

## German Ifo Index's slight increase in January is insufficient to bring relief

The slight increase in Germany's most prominent leading indicator does not yet signal an imminent economic rebound. Instead, the economy remains stuck in stagnation with more downside than upside risks in the short term



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As Lola Young, one of Britain's new musical talents, sang last year, "There's a flicker of light; without the dark, the stars can't shine bright". Today's Ifo index is such a flicker of light for the German economy, admittedly a very vague one. Germany's most prominent leading indicator came in at 85.1 in January from 84.7 in December, but still below its 85.6 in November. While the current assessment component increased to the highest level since late summer, expectations dropped once again to the lowest level in a year. It's obvious that the results of the US elections and policy uncertainty in Germany ahead of the upcoming elections are still weighing on sentiment.

### It's all about the elections

When commenting on German macro data, we have put the bar low in recent years. Anything

that is not another disappointment is immediately positive. Today's Ifo index fits into this category. On a more serious note, today's Ifo index is just another reminder that the country remains stuck in stagnation and is struggling to agree on a way out. More on this in our German election coverage [here](#) and [here](#).

Looking ahead, it will take at least until the German elections on 23 February and the following coalition negotiations before the economy can get a new, hopefully positive, impulse. Until then, the downside risks will dominate with the potential economic policies from the new US administration. Some 10% of German exports go to the US (of which the largest part is automotive) and any US tariffs would hit an already beleaguered sector. However, even more important is the impact that tax cuts and deregulation in the US – combined with already low energy prices – would have on German competitiveness, which is clearly negative. German companies might step up investments in the US at the cost of investments in Germany.

As Lola Young says, "There's always morning after the night". Even if today's Ifo index brings some flicker of light, it is unfortunately not yet signalling an imminent economic rebound. It will take many more nights before Germany's economic mornings are golden again.

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