

Snap | 24 September 2021

## Ifo index suggests German economy is losing further momentum

Two days ahead of the elections, Germany's leading indicator points to a further loss of momentum in the economy



While currently all interest is on the German elections on Sunday, the Ifo index just joined the choir of recently released leading indicators pointing to a clear loss of momentum in the German economy. The Ifo index dropped for the third month in a row in September and came in at 98.8. This drop was mainly driven by a strong drop in the current assessment component, while expectations remained almost stable. The trend is clear: down. However, compared with the second quarter, the current assessment component - which traditionally has the closest link with actual GDP growth - was still higher in the third quarter, indicating that the loss of momentum may only show up in the hard data in the final months of the year.

### Loss of momentum can be summarised in three words

The reason for the economy's loss of momentum can be summarised in three words: supply chain frictions. Sure, some kind of optimism overshoot in the spring, the Delta variant or political and policy uncertainty ahead of the elections could also qualify as potential drags to the economy. However, supply chain frictions caused by the pandemic and lockdowns are the number one risk factor for the economy. Supply chain frictions were already being felt in the second quarter as

industrial production shrank, weighing on the overall positive post-lockdown rebound. Richly-filled order books and low inventories would normally bode well for industrial activity but are currently hampered by the lack of microchips and other components. Some companies have already started to apply for furlough schemes or have sent some of their workforce on holiday.

It is hard to predict when the supply chain frictions will be over. In fact, it could take until next summer before all disruptions have been resolved and supply chains are back to normal. This does not automatically mean that the German economy will suffer for another year. Instead, expect a wobbly zigzag pattern of industrial production in the coming months, driven by the delivery of supply goods. All of this means that in the coming 12 months there will be two main trends shaping Germany's economic performance: a normalisation of retail and service activity after the first post-lockdown peak and at the same time, a surge in industrial production once backlogs are reduced.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto: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 <http://www.ing.com>.