German Ifo index drops to its lowest level since 2020

Pessimism is now fully back in Germany as new supply chain disruptions and a train drivers' strike increase the risk of yet another quarter with a contracting economy

A train strike is not helping the economy to recover in Germany

85.2 Ifo Index

From 86.3 in December

Pessimism strikes back in Germany as the country's most prominent leading indicator just dropped to the lowest level since the summer of 2020. In January, the Ifo index came in at 85.2, down from 86.3 in December. The tentative revival of optimism last autumn has turned out to be very short-lived and the index has now dropped for the second month in a row. Both the current assessment and the expectations component weakened in January.

New year and two new problems

It sometimes feels as someone in Germany must have smashed a mirror, causing seven years of bad luck. As if the last four years of pandemic, war in Ukraine, supply chain frictions, energy crisis and structural shortcomings weren't enough, 2024 has not started any better. On the contrary, the new year brought new problems for the German economy: there are the government's austerity measures but also ongoing strikes by train drivers and supply chain disruptions as a result of the military conflict in the Red Sea. In fact, another contraction of the German economy in the first quarter of the year looks even more likely.

Looking beyond the near term, we expect the current state of stagnation and shallow recession to continue. The risk that 2024 will be another year of recession is high. We expect the German economy to shrink by 0.3% YoY this year. It would be the first time since the early 2000s that Germany has gone through a two-year recession, even though it could be a shallow one.

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