COMMERZBANK

Economic Research

Economic Briefing

Ifo rises not only due to the fiscal package

25 March 2025

Dr. Jörg Krämer [AC]

Table of contents

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.

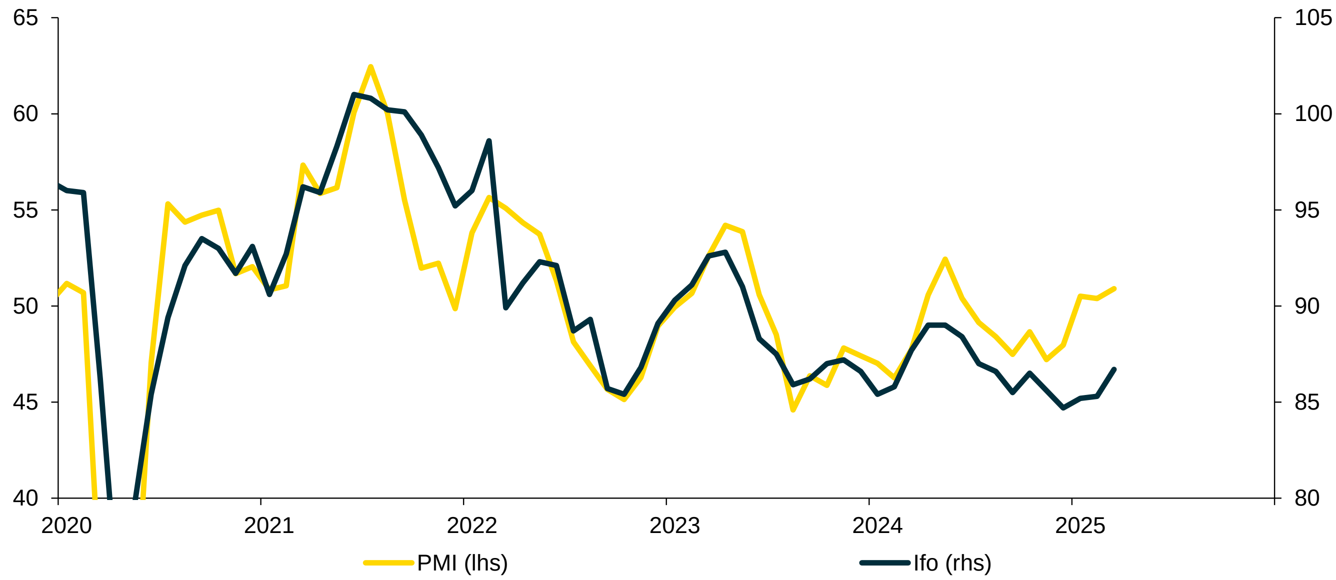
Sentiment indicators bottoming out

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 $2^1/_4$% 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

This report was completed 25/3/2025 10:52 CET and disseminated 25/3/2025 10:52 CET.

This document has been created and published by the Group Research department (GM-R) within the Group Management division of Commerzbank AG, Frankfurt/Main or Commerzbank's non-US branch offices mentioned in the document.

Analyst Certification (AC): The author(s), denoted by AC at the beginning of this report, individually certifies that the views expressed in this report accurately reflect their personal views about the subject securities and issuers; and no part of their compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views expressed by them contained in this document.

It has not been determined in advance whether and in what intervals this document will be updated. Unless otherwise stated current prices refer to the most recent trading day's closing price or spread which may fluctuate.

Conflicts of interest

Disclosures of potential conflicts of interest relating to Commerzbank AG, its affiliates, subsidiaries (together "Commerzbank") and its relevant employees with respect to the issuers, financial instruments and/or securities forming the subject of this document valid as of the end of the month prior to publication of this document*:

Please refer to the following link for disclosures on companies included in compendium reports or disclosures on any company covered by Commerzbank analysts: **https://commerzbank.bluematrix.com/sellside/Disclosures.action***

*Updating this information may take up to ten days after month end.

