



COMMERZBANK

Economic Research

Economic Briefing

Ifo – a cold shower

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The Ifo business climate and the purchasing managers' index both turned out poorly in September (85.4 after 86.6). The trend among sentiment indicators is now pointing downward again. In the second half of the year, German GDP will at best stagnate. Regarding next year, with an increase of only 0.5% no real upturn is in sight due to Germany's eroding competitiveness over several years. This holds despite the fact that the headwind from monetary policy and energy prices is easing.

The Ifo business climate for the German economy fell significantly in September, from 86.6 to 85.4. The drop was larger than expected (consensus and Commerzbank: 86.0). The decline in the business climate was mainly due to a significantly worse assessment of the current business situation (84.4 after 86.4). Expectations for the next six months fell less sharply (86.3 after 86.8). With the exception of the construction industry, the Ifo business climate fell in all major sectors – most sharply in manufacturing.

The trend is clearly pointing downwards again

The Ifo business climate has now fallen four times in a row. The trend is clearly pointing downwards again – similar to the purchasing managers' index. The German economy is suffering from unresolved shortcomings in competitiveness, past interest rate hikes and falling demand from China, which used to be a strong growth market. In the second half of the year, Germany's GDP is likely to stagnate at best.

The fact that structural problems also play a role can be seen from the fact that companies have been assessing their current business situation with increasing caution since 2018 – only interrupted by strong fluctuations during the COVID-pandemic (chart). In the meantime, business expectations for the next six months repeatedly picked up only to deteriorate again after a while (as we are seeing now).

The headwind will ease next year...

As far as the business cycle is concerned, the headwind should ease somewhat next year. Firstly, companies should have become increasingly accustomed to higher interest rates by then, especially since the ECB will probably have lowered its key rates further by then. Second, two-thirds of the energy price increase of 2021/22 have now been reversed, even if energy remains expensive in Germany compared to the US, for example. Third, private consumption should increase somewhat in the coming year because people's inflation concerns should have diminished by then.

... but still no genuine upturn



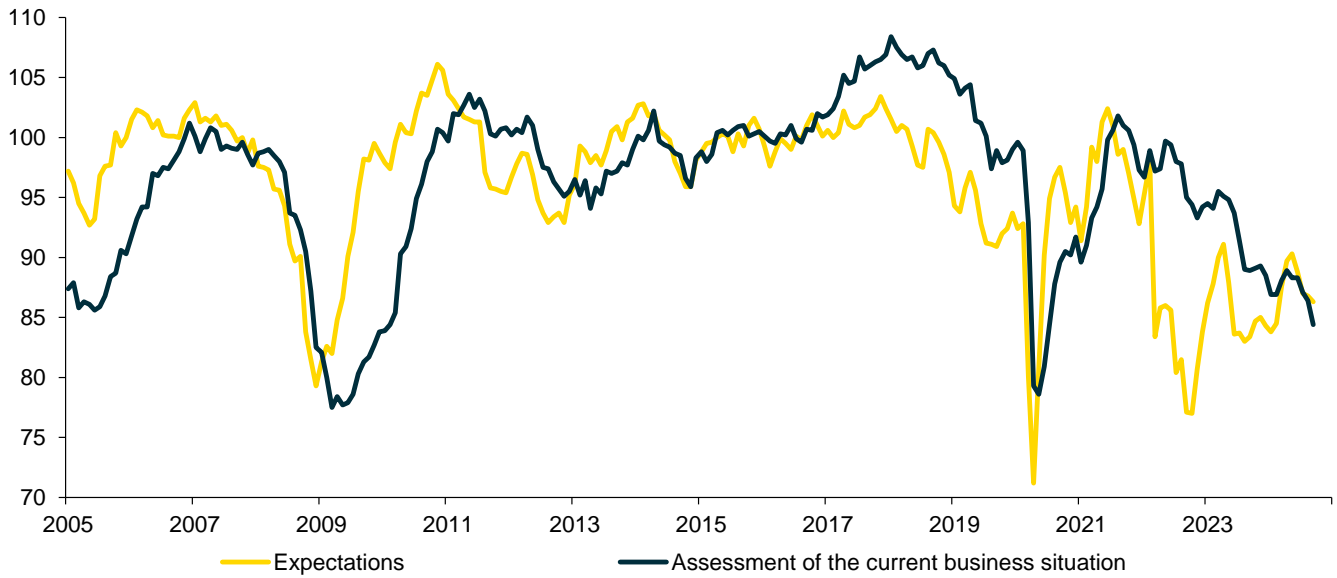
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Despite these alleviating factors, the German economy is likely to see only a slight recovery in the coming year. At 0.5 percent, we expect a smaller increase than most economists – due to the unresolved shortcomings in competitiveness and weak growth in our important sales market China. A genuine upturn is not in sight.

Chart 1 - Ifo: Assessment of the current business situation in a downward trend since 2018

Subcomponents of the Ifo business climate, 2015=100



Source: Ifo, S&P Global, Commerzbank Research



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