

## EcoBrief

### **Germany: a technical rebound, not yet the sign of a structural recovery**

**With a peak in inflation last autumn and fears of energy shortages during the winter, the IFO's index hit an historic low in October 2022. This index has recovered to normal levels, as winter turned out better than had been feared. However, following the poor performance of Q4, all signs point to this being just a "technical" rebound in activity.**

The IFO Business Climate Index in Germany has improved again in March, with its composite indicator up almost two points compared to February, at 93.3, and almost 9 points higher than its record low in October 2022. It has therefore returned to its May 2022 levels:

- This rebound in the IFO index points shows how things have improved from a period of heightened negative sentiment, which had a significant impact on the real economy, with private consumption falling 1% q/q during Q4 and negative GDP growth of -0.4% q/q.
- Alongside this upturn, industrial production grew 3.5% m/m in January (after a fall of 2.4% m/m in December). As a result, there will likely be positive GDP growth during Q1 2023.
- However, the IFO index is still 3 points below its historical average (96.6). In addition, the recovery in the "expectations" component of the index only brought it up to 91.1, which is still almost 5 points below its historical average. The IFO clock is still slightly in the crisis segment.

In conclusion, the rebound in the IFO index over the past five months reflects the improvements in the levels of its components, which reflected fears of declining activity, which was ultimately less intense than expected. However, beyond Q1, which should benefit from the effects of this upturn, growth could weaken subsequently: a picture consistent with our growth forecast of 0.1% for 2023.

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