

German Ifo index improves in March

The March Ifo index suggests that the bottoming out of the German economy is getting broader



Is this a new discovery of optimism? Germany's most prominent leading indicator, the Ifo index, just pointed to some signs of life and increased to 87.8 in March from 85.7 in February. But before popping the corks, let's not forget that today's reading is still far lower than levels seen last summer. Today's increase was driven by both improved current assessment and expectations components. Together with yesterday's PMI reading, which showed a further weakening in the manufacturing sector but improvements in the services sector, the message is clear: the German economy is bottoming out – but a strong recovery is not in sight yet.

Bottoming out but still no imminent rebound in sight

Reasons for the still-subdued sentiment are clear. The lost economic self identity with a growing awareness that the country's economic business model is overdue for an overhaul, but there are also several cyclical factors which are dragging down economic activity. Tensions in the Red Sea have led to new supply chain frictions. Strikes since the start of the year would make every Frenchman proud and should have weakened economic activity in the first quarter. Finally, the increasing number of insolvencies as well as individual company announcements of upcoming job restructurings fuel the risk of a weakening labour market this year.

Looking ahead, even if sentiment indicators have improved somewhat, any recovery of the

German economy looks set to be weak this year. In fact, one of the potential growth drivers will be a turning of the inventory cycle in German industry. Up until now, however, there have hardly been any signals of this turnaround. In recent months, inventories even started to increase again. At the same time, order books are only very gradually improving. Considering yesterday's disappointing PMI manufacturing reading and the overall reporting of continuing weak demand in the private sector; there is still no substantial improvement in German industry in sight.

All in all, after a rather devastating year for the German economy in 2023, every single positive data point from here on out should be celebrated. Today's Ifo index is one of these data points, even if much more is needed to bring the economy from bottoming out to recovery.

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