

## German Ifo points to further weakening of the economy

The list of arguments why the German economy is sliding into recession is getting ever longer. The question isn't about whether there'll be a recession but rather how severe and how long it will be



Germany Economy Minister, Robert Habeck, speaking about energy at a news conference in Berlin yesterday

Germany's most prominent leading indicator, the Ifo index, just dropped for the third month in a row, coming in at 88.5 in August, from 88.7 in July. This is the lowest level since June 2020. The positive interpretation is that the weakening of the Ifo index is slowing down. The negative interpretation is obviously that no improvement is currently in sight. Expectations remain close to their all-time lows and were only worse in December 2018 and April 2020.

Earlier this morning, the details of German GDP growth in the second quarter brought some positive surprises. Growth was slightly revised upwards to 0.1% Quarter-on-Quarter, from zero in the first estimate, which finally brought the German economy back to its pre-crisis level. Private consumption surprised to the upside (+0.8% QoQ) and even more importantly was revised upwards significantly in the first quarter to +0.8% QoQ, from initially -0.1% QoQ. It was net exports and the construction sector which weighed on economic activity in the second quarter.

## Ifo index provides more recession evidence

Looking ahead, however, it is hard to see private consumption holding up when inflation is high, energy invoices will be doubling or tripling in the coming months and consumer confidence is at all-time lows. Tuesday's PMI readings already suggested that the economy is in contraction territory and we are afraid that this time around the indicators are right.

---

### *The Germany economy is quickly approaching a perfect storm*

---

In fact, the German economy is quickly approaching a perfect storm. 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 in the middle of a complete overhaul, accelerating the green transition, restructuring supply chains, and preparing for a less globalised world. And these things come on top of well-known long-standing issues, such as a lack of digitalisation, ageing infrastructure, and an ageing society, to mention a few. In the coming weeks and months, these longer-term changes will be overshadowed by shorter-term problems: high inflation, possible energy supply disruptions, and ongoing supply chain frictions. In recent weeks, these shorter-term problems have become larger as low water levels and the new gas levy have added to inflation and recession concerns.

There are some upsides. Surprisingly strong consumer spending in the first half of the year is one. The fact that the filling of the national gas reserves is actually ahead of schedule is another. Gas reserves are currently back to their average levels of 2016-2021. However, it remains far from certain whether gas reserves at 95% in November, as targeted by the government, can get energy consumption through an entire winter without Russian gas. There are simply too many unknowns like the severity of the winter season and the potential reductions in gas consumption by households and corporates. In any case, even without an energy supply disruption, the economy would be facing high energy costs. This alone, combined with the disruption from the low water levels for industry, ongoing geopolitical uncertainty and supply chain frictions, should be enough to push the German economy into a winter recession.

Today's Ifo index adds to the long list of evidence that the German economy is sliding into a winter recession. The question no longer seems to be if it will be a recession. The only question is how severe and how long that recession will be.

### Author

#### **Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto: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>.