

German economy

IFO survey confirms upturn in PMI™, but weakness prevails

The December IFO survey confirmed the surprise upturn that we saw in our flash German PMI, suggesting that the Eurozone's largest member state is showing some resilience in the face of the region's sovereign debt crisis.

The IFO expectations index, which is the survey's best indicator for tracking GDP and correlates closely with the PMI, jumped over a point to a four-month high of 98.4.

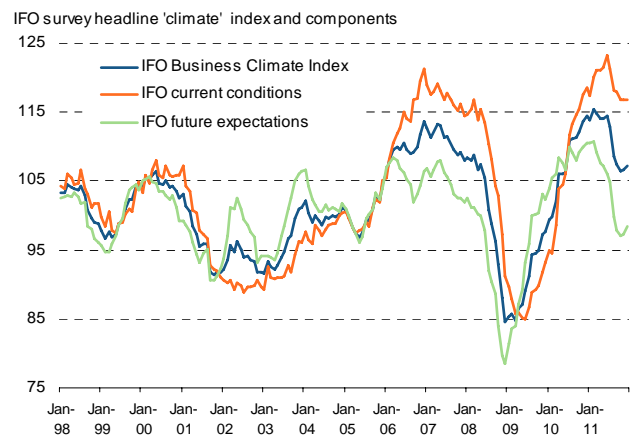
The index was driven up by signs of improved domestic demand, which boosted the retail component, as well as an uptick in manufacturers' export expectations.

The IFO survey therefore supports the suggestion from last week's flash PMI survey that the German economy did not slide closer towards a renewed recession in December, but is showing some signs of stabilising. However, we estimate that the survey data are consistent with almost no growth of the economy, as measured by GDP, in the final quarter of the year, and that prospects for early next year remain on the downside.

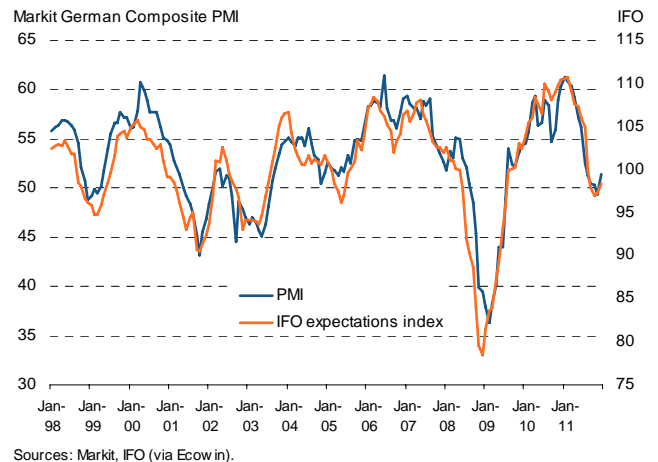
Looking ahead, many of Germany's trading partners in the euro area are unlikely to provide any boost to German export sales as austerity measures bite, and growth has also weakened discernibly further afield in markets such as China and India.

The one, unlikely, bright spot therefore appears to be the German consumer, with spending levels increasing in recent months. However, whether this consumer-oriented prop to the economy will remain in place next year is perhaps unlikely if the financial crisis remains unresolved and the country's manufacturing sector continues to struggle in the face of weakened export demand.

IFO Survey



IFO and PMI compared



Economic growth close to stagnation



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