Euro area outlook

25 August 2026

More signs of a turnaround in German activity

The Ifo Business climate index increased in August, marking the fourth consecutive monthly increase. The improvement was driven by both the assessment of the current situation and expectations. However, the indices remain below historical averages. Business climate improved across all major sectors. This is good news given the conflict in the Middle East and structural weakness, particularly in the manufacturing sector. Taking into account the better-than-expected GDP data for the first half of 2026 and the latest PMI figures, we are cautiously optimistic that we are starting to see clearer signs of a pick-up in growth in the German economy. However, risks remain, particularly the low level of natural gas inventories ahead of the winter.

Key points

- Fourth consecutive monthly increase
- The improvement was broad-based
- Activity is turning around, but risks remain ahead of the winter

Resilience

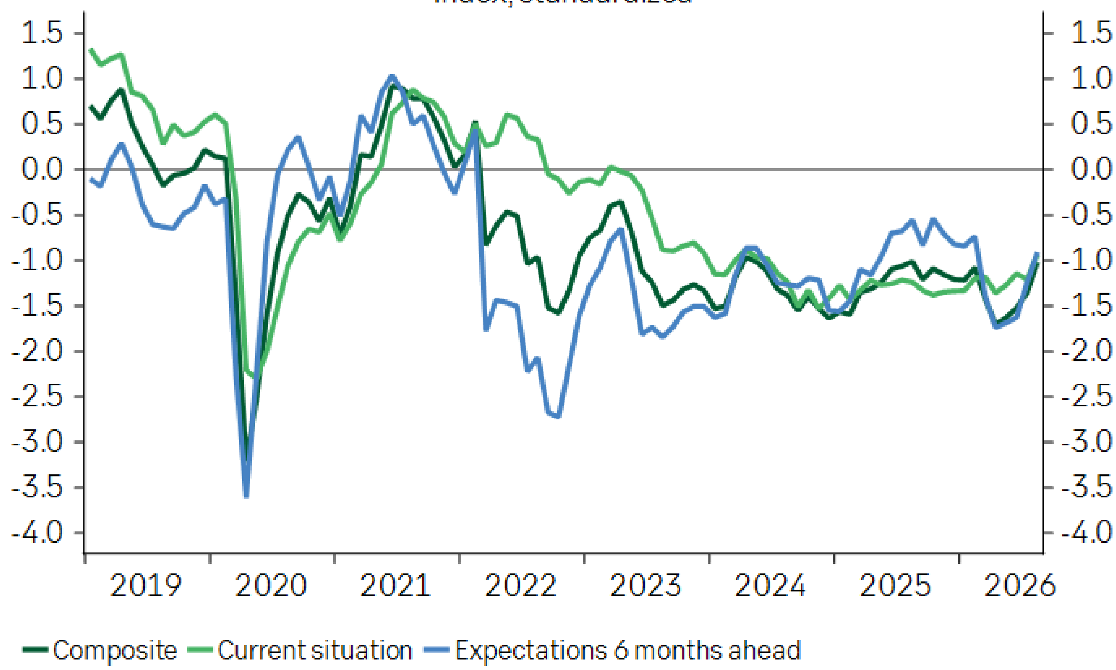
Despite the rise in energy prices, we are starting to see some positive signs for the German growth outlook. The Ifo index fell at the beginning of the year amid rising concerns about the effects of the conflict in the Middle East. The increase in August was the fourth consecutive monthly rise, and it is clear that the economy has so far proved more resilient than initially feared. However, at 88.8, the Business Climate Index remains below its historical average. Looking at the different subindices, we see that firms are less pessimistic about both the current situation and the outlook. We also note that assessments improved across all major sectors. According to Ifo, uncertainty continued to decline.

Growth will pick up in 2026

Given the stronger-than-expected GDP data for the first half of 2026 and the turnaround in sentiment indicators, we have become slightly more optimistic about the German growth outlook. Today, we published our Nordic Outlook, in which we expect the German economy to grow by almost 1 per cent this year, compared with 0.2 per cent in 2025. Higher investment in defence and infrastructure, as well as stronger global demand, will support GDP growth. However, low productivity and demographic headwinds will constrain potential growth. In the short term, low natural gas inventories risk dampening activity in the autumn and winter.

Germany, Ifo Business Climate Survey

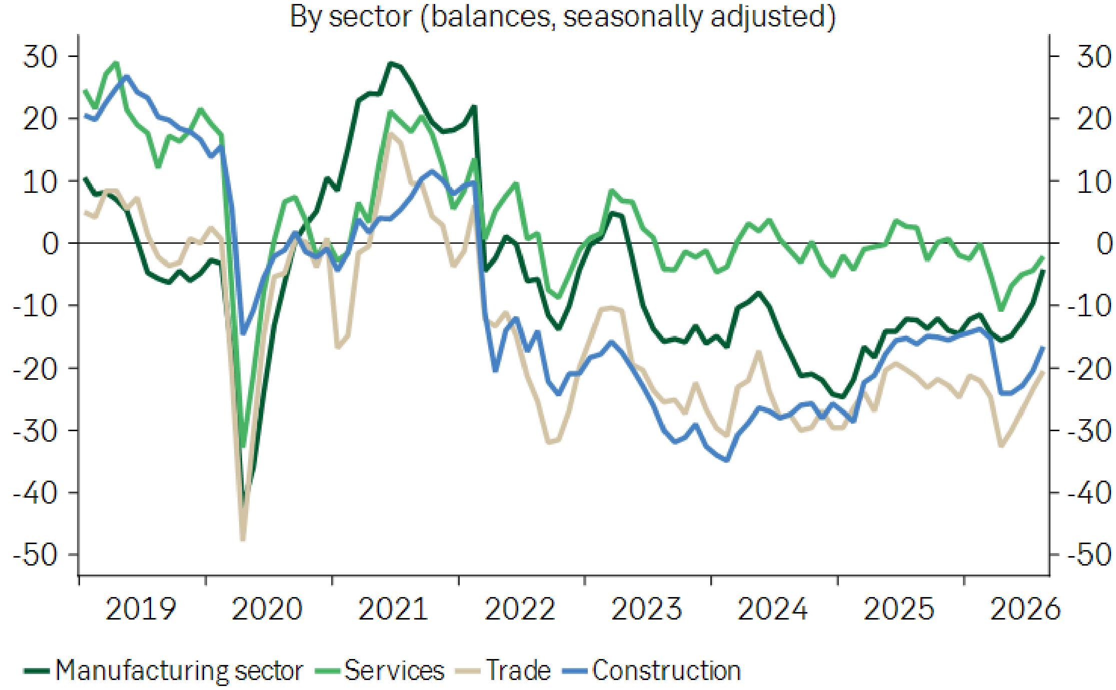
Index, standardized



Source: Ifo Institute, Macrobond, SEB

Germany, Ifo Business Climate Survey

By sector (balances, seasonally adjusted)



Source: Ifo Institute, Macrobond, SEB

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