

Hagedorn, Hendrik; Wittenberg, Erich

Article

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Hendrik Hagedorn, Ph.D. student, Department of Macroeconomics, DIW Berlin

FIVE QUESTIONS TO HENDRIK HAGEDORN

»We Need Clarity on Financing Conditions«

the end of the economic stimulus packages in particular. The residential construction situation is a little different as subsidies for this sector come mainly from Germany's government-owned development bank, KfW. This support program has reached a turning point and is at an all-time low, which has resulted in people being somewhat reluctant to apply for financing from this source at the moment. This will have a knock-on effect into next year as the reluctance to apply for support will translate into less construction work at the beginning of next year.

1. Mr. Hagedorn, how has the German construction industry developed over the past few years and what is the current situation? 2011 has been a year of exceptionally strong growth for the construction industry. There will be real growth of over five percent. The fact that 2010 was not a particularly good year because of the very early onset of winter also played a part in this development. There was, therefore, a lot of catching up to be done in 2011. This alone led to a marked increase in the growth rate. We are also seeing increased investment in construction triggered, to a large extent, by the financial crisis. Investors are trying to invest more in tangible assets and less in financial products. The construction industry is obviously benefiting from this.
2. How will the construction industry develop over the next year—Will the current trend continue, or do you foresee a slump? We don't forecast a slump, but expect zero growth next year which is nonetheless a very good result. There is still interest in investing in housing and we expect this to continue into next year. However, there won't be the same weather-related impetus we experienced this year. Furthermore, there has been a change in policy concerning financing programs, which we believe is likely to have a somewhat negative impact on the construction industry next year.
3. What impact has the phasing out of the economic stimulus packages had? The phasing out of the economic stimulus packages has had a particularly negative impact on construction in the public sector. We will see a marked decline in this sector next year owing to
4. Does this mean that the planned support measures should be implemented as soon as possible? Above all, we need clarity when it comes to financing conditions. Once we have that clarity and property developers are able to adjust to the financing conditions for the next two to three years, then the reluctance I mentioned should dissipate. However, anyone who expects the conditions to improve in the future obviously isn't going to start a construction project right now. On this subject, there is currently an ongoing debate about the introduction of special depreciation. The process is stuck with a mediation committee and the outcome is, as yet, unclear. While this situation continues, a lot of potential home builders will hold back.
5. To what extent is the construction industry actually reliant on further support measures? Fundamentally, the construction industry obviously doesn't depend completely on this type of financing. Even the loss of some of these support measures would not lead to an overall downturn. However, these programs are welcomed by the construction industry. The finishing trade in particular profits enormously from the modernization projects being implemented in Germany. From a macroeconomic perspective, however, these programs should be viewed very critically: while construction projects are being subsidized, somewhere else, money is lost in the system and that costs jobs. This means that for all jobs that are created in the construction industry, a lot of other jobs we don't know about fall by the wayside.

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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