

# The NewsLine

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## GERMANY

# Ifo business climate signals buoyant upswing

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In German industry both the assessment of the current situation as well as business expectations improved further in March. The assessment of the current situation has now moved upwards seven months in a row, with long-standing highs now within reach. Business expectations have not climbed quite so sharply, but this is hardly surprising given the elevated political uncertainty and vagueness about the economic policy outlook in the US. Nonetheless, expectations are the most upbeat for three years.

The bullish business surveys – the Ifo test results are in line with the purchasing managers' index – signal that the economy is set to strengthen further. Pivotal here is the steep rise in the business climate in the manufacturing sector. In this core sector of the German economy a substantial increase in production is now on the cards having expanded only very moderately in the past three years. The firming up of the world economy on the back of the economic stabilization in key emerging markets as well as an increasingly robust upward trend in the eurozone are important factors behind the upswing in German industry. But there are other factors exerting a drag on the German economy. The pickup in inflation to around 2% is eroding real income growth, suggesting that private consumption will provide less of a fillip than in the past two years. All told, we are still penciling in an increase in real gross domestic product of 1.7% in 2017. In the first quarter 2017 the German economy is likely to have grown by 0.5 – 0.6%.

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