

## November Ifo signals that hope is back

The strong improvement of the Ifo index adds to recent glimmers of hope. However, this simply reflects a stabilisation at low levels and there is no reason to change the recession call, yet. The sheer fact that things are no longer getting worse doesn't mean that improvement is around the corner



Germany's most prominent leading indicator, the Ifo index, staged a strong rebound, increasing to 86.3 in November, from 84.5 in October. While the current assessment component continued to weaken, expectations improved significantly to 80.0, from 75.9 in October. This Ifo index reading shows that hope is back, even if the current situation is deteriorating further.

### Glimmer of hopes come too early

Today's Ifo index adds to recent glimmers of hope that the German economy might avoid a winter recession. These hopes are built on the back of several government stimulus packages, filled national gas reserves, a better and faster adaptation of businesses and households to reduce gas consumption, and hopes that consumers will simply spend away the energy crisis. However, the downsides still outweigh the upsides: new orders have dropped since February and inventories have started to increase again, a combination that never bodes well for future industrial production. Despite some relief in global supply chain frictions, early leading indicators from

Taiwan and Korea point to a weakening of global trade in the winter. High energy prices are gradually being passed through to consumers, therefore gradually weighing on private consumption.

The government's fiscal stimulus, currently amounting to some 2% of GDP, will come too late to prevent the economy from contracting in the fourth quarter. However, it is substantial enough to cushion the contraction and to turn a severe winter recession into a shallow one. The next question will be whether the economy can actually avoid a double dip in the winter of 2023/24. Currently, many official forecasts expect the German economy to return to average quarterly growth rates by mid-2023. We are more cautious and think that the series of structural changes and adjustments will keep the recovery subdued, with a high risk of a double dip.

For now, the winter of 2023/24 is still far away. This year's winter has just started, and a few warm November weeks do not automatically make for a warm season. Today's Ifo index gives hope for some stabilisation, nothing more, nothing less. Stabilisation is clearly not the same as a significant improvement. Returning to recent optimism, it is tempting to revive soccer economics: a 1-0 lead and a decent performance for 65 minutes can unfortunately still end in a 1-2 defeat. Not all optimism leads to success. At the current juncture and despite today's encouraging Ifo index reading, the question is what is more likely: the German economy avoiding recession or the German national football team still making it into the next round. We wouldn't put much money on either of the two.

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