

Germany Recovery Monitor – Update

8 October 2026

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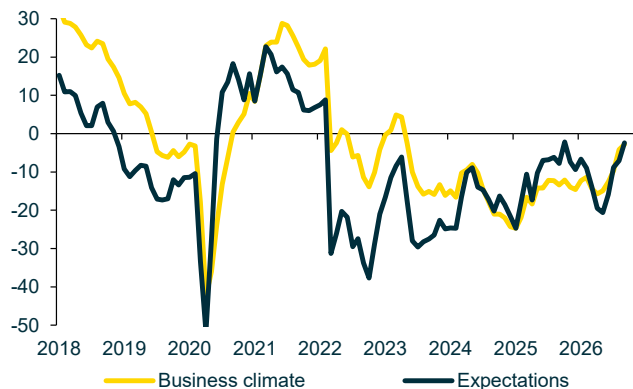
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The German economy has grown quite strongly again in recent quarters, even though it has been weighed down by the war in Iran and the resulting sharp rise in energy prices. We regularly monitor indicators for the individual sectors of the German economy and analyze them for signs that the German economy will continue to grow. Most sentiment indicators have risen recently and have now largely offset the declines that followed the start of the war in Iran. The “hard” numbers, on the other hand, have recently tended to be weaker again. Consequently, there are currently many signs pointing to a continuation of the recovery, but the pace of growth in the third quarter was likely slower than in the first half of the year.

Manufacturing: Improved sentiment, “hard” data remains subdued

The **Ifo Business Climate Index** for the manufacturing sector improved noticeably again in September. Sentiment is now significantly more positive than it was before the outbreak of the Iran War. However, while expectations brightened in September, the assessment of the current business situation was slightly less favorable than in the previous month. Despite five consecutive increases, the business climate index remains just below the zero line, meaning that negative responses still outnumber positive ones.

Ifo business climate for manufacturing
Diffusion index



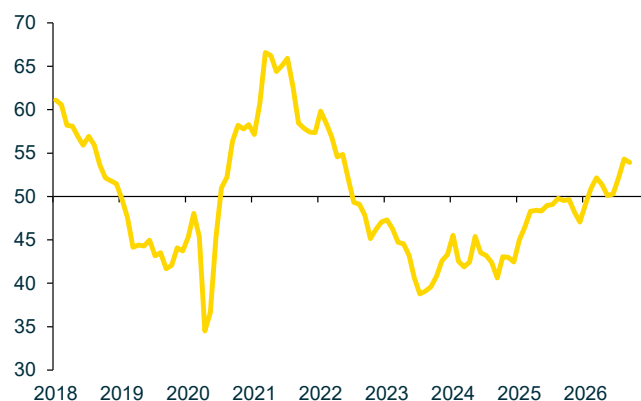
Source: Ifo, S&P Global, Commerzbank Research



There was a slight setback in the **Purchasing Managers' Index** for the manufacturing sector. However, at 53.9 (down from 54.3 in August), it remains well above the 50-point mark, indicating expansion in the sector. This also applies to the sub-components for new orders and production.

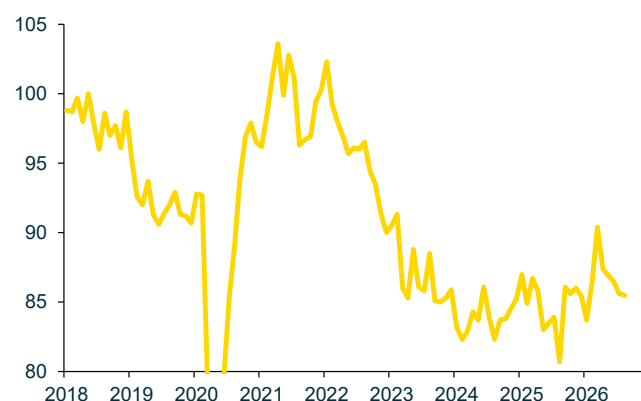
New orders in the manufacturing sector plummeted by more than 10% in August. However, this was almost entirely due to a significant decline in large orders. The core figure—excluding large orders, which are often highly volatile and have little short-term impact on production—fell only minimally. As a result, the core figure continues to move sideways, having briefly spiked in the spring but then quickly fallen back.

