



COMMERZBANK

Economic Research

Economic Briefing

# Ifo – cold shower

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**The unexpectedly significant decline in the Ifo business climate (87.0 after 88.6) is another cold shower for economic optimists. The easing pain from past rate and energy price hikes has not yet helped the economy, partly because companies are suffering from the long-standing erosion of Germany as a business location. For the second half of the year, we see an anemic upswing at best. Many economic forecasts are still too optimistic.**

The Ifo Business Climate index for the German economy fell significantly again in July – from 88.6 to 87.0. This was significantly below expectations (consensus & Commerzbank: 89.0). The fall was mainly due to declining business expectations for the next six months (86.9 after 88.8). However, the assessment of the current business situation has also deteriorated noticeably (87.1 after 88.3). The decline in the business climate is visible in all major sectors, although it is most pronounced in manufacturing.

## Third Ifo decline in a row

This is the third consecutive decline in the Ifo business climate and thus fulfills the definition of a downturn used by many economic forecasters. However, it should be borne in mind that the decline in May was minimal. In addition, the 6-month average, which according to our estimates is a reliable reversal indicator, is still pointing slightly upwards. The Ifo business climate is not yet signaling a downturn.

Nevertheless, the renewed decline in the Ifo business climate is a cold shower – especially as the purchasing managers' index for the manufacturing and service sectors also fell significantly in July. Added to this is the sharp fall in new orders in May. The recent weak economic indicators put a big question mark behind the expectation of a noticeable economic upturn for the second half of the year.

## Firms and consumers are deeply concerned

The easing pain of past interest rate and energy price hikes has not yet materialized. This is probably also due to the profound uncertainty among companies, which are suffering from years of erosion in the quality of Germany as a business location. Consumers are also deeply unsettled, having lost a lot of purchasing power due to the recent high inflation. They will only reluctantly increase their consumption despite the stronger rise in wages.

All in all, we unfortunately feel confirmed in our forecast of only an anemic economic upturn (forecast 2024: 0.0%). The emerging weakness in the second half of the year makes many economic forecasts for 2025 (consensus: 1.1%) appear too optimistic. By and



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large, this also applies to the eurozone. The economic downside risks are another reason to expect a further ECB interest rate cut in September.

**Chart 1 - Ifo down for the third consecutive month**

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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