

The NewsLine

July 25, 2019

MACROECONOMICS

FINANCIAL MARKETS

ECONOMIC POLICY

SECTORS

GERMANY

Fasten your seatbelts!

No sign of recovery or even stabilization. In July, the mood in the German economy recorded another sharp decline and fell to its lowest level since spring 2013. Companies revised their assessment of the current business situation as well as their business expectations for the coming six months significantly downwards. In the second half of the year, given the subdued outlook for world trade and the automotive industry and lingering elevated political uncertainty around trade, Italy and Brexit, at best mini-growth rates can be expected. So far, construction and private consumption have kept the German economy afloat. However, the weakness in industry is increasingly spreading to other sectors of the economy. The longer German industrial troubles persist, the more they will hurt private investment and spending decisions. We still expect German GDP to grow by 0.6% in 2019, but the risk of a recession is high and rising.

In July, the ifo business climate index fell by 1.8 points to 95.7 - the lowest level since spring 2013. Firms' business expectations also declined significantly (-1.8 points) to 92.2. After stabilizing in the previous month, companies' assessment of the current situation has clearly deteriorated again and now stands at only 99.4 (-1.7 points). The decline in sentiment in July was broad-based. All major sectors of the economy were affected, with the exception of construction, where companies were somewhat more optimistic about their business prospects. Manufacturing remains the biggest problem child. Here the decline was as severe as during the recent major financial crisis.

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