

Germany: Unbreakable

Ifo index rebounds in October, suggesting continued strong growth of the German economy.



In a positive first confidence test after the elections, and after two consecutive drops, Germany's most prominent leading indicator, the Ifo index, staged another impressive rebound in October. The Ifo index now stands at 116.7, from 115.3 in September. A new all-time high. Both the expectations and current assessment component increased. It seems that German companies have left increased geopolitical tensions, ongoing problems in the German automotive industry and the stronger euro behind. The outcome of the federal elections has also clearly not shattered business optimism.

Manufacturing rebound

Over the past one and a half years, the manufacturing sector has staged a remarkable rebound. Looking at the sector components of the Ifo index shows that the manufacturing sector has closed the wide gap with the service sector over the past 18 months and even hit new record highs. In fact, the last stretch of strong Ifo readings had been mainly the result of the manufacturing rebound. Looking ahead, filled order books and low inventories should keep the manufacturing sector an important growth engine. If the ECB manages to orchestrate a dovish tapering, without a stronger euro or higher bond yields, the external stimulus for the German economy will also remain intact going into 2018.

For the time being, the German growth party continues as if there was no tomorrow

Coalition talks have started

In the meantime, coalition talks in Berlin have started. Being the only realistic option for a next government, Angela Merkel's CDU, the Bavarian sister party CSU, the liberal FDP and the Greens have started first negotiations for a "Jamaica coalition". Given Germany's traditional craving for stable governments and the absence of an alternative, it seems as if they are trying hard to make this coalition work. Last night, the potential coalition partners held their first talks on financial issues. And it looks as if they want to square the circle, sticking to budget surpluses, while at the same time providing tax relief and agreeing on more investment. Whether this will really work, remains to be seen. It is clearly a comfortable common denominator on paper.

Last hooray or never-ending party

Whether this was the last hooray of the German economy or simply more evidence that German optimism these days is unbreakable remains to be seen. Today's Ifo index has definitely washed away earlier tentative signs that the economy is levelling off. For the time being, the German growth party continues as if there was no tomorrow.

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