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Article

"Post-Brexit uncertainty is the foremost short-run drag": Six questions to Ferdinand Fichtner

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SIX QUESTIONS TO FERDINAND FICHTNER

»Post-Brexit uncertainty is the foremost short-run drag«

1. Dr. Fichtner, will the result of the British referendum to leave the EU send the UK and perhaps even the entire EU into economic crisis? We believe that economic growth in the UK has already been dampened somewhat in the short term by this result. It will have a noticeable impact on economic growth in the UK. The decision is also relevant for the rest of Europe, of course, because weaker UK growth leads to correspondingly weaker UK imports. This can, in turn, considerably dampen exports from its partner countries.
2. At the moment, the British are still in the EU. Why would the vote for Brexit already affect the economy? The burning issue at the moment and in the coming year is the uncertainty surrounding economic cooperation between the UK and the EU. No-one knows when the UK will actually leave the EU, nor the conditions under which that will happen. It means that businesses and households essentially cannot plan. The consequence of this is that businesses and households will initially postpone many decisions, and this is already reflected in correspondingly weaker economic growth.
3. Is the uncertainty so great because no-one knows when the UK will leave or because no-one can predict its consequences? The uncertainty basically has three dimensions to it. No-one knows when the UK will leave nor under what conditions and even if we did know for definite, it would be very difficult for businesses and economic researchers to predict the actual consequences of a new relationship between the EU and the UK. This means there are many aspects to the uncertainty.
4. To what extent is this uncertainty a threat to the German economy? Uncertainty about future economic development in the UK also leads to uncertainty about German exports. German exporters do not know at present how much they will export to the UK in future. In turn, this will cause investment restraint in Germany which, in addition to weaker exports already forecast in the coming year, could noticeably dampen growth in Germany. We expect the German economy to grow by a good quarter of a percentage point less in the coming year as a result of the UK's decision to leave the EU.
5. What are the consequences for other areas, such as the labor market and consumption? Weaker growth in Germany will also cause correspondingly weaker labor market developments. The unemployment rate will not therefore increase appreciably more than we would have otherwise anticipated, but nevertheless some people will lose their jobs as a result. Wages may not rise quite as fast, meaning that people in Germany will have less money overall in their pockets. Corporate profits may also be somewhat weaker. All this will lead to somewhat weaker growth than had been originally predicted.
6. When will the effects of this uncertainty be felt? We expect UK exports to be particularly subdued at the end of the year. The fourth quarter of this year, in particular, and the beginning of the coming year will see weaker demand from the UK because this is when investment restraint will have a strong impact on the UK economy. This will lead to poorer sales opportunities for German exporters of capital goods than previously anticipated.

Interview by Erich Wittenberg



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