Economic Research

Economic Briefing

Ifo shrugs off high oil prices

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Dr. Jörg Krämer AC

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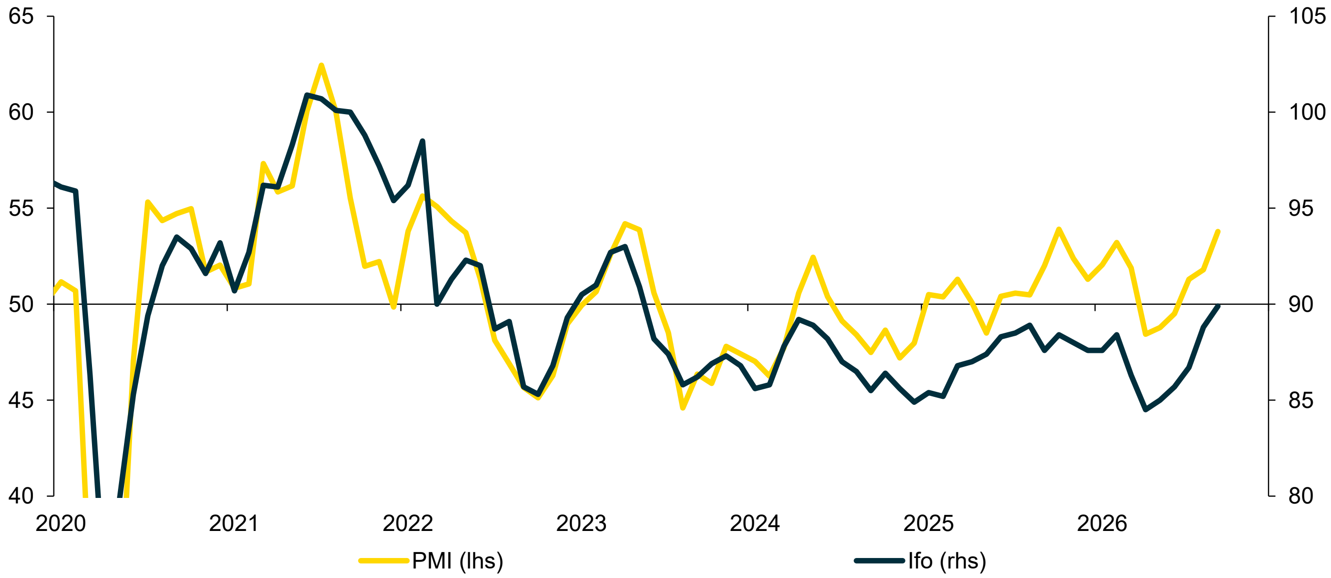
The ifo business climate index has risen surprisingly sharply (from 88.8 to 89.9), just like yesterday's purchasing managers' index. Apparently, companies have shaken off the recent massive surge in energy prices. The German economy is more resilient than expected. However, we expect only a moderate recovery (1.2% for 2026). Due to the lack of far-reaching reforms, the battered competitiveness of Germany is not improving decisively, which is why companies will remain reluctant to invest domestically. In addition, exports are suffering from weak exports to China and from Trump's tariffs.

The ifo business climate index rose unexpectedly sharply in September – from 88.8 to 89.9 (Chart 1). The increase was above the consensus (consensus: 89.0. The improvement was driven both by the assessment of the current business situation (89.5 after 88.5) and by business expectations for the coming six months (90.4 after 89.0).

The recovery is remarkable because energy prices rose sharply in September due to the escalation of the Iran War. In the meantime, both the ifo business climate index and the PMI are higher than they were at the outbreak of the Iran War. This is another sign that the German economy – like most Western economies – is unexpectedly resilient with regard to the Iran War.

