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.

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