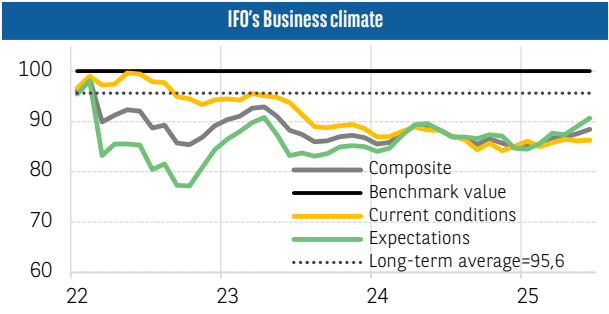
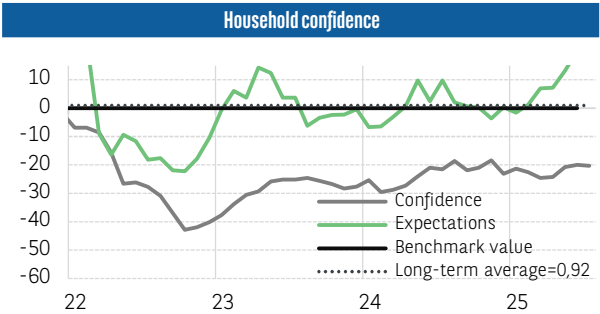


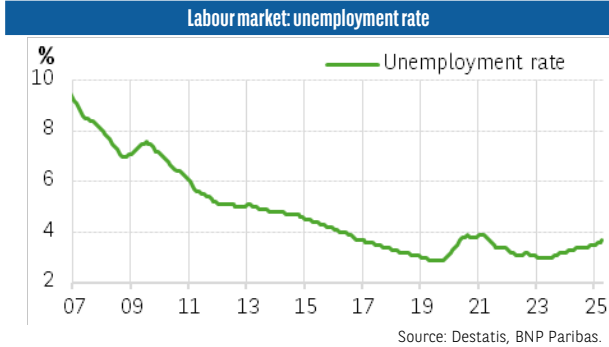
Germany: economic recovery continues



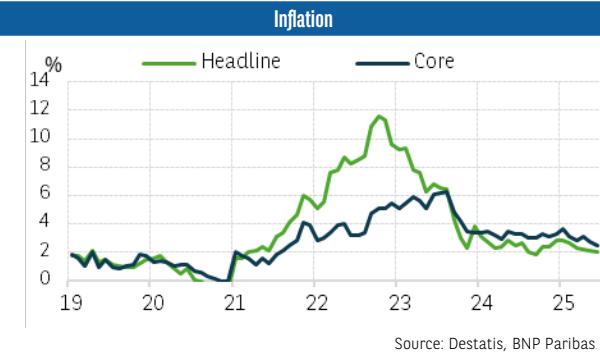
The IFO business climate continues to improve (+0.9 points in June compared to the previous month, to 88.4), supported by favourable economic prospects. The early measures taken by the Merz government (enhanced depreciation allowances for investments, an ambitious budget for public investment until 2025 and a commitment to reduce energy costs for businesses) are fuelling high expectations. These are also reflected in the PMI index, which is picking up in both the manufacturing and services sectors.



Households are confident yet cautious. Household confidence is also improving. The economic expectations component has risen to 20.1 in July (+13 points in two months). However, this improvement in expectations is not yet reflected in other opinion indicators: the propensity to save remains high and, after an initial rise from -15 to -6 between March and November 2024, the purchasing intentions index is still stagnating at this low level.



The labour market is generally resilient, despite sectoral weaknesses. The employment situation remains solid, with an unemployment rate of 3.7% in May, despite a slight increase of 0.2 percentage points since the beginning of the year. The IAB and IFO employment surveys remain below their reference values. While employment in the service sector remains resilient, this is less so in the manufacturing sector (which has been recording net job losses since the third quarter of 2023, with the latest figures dating from the first quarter of 2025), against a backdrop of under-utilisation of production capacity.



Inflation is in line with targets, but is not expected to fall further. Annual inflation (harmonised index) returned to 2% in June (from 2.1% year-on-year in May), in line with the eurozone average. Energy prices continue to fall, while price rises for services are slowing; underlying inflation fell to 2.5% (from 2.7% in May). We expect inflation to remain around 2% until the end of 2026. The labour market is likely to remain tight, particularly due to the government's investment plan, which will keep inflationary pressures persistent.

GDP growth q/q: actual, carry-over, forecasts										
Actual				Carry-over	Actual	Forecast		Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0,2	-0,3	0,1	-0,2	-0,2	0,4	0,1	0,3	-0,2	0,5	1,0

The economic outlook remains mixed. Growth reached +0.4% quarter-on-quarter in the first quarter of 2025, a good result driven by exports in anticipation of higher US tariffs. A backlash is therefore expected in the second quarter (0.1% quarter-on-quarter). However, the implementation of the investment programme in the second half of the year should support growth thereafter.

Marianne Mueller (completed on July 3, 2025)