

## Germany: Pause on way to strong rebound

The April Ifo index points to a pause in the German rebound as lockdowns continue. The prospects for a strong rebound in the second half of the year, however, remain valid



Germany's leading indicator took a pause in April. The Ifo index increased for the third month in a row to 96.8, from 96.6 in March. While the current assessment component improved, expectations weakened for the first time since January. Before getting too disappointed about a weaker-than-expected improvement in German business confidence, don't forget that the strong results of the March survey were partly due to the fact that the survey had been taken before yet another lockdown extension. Today's Ifo index will therefore probably reflect a combination of delayed lockdown impact and reopening hopes.

### Prospects for strong rebound in H2 remain good

The German economy clearly has many, very different, faces right now. The major theme is one of a continuing and partly growing divergence between the service sector and the manufacturing

sector. In fact, strong demand from the US and China has filled order books in the manufacturing sector and driven strong momentum in industrial production - even if production is still below its pre-crisis level. Also, technical factors like the reversal of UK stockpiling at the end of last year, the impact of the harsh winter weather on the construction sector, and supply chain disruptions could still significantly blur German GDP data in the first and second quarters.

In any case, looking beyond possible short-term data distortions, the general outlook for the German economy has clearly improved. The vaccination programme is finally getting moving and with the prospect of at least 50% of the adult population having had a first jab before the summer, a more substantial reopening of the economy should not be too far away. New variants of the virus, however, as currently witnessed in India, could definitely spoil any reopening parties. Add to this potential spillovers from US fiscal stimulus, the implementation of the European Recovery Fund in the second half of the year, a rebound in the construction sector and the fact that the manufacturing sector still has not reached pre-crisis levels, and stronger Ifo readings in the months ahead look highly likely.

In our view, the prospects for the German economy to stage a strong rebound in the second half of the year remain good. Needless to say, this strong rebound will not automatically lead to a strong recovery and will definitely be unequal across sectors.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto: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](http://www.ing.com).