Snap | 25 November 2024

GERMANY

German Ifo index drops in November and does little to curb winter recession fears

The German Ifo index dropped in November on the back of a weaker current assessment component

Germany's most prominent leading indicator, the Ifo index, just took another nosedive. After the first rebound in almost half a year in October, the Ifo index dropped to 85.7 in November from 86.5. Interestingly, the current assessment component declined more significantly (to 84.3, from 85.7) than the expectations component (87.2, from 87.3). This suggests that the weaker Ifo index was mainly the result of negative headlines and restructuring announcements from larger corporates, an escalation of the war in Ukraine and still-weak industrial order books and consumption.

Today's weak Ifo index does very little to take away the winter recession fears

Looking ahead, we know from past experiences that the Ifo index tends to capture short-term events with a certain delay. In this regard, the risk is high that the results of the US elections and the collapse of the German government will still leave their marks on sentiment over the next few months.

The outcome of the US elections and the potential economic policies coming from the next

Trump administration are the latest addition to Germany's economic risks. With 10% of German exports going to the US (of which the largest part is automotives), any US tariffs would hit an already suffering sector. 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 definitely a negative one. German companies might step up investments in the US at the cost of investments in Germany.

We have seen it before. In the wake of a new – sometimes unexpected – shock, a typical pattern emerges, moving quickly from initial panic to repression and then complacency. This is especially the case when the shock looks like a cyclical one-off factor but only masks a structural shift. In Germany, this pattern is emerging again as policymakers seem now almost entirely preoccupied with the upcoming election in three months from now. Three months in which pro-active measures to ramp up defense spending, kick-start investments or identify new growth sectors currently seem hard to find.

All in all, today's Ifo index adds to the evidence that the German economy remains stuck in stagnation and that after meagre growth in the third quarter, a (technical) winter recession looks likely.

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