

German Ifo weakened further in November

Business sentiment continued to worsen in November, showing that the economy entered the fourth wave of the pandemic on an increasingly weak footing



Source: Shutterstock

The German economy entered the fourth wave of the pandemic with business confidence already worsening. Germany's most prominent leading indicator dropped for the fifth month in a row in November, coming in at 96.5, from 97.7 in October. The Ifo index now stands at its lowest level since February this year. Both the current assessment and the expectations component weakened.

Risk of stagnation or even recession at turn of year has clearly increased

At the current juncture, and with the fourth wave of the pandemic escalating, all traditional leading indicators have actually become backward-looking indicators. They paint a picture of the economic outlook against the background of supply chain frictions, not the pandemic. As such, it will take until the December batch of confidence indicators before we have a better view of the

economic impact of the fourth wave of the pandemic.

Over the last few days, Germany has already introduced some stricter restrictions but is still far away from the Austrian situation. This could change soon. Not only has Austria been a very good leading indicator for what will happen in Germany in terms of infections and government measures, this morning's news that the SPD, Greens and FDP have come to a coalition agreement could also bring change. Germany's reaction to the fourth wave has suffered from a power vacuum, with the caretaking government not wanting to decide on stricter measures and the incoming government not ready yet, and possibly not really wanting to start a new era with tighter restrictions. The expected press conference of the leaders of the probable new government this afternoon could shed some light on potential next restrictions and measures.

Returning to the economic outlook, the German economy was already suffering from ongoing supply chain frictions, higher inflation in general, and higher energy and commodity prices in particular. Industrial production actually shrank both in the second and third quarters, despite filled order books and low inventories. The only upside for industry is that it only needs some input goods to arrive to create at least a short-term rebound of activity. More structurally, however, it will take until spring next year before supply chain frictions start to abate and hence benefit German industrial production. For the entire economy, the combination of supply chain frictions, higher energy prices and higher inflation in general already argued in favour of a significant slowdown of economic activity in the final quarter of the year. The fourth wave of the pandemic could now actually push the economy to the brink of stagnation, or even technical recession. Admittedly, the adaptability of the economy to lockdowns, supported by government and central bank measures, has clearly increased since March 2020.

Today's Ifo index shows that the mood of German businesses continued to worsen before the escalation of the fourth wave of the pandemic. This doesn't bode well for the coming months. The risk of stagnation or even recession in the German economy at the turn of the year has clearly increased.

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>.