

GERMANY

The economy recovered strongly in 2006 and growth is expected to slow down only slightly to 2.9% this year and 2.2% in 2008. Employment growth has been strong and the unemployment rate is expected to fall by almost 2 percentage points to 6.3%. The value-added tax rate increase should only temporarily damp consumption in 2007, while investment growth is projected to remain solid, also reflecting the recent recovery in construction activity. With growth significantly above potential for two years in a row, the output gap will be closed this year, with inflation rising towards 2% in 2008.

The government deficit is projected to fall below 1% of GDP this year and slightly below ½ per cent in 2008. This upswing presents a golden opportunity to implement additional reforms to raise the long-run growth potential. On the labour market, further reducing social security contributions and fostering the incentives for long-term unemployed to take up work would be important steps. Strengthening competition in product markets and improving the efficiency of the education system should also be on the agenda.

Germany: Demand and output						
	2003	2004	2005	2006	2007	2008
	Current prices €billion	Percentage changes, volume (2000 prices)				
Private consumption	1 283.0	-0.3	0.3	1.0	0.9	1.7
Government consumption	417.2	-1.3	0.6	1.8	1.3	1.8
Gross fixed investment	385.7	-1.4	1.0	6.4	4.9	2.7
Public	33.7	-7.3	-3.8	5.5	6.7	4.0
Residential	122.8	-3.6	-3.9	5.1	3.3	1.0
Non-residential	229.2	0.7	4.2	7.2	5.5	3.5
Final domestic demand	2 085.9	-0.7	0.5	2.1	1.7	1.9
Stockbuilding ¹	- 7.3	0.3	0.2	-0.2	0.1	0.0
Total domestic demand	2 078.7	-0.4	0.6	1.9	1.9	1.9
Exports of goods and services	772.7	8.8	7.1	12.9	9.4	7.2
Imports of goods and services	687.0	6.2	6.7	11.5	7.7	7.5
Net exports ¹	85.8	1.2	0.5	1.2	1.2	0.4
GDP at market prices	2 164.4	0.8	1.1	3.0	2.9	2.2
<i>Memorandum items</i>						
GDP without working day adjustments	2 161.6	1.3	0.9	2.8	2.8	2.5
Investment in machinery and equipment	172.2	2.6	6.3	7.7	4.8	4.6
Construction investment	213.5	-4.6	-3.5	5.3	5.1	1.1

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook Sources and Methods*, (<http://www.oecd.org/eco/sources-and-methods>).

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
Source: OECD Economic Outlook 81 database.