

Fichtner, Ferdinand; Wittenberg, Erich

Article

"Private consumption remains the main driver": 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

»Private consumption remains the main driver«

1. Mr. Fichtner, the German economy's growth rates have been quite favorable lately. What will next year look like? For 2017, we're expecting a marked slowdown in the growth rate for Germany. However, this is mostly due to a statistical effect: 2017 will have fewer workdays (and thus lower growth) due to the fact that more holidays will fall on weekdays than in 2016. On top of that, we are dealing with tremendous political and economic uncertainty.
2. What kind of growth rates are you expecting? We predict that the GDP will grow by around 1.8 percent in the current year and 1.2 percent next year. In 2018, the economy will pick up speed again with a growth rate of 1.6 percent.
3. Will private consumption continue to drive Germany's economic growth? Indeed, private consumption is the main driver for economic growth. It's stimulated by a favorable situation on the labor market and the fact that wages are increasing at a solid pace, which means that everyone's wallets are nice and full. This, coupled with solid export growth, will drive the economy in 2017.
4. What will consumer prices look like? Consumer prices should pick up significantly. The main reason is that the decline in energy prices will come to an end, so there won't be any more pressure on prices from that side. The inflation rate will pick up – from an average of 0.5 this year to 1.4 percent next year – primarily because energy prices are no longer declining. It is worth mentioning that the figure of 1.4 percent is an annual average, and thus hides the fact that inflation will increase substantially in the first half of 2017 – at some points, to nearly two percent – while it will be lower in the second half.
5. How are exports doing? Overall, the global environment is not bad for German exports. World economic growth is not spectacular, but the global economy is advancing at a consistent pace in the industrialized nations as well as the emerging countries. German exports will profit from this, even if they won't increase at the same pace as they did in previous years.
6. Will the improvement in exports lead to an increase in investment? We expect that the positive developments on the export front will increasingly spur investment. The financing conditions – especially the very low interest rates – remain extremely favorable for investors. Nevertheless, the investment dynamic is more subdued than it has been in previous phases of economic growth. The political uncertainty in the wake of the Brexit vote, the recent U.S. elections, and the latent crisis in the euro area are all at play here.
7. Will the election of Donald Trump as the next U.S. president have an impact on the economy? In the short term, the effects might actually be positive, because Trump has promised to implement an expansive fiscal policy with increased spending in infrastructure, among other things. As for the long-term prognosis, we did not factor the possible negative consequences of restricted trade relations into this forecast because the implementation of any such protectionist measures will take a long time.

Interview by Erich Wittenberg



DIW Berlin – Deutsches Institut
für Wirtschaftsforschung e.V.
Mohrenstraße 58, 10117 Berlin
T +49 30 897 89 -0
F +49 30 897 89 -200

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