

## 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.

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