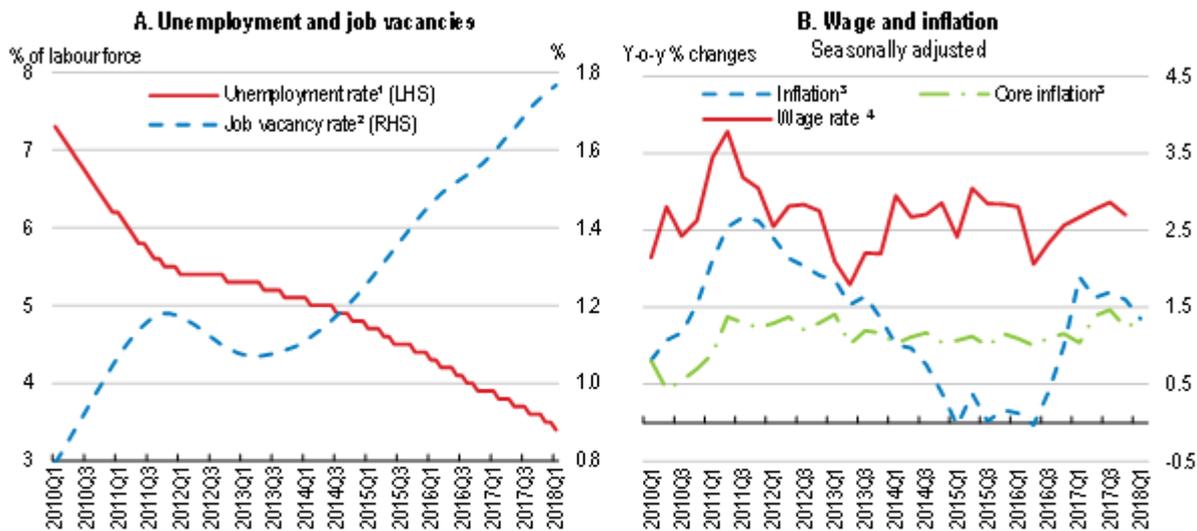


# **Economic growth is strong and wellbeing is high but challenges lie ahead**

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Germany's strong and steady growth is set to stay – real GDP is projected to grow by 2.1% this year and next. Strong domestic demand and exports drive growth. As a strong exporter of capital goods, Germany is benefiting from the global recovery of trade and investment and the recovery in the euro area. Low interest rates and immigration boost residential construction. At 3.4% unemployment is record low, allowing wages to grow above inflation (Figure 1). Wages have grown across the board, breaking the trend of rising inequality and allowing private consumption to expand steadily. Germany also provides many jobs to immigrants, now mostly from Europe. Poverty is lower in Germany than in most OECD countries. But many workers are still on low wages, especially among women, the low and the middle-skilled (Figure 2). This may hold back growth if workers have little chance to move out of low-wage jobs. During the years of strong performance the government and businesses have reduced debt. Households also continue to save, in part for old age. The external counterpart of this is the large current account surplus.

**Figure 1. The labour market is tight but nominal wage growth has remained broadly stable**



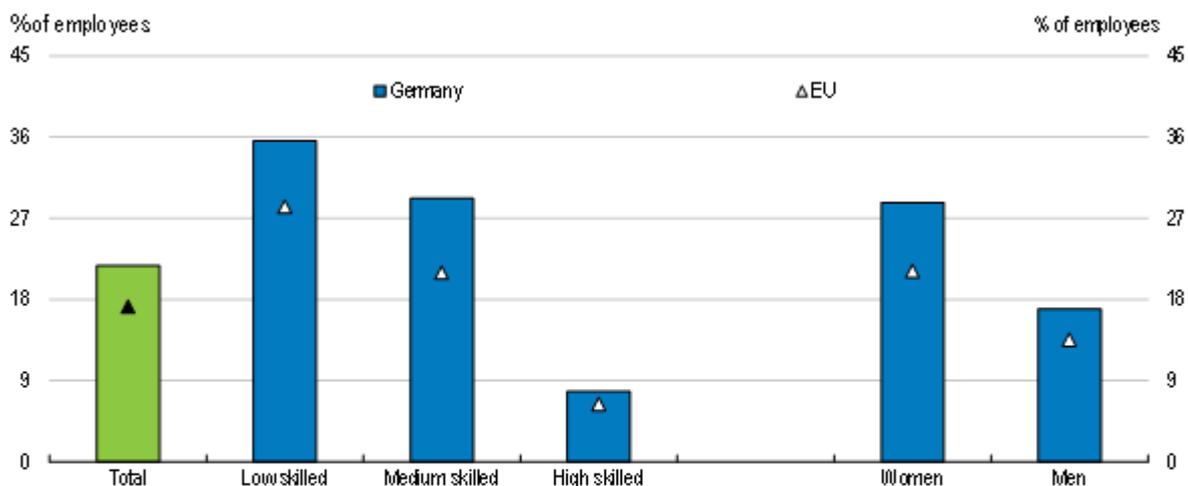
1. Population aged 15-74 years. Based on the German labour force survey.
2. Percentage of unfilled job vacancies relative to total employment.
3. Harmonised consumer price index (HICP). Core HICP excludes energy, food, alcohol and tobacco.
4. Average nominal wage per employee.

Source: OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database) and Statistisches Bundesamt.

StatLink <http://dx.doi.org/10.1787/888933737381>

**Figure 2. The incidence of low-pay employment is high**

Low-wage earners by education and gender, 2014



Note: Low-wage earners are defined as those employees earning less than two thirds of the median gross hourly earnings. Low skilled, medium skilled and high skilled are defined respectively as educational attainments of below upper secondary (ISCED 0-2), upper and post-secondary (ISCED 3-4) and tertiary (ISCED 5-8). All employees excluding apprentices working in enterprises with 10 or more than 10 employees and which operate in all sectors of the economy except: agriculture, forestry and fishing (NACE Rev. 2, section A); and public administration, defence and compulsory social security (NACE Rev. 2, sections O).

Source: Eurostat (2018), *Employment and working conditions* (database).

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In this context, policy makers in Germany must ensure that strong social and economic outcomes are sustained in the

future and inequality and poverty risk are reduced further, in the light of several challenges: Trend productivity growth has slowed, in Germany and elsewhere. As elsewhere in the OECD, productivity across firms has increasingly diverged between leaders and other firms. In Germany SMEs are 20 to 30% less productive than large firms and business creation has slowed. New technologies must be exploited more to benefit the whole society, and to realise strong growth consistent with the low-carbon transition. Entrepreneurship should be fostered through a more flexible insolvency regime, good e-government services and better access to high speed Internet. At the same time, technological change requires workers to adapt to new and changing jobs throughout their life time by updating skills. Across the OECD, middle-skill jobs have been the most affected by changes in tasks and automation. Technological change requires workers to adapt throughout their life time. The strong fiscal position provides room in the near term to fund spending priorities that will raise growth and wellbeing durably. Boosting investment in skills and technology and employability at higher age can also help reduce the current account surplus. The new government's coalition agreement contains welcome steps in this direction.

## **References:**

OECD (2018), *Economic Surveys: Germany*, OECD Publishing, Paris.