

## Germany: Still groping in the dark

The latest Ifo index just somewhat undermines hopes for a swift and strong rebound of the German economy in the final quarter of the year



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Germany's most prominent leading indicator just added more uncertainty to the growth outlook. The Ifo index dropped for the third consecutive month in November to 102.0, from 102.8 in October. Both the current assessment and the expectations components lost further momentum in November.

### Between one-offs and structural factors

A lot has been said and analysed about the state of the German economy. The disappointing third quarter performance was a combination of too many one-off factors but also some structural impediments. How much of the slowdown can be attributed to each single factor, however, remains still unclear. Therefore, the outlook for the German economy has also become more uncertain.

In fact, if the recent slowdown was mainly driven by one-off factors, the prospects for the German economy look still rosy, with low interest rates, a weak euro, strong domestic demand and a pick-up in investments being the main drivers of a gradual rebound. However, if the disappointing third

quarter was mainly the result of structural factors like weaker global demand and dented consumer confidence on the back of “dieseltgate” and bans of older diesel cars in German cities, the outlook for the German economy is much more worrisome.

For now, strong domestic fundamentals, the weak euro and some (temporary) relief from possible external shock factors like Brexit and trade all bode well for a rebound of the German economy going into 2019. However, some uncertainty remains and the search for light in the dark and the real strength of the German economy will continue. Today’s Ifo index suggests that a swift and strong rebound is becoming increasingly unlikely and leaves analysts and experts still groping in the dark.

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