

German Ifo index drops in December on fiscal woes

The latest Ifo index reading suggests that recent fiscal woes are weighing on German business sentiment. It also shows that the recession risk remains high, not only for 2023 but for 2024, too



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The fiscal woes of the last month have clearly left their mark on the German economy, with the country's most prominent leading indicator today showing just how difficult it will be for the economy to bounce back. The Ifo index ended the year on a negative note and came in at 86.4 in December, from 87.2. After three consecutive increases since the summer, this was the first monthly drop. The Ifo index ends the year at a significantly lower level than in December 2022. Both the expectations and the current assessment components dropped in December.

Another year of crisis and stagnation comes to an end

Today's Ifo index reading brings the macro year for Germany almost to a close. It has been another turbulent year in which the economy seems to have been in permanent crisis mode. Supply chain frictions resulting from the pandemic lockdowns and war in Ukraine, an energy crisis, surging inflation, tightening of monetary policy and several structural shortcomings - the list of crises and challenges facing the German economy is long. This is why some take comfort in the

fact that the economy is “only” stuck in stagnation and has avoided a more severe recession. And, indeed, things could have been worse. But this should be no reason for any complacency. On the contrary, even if the worst of the weakening in sentiment seems to be behind us, the hard economic reality does not look pretty. In fact, the economy seems to be on track for another quarter of contraction in the final quarter of 2023 and even the start of 2024 does not yet look really promising. At least in the first months of 2024, many of this year’s drags on growth will still be around and will, in some cases, have an even stronger impact than in 2023. Just think of the still-unfolding impact of the European Central Bank’s monetary policy tightening, the potential slowing of the US economy and new uncertainty stemming from recent fiscal woes. Only a turn in the inventory cycle can bring some relief in early 2024, although this turn has not happened yet.

All in all, we expect the current state of stagnation and shallow recession to continue. In fact, the risk that 2024 will be another year of recession has clearly increased. It would be the first time since the early 2000s that Germany has gone through a two-year recession, even though it could prove to be a shallow one.

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