German Ifo index drops again in September

Germany's most prominent leading indicator, the Ifo index, has dropped for the fifth month in a row. This illustrates that the economy is currently stuck in what appears to be a self-reinforcing vicious cycle of economic stagnation

It is often said that there are numerous ways to say 'I love you'. Unfortunately, there is no real historical evidence for how many ways there are to describe negative macro news out of Germany. Here is another try.

Maybe we should follow Green Day's advice and only wake up from the current German macro nightmare when September ends. Well, September 2025. For now, following German macro data is more like a long stroll on the boulevard of broken dreams. After yesterday's disappointing PMI readings, the Ifo index – Germany's most prominent leading indicator – continued its recent downward trend and dropped for the fifth consecutive month to 85.4 in September from 88.6 in August. It is now back at levels last seen at the start of the year. The current assessment component took a severe hit and dropped to 84.4 from 86.4 in August, while the expectations component only fell marginally to 86.3, from 86.8 in September.

Economy remains stuck in stagnation

The German economy is back where it was a year ago: the growth laggard of the eurozone with few signs of an imminent improvement. After the contraction of the economy in the second quarter, all available sentiment indicators for the first two months of the third quarter provide very few reasons for optimism.

The cyclical hope that grabbed the German economy in the first months of the year has disappeared, mainly due to a weaker global economy but also because of fears of a cooling US economy, ongoing geopolitical tensions and domestic policy uncertainty. Additionally, the increasing number of insolvencies and individual company announcements of upcoming job restructurings are still hanging like the Sword of Damocles over what has been one of the few strongholds of the economy in recent years: the labour market. To make things worse, recent negative news from the German automotive industry is to some extent just another illustration of the ongoing structural and cyclical problems but are unfortunately probably also further fuelling negative sentiment; a perfect vicious cycle.

Still, and as depressing as this new episode of bad news is, don't rule out potential positive surprises towards the end of the year. While the highest increase in real wages in more than a decade could still open German consumers' wallets, despite increasing job loss fears, it is industrial production that could still come to the rescue. Inventories have been at high levels for an unprecedented length of time. It'd only take a small improvement in industrial order books to turn the inventory cycle and get industrial production growing again. Admittedly, this would be a cyclical improvement coming from very low levels, hardly changing the narrative of a country stuck in stagnation.

Remembering the late Andreas Brehme

All in all, today's Ifo index and the almost unstoppable flow of bad news in recent weeks painfully remind Germany of the late Andreas Brehme, who scored the winning goal for the German football team in the 1990 world championships and who passed away earlier this year. Next to his football skills and successes, Brehme coined the eloquent expression "if you have shit sticking to your foot, you have shit sticking to your foot." Football German for describing an almost neverending streak of bad luck. Even if the current streak of bad luck in the German economy is, to a large extent, homemade.

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