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Article

"German economy: Solid dynamics - weak investments": Seven Questions to Ferdinand Fichtner

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Dr. Ferdinand Fichtner is Head of the Department of Forecasting and Economic Policy at DIW Berlin

SEVEN QUESTIONS TO FERDINAND FICHTNER

»German Economy: Solid dynamics — weak investments«

1. Dr. Fichtner, the German economy has made a good start to the new year. Will it be able to build on this momentum? The German economy is expected to remain strong, at least in the first half of the year, and then lose some momentum. Special factors such as oil prices and pension payments will play a role here but then gradually recede over the course of the year. In this respect, we have solid basic dynamics overall, but this is somewhat overstated due to these isolated developments occurring at the start of the year.
2. What growth figures do you expect? In 2015, we expect the German economy to grow by about 2.2 percent as a result of this strong start to the year. In the coming year, the rate will be somewhat lower at 1.9 percent. Overall, however, these are very strong growth rates by German standards, especially as we have seen quite respectable growth of 1.6 percent in the past year.
3. What are the main growth drivers? The domestic economy is supporting this growth and, in particular, consumer demand, which, in turn, is the result of a favorable labor market situation and vigorous salary increases. Nevertheless, exports also remain an important pillar of the German economy. At the moment, exports in the euro area are lagging behind, while exports to Anglo-American countries are particularly strong.
4. What has been the impact of the difficult situation in Russia? First, weak demand from Russia has been directly responsible for diminishing German exports. Above all, tensions over Russia and Ukraine are a problem because they generate a relatively high degree of uncertainty, which is a problem for investment.

Investors are not keen to invest large sums of money in an uncertain economic environment and because the German economy thrives on exports and the production of capital goods, this is obviously a problem.

5. What about German industry's willingness to invest? We expect investments to grow somewhat this year, which is quite normal considering production utilization is largely at full capacity at the moment and the German economy is growing relatively strongly. Nevertheless, given this year's strong economic performance, investment activity remains rather weak. We presume this is also linked to the uncertain global economic environment. Major sales markets are just not as strong as in the past. This is true for the euro area and certainly also for China, which is not growing as strongly as it has in the past. The result is that companies' investment behavior is very reserved. In addition, housing construction appears to have reached its peak and overall investment in Germany remains rather weak.
6. What predictions can you make about the rate of inflation in Germany? The inflation rate is likely to be very low this year at 0.5 percent. This is primarily because energy prices have fallen sharply. We continue to have very weak core inflation in Germany. This means that prices, excluding energy and food, are also very weak due to poor demand globally, and in the euro area in particular, which puts pressure on price-setting options for companies.
7. What about the state of public finances? Public finances are developing very well because of strong economic growth and positive developments in the labor market. Tax revenues are healthy and social welfare spending has declined significantly in recent years. This ensures considerable surpluses in the public budget.

Interview by Erich Wittenberg



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