
Intermediate consumption	264.0	275.2	285.3	4.3	3.7
Subsidies payable	84.5	52.0	55.3	– 38.5	6.4
Gross capital formation	117.1	127.3	133.1	8.7	4.5
Other current transfers	91.9	89.3	93.6	– 2.8	4.9
Capital transfers	74.4	71.9	69.0	– 3.4	– 4.1
Property income	36.6	46.1	49.3	26.0	6.9
Other taxes on production	0.3	0.3	0.3	– 7.7	1.8
Acquisitions less disposals of non-prod. assets	– 0.5	– 0.5	– 0.5	– 8.3	0.0
Budget balance	**– 107.5**	**– 92.2**	**– 85.5**	**x**	**x**
Fiscal indices (%)[3]					
Tax ratio[4]	23.2	23.4	23.5	x	x
Tax and contribution ratio[5]	39.1	39.8	40.5	x	x
Budget balance	– 2.6	– 2.1	– 1.9	x	x
Structural budget balance[6]	– 2.1	– 1.4	– 1.2	x	x
Structural primary balance[6]	– 1.2	– 0.3	– 0.1	x	x
Debt-to-GDP ratio[7]	62.7	63.1	63.7	x	x

1 – National accounts (nominal values). 2 – Forecast by the GCEE. 3 – In relation to GDP. 4 – Taxes including inheritance tax and taxes entitled to the EU. 5 – Taxes including inheritance tax and taxes entitled to the EU, and actual social contributions. 6 – Based on the estimate for potential output. Calculated with a budget semielasticity of 0.504. The budget semielasticity measures by how many percentage points the relationship between budget balance and GDP changes in the event of a 1 % increase in GDP. 7 – General government gross debt as defined in the Maastricht Treaty.

Sources: Deutsche Bundesbank, Federal Statistical Office, own calculations

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