We currently have a military conflict in Syria in which the two great powers, the USA and Russia, are involved. How dangerous is this for the world economy?

The military conflicts in Syria are certainly one of the major risks. So far, a direct confrontation of the major powers has been avoided, which is why the reaction on the financial markets has so far been very restrained. But the risks are there and the financial markets will not be able to push them aside in the long term. The period in which markets have only gone up despite all the shocks should gradually come to an end. Sensitivity on the financial markets will increase.

Why?

Because we are at the end of the economic cycle. As long as the economy boomed, many of the players said to themselves: politics is one thing, economy the other. However, as economic growth flattens out, greater attention will again be paid to political risks.

After the military actions of the USA in Syria, it was emphasized in the financial centers that fortunately things did not get any worse. This incredibly optimistic view of things is now gone?

Optimism about geopolitical risks is certainly not appropriate. Above all, political conflicts could have an impact on the economy via the oil price. The oil price is like a parameter that indicates the growing tension. If the OPEC continues to cut production, Iran cannot bring its oil production fully to market and Russia is also restricted by sanctions, there will be a shortage of supply. Instabilities in the Middle East are also transmitted via the oil price.

Why is a rising oil price so dangerous?

It is slowing the economy and at the same time fueling inflation. Energy and goods are becoming more expensive, there is a loss of purchasing power, therefore people want to compensate through higher wages. The costs for companies rise, profit margins come under pressure... The consequences are very far-reaching.

Some see the oil price already marching towards 100 dollars. You too?

An oil price of 100 dollars would be based on an extremely conflict-ridden political scenario.

The current oil price of around 70 dollars is still acceptable?

Yes, that's manageable. From 90 dollars upwards we will notice a strong impact on general price increases. I would estimate half a percentage point more in inflation rate. Then we would have over 2 percent inflation in the eurozone and 3 percent in the USA. Monetary policy could no longer remain inactive. Interest rate expectations on the market would rise, regardless of what the European Central Bank is doing, for example. As we are already in a late stage of the economic cycle, the economy could suffer significant damage.

How close is the end of the economic cycle? And what threatens to happen after that? An abrupt burglary?

I would say that it is not close to midnight yet, but rather half past ten in the economic cycle. The US is slightly further ahead. The eurozone cycle is lagging behind the US, for example in terms of the labor market or capacity utilization. That's why the upswing will continue for a while longer.

Beyond 2018?
Yes, unless the political conflicts between East and West escalate, growth will continue until 2019. We do not yet have the overheating in Europe that normally kills an expansion. This typically is rising inflation. And this again is where the oil price comes in, which I would not like to see any higher.

Do you see a risk of recession?

I do not expect a sharp downward movement at present. There will be a flattening out and a loss of momentum from a very high level. A growth of 2.5 percent of the gross domestic product is above the long-term trend in Germany and the Eurozone. But there are of course many imponderables that can lead to more severe setbacks: Further increase in instability in the Middle East, the possibility of confrontation between the major powers, geopolitical conflicts in Asia and the great risk of protectionism. The latter can turn into a trade war. This can bring a good economic situation can to an end quickly.

How are we affected in Europe by the trade conflict between China and the USA?

This is extremely important to us. If our two most important trading partners weaken each other considerably, this hits German firms which are export pros. Two huge markets would be less profitable for us. A significant risk.

Can you put a figure on that?

We've been trying to figure this out. In a scenario in which tariffs in the US would be raised to an average of 12 percent and in the world to 16 percent, we would lose two percent growth in Europe over the next two years by 2019. A rather lousy development, as a result of such a trade war.

Speaking of calculations, how difficult is it for an economist that the world has become so unpredictable today?

It's not making our lives any easier. We are often surprised. But there are at least some fixed points. US President Trump, for example, is foreseeable in his search for advantages for his country - mostly free of any ideology. That, at least, we can rely on.

Then it would also have to be recognized that a trade war would also be detrimental to the USA?

Yes. As a matter of fact, I do think it will be avoided for that reason. There will nevertheless be controversial talks about imbalances in world trade. The EU for example has import duties on US cars at ten percent, which is well above US duties. Since American cars are not hugely competitive in Europe, this duty could be completely abolished. Under WTO rules, however, this would also have to be done for Japanese or Korean cars, too. And that would be an entirely different story.

Do you think the US punitive tariffs for European cars will come?

I don't know, it could be. For example, if Europe introduces the digital tax - which I think would make sense in principle because the large US data groups should also have to pay taxes here - then Trump might regard this as an aggressive act against American companies and in return increase customs duties on European cars.

What would the ECB do if inflation rises well above 2%?

Then the ECB can no longer stick to this ultra-expansive monetary policy. The ECB has not yet given a date when it wants to abolish the really counterproductive negative interest rates for banks and initiate a turnaround in interest rates. It just mentioned in which order this will happen: First, the intention is to reduce and then to stop bond purchases, and to raise key interest rates only thereafter.
That wouldn't be so bad. Most economists have been saying for some time now that it is time to put an end to the flood of money.

That's right. A turnaround is overdue. That would definitely be good for Germany. Keywords: Higher interest income for savers, less shortfalls in old-age provision, lower property price increases.

And what about highly indebted countries in the eurozone? Don't you see the danger of the debt crisis returning?

No. Certainly not due to a normalization of monetary policy. At the moment, European countries are doing quite well in terms of reducing deficits. Of course, one can always wish that the consolidation would proceed even faster in such a good economic situation. Nevertheless: The successes are visible. After all, the European average for new debt is less than one percent of economic output. This is different from developments in other countries, especially the USA, which are accumulating new debts, although the economy is doing well.

In the US, new debt comes from the announced tax cuts and infrastructure projects.

Yes, the government is giving a strong stimulus, at a time, when the private sector demand in the USA is already very strong. Currently, it seems that all sectors in the US are becoming increasingly indebted. And this in the middle of the boom. Risking a government deficit of 4.5 percent at a time like this is against any textbook - and logically results in a huge current account deficit. If the Americans want to reduce this, they must reduce their state spending and new debt.

Won't the Fed turn on the money-printing machine sooner?

I don't think so. It is more likely to raise interest rates albeit gradually. This will slow down growth and debt dynamics and thus also reduce high imports. In 2019/2020, we will see that the Americans will have to pay the price for the expansionary policies of recent years in terms of an economic slowdown. I expect the Republican fiscal hawks to regain influence and to reduce state spending and fiscal deficits. Such a movement also took place under Ronald Reagan.

But for Trump, the tax reduction is the core of the brand. If he cannot enforce this, it could cost him his presidency.

That's right. That's why I'm not counting on Trump to be the seeded candidate next time, either.

Finally, a question that is of concern to many small investors: how should I invest my money in view of this mixed situation?

In any case, it would not be wise to say goodbye to shares now. We have seen strong price increases on the stock markets, but the valuations on average are not yet excessive and irrational. In the USA, stocks are significantly more expensive than in Europe, but even there they are not yet in regions where one could already foresee the next crisis. The euphoric exuberance, which usually comes at the end of a boom, is still missing. Especially now that the prices have slipped down a bit, one should not get out.

Reallocate them, perhaps?

Not necessarily. However, I do assume that the USA is leading the way and closer to the end of the cycle. That speaks in favor of an equity investment in Europe. The European market is not as dynamic as the American market, but it is steadier and more diversified. This promises more stability. Europe is still well invested.