

German Ifo tanks in March

The war in Ukraine has now affected German economic data. Expectations dropped to the lowest level since the start of the pandemic as German businesses seem to be realising that the war is more of a game-changer for the German economy than Covid has ever been



Germany's most prominent leading indicator, the Ifo index, just tanked to the lowest level since January 2021. While the Purchasing Manager Index yesterday still presented a rather optimistic picture, the Ifo index seems to better reflect the economic implications of the war in Ukraine. The headline reading came in at 90.8 in March, from 98.5 in February. The current assessment mirrored the PMIs, staying relatively solid at 97.0, from 98.6 in February. However, the expectations component saw an even sharper decline than at the start of the pandemic in March 2020, dropping to 85.1, from 99.2 in February.

No more economic rebound but stagflation is the new base case

With the war in Ukraine, the world has dramatically changed. The outlook for the German economy has also dramatically changed. While a month ago, economic prospects for Germany looked bright and a strong rebound was in the making, stagflation has now become the most likely scenario. Higher energy and commodity prices than at the start of the year and probably for a

long while, new supply chain disruptions on top of the old ones with a high risk that these supply chains will be disrupted for good, and high uncertainty and fear will weigh on both supply and demand in the coming months.

Even worse, the risk is high that the economic implications of the war are much more of a structural game-changer for the European and particularly the German economy than the pandemic has ever been. With high energy and commodity prices for a protracted period, possibly even energy supply interruptions, and an acceleration of deglobalisation, possibly Cold War 2.0, an export-oriented economy highly dependent on energy imports will suffer. Government support schemes like the ones announced yesterday will dampen the adverse impact of the war but will not be able to avoid stagflation. The only silver lining here is that these squeezes to the economy and the entire economic model will accelerate the green transition and energy independence even more, requiring fiscal stimulus and private investment and eventually leading to a boost in structural international competitiveness.

More precisely for the German economy, the risk of another contraction in the first quarter of the year and hence a technical recession is high. For the entire year, we have revised downwards our growth forecast to 1.6%, which would delay the return of the economy to pre-pandemic levels to the end of this year.

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>.