

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



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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 job, 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.

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