

## German Ifo index plunges in June

The Ifo index has dropped or more accurately, collapsed, for the second month in a row, suggesting that the rebound of the German economy has ended before it ever really began



In June, Germany's most prominent leading indicator, the Ifo index, dropped for the second consecutive month, after a six-month expansion, coming in at 88.5 from 91.7 in May. The weaker-than-hoped-for Chinese reopening, a looming US recession and ongoing monetary policy tightening seem to be weighing on German company sentiment. Also, the growing feeling that Germany is in for a longer period of subdued growth seems to have reached German business. Both the current assessment and the expectations component fell. Expectations are now as low as at the end of last year.

### Uncomfortable reality check

We still don't know what the best title for the current German economic situation should be: 'The Great Decoupling' or 'The rebound that never came' are clear favourites after today's Ifo index release. Since last year, soft or leading indicators have become rather more 'soft' than 'leading'. Remember that the Ifo index had been on an upward trend since last autumn, while the economy actually shrank by 0.5% quarter-on-quarter in the fourth quarter of 2022 and 0.3% in the first quarter of 2023. An unprecedented war, energy crisis and fiscal stimulus have clearly weakened the relationship between soft and hard data - be it the 50 threshold of PMIs or the trend in other

previously reliable indicators like the Ifo index or the European Commission's economic sentiment index. At the current juncture, all traditional leading indicators have to be taken with a large pinch of salt.

Back to the German economy. What is clear is that the optimism at the start of the year seems to have given way to more of a sense of reality. A drop in purchasing power, thinned-out industrial order books, as well as the impact of the most aggressive monetary policy tightening in decades, and the expected slowdown of the US economy all argue in favour of weak economic activity. On top of these cyclical factors, the ongoing war in Ukraine, demographic changes, and the current energy transition will structurally weigh on the German economy in the coming years. However, all is not bleak. The stuttering Chinese rebound could easily bring some temporary positive surprises as well. Also, the drop in headline inflation and the actual fall in energy and food prices combined with higher wages should support private consumption in the second half of the year.

Today's disappointing Ifo index reading suggests that the hoped-for rebound of the German economy is nothing more than hope. Optimism is fading and the economy faces new growth concerns. We are not saying that the economy will be stuck in recession for the next couple of years, but with several short and long-term challenges, growth will remain subdued at best.

## 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>.