

Germany: Wishing lockdowns away

A strong March Ifo reading suggests that German businesses are either looking through ongoing lockdowns or are simply wishing them away



Germany's leading indicator continued its rebound in March. The Ifo index increased to 96.6, from 92.7 in February. Both the current assessment and the expectations component improved, with expectations posting the largest monthly increase since June last year.

Today's Ifo index shows that German businesses, particularly in the manufacturing sector, seem to be following markets in looking through the negative impact from ongoing lockdowns and see a glass half full. However, don't forget that the latest survey was partly taken before this week's extension of the lockdown in Germany, at least until 18 April.

Ifo optimism masks very mixed picture of the economy

With another strong Ifo reading and the strong performance of the manufacturing sector, the question arises whether Germany could avoid a contraction of the economy in the first quarter, similar to what happened in the fourth quarter last year. As much as we would like to see a repetition of this 'last quarter', the industry saved my economic life' song; reality looks different.

If German authorities manage to get the vaccination programme moving, the second quarter could see an enormous turnaround in sentiment and lockdowns

Particularly the construction sector looks like a drag on growth in the first quarter. The January data was already disappointing, and the harsh winter weather in February didn't make things any better. In March, a real construction boom would need to transform the sector from a growth drag into a growth driver.

At the same time, consumption disappointed at the start of the year, and anecdotal evidence shows that the decent reopening of retail stores in early March has not led to a boost in spending. This leaves the manufacturing sector as the only real potential growth driver for the first quarter. In our view, too little to avoid contraction. The still-experimental Bundesbank activity tracker confirmed a view that currently points to GDP growth in the first quarter South of -1% QoQ.

Looking ahead and into the second quarter, the expected supply of vaccines should show exponential growth after Easter. At least in the absence of any new surprises. If German authorities manage to get the vaccination programme moving, the second quarter could see an enormous turnaround in sentiment and lockdowns.

With today's Ifo reading, this apparently is not only our own view but a view shared by many German businesses. Let's hope it's not too much collective wishful thinking.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

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