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GERMANY

German economy surprises with unwavering resilience

The sixth consecutive monthly increase in the Ifo index strengthens the narrative of German economic resilience. Or perhaps it simply reflects an unwavering belief in the economic effects of the large fiscal stimulus



Today's Ifo index confirms that the German economy is enjoying unexpected resilience – and even a small cyclical rebound

German economic resilience continues as the country's leading indicator, the Ifo index, has increased for the sixth consecutive month. In October, the Ifo index stood at 90.2, up from 89.9 in September, and is now at its highest level in more than three years.

However, we're also seeing the first cracks in the picture of a recovering German economy: the current assessment component dropped slightly, indicating that surging energy prices and interest rates are starting to leave their mark.

Still, the expectations component, perhaps inspired by last week's investment fair in Berlin, made another significant jump, reaching its highest level since early 2025.

Fiscal stimulus beats short-term risks

German resilience seems to be the theme of the moment. It almost looks as if the economy is gaining momentum without anyone noticing – a bit like the performance of this economist's favourite German football club this year.

Anyhow, the German economy may have weathered the first half of the year better than expected, but past performance is no guarantee of future success. To some extent, the resilience in the second quarter was also driven by the fact that other regions were hit harder by the closure of the Strait of Hormuz, making some German companies something of a beneficiary of the crisis.

Looking ahead, today's Ifo index suggests that for the German economic outlook, all hopes are still pinned on ongoing fiscal stimulus to increasingly feed through to the entire economy. This hope could prove a reality, even if the government is struggling to meet its spending and investment targets.

Despite this hope, however, clear risks remain: war in the Middle East and the potential for further escalation after the US mid-term elections, with oil prices remaining at elevated levels (or worse), as well as the likely incoming shock of higher gas prices in the current heating season. And there's more. Low water in the main transportation waterways remains another threat to industrial supply chains and production, and the surge in interest rates will take a toll on the housing market and broader investment activity.

The more the economy defies short-term risks, the higher the chances of a surprise growth story are. Let's see what Friday's first estimate for third-quarter GDP growth brings; so far, the German economy is clearly on track for its best annual growth performance since 2022.

Political uncertainty remains one of the biggest risks for longer-term outlook

The biggest unknown for the German outlook, particularly the longer-term outlook, remains whether the government is still willing and able to implement the already announced structural reforms. The important regional state elections took place a month ago, but the reform effort seems to have fallen into early hibernation since then. A worrisome development, given that the need for reform in Germany goes beyond the measures announced so far – which, to be clear, have not yet been fully implemented.

As disruptive as the announced reforms might feel to some, they are mainly aimed at making public finances more sustainable in light of an ageing population. They do very little to improve the country's economic competitiveness. To structurally improve Germany's international competitiveness, the government would have to be much bolder. Think of a substantial reduction of bureaucracy, regulation and taxes. Or a long-term strategy for affordable energy, better education and more innovation. And much more.

All in all, today's Ifo index confirms that the German economy is enjoying unexpected resilience and even a small cyclical rebound. We know a cyclical rebound does not automatically make for a structural recovery, but with the never-ending flow of bad macro news over the last few years, every positive development should be cherished.

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