Purchasing Managers' Index for manufacturing
Diffusion index



Source: Ifo, S&P Global, Commerzbank Research

Industrial order intake
Excl. big ticket orders, volumes



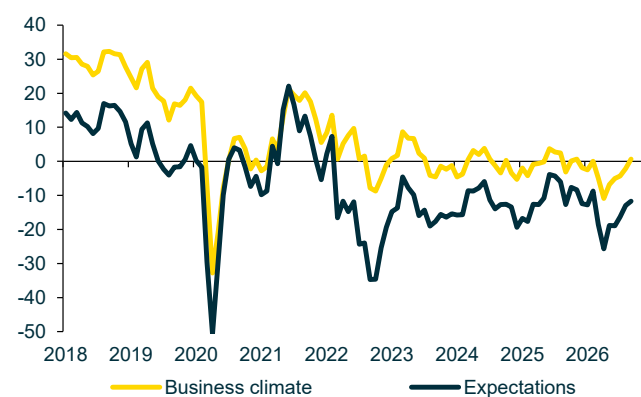
Source: Destatis, S&P Global, Commerzbank Research

Bottom line: The sentiment indicators, which have improved significantly in recent months, offer hope for a recovery in industrial activity. However, a sustained turnaround in the “hard” data has yet to materialize.

Service sector: Sentiment improves, revenue rises slightly

The **Ifo Business Climate Index** for the service sector rose in September for the fifth consecutive month, returning to positive territory for the first time since the outbreak of the Iran War. The assessment of the current situation improved slightly more than the (still negative) expectations.

Ifo business climate for the service sector
Diffusion index

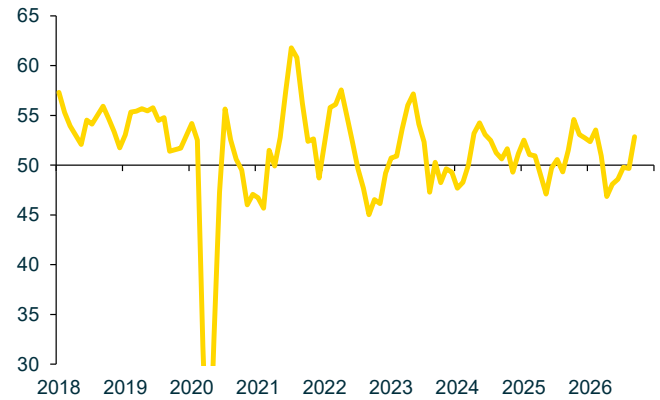


Source: Ifo, S&P Global, Commerzbank Research



The **Purchasing Managers' Index** for the service sector rose above the 50-point mark again in September, signaling a return to modest growth in this sector.

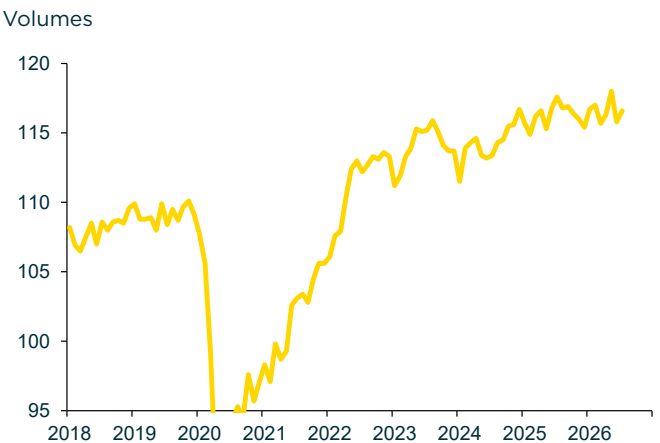
Purchasing Managers' Index for the service sector
Diffusion index



Source: S&P Global, Commerzbank Research

Real **revenue** in the service sector rose slightly again in July, thereby offsetting part of the decline seen in the previous month. However, the trend over the past few months has been more sideways than upward.

