

Germany ends year on brink of recession

Another drop in the Ifo index suggests that the economy has come to a standstill at the turn of the year. But don't worry, 2022 will definitely be better



Germany's most prominent leading indicator fell to 86.4 in March from 88.4 in February

The German economy ends the year with another disappointment. Germany's most prominent leading indicator, the Ifo index, dropped for the sixth month in a row in December, coming in at 94.7, from 96.5 in November. The last time the Ifo index dropped for six consecutive months was in 2018. The Ifo index now stands at its lowest level since February this year. Both the current assessment and the expectations component weakened.

Between soft patch or worse and growth champion in 2022

Today's Ifo index gives a first impression of how the current fourth wave of the pandemic could hurt the German economy, and this impression is not very promising. Despite a strong start to the fourth quarter in terms of industrial activity, ongoing supply chain frictions, higher inflation in general, and higher energy and commodity prices in particular, do not bode well for the short-term outlook for the German economy. The fourth wave of the pandemic could now actually push the economy to the brink of stagnation, or even into a technical recession, even if, admittedly, the adaptability of the economy to lockdowns, supported by government and central bank measures, has clearly increased since March 2020.

Today's Ifo index ends the macro-economic data year for Germany. Throughout 2021 the economy often seemed to suffer more from global supply chain frictions than from the pandemic. Industrial production contracted in two consecutive quarters despite filled order books and low inventories. As a result, Germany ended at the end of eurozone growth league tables and many may wonder where the large fiscal stimulus of the last two years has gone.

But don't worry! Previous government stimulus plus the new government's impressive investment policies will unfold in 2022, leading to a stellar growth performance. As soon as global supply chain frictions start to abate and the fourth wave of the pandemic is behind us, industrial production will strongly rebound, private consumption will start to pick up and investment will flourish, with the German economy staging an impressive comeback as Europe's growth champion in 2022.

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.