

Germany: This is not a 'v'

The just released Ifo index adds to evidence that the worst should be behind us. However, the route to normality will be long.



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Walks a bit like a 'v', talks a bit like a 'v' but this is not a 'v'. Germany's most prominent leading indicator just staged a strong comeback but the route to normalcy remains long. The Ifo index posted the strongest monthly increase in May, after two record-sized drops, and stood at 79,5 from 74.3 in April. This is still the second weakest reading since reunification. The increase was mainly driven by a strongest monthly improvement ever in the expectations component. The current assessment component actually dropped again but still remains slightly above the record lows seen during the 2008/9 recession.

Today's Ifo index echoes more real-time signals that economic and social activity has started to pick up significantly since the first lifting of the lockdown measures in late April. Just to be clear, it is currently still impossible to measure the more permanent damage the crisis has caused and what its impact will be on future growth. Reviving economic activity and returning optimism are highly welcome but are definitely no reason for complacency or even hubris. The fact that capacity utilization in the industry has dropped to its lowest level since 2009 as well as that access to finance is a much bigger impediment to production than during the financial crisis illustrate the depth of the crisis. Even in a more benign scenario, with more gradual lifting of the lockdown measures and no second wave of the virus, the German economy is unlikely to return to its pre-crisis level before 2022.

In short, the low point of the slump should now be behind us and there even is the chance for a

short-lived strong rebound in the coming months. However, given the absolute low level of the Ifo index and the fact that the damage of the last two months is likely to weigh on growth going ahead, don't be mistaken: this is not a 'v'.

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