

No economic stimuli in sight

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On the German economy

The *world economy* has markedly lost momentum during the current year, after having registered extraordinarily strong growth in 2004. In *Germany* there is still an almost complete lack of domestic stimulus. Consumer demand and above all the demand for private capital goods, which in view of last year's stormy expansion of the world economy should have increased sharply, remain weak. Investment is even declining slightly. Potential output is currently only increasing by 1 %, i.e. by half as much as in the rest of the euro area. Developments in this year and next will by and large follow this trend.

Real gross domestic product is expected to expand by an annual average of 0.8 % in 2005, following growth of 1.6% in 2004. Next year, the pace of expansion may accelerate again slightly, in parallel with the improvement of the world economy; real gross domestic product may grow by 1.2 %. This implies a slight increase in aggregate capacity utilisation. Despite the oil price surge, the *rate of inflation* is expected to remain below the 2- percent mark on average of the forecasting period.

The *German labour market* has so far failed to turn around. There were 4.81 million registered unemployed this past May, corresponding to an increase of 510,000 over the same month last year. An average of 4.86 million unemployed are expected this year, which already takes into account the 300,000 additional jobs (one-euro jobs) that will be created by the end of this year. The overwhelming part of the increase (about 335,000) may be traced to the inclusion of former recipients of social assistance and is of purely statistical nature. It is offset, however by various statistical effect of 2003 and 2004 that artificially reduced the unemployment figure by about 245,000. On balance, the unemployment figure is exaggerated by about 90,000 persons due to statistical effects. Even after adjustment for the statistical effects, unemployment has reached by far the highest level of the post-war period. An improvement of the labour market is not expected until next year. Primarily because of one-euro jobs, unemployment may decline to 4.76 million people.