



COMMERZBANK

Economic Research

Economic Briefing

# Ifo – a warning signal

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**Following the decline in the purchasing managers' indices, the Ifo business climate has now also fallen surprisingly (from 89.3 to 88.6). This is a warning signal. More than ever, we expect only a moderate economic recovery. On the one hand, the ECB's monetary policy is still having a dampening effect. On the other hand, many companies are unsatisfied because the German government is not taking decisive action against the long-year decline in location quality.**

The Ifo Business Climate for the German economy fell unexpectedly in June – from 89.3 to 88.6. Economists had expected a slight increase (consensus: 89.6; Commerzbank: 90.0). The decline is solely due to falling business expectations for the next six months (89.0 after 90.3 in May). A certain countermovement can be observed in the individual economic sectors compared to the previous month. The service sector has more than made up for the slump in May, while the business climate in the manufacturing sector has fallen again significantly following the recovery in May.

## Ifo-trend continues to point upwards, ...

Following the significant fall in the Purchasing Managers' Index, the question arises as to what the decline in the Ifo Business Climate means after the slight fall in May (chart). Of course, this could be an expression of usual short-term fluctuations. To eliminate these, we look at the six-month moving average of the Ifo. This continued to rise in June. Despite the setback in June, the Ifo Business Climate is therefore still on an upward trend and is signalling an economic recovery for the coming months.

## ... but signals only a moderate economic recovery

However, the Ifo decline in June should not be dismissed as mere volatility. Rather, the sluggish development of the business climate points to only a moderate economic upturn:

- **Monetary policy still restrictive:** The massive interest rate hikes by the ECB and other western central banks are more than a year ago. Companies are increasingly getting used to the higher level of interest rates. In this respect, a dampening factor is subsiding, which basically speaks in favour of an economic recovery. However, despite the interest rate cut at the beginning of June, monetary policy is still restrictive. It is not yet boosting the economy, which means that the Ifo business climate cannot rise sharply.
- **Competitiveness:** Since the Merkel years, Germany has become less attractive as a business location without the federal government taking decisive countermeasures.

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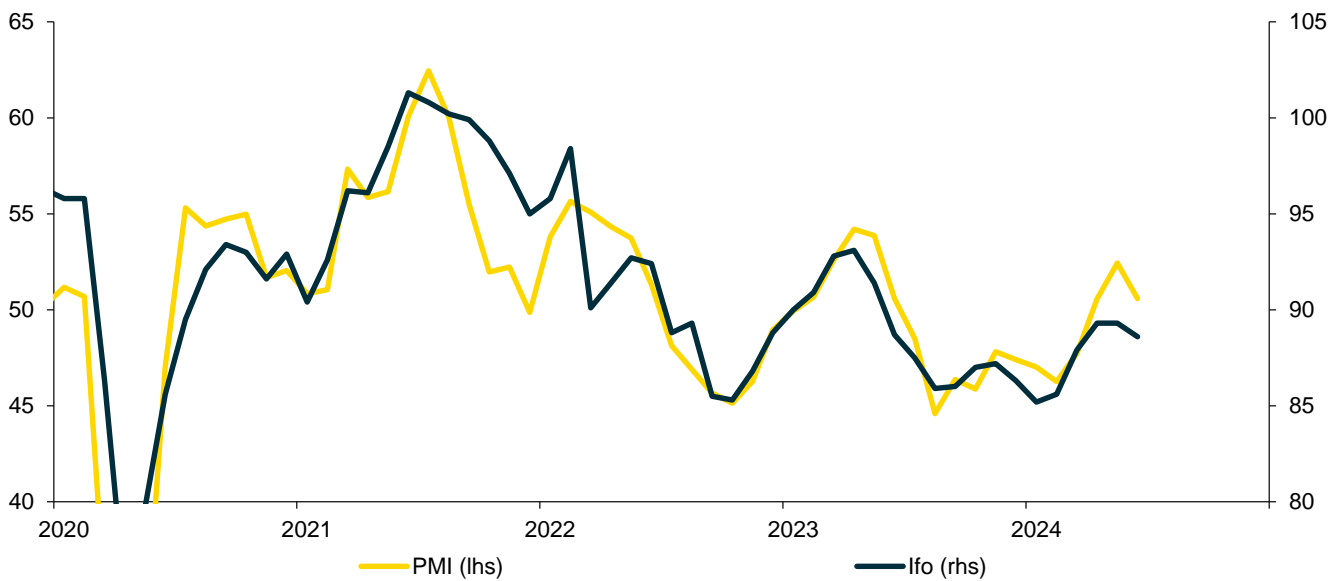


Companies are dismayed and are increasingly investing abroad. This is dampening the economic recovery.

We expect the German economy to stagnate this year (0.0%) and to grow by a modest 0.8% next year. We remain more cautious than the majority of economists (+1.2% for 2025).

**Chart 1 - Warning signs from sentiment indicators**

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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