# Germany: A nice mess!

2018 ends with another disappointment for the German economy.

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Exactly one year ago, experts and forecasters overtrumped each other in revising growth expectations for the German and Eurozone economies upwards almost on a daily basis. One year later, history seems to repeat, only in reverse order. Preparing the growth outlook for the German economy seems to have become a race to the bottom. The just-released Ifo index will do little to stop this race.

The last economic indicator of the year continued its recent downward trend and dropped again in December. After having reached an all-time-high at the end of last year, the Ifo index has dropped to its lowest level in more than two years. The Ifo index ends the year at 101.0, from 102.0 in November. Both the expectation and the current assessment component dropped in December.

## What has happened to the German "Wirtschaftswunder"?

In the first half of the year, faltering sentiment indicators were still countered by strong hard data. Since the summer, however, the German economy has entered a dangerous vicious circle of too many one-off factors, dwindling global growth and political risks finally leaving their mark. The list of explanations for the underperformance of the economy in 2018 is at least as long as teenagers' lists of explanations why they could not tidy up their room. These include harsh winter weather, sickness leave due to the flu, the timing of Easter, long weekends, the soccer World Cup, trade tensions, the dry summer, low water levels in main rivers or car manufacturers missing deadlines for new emission standards. Need we say more? Somehow 2018 has ended two urban legends: German soccer teams no longer score in the last minute and the economy no longer withstands all manner of external headwinds.

## 2019 outlook

In the short run, today's Ifo index signals that the risk of the unimaginable - a technical recession (two consecutive quarters with negative growth) - has increased. Up to now, evidence for an imminent rebound in industrial production in the final quarter has still been hard to find. Only private and government consumption have been safe bets as growth drivers. Looking beyond the fourth quarter, however, there is a silver lining for the German economy. A strong labour market and higher wages should support consumption, fading of trade tensions and a weak euro should support exports, and low interest rates, high capacity utilization and strong credit growth bode well for private investments. The record-high fiscal surplus combined with the need for infrastructure investments should bring decent fiscal stimulus to the economy. In the light of a recent general mood swing towards more negativity, it has become easier for us to remain moderately optimistic.

## Still positive, but...

A turbulent year for the German economy and German politics is drawing to a close. The economy has been on a rollercoaster ride between defying and suffering from external events, strong fundamentals and homemade structural problems. For now, strong domestic fundamentals, the weak euro and some (temporary) relief from possible external shock factors such as Brexit and trade all bode well for a rebound of the German economy going into 2019. However, downside risks have become bigger and any rebound definitely not be on a straight line but rather a wild ride. These are strong arguments to use the Christmas break for some reflection and recharging of the batteries. Frohe Weihnachten.

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