

German Ifo: Struck by Trump

Germany's closely-watched Ifo index bows under the threat of trade war



Germany's most prominent leading indicator, the Ifo index, has continued its recent levelling off, sending a strong signal that recent trade war threats are the main worry of German businesses. The fact that Germany finally has a new government was not able to outweigh these new global concerns. In March, the Ifo index dropped to 114.7, from 115.4 in February. The Ifo index has now dropped in three out of the last four months. As expected the expectation component weakened more than the current assessment component.

Given weak hard data at the start of the year, and now clear signs of confidence levelling off, concerns about the strength of the German economy could return faster than many hope for. However, not so fast. In our view, prospects for the German industry have hardly ever looked rosier. Capacity utilization is at its highest level since 2008, the last time equipment was regarded as such a strong limitation to production by companies as currently was in 2007, order books are filled and companies currently reported the longest period of assured production ever. Add to this the strong labour market and fiscal stimulus from the new government and growth could still surprise positively this and next year.

114.7 Ifo Business Climate

Higher than expected

In the longer term, however, risks for the German economy have undoubtedly increased in recent months. Not only because the current cycle is already very mature but also due to policy decisions in the US. If they work, the US tax reforms could eventually undermine Germany's position as an investment destination. A possible trade war would also obviously leave its marks on the self-proclaimed export world champion. Finally, and more homemade, fading efforts to further reform the Eurozone could dent recent eu(ro)phoria and weigh on sentiment. The expected fiscal stimulus from the new German government can only paint over these risks but are no structural answer to how to maintain Germany's strong economic performance in the longer term.

All in all, despite strong short-term prospects, this week's batch of sentiment indicators was a good reminder that strong German growth should not be taken for granted.

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