Economic Research

Economic Briefing

Germany – Ifo defies Trump

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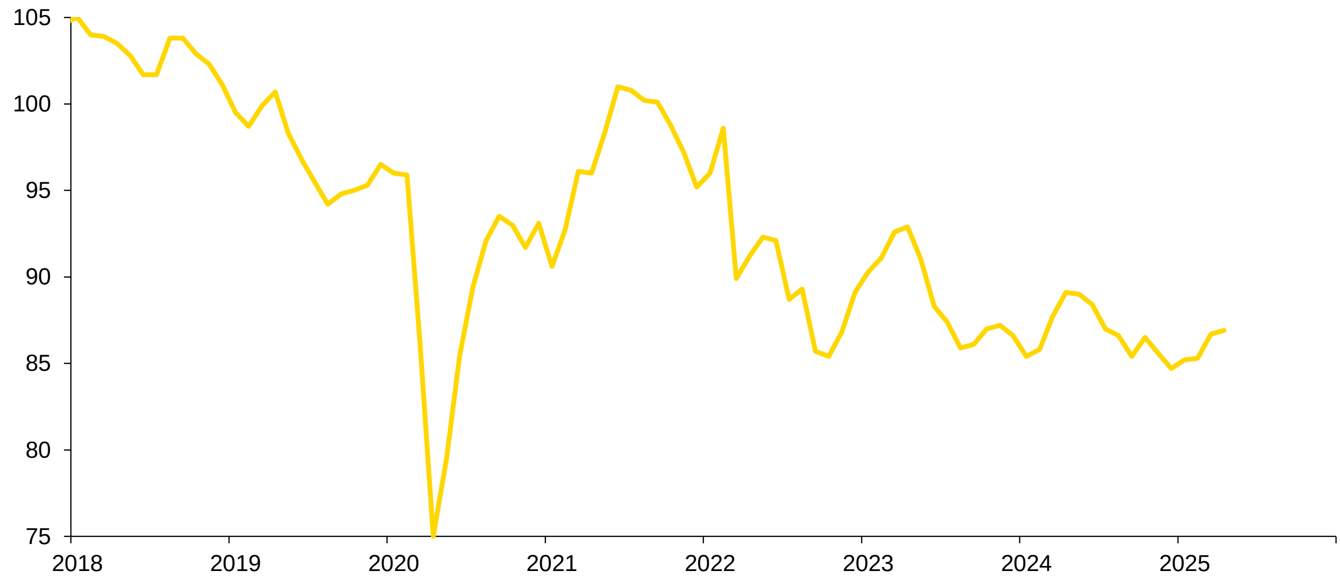
The Ifo business climate rose slightly in April from 86.7 to 86.9, defying forecasts of a decline. Although companies' expectations have deteriorated somewhat, probably due to higher US tariffs, this was more than offset by a better assessment of the current situation. This gives hope that the German economy will pick up at least slightly in the course of this year.

This is undoubtedly a positive surprise: despite higher US tariffs and the resulting difficulties for German companies in accessing their most important export market, the United States, sentiment among German companies improved somewhat in April. While a decline in the Ifo business climate index had been widely expected, it rose slightly from 86.7 to 86.9 (Chart 1). This is the fourth consecutive increase.

Chart 1 - Ifo with the 4th rise in a row, but still on a low level
Ifo business climate for Germany, 2015=100, seasonally adjusted monthly figures



Source: Ifo, S&P Global, Commerzbank Research

The US tariffs have certainly left their mark. The business climate in manufacturing, which is naturally hardest hit by tariffs, has deteriorated somewhat, with business expectations in particular taking a turn for the worse. However, these movements were significantly weaker than most analysts had expected, meaning that they were more than offset by other effects. Manufacturing companies once again assessed the current business situation less negatively than in the previous month, and the business climate in the construction sector improved noticeably, probably because companies are hoping for additional infrastructure investment to be financed by the new special fund.

Overall, today's figures therefore give hope that the German economy will pick up in the course of this year despite the higher US tariffs. However, it should not be overlooked that the recovery in the business climate has been very subdued so far, which suggests that the economic upturn is also likely to be very hesitant.

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