Chart 1 - Ifo and PMI now higher than before the outbreak of the Iran War
Ifo business climate and composite PMI for Germany, seasonally adjusted monthly figures



Source: Ifo, S&P Global, Commerzbank Research

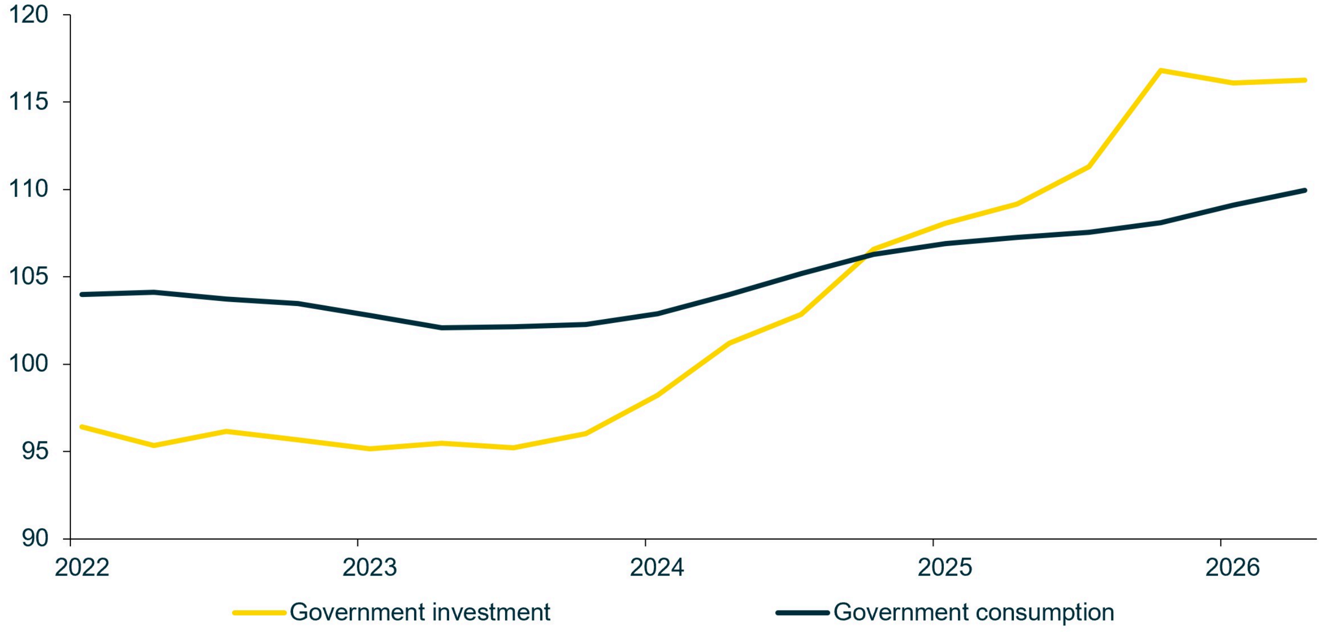
Corporate investment and exports are largely failing as drivers of the business cycle

Not only the ifo business climate index, but also other leading indicators such as the PMIs and incoming orders have delivered positive surprises in recent months. It is mainly for this reason that two weeks ago we raised our 2026 growth forecast for Germany from 1.0% to 1.2%.

However, we still expect a weak recovery. Since early 2024, when German GDP passed its trough, corporate investment has declined. The absence of profound reforms to improve Germany's battered competitiveness argues against corporate investment rebounding strongly, as is usually the case in upswings. Little impetus is also expected from international trade, because German exports to China are lagging and because of Trump's tariffs. As a result, the economic recovery depends far more than usual on rising government spending on consumption (increasing public-sector employment, healthcare) and investment (including defence) (Chart 2). The German economy is still a long way from a self-sustaining upswing.

German states boost growth

Government investment and government consumption, price adjusted, index 2020 = 100, 4 quarter averages



Source: Federal Statistical Office, Commerzbank Research

Analysts

Dr. Jörg Krämer AC
Chief Economist
+49 69 136 23650
joerg.kraemer@commerzbank.com

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Frankfurt	London	New York	Singapore
Commerzbank AG	Commerzbank AG	Commerz Markets LLC	Commerzbank AG
DLZ - Gebäude 2, Händlerhaus	PO BOX 52715	225 Liberty Street, 32nd floor,	128 Beach Road
Mainzer Landstraße 153	30 Gresham Street	New York,	#17-01 Guoco Midtown
60327 Frankfurt	London, EC2P 2XY	NY 10281-1050	Singapore 189773
Tel: + 49 69 136 21200	Tel: + 44 207 623 8000	Tel: + 1 212 703 4000	Tel: +65 631 10000