



COMMERZBANK

Economic Research

Economic Briefing

Ifo – a cold shower

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The unexpected decline in the Ifo business climate (84.7 after 85.6) is a cold shower. The trend in the Ifo business climate is still pointing downwards. The problems are coming mainly from manufacturing, which is suffering from deep structural crisis. As a result, the falling ECB interest rates are unlikely to have a significant positive impact on the economy. After stagnation in the winter half-year, we expect only a weak upward movement. For 2025 as a whole, we expect a small GDP increase of 0.2 percent.

The Ifo business climate index fell significantly in December (from a revised 85.6 to 84.7). The economists surveyed in advance had only expected a minimal decline. While the assessment of the current business situation improved (85.1 after 84.3), expectations for the next six months literally collapsed (84.4 after 87.0). With the exception of the construction industry, the business climate fell in all major sectors.

Ifo still on a downward trend

After today's disappointment, the Ifo business climate index continues to trend downwards, although it has already fallen to a very low level (Chart 1). The composite purchasing managers' index and the order intake have at best stabilized at low levels. All in all, the leading indicators suggest that GDP will at best stagnate in the winter half-year.

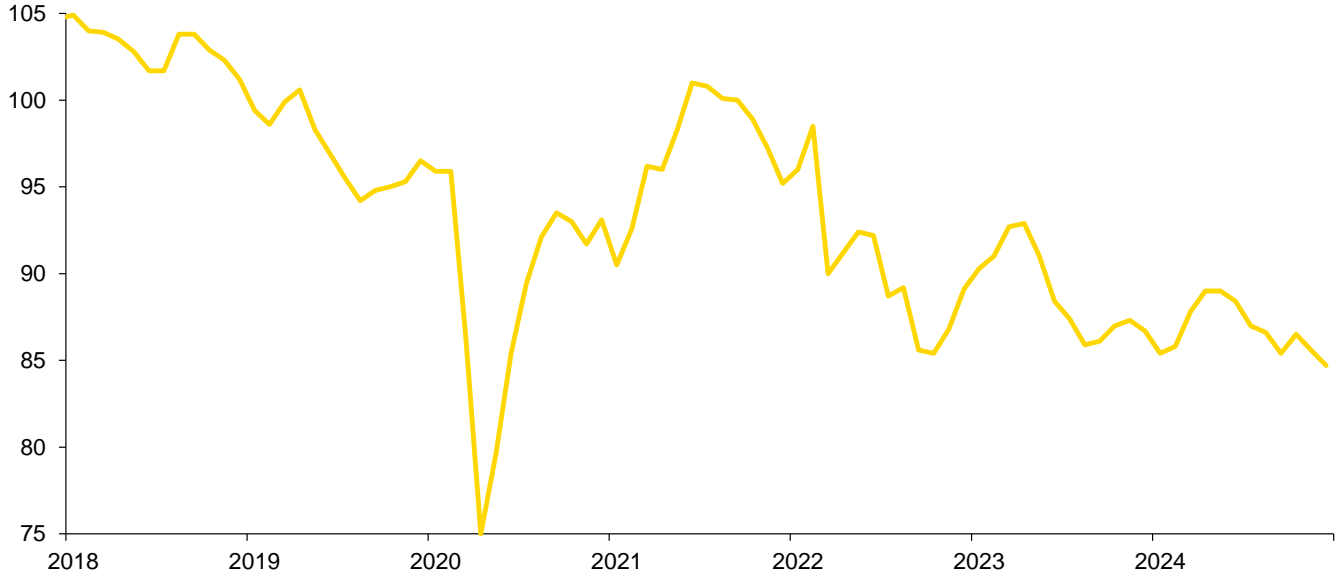


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Chart 1 - Ifo still pointing downward

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



Source: Ifo, S&P Global, Commerzbank Research

Deep structural crisis in manufacturing

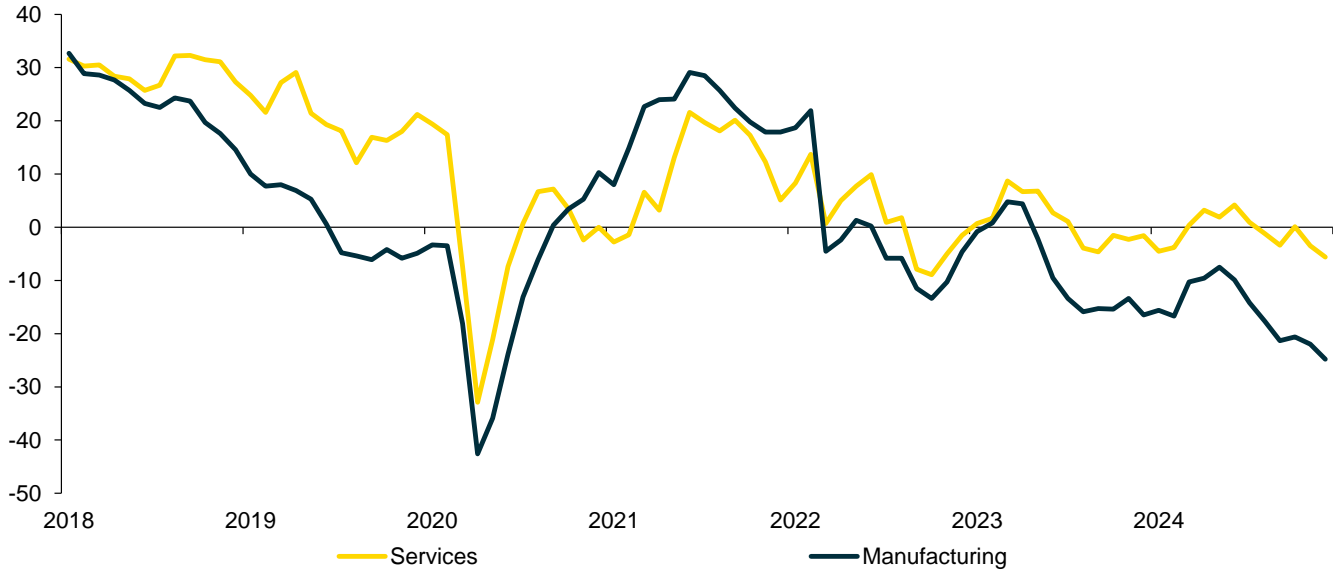
The problems of the German economy are less evident in the service sector than in manufacturing (Chart 2). Here, a clear majority of the companies surveyed by the Ifo Institute are pessimistic about their current and future business situation. Manufacturing is in a deep structural crisis – particularly carmakers, their suppliers and energy-intensive sectors such as chemicals. They are suffering not only from weak demand from China and comparatively high energy costs, but also from the erosion of Germany's competitiveness, which began during the Merkel years and continued under the outgoing coalition. If the general election on 23 February does not



lead to a U-turn in economic policy (for which there is as yet no majority), even more companies are likely to relocate production to Eastern Europe or the US.

Chart 2 - German manufacturing in a deep crisis

Ifo business climate, diffusion index, seasonally adjusted monthly figures



Source: Ifo, S&P Global, Commerzbank Research

Only mini growth of 0.2%

The deep structural crisis in manufacturing is likely to prevent the ECB's falling interest rates from having any significant impact on GDP from spring onwards. We expect only GDP growth of 0.2% in 2025.



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