COMMERZBANK

Economic Research

Economic Briefing

Germany – Ifo lags behind

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The Ifo Business Climate remained at a very low level in February (85.2, consensus: 85.8). In contrast to the Purchasing Managers' Index and incoming orders, there are still no signs of a recovery in the Ifo index. This supports our forecast that the German economy will see little upward movement starting in spring. In any case, the differing positions of the future governing coalition partners are dampening hopes of a fresh start in economic policy, which would be very important after the many years of erosion in Germany's competitiveness.

The Ifo Business Climate did not rise further in February, but remained at the low level of 85.2. This was slightly weaker than expected (consensus: 85.8, Commerzbank: 85.5).

Behind the Ifo indicator's stagnation are opposing movements of its two sub-components. While business expectations for the next six months recovered noticeably (85.4 after 84.3), the assessment of the current business situation was again more pessimistic (85.0 after 86.0). As far as the major sectors are concerned, a decline in the service sector offset the slightly better sentiment in the other sectors.

Ifo not yet pointing upwards

As the chart below shows, the Ifo business climate remains at a very low level. Unlike the Purchasing Managers' Index or incoming orders, there are still no signs of a recovery in the Ifo Business Climate.

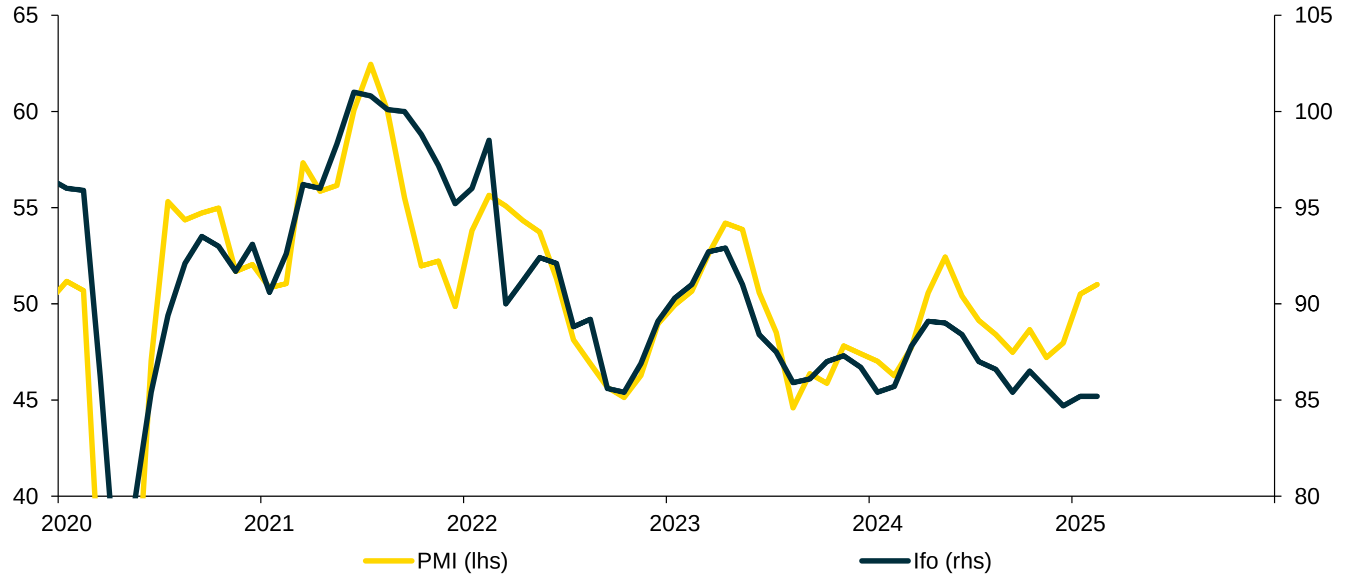
All in all, the leading indicators confirm that the German economy will see little upward movement starting in spring. The ECB has lowered its interest rates since mid-2024 and private consumption is benefiting from wages rising faster than consumer prices. However, companies are likely to remain reluctant to invest, as Germany's competitiveness has massively eroded since the Merkel years.

A fresh start in economic policy?

Given the low competitiveness, it is understandable that many German companies are longing for a fresh start in economic policy. A new coalition between the CDU/CSU and SPD is most likely to agree on more funds for infrastructure and the armed forces and ultimately push this through despite a blocking minority of the right wing AfD and the Left Party. That would undoubtedly be good for companies. But in other areas of economic policy, the CDU/CSU and SPD have different positions – for example in tax and social policy or in the fight against bureaucracy. This dampens the hope that there will be a fresh start in economic policy. We still only expect a minimal growth rate of 0.2% for 2025.

Chart 1 - Have sentiment indicators stabilized?

Composite PMI for manufacturing and services and Ifo business climate, seasonally adjusted monthly figures



Source: Ifo, S&P Global, Commerzbank Research

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