

## Germany: More thanks to Jean-Claude Juncker

German businesses remain unimpressed by ongoing trade tensions, pointing to the continued strength of the economy



Maybe it's time to send another "thank you note" to Brussels as German businesses remain relatively unimpressed by the next escalation levels in the trade conflict between the US and China.

Germany's most prominent leading indicator, the Ifo index, dropped only slightly in September to 103.7, from a revised 103.9 in August. Both the expectation and the current assessment component weakened somewhat. Still, the absolute level of all components points to continued strong growth for the economy as a whole in the months ahead. It seems as if the Juncker-effect lives on. Remember the late-summer visit of European Commission president Jean-Claude Juncker to Washington, D.C., had taken the EU off US trade war radar screens.

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*It seems as if the Juncker-effect lives on*

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Under the surface of sound economic fundamentals and a positive headline Ifo index, the German manufacturing industry has gradually and almost unnoticed shifted one gear lower. The Ifo index for the manufacturing sector has dropped since the start of the year, while at the same time, an

inventory built-up in recent months combined with less new orders doesn't bode well for industrial production in the months ahead. Having said this, there is no reason, yet, to fall into severe depressions. In fact, there is still a series of highly favourable circumstances, all being growth-supportive. Just think of low-interest rates, a weak euro and supply-side constraints. With credit growth to the corporate sector at its highest level since 2009, domestic investment could become the next big thing.

Looking ahead, the rollercoaster ride of the economy, or at least of high frequency macro data, will continue. This is partly due to a maturing cycle but also due to increasing discrepancies between external and domestic political risks on the one hand and solid economic fundamentals as well as strong domestic demand on the other hand. The potential impact of a fully-fledged trade war is nothing new, the potential impact of ongoing domestic political tensions and even the fall of the government, however, is.

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Up till now, the spluttering start of the government with in-house quarrelling at an increasing frequency hasn't left any marks on the economy. However, the latest dismissal of Hans-Georg Maaßen as president of the Office for the protection of the constitution has once again illustrated how close to the abyss of a government collapse the coalition partners operate.

With the upcoming regional elections in Bavaria and latest opinion polls showing that at the national level, the CDU/CSU is at its lowest level ever and the SPD has been overtaken by the AfD, tensions within the government are in our view unlikely to recede any time soon. Even snap elections before the official end of the term (late 2021) can no longer be excluded.

All in all, we expect the seesaw of disappointing and impressive macro data to continue. Maybe this is simply what characterises a late-cycle economy, which balances between external risks, strong economic fundamentals and increasing domestic political tensions.

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