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Economic Research

Economic Briefing

Ifo – Positive start into the year

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That is a positive start to the year. Following the purchasing managers' index, the Ifo business climate has also improved (85.1 after 84.7). Overall, these important sentiment indicators are now showing signs of bottoming out. This supports the forecast that the German economy will start to improve from spring onwards. However, a significant upswing requires a new start in economic policy, although the possible future coalition partners unfortunately have different economic policy ideas. We continue to expect only a marginal GDP increase of 0.2 percent for 2025.

The Ifo business climate rose from 84.7 to 85.1 in January. This was above the consensus of 84.8. However, after the sharp rise in the purchasing managers' index, one could have imagined a stronger increase in the Ifo business climate.

The improvement in the Ifo business climate resulted entirely from a better assessment of the current business situation (86.1 after 85.1). By contrast, expectations for the next six months fell slightly (84.2 after 84.4). With regard to the major sectors, the improvement in the business climate was limited to the service sector.

On balance, the business climate has bottomed out

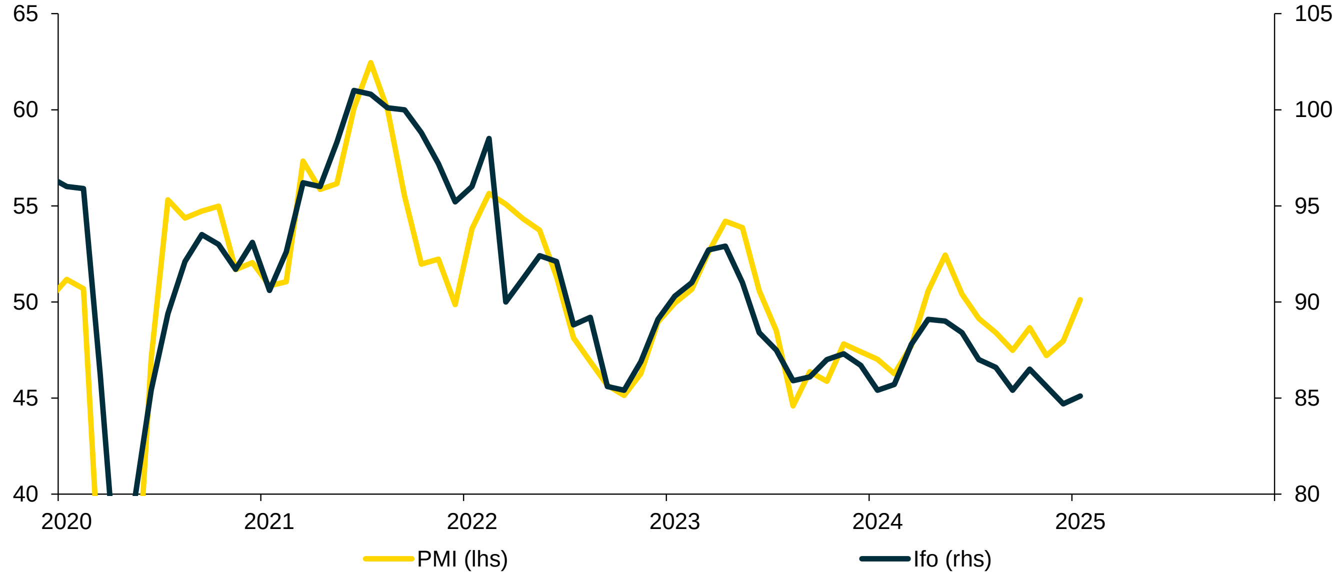
As the chart below shows, the purchasing managers' index has recovered more markedly than the Ifo Business Climate. On balance, the important sentiment indicators now appear to have bottomed out. This does not change the difficult situation in the winter half-year, during which German GDP will at best stagnate. But the bottoming out of the leading indicators at least does not contradict the forecast that the German economy will start to improve somewhat from spring onwards. The main argument for this is the ECB's interest rate cuts, which usually stimulates the economy with a time lag. However, companies are likely to continue to hold back on investment, as Germany's competitiveness has massively eroded since the Merkel years.

A fresh start for economic policy after the federal election?

The federal election on February 23rd would only change this if the future coalition partners had a common understanding of how to improve competitiveness. A new coalition might relax the constitutional debt brake, for example by exempting public investment from it. In this respect, significantly more funds could be available for infrastructure investment in the future. But in most other areas of economic policy, the potential coalition partners would probably have significantly different views, which would argue against the necessary fresh start in economic policy. We continue to expect essentially a stagnation in 2025 (GDP forecast: 0.2%).

Chart 1 - German sentiment indicators on average 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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