Press release

New Bundesbank projection for Germany for 2009 and 2010

The outlook for the German economy has shown a marked deterioration since the beginning of the fourth quarter. A considerable decline in real economic activity may be expected for the winter half-year of 2008-09. The German economy is unlikely to pick up again until the expected global economic upturn in 2010. Consumer price inflation will also ease for some time to come but will start to go up again from the fourth quarter of 2009. This is reported in the Bundesbank's latest forecast, which was published today and will also appear in the December 2008 issue of its Monthly Report.

The macroeconomic projection for Germany also constitutes the Bundesbank's contribution to the Eurosystem's biannual staff projection and is based on joint and harmonised assumptions and on an identical forecasting horizon.

Economic growth

According to the new Bundesbank projection, which was concluded on 20 November, price-adjusted gross domestic product (GDP) will decline by 0.8% in 2009. This reflects the further escalation of the financial crisis in the autumn and the accompanying rapid cooling of the world economy. Under the hypothesis that the extensive packages of measures will bring about a gradual easing of the situation in the financial markets and that global economic activity – additionally supported by a clearly expansionary macro policy – will pick up again more strongly in 2010, growth in price-adjusted GDP of 1.2% may then be expected. In accordance with this baseline scenario, there will be a marked fall in overall capacity utilisation. As a result, the German economy will experience a period of cyclical underutilisation in 2009 and 2010. In

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comparison with earlier cyclical downturns, the output gap is not to be rated as extremely large but could persist longer than expected owing to the existing downside risks and uncertainties.

Labour market

The economic slowdown will also place a strain on the labour market with a certain time lag. It may be assumed that the total number of hours worked will be adjusted initially to a large extent via the time component. This means that employment might decline by no more than 0.5% in 2009. As economic activity will pick up again only slowly, there could also be a fall on a similar scale in 2010. Unemployment is likely to increase by an annual average of more than 100,000 in both 2009 and 2010. This would not be a severe setback compared with earlier cyclical downturns.

Prices

There will initially be a further marked easing of consumer price inflation owing to price corrections for energy and food. The annual rate of HICP inflation could fall to less than 0.5% around the middle of 2009, or even become negative. From the final quarter of 2009, the annual HICP rate will start to go up again, however, when base effects cease to be operative and higher wage costs increasingly make themselves felt. Annual average inflation rates of 0.8% and 1.4% are to be expected for 2009 and 2010 respectively. Deflationary effects, as feared by some, are not likely as things currently stand.

To read the Bundesbank’s latest projection in full, click here http://www.bundesbank.de/download/volkswirtschaft/mba/2008/200812mba_en_outlook.pdf