Economic Briefing

Ifo – Just a pause, not the end of recovery

After the massive increases in the two previous months, the Ifo business climate took a breather in April (96.8 after 96.6). While the business climate in industry continued to improve despite problems with intermediate products, it declined somewhat in the retail sector, presumably due to the tightening of the lockdown. However, the now swift vaccinations give hope that things will soon improve for trade and other services.

The Ifo business climate index remained virtually unchanged in April (96.8 after 96.6 in March). The economists surveyed had expected a noticeable increase (consensus: 97.8; Commerzbank: 97.5). But after the massive increases in the two previous months, the stagnation in April is merely a pause. A continuation of the recovery is supported by the fact that companies once again gave a better assessment of the current business situation (94.1 after 93.1). Expectations for the coming six months, on the other hand, declined slightly (99.5 after 100.3) – presumably because of the tighter lockdown:

- In manufacturing, the business climate continued to rise (diffusion index: 25.3 after 24.0). Although 45% of the companies reported problems with the supply of intermediate products, they once again assessed their current business situation more positively (see chart). Apparently, the strong demand for their products is overshadowing the supply problems that have accompanied the boom.

- Retailers, who reported better current business conditions in the previous month for the first time since the second lockdown, saw a further up-tick of the current situation in April. However, expectations for the coming months dimmed somewhat – presumably because of the changes to the Infection Protection Act, which will bring new restrictions for many shops.

Strong recovery in the pipeline

After the inevitable decline in Q1 GDP (Commerzbank forecast: -2.5% vs. Q4), we expect a plus of 2.5% for the second quarter. This is due to booming exports and a certain recovery in private consumption, as indicated among other things by Google’s customer traffic data which have been rising since February. However, the recovery is only likely to gain real momentum when the lockdown is noticeably eased, which we expect from the end of May. Then consumers will probably liquidate part of their compulsorily accumulated savings, which according to our estimates now amount to 7% of their annual income. For 2021 as a whole, we expect GDP to grow by 3.5%.

Manufacturing and retail report a further improvement of the current business situation

Assessment of the current business situation according to Ifo survey, diffusion indices

![Graph showing manufacturing, retail, and services diffusion indices from January 19 to January 21.](source: Global Insight, Commerzbank Research)
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