

The NewsLine

February 22, 2018

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Ifo business climate index: Trees do not grow into the sky

The business climate index in Germany's industry and trade sector – a combination of assessment of the current situation and business expectations – fell sharply in February. Nevertheless, the index is still at a very high level. It is noteworthy, however, that companies' business expectations have already clouded over for the third consecutive month. In economic terms, trees do not grow into the sky. We interpret this development as a normalisation, which was already overdue in view of increasing euphoria. In our view, this is not the beginning of an economic downturn. Our forecast of 2.4% real economic growth in Germany in 2018 remains unchanged.

Of course, it is interesting to see what actually contributed to the more restrained business expectations. Inflation and interest rate fears, which have caused unrest on the financial markets in recent weeks, probably also weigh on the mood in the real economy. The financing conditions for companies might no longer be as favourable as they have been so far given the withdrawal of central banks from their ultra-loose monetary policy. However, more important for the decline in business expectations may have been that the higher euro will dampen export expectations. In addition, concerns about increased US protectionist measures and a potential trade war are likely to have grown. In our view, the latter is of considerable relevance for the economic outlook. The current strong expansion of world trade could suffer a significant setback in an environment of protectionist tendencies.

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