

## Germany: Did anyone say crisis?

German businesses party almost as if there were no tomorrow, pushing the Ifo index to another all-time high in November.



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Germany's most prominent leading indicator, the Ifo index, just printed another impressive number, increasing to a new all-time high in November. The Ifo index now stands at 117.5, from 116.7 in September. While the expectation component increased sharply to 111.0, from 109.1, the current assessment component provided a small downer by dropping to 124.4, from 124.8 in October.

**117.5** IFO index  
up from 116.7

Before you get carried away by thinking German businesses were not affected at all by the current political impasse in Berlin, don't forget that the Ifo survey was partly conducted before last Sunday's events. The first real test of how politics are currently impacting business sentiment will only come with the December Ifo index.

Nevertheless, over the last one and a half years, the manufacturing sector has staged a remarkable rebound. Looking at the sector components of the Ifo index shows that the

manufacturing sector has closed the wide gap with the service sector over the last 18 months, even hitting new record highs. In fact, the last stretch of strong Ifo readings had been mainly the result of the manufacturing rebound. Looking ahead, filled order books and low inventories should keep the manufacturing sector an important growth engine.

Obviously, a new unknown variable has now been added to the formula of continued strong German growth. In the short run, political uncertainty should hardly have any impact on growth.

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Only an unexpected shrinking of the economy in the final quarter of the year can prevent German GDP growth coming in north of 2.4% for the entire year 2017. Looking into 2018, strong fundamentals combined with low interest rates and a still weak euro clearly argue for a continuation of the German growth story. However, the fiscal stimulus which we had previously expected, will now clearly be delayed – though not aborted – due to the political impasse in Berlin.

Somehow, the current situation in Germany is an excellent illustration of a phenomenon, which has characterized the entire Eurozone throughout the year: buoyant confidence and strong economic growth goes hand in hand with political uncertainty and instability. In our view, this dichotomy can easily continue in 2018, yielding another strong year for the German and Eurozone economy. However, performances of the past have never been a guarantee for future success.

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