

Germany: Limitless optimism

Another strong Ifo reading sets the bar for German growth even higher. Now the only thing that's missing is for the hard data to catch up



Source: Shutterstock

Germany's leading indicator reflects almost unstoppable optimism about the economic outlook. The Ifo index increased to its highest level since November 2018 and came in at 101.8 in June, from 99.2 in May. Both the current assessment and the expectations component increased significantly, with expectations surging to the highest level since December 2010. The reopening of the economy on the back of a still accelerating vaccination rollout has clearly boosted optimism and seems to be outweighing any concerns stemming from supply chain disruptions.

Strong Ifo reading sets the bar for future growth even higher

Right now, the sky is the limit for confidence indicators in Germany and indeed, the entire eurozone. The end of lockdowns and the reopening of economies has clearly boosted expectations. In the case of Germany, despite anecdotal evidence, particularly in the automotive industry, of supply chain disruptions affecting activity, the impact apparently has not been strong enough yet, to dent growing optimism.

Looking ahead, the general outlook for the German economy has improved. The vaccination

programme has picked up speed and with currently more than 50% of the population having had a first jab, the reopening of the economy has gained momentum, too. New variants of the virus, however, could still spoil the reopening party. Back to the positives, the potential spillovers from US fiscal stimulus, the implementation of the European Recovery Fund in the second half of the year, a rebound in the construction sector and the fact that the manufacturing sector still has not reached pre-crisis levels, all signal one thing; the only way is up for the German economy.

The bar for the German economy is set very high and today's Ifo reading puts it even higher. The only problem so far has been that hard data, which is only available until April, has not yet matched these expectations. On the contrary, the start to the second quarter was rather sluggish. If the past relationship between soft and hard data holds, this catch-up with the strong optimism should happen soon.

German football supporters have learned the hard way that strong optimism does not necessarily always lead to strong results. Let's hope the economy can do better.

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.