

## Germany: Ifo plunge - another illustration of the standstill

An historic plunge of the Ifo index is another illustration of how severe the standstill is, without even being able to measure the exact size yet



Another dramatic plunge. It should not come as a surprise to anyone but economic data for March and beyond will be horrible and probably even beyond the traditional meaning of horrible. All Western economies are facing an unprecedented crisis. Recession is not even the right word for an almost complete standstill of entire economies, almost overnight. Germany is no exception.

For the first time ever, the Ifo institute came up with a preliminary release last week. The just-released final outcome of the March reading was even worse than the initial estimate. Germany's most prominent leading indicator came in at 86.1, revised downwards from the initial 87.7, from 96.0 in February. The sharpest monthly drop ever. In terms of absolute levels, the Ifo index is now at levels last seen in the financial crisis. The lowest level seen was at 80.7 in December 2008. Both the current assessment and the expectations component dropped significantly, with expectations at the lowest level since December 2008. Don't forget, today's Ifo index, as well as other sentiment indicators in the coming weeks and months, are nothing more than a snapshot, giving some idea of the size of the economic plunge without being able to give the full picture.

During the financial crisis, the German economy contracted in four consecutive quarters with an

accumulated loss of 7%. In the current crisis, such a contraction can easily occur in two quarters, in a worst-case scenario even in a single quarter. Even in the most optimistic scenario that the lockdown will be gradually eased after the Easter break, the German economy would shrink by more than 4% year-on-year in 2020. The longer the lockdown lasts, the more the size of the contraction will resemble numbers normally only seen in emerging economies. Simply unprecedented.

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