

# Germany

## IFO survey points to second quarter German growth upturn

- IFO survey rises in May, though future expectations remain unchanged on April
- Survey points to German growth upturn in Q2

Survey data from IFO pointed to reasonable growth of the German economy in the second quarter, but recent falls in stock markets may dent business confidence and pose downside risks to the outlook if sustained.

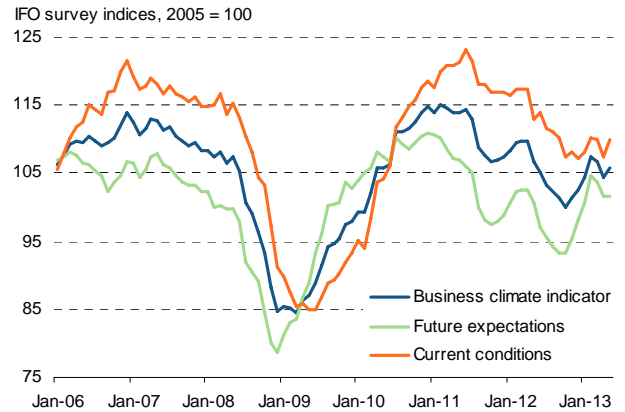
The IFO survey's main business climate index rose from a three-month low of 104.4 in April to 105.7 in May. The increase was the first seen for three months but failed to bring the index back to its February peak. The index also remained well below levels seen throughout much of 2010 and 2011, highlighting the ongoing relative fragility of the German economy compared to earlier in the post-crisis recovery.

The business climate index is a simple average of the current conditions and future expectation indices. The former rose sharply, up from 107.3 in April to a three-month high of 110.0 in May, but the latter held steady at 101.6. Unfortunately, it is the expectations index which has typically provided the most reliable signal for GDP growth. Although remaining above the levels seen throughout much of last year, the current weakness of the expectations index points to ongoing weak economic growth in Germany. The average reading in the second quarter is broadly consistent with GDP rising by 0.3%, which would represent an improvement in the official estimate of a 0.1% expansion in the first quarter, but remains lacklustre by historical standards.

The IFO survey therefore supports the signal from Markit's PMI surveys, that business conditions were not as bad in May as in April. However, the IFO's expectations index is sending a more upbeat signal for GDP growth in the second quarter: the 0.3% rate of increase compares with a flat signal from the PMIs (the composite PMI registered 49.9 in May, according to the flash reading, up from 49.2 in April).

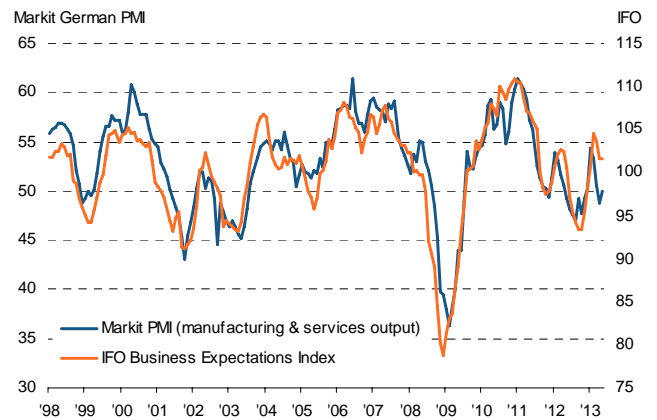
The divergence may perhaps be explained by the IFO expectations index being influenced by recent gains in

### IFO survey indicators



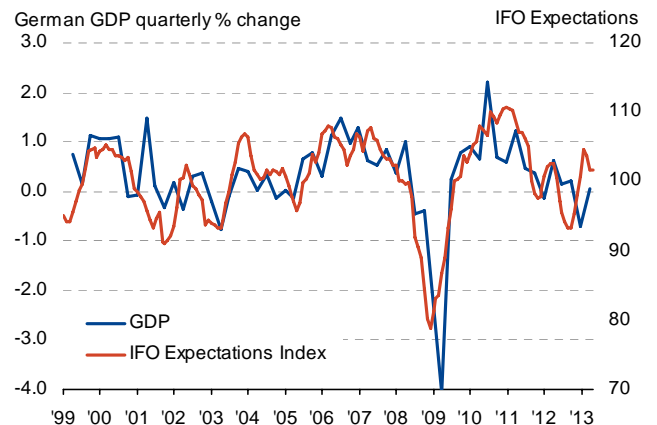
Source: IFO via Ecow in.

### German PMI and IFO surveys compared



Sources: Markit, IFO.

### IFO expectations v German GDP



the stock market, which typically boost business confidence. The PMI, on the other hand, is more objective and simply asks companies how output has actually changed in the current month compared to the prior month. Recent stock market losses, if sustained, may therefore bring the IFO index down.

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**IFO expectations v change in equity prices**

