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Article

"Brexit decision is poison for investment in Germany": Seven questions to Ferdinand Fichtner

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

SEVEN QUESTIONS TO FERDINAND FICHTNER

»Brexit decision is poison for investment in Germany«

1. Dr. Fichtner, Germany's economic development has become less stable overall. How long will it remain this way? Our prognosis for 2017 has changed quite a bit since June: we now predict that the Brexit decision will have a significant negative impact on growth, and have thus lowered the projected growth rate from 1.4 percent to 1 percent. Growth will turn out to be slightly higher than previously expected in 2016, however, since the year started off with an upswing.
2. Which economic sectors in Germany will be the most impacted by the Brexit decision? The Brexit decision has considerably increased uncertainty on a global level, which is poisonous for investment overall; in Germany, it will lead to lower activity levels than we would have expected even just a few months ago. The negative impact on foreign trade across Europe will hit Germany hard due to our economy's dependence on exports.
3. Apart from the Brexit decision, what is the forecast for corporate investment? Corporate investment in Germany has actually been weak for quite some time, and the first half of 2016 also exhibited very disappointing development. Due to the Brexit decision, we cannot expect much of a change there. We're assuming that corporate investment won't start picking up again until 2018, when German foreign trade is somewhat back on track.
4. Despite the uncertainty, the current economic data are not so bad. What are the key growth drivers in Germany? Despite the dampening effect of the Brexit decision, domestic trade remains stable and strong, and our favorable labor market situation will be impacted very little. Wage growth has lost a bit of momentum, but development here is still solid overall. This is of course very good for consumer demand, and correspondingly, consumption will continue to be a key growth driver in the German economy.
5. What's the situation with consumer prices? The recent declines in energy and consumer prices have ultimately increased purchasing power overall—that is, people have been able to buy more even when wages weren't increasing. Over the course of the forecast period, this effect will gradually fade, primarily because we aren't assuming any further decreases in energy prices.
6. What kind of impact is the planned increase in the minimum wage having on the labor market? According to our estimation, the increase in the minimum wage at the end of 2016 will have no noteworthy effects on social security-obligated employment—though we are expecting a slight decline in the number of mini-jobs.
7. Securing a real estate loan has become much more complicated due to legal constraints. How is this impacting the construction industry? All in all, the construction industry is benefiting significantly from the favorable economic environment. The very low interest rates are good for the construction industry, and the strong income growth is supporting the demand for residential property, leading to an increase in prices as well as actual construction overall. The tighter credit policy is dampening things a bit, but we aren't expecting the construction sector to come under too much pressure as a result.

Interview by Erich Wittenberg



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