

## Germany: The hard and soft data conundrum

Strong growth, dropping Ifo and increasing PMI. How to read the latest data cacophony out of Germany



A morning with fresh hard and soft economic data from Germany once again shows that it currently needs many nuances to understand and analyse the Eurozone's largest economy.

The PMIs were probably the best illustration of slightly opposing signals. While both the PMI manufacturing and the PMI services dropped in May, the composite PMI actually increased to a three-month high. At 52.4, the composite PMI points to stable and positive GDP growth in the second quarter. The reasons for this apparent contradiction are different formulas in computing the series and the fact that the output component in the PMI manufacturing increased.

At the same time, the most prominent German leading indicator, the Ifo index dropped for the second month in a row, falling to the lowest level in more than four years. The Ifo index stood at 97.9 in May. However, the drop was exclusively driven by a sharp fall in the current assessment component, expectations remained unchanged. Last but not least, don't forget the strong 1Q GDP reading this morning, which given the negative growth contribution of inventories actually even understated the growth performance.

## How to read all of this

Despite the zigzagging of most leading indicators, the German economy has held up relatively well. Looking ahead, underneath those zigs and zags and sometimes opposing signals, there are growing signs of stabilisation. The hard data part of the German economy is actually better. Particularly, the significant negative growth contribution from inventories to 1Q GDP growth does, in our view, bode well for the next few months. Nevertheless, potential political uncertainty in the Eurozone after the European elections, the escalating trade conflict between the US and China and higher oil prices are clear headwinds for the economy in the months ahead. A lot will depend on whether or not domestic demand can again weather these external risks.

Still, in light of the swan songs on the German economy and the almost permanent downward revisions of growth forecasts since the start of the year, the German economy is actually doing well. This morning's bag of mixed data has once again demonstrated that the economy remains stuck between solid domestic fundamentals and external risks. If this "being stuck" means more growth performances like in the first quarter, no one would object.

### Author

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).