

Strong Ifo adds to rebound hopes in Germany

This morning's German GDP data is already history. The strong May reading of the Ifo index shows that optimism about a strong economic rebound is spreading



Confidence is rising among people across Germany and in Cologne and elsewhere, they're back shopping

Germany's leading indicator reflects rising optimism about the economic outlook. The Ifo index increased to its highest level in two years and came in at 99.2 in May, from 96.6 in April. Both the current assessment and the expectations component increased significantly, with expectations surging to the highest level since January 2011. The finally accelerating vaccination roll-out, as well as first steps in the reopening of the economy, have clearly boosted optimism.

The only way is up

With this morning's GDP data for the first quarter, the contours of the rebound in 2Q are becoming clearer. We expect private consumption and the construction sector to be the main drivers of growth in the second quarter.

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Industrial production should also accelerate, even though the survey-based inventory reduction does not really correspond with the significant positive contribution by inventory changes to 1Q GDP. Unless inventory changes in the national accounts were this time only what they used to be in the past: a statistical residual. Still, we wouldn't rule out that supply chain disruptions could blur German manufacturing and trade data in the second quarter.

In any case, looking beyond possible short-term data distortions, the general outlook for the German economy is improving. The vaccination programme has gained further momentum and with the clear prospect of at least 50% of the population having had a first jab before the summer, a more substantial reopening of the economy should not be too far away. New variants of the virus, however, as currently witnessed in India, could definitely spoil any reopening parties. Add to this 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, and the only way for the economy seems to be up.

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