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Snap

Germany: Running out of superlatives

The German economy has provided further evidence that it can continue to boom despite the political impasse in Berlin

Germany's most prominent leading indicator, the Ifo index, started the year with an all-time high, sending a strong signal that the current political impasse in Berlin has no impact on the economy at all. In January, the Ifo index rebounded to 117.6, from 117.2 in December, and equalled the November all-time high. The current assessment component continued its recent surge and increased to another all-time high. At the same time, the expectations component dropped somewhat; not surprising given the extremely high level of the current assessment.

Consumer confidence also strong

Earlier this morning, German consumer confidence hit the highest level since 2001, on the back of buoyant economic growth and high personal income expectations. The willingness to buy is back at its mid-2015 level. Interestingly, consumers' price expectations remain low.

Strong, stronger, German economy?

At the beginning of the new year, it's all hunky-dory in the German economy. It looks as if an already mature cycle is getting longer and longer. At least in the first months of the year, the economy should maintain its strong momentum. In fact, the German economy still has some upward potential as the output gap is positive but not extraordinary high, capacity utilisation is above its historical average but still lower than in 2007 and investments have only started to increase this year. The big question in the course of 2018 will be whether less monetary policy accommodation – on the back of a stronger euro and higher long-term interest rates – can be offset by the recent upswing of the Eurozone economy and the general strength of the global economy.

Longer term challenges

Looking beyond the near to mid-term outlook, the biggest challenge or risk for the German economy could come from the US tax overhaul and a shift away from 'together' towards 'against one another' at the global economic level, as well as geopolitical risks. In this regard, new structural reforms and new private and public investments are needed to safeguard the currently strong domestic momentum of the German economy. This is both good and bad news: while the ongoing boom clearly shows that the political impasse in Berlin has had no tangible impact on the economy (yet), politics will matter; eventually.

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