

## 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.



Source: Shutterstock

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'.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto: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](http://www.ing.com).