

Snap | 25 July 2017

German record-breaking recovery continues

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Another high for the Ifo

Germany's most prominent leading indicator, the Ifo index, increased for the sixth month in a row, reaching another all-time high in June. The Ifo now stands at 116.0, up from 115.1 in June. Both the expectations and current assessment component improved. It currently seems as if really nothing can stop the German recovery.

Unless German businesses are living in a kind of never-never land, today's Ifo index is a clear signal that the German economy is powering ahead.

The current acceleration in the German economy is not only the result of strong private and public consumption but also of an unexpected industrial revival and stronger investment. Almost unnoticed, the industry has gone from being sluggish to buoyant. This is not only reflected in the Ifo subcomponents, where the manufacturing sector has picked up significant speed since

mid-2016, converging with sentiment in the service sector. Looking ahead, there is increasing evidence that investment could also pick up over the course of the year. The combination of strong orders and low inventories is currently as good as in mid-2006 and late-2010. Capacity utilisation has, almost unnoticed, increased to the highest level since late 2008. And, according to surveys, companies currently consider equipment as a key limiting factor to production, even though labour is still mentioned as the most important limiting factor. It looks as if industry is the lagging, not leading, indicator of the current recovery.

The biggest threats

As the domestic economy gains even more momentum, the biggest risks still come from abroad. Protectionist measures from the US, a weakening of the UK economy in the wake of the Brexit negotiations and a slowdown of the French economy amidst the first stage of President Macron's reforms, all look like the biggest threats to the German economy. The recent strengthening of the euro should not be a risk, as the German export sector has frequently proven its ability in the past to stomach stronger exchange rates. It almost seems as if the sky is no longer the limit for the Germany economy. Despite the absence of any new structural reforms for years, today's Ifo signals the continued strength of the German economy, making it increasingly likely that German growth will reach the 2%-level well before then ECB gets inflation back at 2%.