

Germany's Ifo index brings back hope in January

The first increase in the Ifo index since June last year brings back hope but does little to take away the short-term risk of Germany falling into a (technical) recession



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There is hope again. Germany's most prominent leading indicator, the Ifo index, increased for the first time since June last year on improving expectations. In January, the Ifo index came in at 95.7, from 94.8 in December. While the current assessment component dropped for the fifth consecutive month, the expectations component improved significantly, actually recording the first increase since last June. These Ifo index readings do not take away the recession fears for the German economy but suggest that there is growing comfort in the view that Omicron restrictions and supply chain frictions will subside soon.

Still between soft patch or worse and stellar growth in 2022

The German economy went into hibernation at the turn of the year. When the first official estimates are released on Friday, it will require a small miracle for them not to show a contraction in the economy in the final quarter of 2021. And despite today's improvement in sentiment, the

risk of Germany being in an outright recession has not disappeared. Even with some temporary relief from exports and industrial activity, the Omicron wave in Asia and the Chinese New Year clearly argue against a steep short-term improvement in supply chains. Consequently, global supply chain frictions, the impact of the current social restrictions on leisure, hospitality and retail, and the impact of high energy prices on private consumption do not bode well for the short-term outlook for the German economy.

However, such a technical recession would be mild and short-lived and is unlikely to harm the labour market. On the contrary, we stick to our view that the German economy will stage an impressive comeback in the spring. Admittedly, geopolitical risks could still spoil the growth party but the end of social restrictions and significant relief in global supply chains should combine to give the German economy an enormous boost. Add to this the government's announced fiscal stimulus and the headlines accompanying the German economy this year could go from one extreme to the other: from recession to growth champion. And all of this in less than one year.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

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