

ifo Economic Forecast for Eastern Germany and Saxony: Recovery Without Momentum

Dresden, December 19, 2023 – Economic output in eastern Germany and Saxony will increase slightly in 2024, by 0.8 percent and 0.7 percent respectively. This means the upturn remains below the level expected in the summer. In Germany as a whole, the economic recovery will be slightly stronger at an annual average of 0.9 percent. The background to this is that sentiment in the eastern German economy was subdued in the past year, so companies are not carrying any momentum into the new year. “Inflation is likely to weaken again significantly in 2024, which, together with significantly higher wages, will lead to an increase in the real income of private households,” says Joachim Ragnitz from the ifo Institute’s Dresden Branch. “This will lead to rising consumer demand, from which consumer-related services in particular are likely to benefit. These will nevertheless likely expand less strongly in eastern Germany and Saxony than in Germany as a whole, as unfavorable demographic trends increasingly make themselves felt.”

The labor market is likely to have developed positively again in 2023, with the number of people in employment likely to increase by around 0.4 percent in eastern Germany and Saxony. However, labor market momentum is likely to slow significantly next year. In addition to weak demand for labor, this is also due to a further shortage of labor as a result of the continued shrinking of the potential labor force (eastern Germany: 0.0 percent; Saxony: plus 0.1 percent).

Economic output is likely to have remained unchanged in eastern Germany and Saxony in 2023, while it actually fell by 0.3 percent for Germany as a whole. Weak manufacturing and declining demand for construction in particular had a dampening effect on growth in the past year; consumer-related service providers, meanwhile, performed better than expected in the summer and thus supported the economy. Recently, however, the expectations of the participants in the ifo Business Survey have also improved again.

“Economic development over the past year was disappointing,” Ragnitz says. Despite a strong start to the year, the local economy was unable to decouple itself from the dampening effects of the overall German economy over the course of the year. The fact that manufacturing did not shrink even more was mainly due to structural peculiarities, such as the lesser importance of the chemical industry, which was affected by sharp declines in production, and eastern German companies’ tendency to export less. Positive growth impetus for eastern Germany also resulted from the start of production at newly established production facilities, including in Brandenburg and Thuringia. However, this impetus will fade in the coming year, meaning that at 0.1 percent, the recovery in manufacturing will be weaker than in Germany as a whole, where it will be 0.5 percent. It is also expected that construction will shrink again.

The current economic forecast was completed before the coalition leaders reached agreement on Germany’s 2024 federal budget. Although the announced consolidation measures are likely to dampen the overall German economy slightly once again (by up to 0.2 percentage points), this will not change the economic picture outlined here for eastern Germany and Saxony.



ifo Economic Forecast for Eastern Germany and Saxony – Key Figures

Percent change over previous year

	Eastern Germany		Saxony	
	2023	2024	2023	2024
Gross domestic product (price-adjusted)	0.0	0.8	0.0	0.7
Gross value added (price-adjusted)				
Manufacturing, excluding construction	-1.3	0.1	-1.0	0.8
Construction industry	-1.7	-2.9	-2.1	-3.6
Trade, hospitality, transportation; information and communication	0.4	2.5	0.3	2.1
Financial, insurance, and business activities; real estate activities	0.6	1.5	0.7	1.5
Providers of public and other services; education and health	1.0	0.8	1.2	0.7
People in employment	0.4	0.0	0.4	0.1

Source: ifo Institute, Winter 2023 forecast

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The ifo Institute's Dresden Branch is partly financed by tax revenues on the basis of the budget approved by the members of Saxony's state parliament.