

Germany: A nice mess!

2018 ends with another disappointment for the German economy.



Source: Shutterstock

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.

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 www.ing.com.