

## Germany: despite the decline in the IFO index in September, there are signs that the recovery is progressing slowly but surely

The IFO business climate index fell in September to 87.7 from 88.9 in August (-1.2 points month-on-month, a monthly change close to the historical average monthly change of 1.1 points in absolute terms). This deterioration, after eight consecutive months of growth (84.8 in December 2024), particularly affected services. The situation in industry remained stable and more favourable than at the end of 2024, with a gain of around ten points for both current activity and the outlook.

The IFO business climate indicator fell in September to 87.7 from 88.9 in August. This 1.2-point decline ends eight consecutive months of growth (84.8 in December 2024). The decline is mainly due to services, particularly the transport and logistics sectors. This contrasts with the PMI survey, which was rather favourable in September (composite index up sharply to 52.4 from 50.5 in August, with an improvement in services more than offsetting a deterioration in industry<sup>1</sup>).

However, analysis by sector shows more encouraging signs. Since early 2025, opinion polls have highlighted an improvement in manufacturing – with the start of a rebound in production capacity utilisation – and wholesale trade, and, to a lesser extent, construction (see chart). In industry, the improvement mainly concerns electrical and electronic equipment, pharmaceuticals, textiles and transport equipment (excluding automobiles). On the other hand, services and retail trade are not yet showing a clear positive trend.

While the September results do not point to a clear recovery in German growth, the IFO survey highlights that eight industrial sub-sectors (out of 21) are now in a situation considered favourable (six in 'recovery' and two in 'expansion') – compared with only three at the end of 2024. The upturn observed since the beginning of the year is therefore continuing, even if it remains limited in scope. German growth is expected to remain moderate in Q3 (our forecast is +0.1% q/q). The investment support measures passed by the Bundestag in September are expected to take effect mainly from Q4 onwards (growth forecast at +0.3% q/q), with a more pronounced impact in 2026 (growth forecast at +1.4% on average for the year<sup>2</sup>).

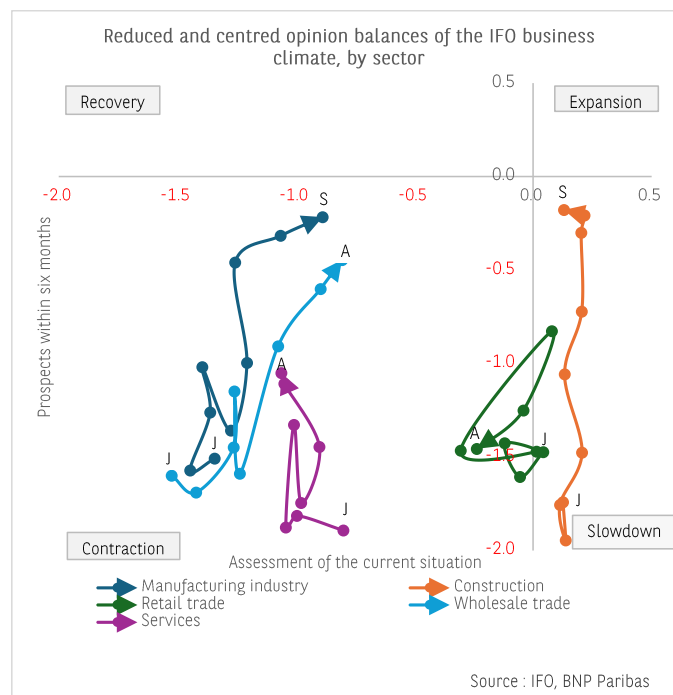


Chart note: The four corners of the dial refer to the theoretical phases of an economic cycle: expansion, slowdown, contraction and recovery. Each line represents the monthly change in opinion balances by sector (centred and reduced, i.e., by subtracting their mean and dividing them by their standard deviation). The end marked 'J' corresponds to January 2025, while the end marked "S" (or "A") indicates the last available month, September (or August).

<sup>1</sup> This divergence can be partly explained by methodological differences. The S&P Global composite PMI index is based on a sample of around 800 companies, limited to the manufacturing and services sectors, while the IFO composite index surveys nearly 9,000 companies and also covers construction, retail and wholesale trade. In addition, the IFO composite index includes a forward-looking component (i.e., companies' assessment of how their business will evolve over the next six months), which the PMI composite index does not.

<sup>2</sup> See our EcoPerspectives publication for more context: [Germany | A recovery in the making](#), 22 September 2025.