

## Germany: Is it the end of the boom as we know it?

Another cold shower from Germany should feed the discussion on soft patch versus the start of a downswing. In our view, the truth is somewhere in the middle; it's called consolidation



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**102.1** Germany Ifo index  
From 103.2 in March

Germany's most prominent leading indicator, the Ifo index, took another hit in April, adding to recent fears of an unexpected end of the German and Eurozone upswing. On the back of continued trade tensions and probably some side effects of weak hard data, the Ifo dropped to 102.1, from 103.2 in March. While the weakening of the current assessment component was rather benign (to 105.7, from 106.5 in March), expectations continued their recent sharp fall, currently standing at the lowest level since mid-2016. The Ifo index has now dropped in four out of the last five months.

The absolute level of today's Ifo index should be taken with a pinch of salt. The index also now includes services and has been rebased from 2005 to 2015. As a result, the entire series lies now almost 9 points lower than the old version. Nevertheless, today's disappointing reading will feed the discussion on whether Germany and the entire Eurozone is currently only in a soft patch or actually at the start of an unexpected downswing.

In our view, any talk of a slowdown is premature. The main reasons for the disappointing start of the year in Germany are one-offs, like the harsh winter weather, vacation and high levels of sick leave due to the flu, combined with some sentiment normalisation. And instead of a slowdown, fundamentals are actually pointing to solid growth in the coming months, albeit less dynamic than last year. Inventories seem to have bottomed out and trade tensions, though mainly noise not facts up to now, have somewhat dented last year's optimism.

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All of this means that the German economy is currently in the middle of a difficult combination of negative one-offs, dropping optimism and strong fundamentals, the best preconditions for a rollercoaster ride with highly volatile soft and hard data in the coming weeks and months. For the time being, disappointing sentiment indicators are, in our view, still no reason to get overly concerned. As much as the end of last year was about overshooting and too much euro-phoria, recent data could be the result of undershooting.

The truth is somewhere in the middle. While hard data for March could still be affected by the Easter holidays and the final wave of the flu, boding ill for first quarter GDP reading, the economy should shift up one gear again from April onwards. Even though last year's strong positive momentum has ebbed away somewhat, the German economy should not be on the eve of a structural downswing, neither is the Eurozone economy. While some additional short-term disappointments cannot be excluded, the summer months should make up for them. Nevertheless, as the ECB would say: downside risks to the economic outlook are gradually tilting to the downside.

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