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Economic Briefing

Germany – Ifo does not give hope

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The Ifo business climate fell from 86.5 to 85.7 in November. In particular, the assessment of the current situation has deteriorated. Even though the decline in the service sector was greater this time than in the industry, the latter remains the weak point of the German economy. Today's figures dampen hopes of an imminent upturn in the German economy.

This was to be expected after the weak purchasing managers' indices published on Friday: The Ifo business climate also fell again in November. With a drop from 86.5 to 85.7, a large part of the previous month's increase was lost again. In particular, the assessment of the current business situation deteriorated further and has now been on a downward trend for more than three years (Chart 1). Business expectations, on the other hand, have only deteriorated slightly compared to the previous month (87.2 after 87.3). The poorer sentiment among companies is therefore not due to the fear of US tariffs on German exports to the US following Donald Trump's election. Rather, the current situation has obviously deteriorated further.



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Chart 1 - Ifo: Firms are assessing their current business situation more and more negatively

Subcomponents of the Ifo business climate for Germany, 2015=100

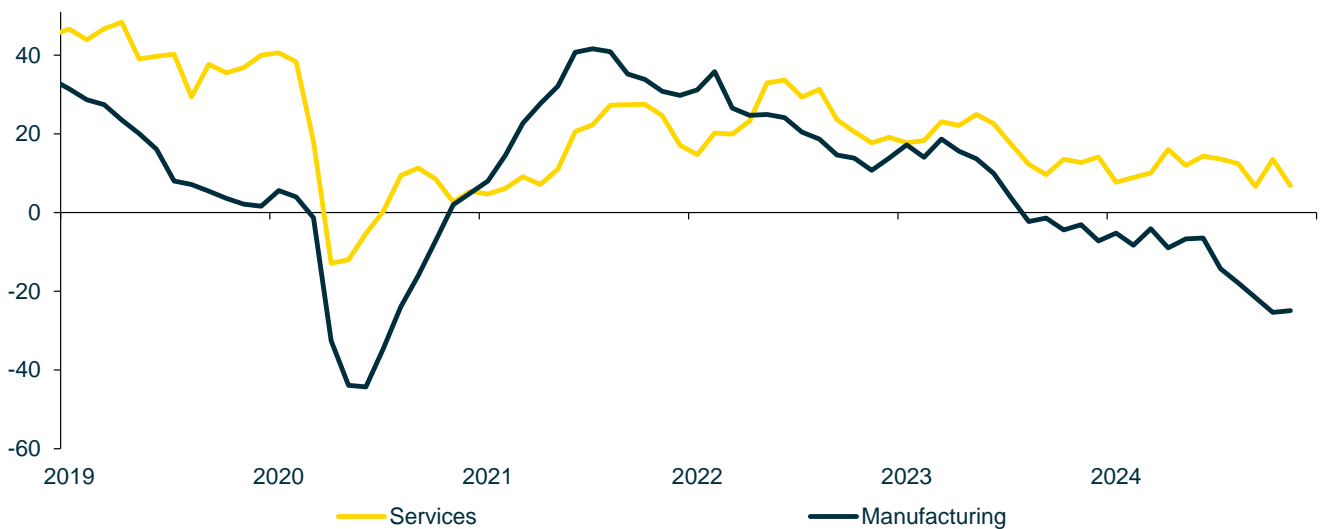


Source: Ifo, S&P Global, Commerzbank Research

Looking at the individual sectors of the economy, sentiment deteriorated the most in the services sector in November. However, manufacturing remains the weak point of the German economy. This is because the trend in the assessment of the situation has been pointing clearly downwards since the summer, and the slight improvement in November does nothing to change this. Compared to this, the service sector is reasonably stable despite the drop in November (Chart 2).

Chart 2 - Manufacturing still the weak spot of the German economy

Assessment of the current business situation according to Ifo survey, diffusion indices



Source: Ifo- S&P Global, Commerzbank Research

Overall, today's Ifo figures confirm that no sustained economic recovery is to be expected in the coming months. Exports are suffering from continued weak demand from China, among other things, and in Germany the dampening effect of monetary policy



appears to be easing more slowly than many had assumed. Added to this are the many structural problems in the German economy. These will also ensure that the recovery we expect in the course of the coming year will be very moderate.



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