

Germany: September Ifo sends more recessionary signals

The German economy currently only knows one direction: south. The Ifo index is the latest sentiment indicator suggesting that the economy is sliding into a winter recession



Germany's most prominent leading indicator just sent more recession signals. In September, the Ifo index dropped to 84.3, from 88.5 in August. This is the fourth consecutive drop. Both the current assessment component and expectations dropped significantly. Expectations are now at their lowest level since the financial crisis. The main reason for a further weakening in economic sentiment is clear: high inflation and its implications on corporate costs and consumer demand.

Recession remains inevitable

As in the rest of Europe, with the end of the summer, recessionary forces have come to the fore. While the services industry benefitted from a post-lockdown boost, industry saw some relief in global supply chains and backlogs being reduced. In recent months, however, order books have started to shrink, and high energy and commodity prices are weighing on demand and putting pressure on profit margins. Companies can no longer pass through higher costs to consumers as easily as in the first months of the year.

Looking ahead, the German economy continues to approach 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, tired 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, surging energy prices, ongoing supply chain frictions and weakening global demand. A recession is inevitable. However, contrary to previous recessions like the financial crisis or the pandemic, the German economy doesn't look as if it is dropping like a stone but rather sliding into a long winter recession.

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