Sales in the service sector
Volumes



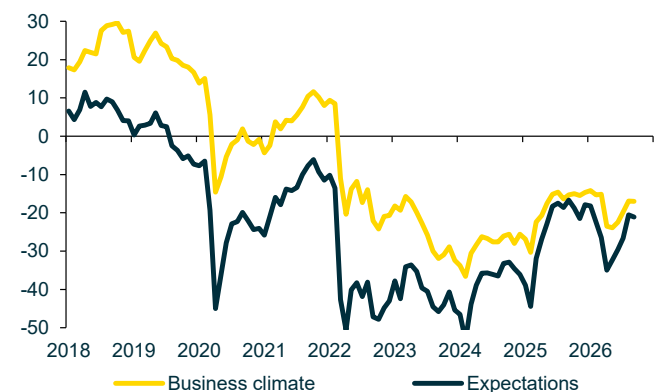
Source: Destatis, S&P Global, Commerzbank Research

Bottom line: Sentiment in the service sector has continued to improve recently and now points to growing economic output. However, sales have tended to move sideways in recent months.

Construction industry: Will the Iran shock be followed by an interest rate shock?

The **Ifo Business Climate** index for the construction sector saw a slight decline in September following a significant rise in August. As a result, the index remains at a level similar to that seen before the outbreak of the Iran war, but is still significantly lower than it was before the ECB's massive interest rate hikes in 2022 and 2023.

Ifo business climate for the construction sector
Diffusion index

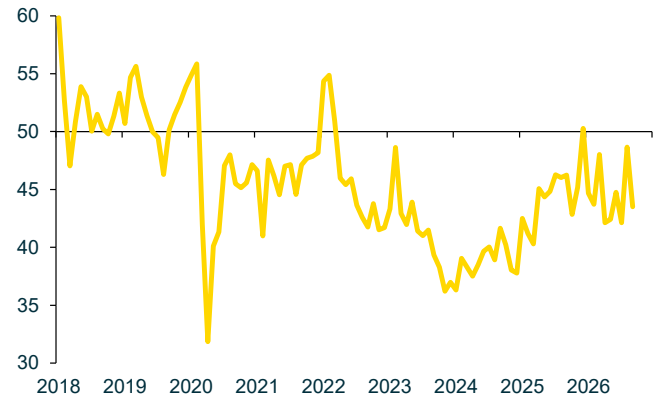


Source: Ifo, S&P Global, Commerzbank Research



The **Purchasing Managers' Index** for the construction sector fell significantly again in August, bringing it back well below the 50-point mark and signaling another sharp contraction in the sector.

Purchasing Managers' Index for the construction sector
Diffusion index

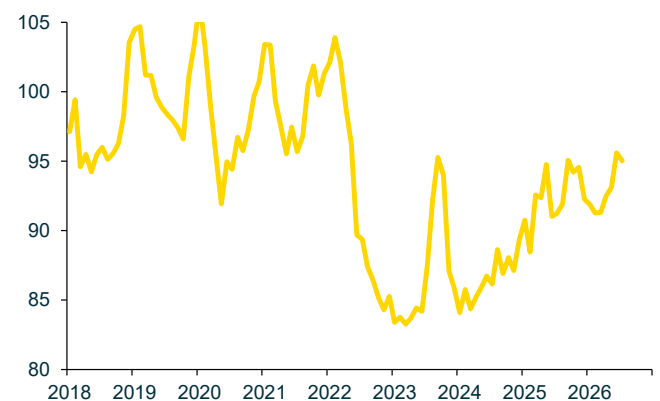


Source: S&P Global, Commerzbank Research

New orders for construction companies fell sharply in July, reversing the gains of the previous two months. The less volatile 3-month average declined slightly but still shows an upward trend.

Order intake for construction

3-months average, volumes

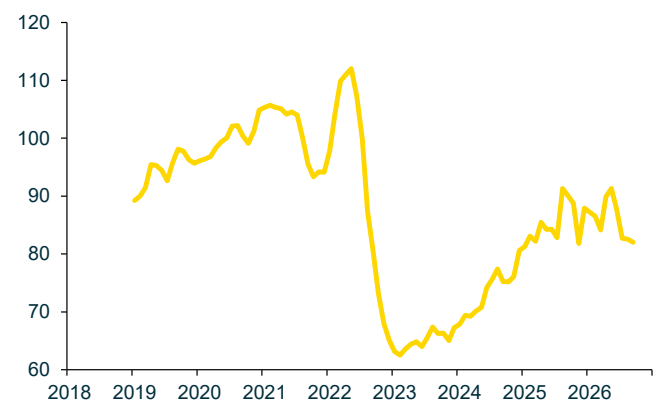


Source: Destatis, S&P Global, Commerzbank Research

The number of **newly signed mortgage contracts** continued to decline in September. The sideways trend has now given way to a slight downward trend.

