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Economic Research

Economic Briefing

Ifo – good news at last

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The Ifo Business Climate surprisingly recovered in October (86.5 after 85.4). However, after four consecutive declines, today's increase cannot yet turn the Ifo trend upwards. The winter half-year will be difficult for the German economy. On the other hand, today's recovery in the Ifo business climate speaks against a deep recession. The more likely scenario remains a stagnation in the winter half-year followed by an anemic recovery from spring onwards. More is not likely because the German government is not taking decisive action against the multi-year erosion in Germany's competitiveness.

The Ifo business climate rose from 85.4 to 86.5 in October, clearly exceeding the expectations (consensus: 85.6; Commerzbank: 85.0). The recovery came not only from business expectations for the next six months (87.3 after 86.4), but also from the more upbeat assessment of the current business situation (85.7 after 84.4). With the exception of the construction industry, the Ifo business climate has improved in all major sectors, especially in the trend-setting manufacturing industry.

The positive surprise in the Ifo business climate means two things:

- Firstly, today's increase does not yet represent a new upward trend in Ifo after four consecutive declines. The trend is still pointing downwards. The German economy is only likely to stagnate in the winter half-year.
- Secondly, today's rise in the Ifo business climate supports the view that we are not facing a deep recession. The headwind from past ECB rate hikes is abating. In addition, around two thirds of the energy price increase from 2022 has been reversed. All of this should allow the German economy to grow again somewhat from the spring onwards.

However, we only expect growth of 0.2% for 2025 as a whole. After all, the German government is not taking decisive action against the multi-year erosion of German competitiveness. Companies are highly nervous.

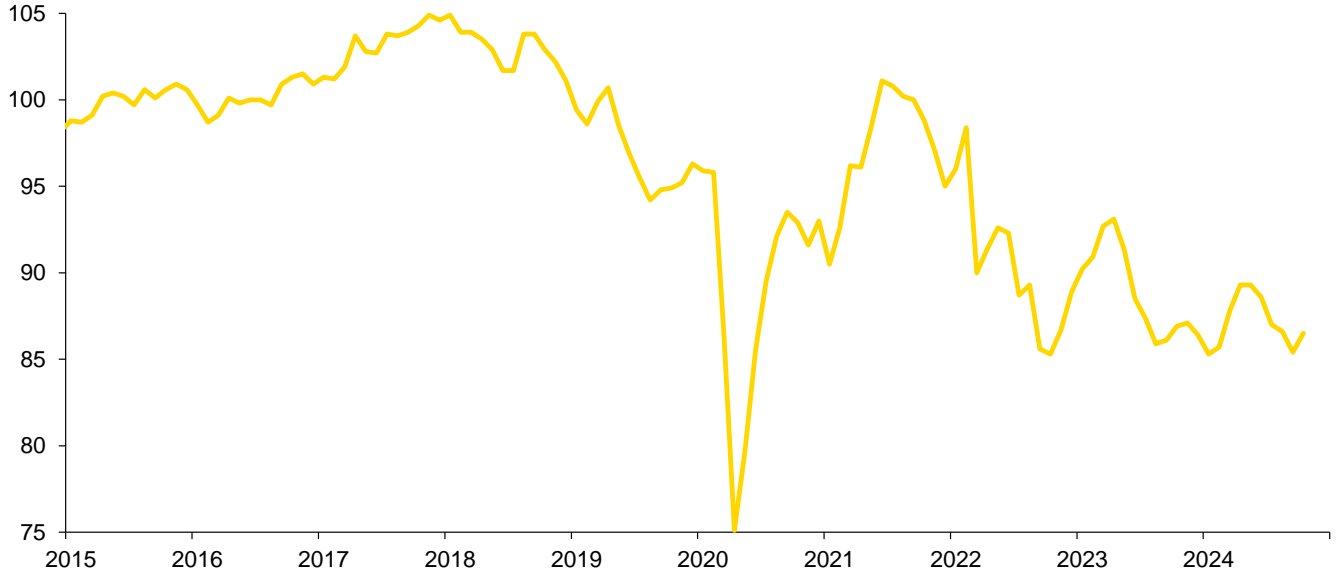


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Chart 1 - Ifo stabilizing on a low level

Ifo business climate for Germany, 2015=100, seasonally adjusted monthly figures



Source: Ifo, S&P Global, Commerzbank Research



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