

# Germany's August Ifo index adds to fears of never-ending stagnation

With a fourth consecutive monthly drop, the August Ifo index is another illustration of the German economy's never-ending stagnation



There is still no recovery in sight. After last week's disappointing PMI readings, Germany's most prominent leading indicator, the Ifo index, continued its recent downward trend and dropped for the fourth consecutive month to 86.6 in August, from 87.0 in July.

In light of today's drop, the previous wave of optimism experienced at the beginning of the year has mostly disappeared. The August decline was driven by a weaker current assessment and falling expectations.

## The never-ending stagnation

The German economy seems to be back where it was a year ago: the growth laggard of the eurozone with little signs of an imminent improvement. Last week, the July PMI index already showed a weak start to the third quarter and today's Ifo index proves that there are currently very few reasons for optimism.

The cyclical hope that grabbed the German economy in the first months of the year has disappeared, mainly due to a weaker global economy but also because of fears of a cooling US economy, ongoing geopolitical tensions and domestic policy uncertainty. Additionally, the increasing number of insolvencies and individual company announcements of upcoming job restructurings are still hanging like the Sword of Damocles over what has been one of the few strongholds of the economy in recent years: the labour market.

Still, and as depressing as this new wave of falling sentiment indicators is, don't rule out potential positive surprises in the second half of the year. While the highest increase in real wages in more than a decade could still open German consumers' wallets, despite increasing job loss fears, it is industrial production that could still come to the rescue. Inventories have been at high levels for an unprecedented long time. It only needs a small improvement in industrial order books to turn the inventory cycle and get industrial production growing again.

The latest batch of sentiment indicators is another illustration of what it means to be in the middle of cyclical headwinds and structural changes. This is not a typical textbook cycle but rather an unprecedented period of de facto stagnation. It doesn't make it any better, but it may be easier to understand.

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