Germany: More signs of levelling off

The latest Ifo reading provides more evidence of the German rebound: a strong V-shaped move followed by a more subdued recovery

Germany's most prominent leading indicator just provided more evidence for what we would call a two-sided rebound. The V-shaped recovery continues but the bounce back is losing steam. The Ifo index increased for the third time in a row to 90.5 in July, from 86.3 in June, but still remains clearly below levels seen in January and February. The increase was driven by both an improvement in the current assessment and expectations component. While the expectations component is at its highest level since December 2018, the current assessment component is still significantly weaker than in March of this year.

One interesting side effect of the Covid-19 crisis is that even the traditional leading indicators have become lagging indicators. The crisis has almost been a fountain of youth for macro statistics as a bunch of experimental indicators gives much better real-time information than the traditional leading indicators. Just think of the Google Mobility data, the German truck toll mileage index or the Bundesbank's weekly activity index. All these indicators have painted a picture of a V-shaped recovery of the German economy since May and a continuation of this, albeit at a significantly weaker pace since the start of the second half of the year. The latest ZEW, PMI and Ifo readings are now confirming this picture of a continued rebound with clear signals of levelling off since the start of the second half of the year.

Before drifting away in too much enthusiasm, it would be a huge surprise if the German economy could maintain the growth momentum of the first months after the lockdowns. We are currently in a mechanical rebound and the real face of the recovery will only become clear in the coming months. Here, two opposing drivers will determine the path of the German recovery: while the fiscal stimulus, both in Germany and now also at the European level, bodes well for domestic demand and eurozone exports, the structural damage to the economy as well as continued weaknesses in major trading partners outside of the eurozone will hamper the recovery.

Almost all indicators have staged a V-shaped rebound in the first few months of easing lockdown measures. The return to pre-crisis levels, however, will take time, patience and lots of stimulus.

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