

Ifo rises not only due to the fiscal package

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Dr. Jörg Krämer ^{AC}

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The significant improvement in the German Ifo business index in March (86.7 after 85.3) partly reflects the hope of many companies that the future government's financial package will ultimately boost the economy. However, the Ifo's significant increase is probably also due to a recovery in global manufacturing, which is benefiting from rate cuts by Western central banks. A strong, self-sustaining upturn in German manufacturing would, however, require a fresh start in economic policy, which is not yet apparent in the coalition negotiations.

Business expectations have risen significantly, ...

The Ifo business climate rose significantly in March – from 85.3 to 86.7, largely in line with expectations (consensus: 86.7; Commerzbank: 86.5). The assessment of the current business situation has mostly recovered from the decline in February (85.7 after 85.0). However, the significant increase in the business climate is mainly due to a much better assessment of business expectations (87.7 after 85.6).

As far as the major economic sectors are concerned, the business climate has improved in manufacturing in particular (-16.6 after -21.9). There was also a slight improvement in the services, trade and construction sectors.

... but not only because of the fiscal package

As the CDU/CSU and SPD had already agreed on massively increased funding for infrastructure and defense at the beginning of the month, this is likely to have influenced the responses of the companies surveyed. The significant rise in business expectations apparently reflects the hope of many companies that the future government's financial package will ultimately provide tailwinds for the economy. However, the Ifo increase is probably also due to a recovery in global manufacturing, which is benefiting from rate cuts by western central banks.

Sentiment indicators bottoming out

Looking at the Ifo Business Climate and the Purchasing Managers' Index, we can now speak of a bottoming out. In the coming months, the economy should benefit from the ECB's rate cuts. However, economic development will be burdened by the prospect of significantly higher US tariffs. The financial package is unlikely to play a role this year, as experience shows that it takes longer for the government to actually increase its spending on defense and infrastructure. The economy is likely to recover moderately

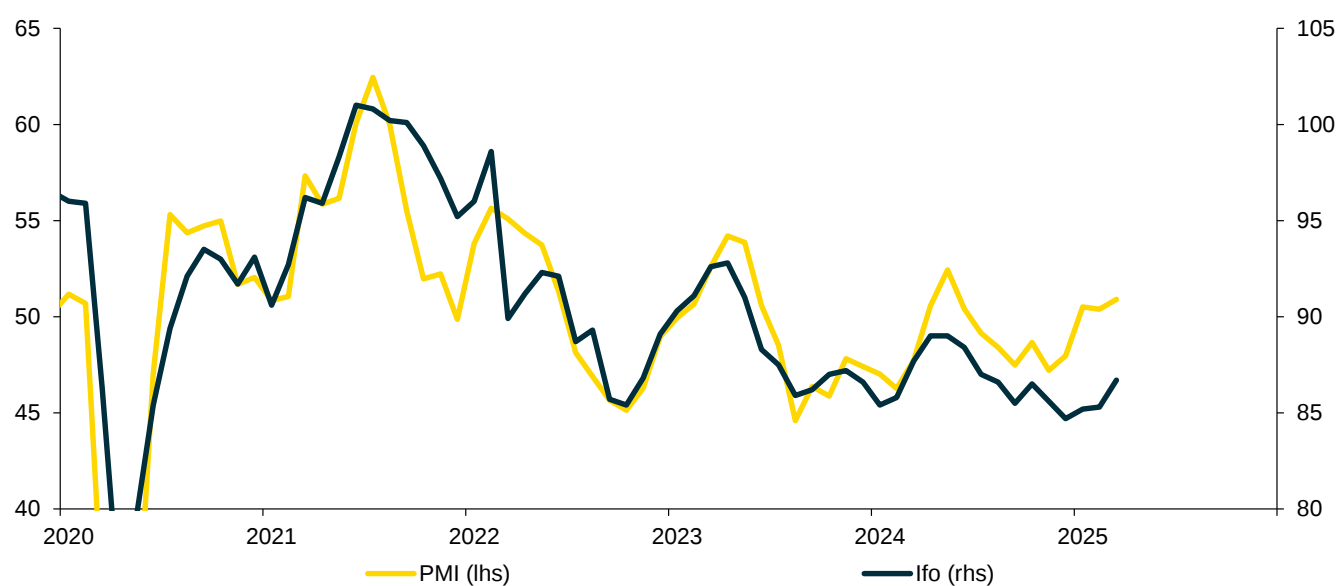


from the spring. However, due to the weak starting point of the forecast, we only expect GDP to stagnate on average in 2025.

From next year onwards, the agreed additional spending totaling 2¼% of GDP (average over 12 years) should slowly increase demand, although the shortage of skilled workers will cause a considerable part of the fiscal stimulus to evaporate in higher prices. Furthermore, there are no signs of a broad-based fresh start in economic policy, which many companies are fervently hoping for. We therefore only raised our 2026 growth forecast from 1.0% to 1.5% almost three weeks ago.

Chart 1 - Sentiment indicators bottoming out

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



Source: Ifo, S&P Global, Commerzbank Research



Analysts

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

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Commerzbank Offices

Frankfurt

Commerzbank AG
DLZ - Gebäude 2,
Händlerhaus
Mainzer Landstraße 153
60327 Frankfurt
Tel: + 49 69 136 21200

London

Commerzbank AG
PO BOX 52715
30 Gresham Street
London, EC2P 2XY
Tel: + 44 207 623 8000

New York

Commerz Markets LLC
225 Liberty Street, 32nd
floor,
New York,
NY 10281-1050
Tel: + 1 212 703 4000

Singapore

Commerzbank AG
128 Beach Road
#17-01 Guoco Midtown
Singapore 189773
Tel: +65 631 10000