

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.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.