

## 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



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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.

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