

German Ifo continues upward trend

Another improvement in sentiment in the German economy as the Ifo index increased for the sixth month in a row in March. However, we fear that the latest financial turmoil will reach the real economy in the coming months



In March, Germany's most prominent leading indicator, the Ifo index, increased for the sixth month in a row, coming in at 93.3 from 91.1 in February. Lower wholesale gas prices and the reopening of the Chinese economy have boosted economic confidence. Both the current assessment and expectations component increased significantly.

Divergence between financial markets and real economy

The financial market turmoil of the last few weeks has not yet affected economic sentiment - at least not economic sentiment measured by company surveys. The latest economic sentiment indicators nicely illustrate that for now, financial market turmoil appears to be ringfenced and has not affected the real economy: while the ZEW index, filled in by financial analysts, dropped, PMIs and now the Ifo index increased. We are more careful, however, and remind everyone that the Ifo index can react with a delay of one to two months to unexpected events and financial market turmoil can clearly affect the real economy over time.

The German economy will continue its flirtation with recession. But what is more important: the

ongoing war in Ukraine, ongoing structural changes, an ongoing energy transition and the impact of the most aggressive monetary policy tightening in decades are the main drivers of what looks like subdued growth for a longer while.

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