

JOINT ECONOMIC FORECAST 1/2021 PRESS RELEASE

Essen, April 15, 2021

Pandemic delays upswing – Demography slows growth

In their spring report, the leading economic research institutes forecast an increase in gross domestic product of 3.7 percent in the current year and 3.9 percent in 2022. The renewed shutdown is delaying the economic recovery, but as soon as the risks of infection, particularly from vaccination, have been averted, a strong recovery will begin. The economy is likely to return to normal output levels around the start of the coming year.

“Economic output is likely to have dropped by 1.8 percent in the first quarter due to the continuing shutdown,” said Torsten Schmidt, Chief Economist at RWI – Leibniz Institute for Economic Research. The new wave of infections and the associated containment measures lead to the downward revision of the forecast for 2021 by 1 percentage point compared to the fall forecast 2020.

In their forecast, the institutes assume that the current shutdown will continue for the time being and that the most recent easing measures will be largely reversed. Further easing is not expected until the middle of the second quarter, with restrictions probably lifted by the end of the third quarter. “We expect a vigorous expansion of economic activities as the measures are gradually lifted over the course of the six months through the summer, especially in the services sector that was particularly affected by the pandemic,” Schmidt added.

Employment is also likely to gain momentum in view of the expected easing of restrictions. On average, employment is expected to rise by 26,000 over 2021. The rise is estimated at 539,000 over the coming year, with pre-crisis levels being reached in the first half-year. Unemployment levels are also expected to drop more sharply as the infection control measures are gradually lifted.

Public budgets are expected to show a deficit of €159 billion in 2021, slightly higher than in the previous year. Tax revenues are already rising again due to the economic situation. However, spending on vaccinations and tests is causing social benefits in kind to rise sharply. Moreover, government investment is likely to continue expanding, especially due to the funds available in investment programmes. In relation to GDP, the general government budget deficit is expected to remain roughly the same at 4.5 percent in 2021 and to drop significantly to 1.6 percent in 2022.

The coronavirus pandemic is leaving its mark on production potential as well. Current forecasts suggest that between 2020 and 2024, it is likely to be on average around 1.1 percent below the levels originally estimated prior to the Corona crisis. In addition, there are already signs that Germany is facing a far-



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PRESS CONTACT

Sabine Weiler
RWI – Leibniz Institute for
Economic Research
Phone +49 201 8149 213
Sabine.Weiler@rwi-essen.de

SCIENTIFIC CONTACT

Prof. Dr. Torsten Schmidt
RWI – Leibniz Institute for
Economic Research
Phone +49 201 8149 287
Torsten.Schmidt@rwi-essen.de

www.gemeinschaftsdiagnose.de

reaching demographic transition in the years ahead. The total workforce will shrink as the baby boomers reach retirement age, accompanied by a sharp rise in the proportion of older people. This will have serious consequences for growth potential: projections indicate that the rate of growth potential is expected to decline by around one percentage point by 2030.

The further development of the pandemic remains the most significant downside risk to the outlook. Bottlenecks and delays may still occur in the delivery of vaccines and tests. Moreover, the emergence of new virus mutations might erode the effectiveness of vaccines, potentially halting the opening process and once again causing setbacks in the economic recovery.

Key Forecast Figures for Germany

	2018	2019	2020	2021	2022
Real gross domestic product ¹	1,3	0,6	-4,9	3,7	3,9
Employment ² (1 000 persons)	44 868	45 269	44 782	44 808	45 347
Unemployment (1 000 persons)	2 340	2 267	2 695	2 630	2 382
Unemployment rate BA ³ (in %)	5,2	5,0	5,9	5,7	5,2
Consumer prices ^{1,4}	1,8	1,4	0,5	2,4	1,7
Unit labour costs ^{1,5}	2,8	3,2	4,2	-0,6	0,3
General government financial balance ⁶					
Euro billion	61,6	52,5	-139,6	-159,3	-58,8
in % of GDP	1,8	1,5	-4,2	-4,5	-1,6
Current account balance					
Euro billion	264,2	258,6	231,9	284,7	254,2
in % GDP	7,9	7,5	7,0	8,1	6,8

¹ Percent change over previous year.

² Domestic concept.

³ Unemployed person in percent of civilian labour force (Federal Employment Agency concept).

⁴ Consumer price index (2015=100).

⁵ Compensation of employees per hour worked by employees in relation to labour productivity.

⁶ On national accounts definition (ESA 2010).

Sources: Federal Statistical Office; Federal Employment Agency; Deutsche Bundesbank; 2021 bis 2022: forecast by the Institutes.

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The Joint Economic Forecast was prepared by the German Institute for Economic Research (DIW Berlin), the ifo Institute (Munich), the Kiel Institute for the World Economy (IfW Kiel), the Halle Institute for Economic Research (IWH), and RWI (Essen).

Appendix

Complete report (in German)

Joint Economic Forecast Project Group: Pandemic delays upswing – Demography slows growth, spring 2021. Essen 2021.

The complete report will be available on April 15, 2021 at 10:00 a.m.

www.gemeinschaftsdiagnose.de/category/gutachten/.

About the Joint Economic Forecast

The Joint Economic Forecast is published twice a year on behalf of the German Federal Ministry for Economic Affairs and Energy. The following institutes participated in the spring report 2021:

- German Institute for Economic Research (DIW Berlin)
- ifo Institute – Leibniz Institute for Economic Research at the University of Munich in cooperation with the KOF Swiss Economic Institute at ETH Zurich
- Kiel Institute for the World Economy (IfW Kiel)
- Halle Institute for Economic Research (IWH) – Member of the Leibniz Association
- RWI – Leibniz Institute for Economic Research in cooperation with the Institute for Advanced Studies Vienna

Scientific Contacts

Dr Claus Michelsen
German Institute for Economic Research (DIW Berlin)
Phone +49 30 89789 458
CMichelsen@diw.de

Professor Dr Timo Wollmershäuser
ifo Institute – Leibniz Institute for Economic Research at the University of Munich
Phone +49 89 9224 1406
Wollmershaeuser@ifo.de

Professor Dr Stefan Kooths
Kiel Institute for the World Economy (IfW Kiel)
Phone +49 431 8814 579 or +49 30 2067 9664
Stefan.Kooths@ifw-kiel.de

Professor Dr Oliver Holtemöller
Halle Institute for Economic Research (IWH) – Member of the Leibniz Association
Phone +49 345 7753 800
Oliver.Holtemoeller@iwh-halle.de

Professor Dr Torsten Schmidt
RWI – Leibniz Institute for Economic Research
Phone +49 201 8149 287
Torsten.Schmidt@rwi-essen.de