Dr. Simon Junker, Deputy Head of the Department of Forecasting and Economic Policy at DIW Berlin

EIGHT QUESTIONS TO SIMON JUNKER

»Private consumption will remain a powerful growth driver«

1. Mr. Junker, what kind of growth should we expect for the German economy? The German economy is expected to grow by 1.6 percent this year, which is a bit weaker than we had forecasted this past winter. This slight downward revision is primarily due to the fact that industry experienced a weak phase over the past six months, especially in the final quarter of 2015. The major reason for this was the slowdown in the global economy.

2. What does this mean for German exports? Exports depend, of course, on the global economy, which is in a cooling-off period. We expect the global economy to recover somewhat in the coming months. If the global economy starts picking up some speed, industrial production will also follow this moderate upward trend.

3. Which countries are causing problems for the global economy? The countries with strong economies are the US and the UK—however, there was recently a bit of doubt. However, we assume that both economies will continue to grow with relative stability. In China, we expect the transition to a more consumer-oriented economic structure to continue without any major disruptions. However, there are also risks and signs that it might not be so straightforward here.

4. What kind of impact is the sluggish German industry having on investment? In this environment, investment will initially remain very subdued. We have now seen two quarters in which private equipment investment declined. This will continue until impulses from foreign demand become slightly more noticeable again—at that point, investment will show clear improvement.

5. How is private consumption developing in Germany? Private consumption will remain a powerful growth driver in Germany: it grew more over the past year than it did in any of the previous fifteen years. Real income continues to develop well, which is partially due to the fact that the rock-bottom oil prices earlier on this year gave us a renewed boost in purchasing power. Other factors include government transfers, such as the increase in the basic tax-free allowance. The pension increase that will take place in the middle of this year will also provide a major boost. These are perhaps all temporary effects—and refugee expenditure can also be categorized thusly—but the underlying momentum will remain strong because wages and employment will continue to grow noticeably.

6. What kind of developments are we seeing in consumer prices? Consumer prices are being affected once again by the sharp drop in oil prices. Inflation has been at zero and was depressed heavily by oil prices. This will normalize a bit in the long run—however, inflation will also remain low in the coming year.

7. The refugee influx has necessitated extra expenditure. How much pressure is this putting on public finances? Refugee-related expenditure is considerable: we estimate roughly it to amount to 15 billion euros this year. Nevertheless, the state will actually continue to run noticeable surpluses. These surpluses will be of similar magnitude, even after the expenditure has been deducted.

8. Can construction benefit from the refugee-related increase in housing needs? The demand for new reception centers are not expected to create any further impulses—we expect to see changes only after the refugees have relocated to the regions that they will settle more permanently. The housing demand will then stimulate the construction industry, but will also entail price effects.

Interview by Erich Wittenberg

DIW BERLIN

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

Publishers
Prof. Dr. Pio Baake
Prof. Dr. Tomaso Duso
Dr. Ferdinand Fichtner
Prof. Marcel Fratzscher, Ph.D.
Prof. Dr. Peter Haan
Prof. Dr. Claudia Kemfert
Dr. Kati Krähnert
Prof. Dr. Lukas Menkhoff
Prof. Karsten Neuhoff, Ph.D.
Prof. Dr. Jürgen Schupp
Prof. Dr. C. Katharina Spieß
Prof. Dr. Gert G. Wagner

Reviewer
Karl Brenke

Editors in chief
Sabine Fiedler
Dr. Kurt Geppert

Editorial staff
Sylvie Ahrens-Urbanek
Renate Bogdanovic
Dr. Franziska Bremus
Sebastian Kollmann
Dr. Peter Krause
Marie Kristin Marten
Ilka Müller
Dr. Wolf-Peter Schill

Translation
Miranda Siegel

Layout and Composition
eScriptum GmbH & Co KG, Berlin

Press office
Renate Bogdanovic
Tel. +49-30-89789-249
presse@diw.de

Sale and distribution
DIW Berlin