Germany: More signs of bottoming out

The latest Ifo index adds to latest signs of a bottoming out of the German economy. However, bottoming out still does not mean a rebound

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Bottoming out

Germany's most prominent leading indicator, the Ifo index, just added more evidence to a tentative bottoming out of the German economy. The Ifo index increased to 95.0 in November, from 94.7 in October. This is the third month in a row with an increasing Ifo index, after 17 drops in 21 months. In November, both the current assessment and expectations component increased. However, before anyone gets overly cheerful, the headline number is still not even back at its July level.

Bottoming out but not rebounding yet

The economy's balancing act between solid consumption, services, public expenditures and construction on the one hand side, and weak activity in manufacturing on the back of trade uncertainty and weakness in the automotive sector on the other hand side continues. Particularly the manufacturing sector has made a significant u-turn since mid-2018; unfortunately for the worse. Back in the summer of 2018, slowing activity in the manufacturing sector was mainly the result of supply side constraints. Now the lack of demand has become a huge concern, as pressing as in 2010.

Looking at the Ifo index per sector shows that confidence in the service sector has deteriorated since the early summer, while at the same time confidence in the manufacturing sector is showing first tentative signs of bottoming out. However, order books in the automotive industry are still close to levels last seen in early 2013. High inventories and thin order books do still not bode well for the manufacturing outlook in the near term.

> It is part of Germany's new economic modesty to appreciate a tiny increase in the Ifo index. Better than another disappointment. However, while today's Ifo index suggests that the economy, and above all, the manufacturing sector, could be in a phase of bottoming out, a sharp rebound is not yet near.

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