

Ifo index gives cold shower to optimists

A stagnating Ifo index in May suggests that the bottoming out of the German economy is not yet being followed by a strong recovery



Source: Shutterstock

The Ifo index, Germany's most prominent leading indicator, just illustrated that the cyclical bottoming out will not automatically be followed by a strong recovery. After three consecutive increases, the Ifo index remained unchanged at 89.3 in May. While the expectations component improved again, the current assessment component dropped.

Judging from previous experience, three consecutive increases tend to mark a turning point in the economy and we have seen these increases between February and April. Today's Ifo index reading is a good reminder that the growth prospects after the turning point remain muted.

Cyclical bottoming out not yet followed by strong recovery

Looking ahead, and despite today's cold shower, the German economy should gain more momentum. Strong wage growth should fuel a cautious recovery in private consumption and even the inventory cycle should gradually start to turn positive. However, this cyclical improvement does not mean everything is suddenly hunky-dory again in Germany. There are still several cyclical factors potentially dragging down economic activity. Higher oil prices as a result of the ongoing military conflicts in the Middle East could easily weigh on industry and exports once again.

Also, the increasing number of insolvencies and individual company announcements of upcoming job restructurings are fuelling the risk of a weakening labour market this year.

Finally, besides the potential cyclical headwinds, Germany's well-known structural weaknesses will not disappear overnight and will limit the pace of any rebound.

Author

Carsten Brzeski

Global Head of Macro

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>.