Disclaimer

This document is for information purposes only and has been prepared for recipients who, like professional clients according to MiFID II, have the experience, knowledge and expertise to understand information related to the financial markets. The document does not take into account specific circumstances of any recipient and the information contained herein does not constitute the provision of investment advice. It is not intended to be and should not be construed as a recommendation, offer or solicitation to acquire, or dispose of, any of the financial instruments and/or securities mentioned in this document and will not form the basis or a part of any contract or commitment whatsoever. Investors should seek independent professional advice and draw their own conclusions regarding suitability of any transaction including the economic benefits, risks, legal, regulatory, credit, accounting and tax implications.

The information in this document is based on public data obtained from sources believed by Commerzbank to be reliable and in good faith, but no representations, guarantees or warranties are made by Commerzbank with regard to accuracy, completeness or suitability of the data. Commerzbank has not performed any independent review or due diligence of publicly available information regarding an unaffiliated reference asset or index. The opinions and estimates contained herein reflect the current judgement of the author(s) on the date of this document and are subject to change without notice. The opinions do not necessarily correspond to the opinions of Commerzbank. Commerzbank does not have an obligation to update, modify or amend this document or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

In order to address potential conflicts of interest Commerzbank's Research department operates independently of other business units of the bank. This is achieved by way of physical and administrative information barriers and separate reporting lines as well as by written internal policies and procedures.

This communication may contain trading ideas where Commerzbank may trade in such financial instruments with customers or other counterparties. Any prices provided herein (other than those that are identified as being historical) are indicative only, and do not represent firm quotes as to either size or price. The past performance of financial instruments is not indicative of future results. No assurance can be given that any financial instrument or issuer described herein would yield favourable investment results. Any forecasts or price targets shown for companies and/or securities discussed in this document may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information and/or the subsequent transpiration that underlying assumptions made by Commerzbank or by other sources relied upon in the document were inapposite.

Commerzbank and or its affiliates may act as a market maker in the instrument(s) and or its derivative that has been mentioned in our research reports. Employees of Commerzbank and or its affiliates may provide written or oral commentary, including trading strategies, to our clients and business units that may be contrary to the opinions conveyed in this research report. Commerzbank may perform or seek to perform investment banking services for issuers mentioned in research reports.

Definition of Article 2 of the FIEA. Please note that Commerzbank AG, Tokyo Branch has not participated in its preparation. Any instruments referred in this report cannot be introduced by the Branch. You should contact the Corporate Clients division of Commerzbank AG for inquiries on availability of such instruments.

Australia: Commerzbank AG does not hold an Australian financial services licence. This document is being distributed in Australia to wholesale customers pursuant to an Australian financial services licence exemption for Commerzbank AG under Class Order 04/1313. Commerzbank AG is regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) under the laws of Germany which differ from Australian laws.

People's Republic of China (PRC): This document is furnished by Commerzbank AG and is only intended for eligible entities in the PRC. No-one else may rely on any information contained within this document. The products and services in this document only apply to entities in the PRC where such products and services are permitted to be provided by PRC laws and regulations. For any person who receives this document, the information in this document shall neither be regarded as promotion or solicitation of the business nor accounting, legal, regulatory, tax, financial or other advice and/or recommendations to the recipient of this communication, and the recipient is advised to seek independent advice from its own professional advisers about the information contained herein and shall understand and abide by PRC laws and regulations while conducting any related transactions.

Commerzbank Offices

Frankfurt	**London**	**New York**	**Singapore**
Commerzbank AG	Commerzbank AG	Commerz Markets LLC	Commerzbank AG
DLZ - Gebäude 2, Händlerhaus	PO BOX 52715	225 Liberty Street, 32nd floor,	128 Beach Road
Mainzer Landstraße 153	30 Gresham Street	New York,	#17-01 Guoco Midtown
60327 Frankfurt	London, EC2P 2XY	NY 10281-1050	Singapore 189773
Tel: + 49 69 136 21200	Tel: + 44 207 623 8000	Tel: + 1 212 703 4000	Tel: +65 631 10000