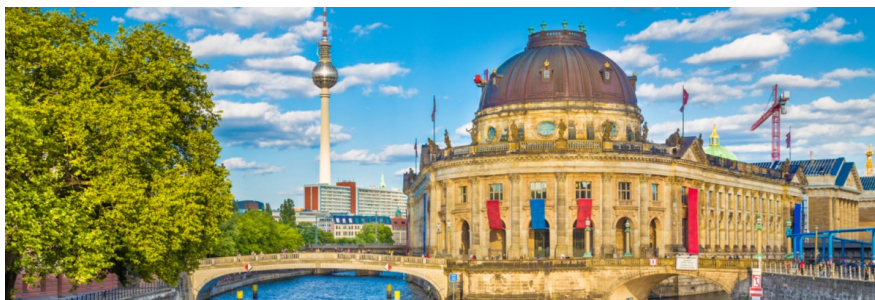


Germany: Optimism increases

The latest Ifo reading suggests that German businesses believe the rebound is strengthening



From rearview mirror to GPS. After this morning's GDP data for the second quarter gave a final glance at the depth of the crisis in the second quarter, the just-released Ifo index gives some guidance on the short-term outlook for the economy. Germany's most prominent leading indicator increased for the fifth consecutive months to 92.6 in August, from 90.4 in July. German businesses have started to believe in the rebound as both the expectations and current assessment component increased. While the current assessment component is still clearly below its pre-crisis level, the expectations component stands at its highest level since November 2018.

An interesting aspect of this crisis is the productivity boost for more real-time and experimental data. Many of these are leading the traditional leading indicators and were relatively reliable in predicting the extent of the slump and now the upswing. Whether they also provide reliable information for nowcasting when the main focus returns to decimal places remains to be seen. If they do, market participants will pay much less attention to the traditional indicators.

The German economy has managed the first stages of the crisis relatively well. The lockdown was eventually milder than in many other countries. Lockdown measures were lifted earlier than in most countries and consequently the rebound could be stronger than in most other countries. However, it remains important to make a strong distinction between rebound and recovery. While the rebound looks strong, as illustrated by the latest update of the Bundesbank's activity tracker, the shape of the recovery is much more uncertain, particularly to the extent that the amount of permanent damage is still hard to gauge. At some point in time, the government will have to balance between cyclical relief and potential longer-term costs of delaying structural change. Today, the government will discuss a possible extension of the short-term work schemes from 12 to 24 months. It will, in our view, not be the last discussion about possible extensions to crisis measures. Just think of the VAT reduction, which is supposed to expire at year-end, or the suspension of the obligation to file for insolvency in time (currently until end September). It is hard

to see that the government would want to enter an election year with an increase in the VAT and a surge in unemployment and insolvencies.

For now, today's Ifo index keeps the hopes for a V-shaped rebound alive. However, the fact that a rebound is not necessarily the same as a recovery will be the main theme of the coming months.

Author

Carsten Brzeski

Global Head of Macro

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.