

German Ifo surprises in April

German businesses seem to have become more optimistic again. To us, however, this new wave of optimism feels premature



Source: Shutterstock

Is this new optimism or just a false feeling of new normality? In any case, Germany's most prominent leading indicator, the Ifo index, just increased to 91.8 in April, from 90.8 in March. Both the current assessment and the expectations component increased. However, we warn against this early optimism, as the war in Ukraine will leave much more structural marks on the German economy than Covid.

Leaving the war behind? We think it's too early

Soft indicators paint a very mixed picture of how the war in Ukraine, high energy and commodity prices as well as continuing and new supply chain frictions are affecting the German economy. Against this background, today's rebound of the Ifo index comes as a surprise. Current assessment components had already been holding up well and now expectations have also started to rebound. If these current assessments are any reliable guidance, they could – combined with solid hard data for the first two months of the year – point to the fact that the German economy avoided another contraction in the first quarter. We will know more on Friday when the first estimate of 1Q GDP will be released.

Despite the optimism today's Ifo index seems to reflect, we remain very cautious. Supply chains

are still disrupted due to the Shanghai lockdown and the war in Ukraine. Some might be disrupted for good. Elevated uncertainty and fear will weigh on both supply and demand in the coming months. Real disposable incomes of households will suffer, and companies will have increasing difficulties dealing with the costs of higher energy and commodity prices, putting corporate profit margins under pressure.

Even worse, with high energy and commodity prices for a protracted period, possibly even energy supply interruptions, an acceleration of deglobalisation, a possible new cold war, and an export-orientated economy highly dependent on energy, then of course imports will suffer. Government support schemes will dampen the adverse impact of the war but will not be able to avoid stagflation. As much as we welcome optimism, something doesn't feel right about today's Ifo index.

Author

Carsten Brzeski

Global Head of Macro

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>.