

## Germany: Still stumbling

Another drop in the Ifo index tells two stories: one of solid current growth and another one of nagging uncertainties



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Fear of losing. This is the best summary of the current state of Germany's businesses. Germany's most prominent leading indicator, the Ifo index, just dropped for the third month in a row, falling to the lowest level in more than four years. The Ifo index stood at 97.4 in June, from 97.9 in May. While the current assessment component actually increased, the expectations component fell back, close to its recent low at the beginning of the year. Once again, it is well-known uncertainties that are weighing on German business sentiment.

### Is this time different?

The German economy currently is the best showcase model for a broader phenomenon: the stark discrepancy between external risks and uncertainty and solid domestic fundamentals. This discrepancy explains why, despite the sharp slowdown in confidence indicators, economic growth has actually been holding up well. The second quarter does not (yet) look recessionary. The big question for the months ahead is clearly whether this time could really be different. If the decoupling between manufacturing and services were part of a structural transition, then it could be. But if previous patterns were to prevail, the slump in the manufacturing sector could infect the rest of the economy. We maintain our optimism and favour the hypothesis that this time is indeed

different.

In our view, a bottoming out is in sight for German industry. As long as trade conflicts stay within the boundaries of stock market volatility and a possible weakening of the US economy, tensions could initially increase but without leading to an extreme escalation. Also, the recent u-turn of the European Central Bank towards more dovishness indicates that financing conditions for new domestic investments will remain favourable. However, let's be clear, a bottoming out is still far from being a strong rebound.

## The risk of a negative sentiment loop

All in all, despite the third drop in a row, today's Ifo index holds some encouraging signals. The current situation is not too bad after all. It is the never-ending external risks and uncertainties, mainly related to the trade conflict but also Brexit, which are spoiling the party. The risk of a negative sentiment loop remains.

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