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Article

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

SEVEN QUESTIONS FOR FERDINAND FICHTNER

»Spring 2017 economic forecast«

1. Mr. Fichtner, will the German economy be able to maintain 2016's growth momentum over the course of the current year? Although Germany's economic growth will be a bit lower in 2017, this is primarily due to the fact that there are fewer workdays this year than there were last year – and not because the economy is running out of steam.
Another factor is the recent sharp increase in energy prices and its effect on consumer prices, which will have a negative effect on households' purchasing power. Private consumption is thus unlikely to create the same strong impulses that it did last year. Overall, we are projecting a GDP growth rate of 1.4% for 2017, which is somewhat less than last year's rate of 1.9 percent.
2. But that's still higher than the projection from the December 2016 forecast, correct? Yes, that's correct – we have increased the projected growth rate for 2017. This is due to the fact that the labor market data that was available to us back in December were too pessimistic. Recent data have indicated that the growth momentum is significantly better than it was in December, which means we can be slightly more optimistic than we were three months ago.
3. What are the current primary growth drivers? Domestic demand is still the biggest one – especially consumer demand. This is mainly due to the solid labor market situation. People have jobs and these jobs are paying quite well, even if this year's inflation rates are inhibiting purchasing power somewhat. Later on in the forecast period – especially in 2018 – the global economy will start to pick up once again, and thus exports should be contributing more to growth.
4. What can we expect when it comes to wage development? By German standards, wage development is relatively strong. The increases we are currently seeing in the wage growth rates are both reasonable and quite good compared to the past. It must be said, however, that given the growing shortage in the labor market, wage increases could also be much higher.
5. How are consumer prices developing? Consumer price inflation is clearly on the rise, especially due to the sharp increase in energy prices. Changes in energy prices have been a powerful force behind the inflation rate increase – from just half a percent last year to 1.8 percent this year. But because the rise in energy prices has come to a standstill, this effect will become much less prevalent. As a result, the inflation rate will decline significantly once again in the coming year – to approximately 1.5 percent.
6. What is your assessment of the current global economic environment? What kind of impact can these conditions have on German exports? The past year – especially the first six months – exhibited very weak global economic development. The global economy is expected to recover somewhat this year, partly because fiscal policy is less restrictive – or even expansionary – in many countries. This will continue into the coming year, which could help cultivate a very positive global economic environment. There remain significant risks, however, including the Brexit decision and the erratic economic policy of the Trump administration. These could both have a negative impact on the German economy.
7. What can we expect for imports? The strong domestic demand – especially consumer demand – is driving imports. However, because investment demand is still very weak, there is room for improvement in imports – stronger investment activity could give them a major boost. The current investment restraint among businesses can be traced to uncertainties in the current economic environment.

Interview by Erich Wittenberg



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