

## 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.

## 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>.