New mortgage contracts

3-months average, 2019=100



Source: Schufa, Destatis, Commerzbank Research

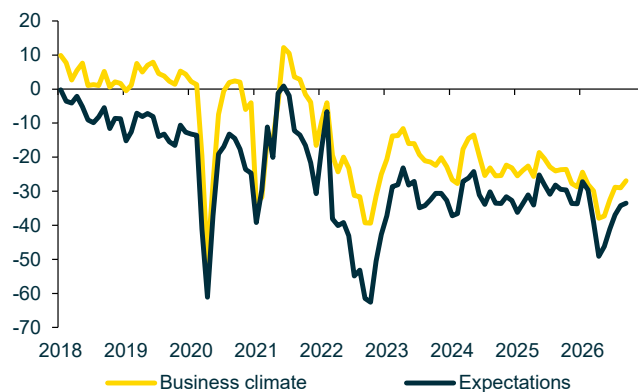
Bottom line: Despite stronger demand from the government, the construction sector is failing to gain momentum, especially since the recent rise in interest rates has added another headwind. This is likely also responsible for the recent deterioration in business sentiment.

Retail: Sentiment is gloomy, sales remain weak



The **Ifo Business Climate Index** for the retail sector improved slightly again in September, but remains at a very low level.

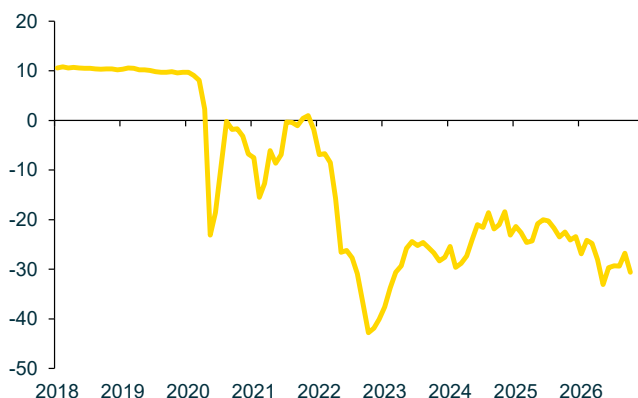
Ifo business climate for the retail sector
Diffusion index



Source: Ifo, S&P Global, Commerzbank Research

The **GfK Consumer Climate Index** deteriorated in October. As a result, the indicator remains at a very low level. Apparently, the recent sharp rise in energy prices has reignited memories of the inflation shock in 2021 and 2022.

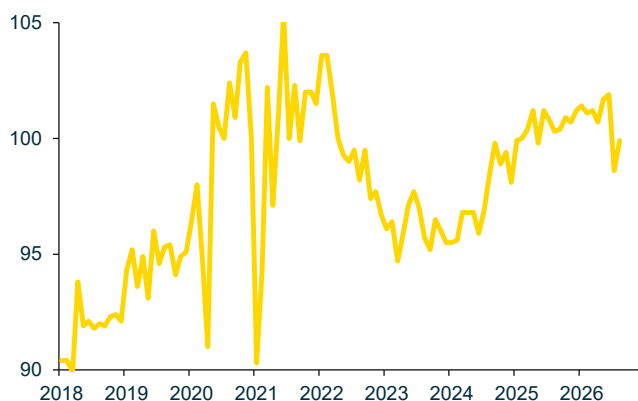
GfK consumer sentiment
Diffusion index



Source: GfK, S&P Global, Commerzbank Research

Retail sales in August only partially offset the slump seen in July. It is still possible that one-time factors played a role in the recent weak figures or that the numbers will be revised. However, the risk of a significantly weaker trend has increased.

Retail sales
Volumes



Source: Destatis, S&P Global, Commerzbank Research

Bottom line: Sentiment among retail businesses and consumers remains low. With sales in July and August significantly weaker, the picture based on the “hard” numbers now looks considerably worse as well, although one-time factors may have played a role here. However, there is certainly no sign of a substantial recovery.



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