German economy shows first signs of spring fever

The latest Ifo index reading suggests that a gradual cyclical rebound is in the making

The German economy is in the middle of two seismic activities: the just-agreed fiscal stimulus package and looming US tariffs. For the time being, the positives seem to outweigh the negatives as Germany's most prominent leading indicator, the Ifo index, increased in March to 86.7, from 85.2 in February, its highest level since July last year. While business expectations surged to 87.7, from 85.6 in February, the current assessment component improved somewhat but remains close to recent lows. This is not yet an unchained economy but spring fever as a result of the announced fiscal package seems to be in the air.

Cyclical rebound in the making

Combining the latest confidence indicators with available hard data suggests that the German economy has bottomed out in the first quarter of the new year, even if it's too early to call an end to stagnation. Balancing between short-term risks (US tariffs) and longer-term opportunities (fiscal stimulus), the economy should gradually rebound in the course of the year. However, the exact timing of how it will play out remains unclear. Let's not forget that there is still no new government, no coalition agreement, and no plan on when or how much to spend of the newly created fiscal space, yet.

Implemented in the right way, investment in infrastructure should lead to a cyclical upswing, at least. The caveat, however, remains that the fiscal measures alone - impressive as their size might be - will do very little to improve the economy's competitiveness. Modern infrastructure is essential for one of the world's largest economies, but it doesn't inherently drive innovation, sector transformation, or new growth opportunities.

There is no doubt that the German economy will soon experience a cyclical upswing. How long this upswing will last and whether it could become a structural recovery will now highly depend on whether or not the official coalition talks lead to real structural reforms.

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