

German Ifo weakens again in October

The speed of the weakening of sentiment indicators is at least slowing, but for the rest there is very little evidence that the German economy can avoid recession



The warm October weather is helping to postpone the start of the heating season in Germany

We are seeing some signs of stabilisation at low levels. Germany's most prominent leading indicator just sent the first signals that things are – at least – not getting worse. However, this doesn't mean that any improvement is imminent. In October, the Ifo index dropped for the fifth consecutive month and came in at 84.3, from an upwardly revised 84.4 in September. While expectations improved somewhat from very low levels, the current assessment component weakened further.

Recession remains inevitable

The flash estimate of German GDP growth, which will be released on Friday, is highly likely to show that the German economy dropped into contraction in the third quarter. While the services industry benefitted from a post-lockdown boost over the summer months, shrinking order books, high energy and commodity prices and low water levels strongly weighed on economic activity.

Looking ahead, today's Ifo index reading suggests that at least business sentiment is forming a trough. This, however, does not mean that any improvement in the economy is near. Even if the weather has brought some relief to the German economy, as the rainfall increased water levels

and the warm October weather has postponed the start of the heating season, the gradual sliding into recession continues. Companies and households are increasingly suffering under higher energy invoices and ongoing high inflation, adjusting consumption and investments. The government's latest support package, if not implemented retroactively, will be too little too late to prevent a winter recession. It will only be able to soften such a recession.

Leaving short-term and cyclical developments aside, we again reiterate that the German economy is in the middle of a complete overhaul. The war in Ukraine has probably marked the end of Germany's very successful economic business model: importing cheap (Russian) energy and input goods, while exporting high-quality products to the world, benefitting from globalisation. The country is now forced to accelerate the green transition, restructure supply chains, and prepare for a less globalised world. And these things come on top of well-known long-standing issues, such as a lack of digitalisation, tired infrastructure, and an ageing society, to mention a few. All of this means that even after the winter recession, no matter how severe it will be, growth will be subdued for a while.

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