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

EIGHT QUESTIONS FOR FERDINAND FICHTNER

»Uncertainty remains one of the biggest impediments to global economic development«

1. Mr. Fichtner, is the German economy still on a path of growth? Yes—in fact, the German economy is developing quite powerfully. Growth in the first half of the year has been respectable, but we are expecting an even more significant expansion in the coming quarters, especially in light of the favorable labor market development.
2. What should we expect in terms of growth rates? We are expecting growth rates of 1.5 percent this year and 1.7 percent in the coming year. All in all, this represents a very stable level of growth, and it's actually somewhat more powerful than the German economy's potential growth rate, which is likely to be slightly lower.
3. What are the primary growth drivers? The German economy is driven by powerful domestic demand as well as strong foreign trade. The continued recovery of the global economy is stimulating German exports. Given the favorable labor market situation and relatively strong wage development here in Germany, domestic consumption is particularly dynamic.
4. What are some indicators of strong foreign trade development? Here, we are expecting a sustained upward trend in the euro area, since it is becoming clear that most countries have overcome the aftereffects of the crisis. In principle, this also applies to the other industrialized countries, with the possible exception of the UK, where the complications surrounding the Brexit are making an assessment of economic development extremely difficult. The economies in the emerging countries are also recovering somewhat: for example, Brazil and Russia have both clearly overcome the weak phases they were experiencing.
5. To what extent are the difficulties surrounding U.S. President Donald Trump leading to unrest in the markets? Uncertainty—not only in the U.S., but also with regard to the design of the Brexit—remains one of the biggest impediments to economic development worldwide. There is also considerable political uncertainty related to European integration. All of these factors can directly dampen investment to a significant extent.
6. Is investment still weak in Germany, then? We assume that investment will pick up momentum in the coming quarters, since the capacities are now overloaded in many places. This means that companies will need to invest more in machinery and possibly in new production facilities as well.
7. The U.S. in particular is critical of Germany's import-export imbalance. What is the current situation with German imports? Imports have picked up some momentum in recent years, with the result that the foreign trade surplus is not as significant as it was even a few years ago. Nevertheless, the current account surplus is still extremely high, which is mainly due to the fact that the prices of our imports—especially energy—are still relatively low, although they are gradually increasing to some extent. This means that political pressure on the federal government will not let up.
8. How is inflation developing? Since energy prices are no longer dropping to the same degree as before, inflation rates have bounced back up: with a rate of 1.5 expected for both 2017 and 2018, inflation is significantly higher than it was in 2016. Since this is still well below the ECB's target of just under two percent, we are not yet satisfied with the inflation rate. At the very least, however, it's still nowhere near the very low inflations rates in Germany and the euro area that we'd been seeing in recent years.

Interview by Erich Wittenberg

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