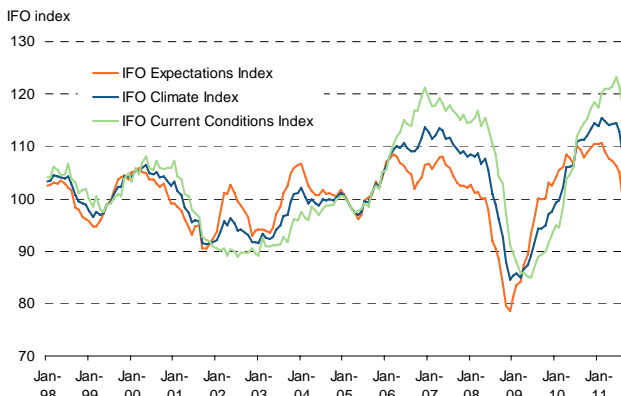


# German economy

## IFO survey confirms PMI™ weakness

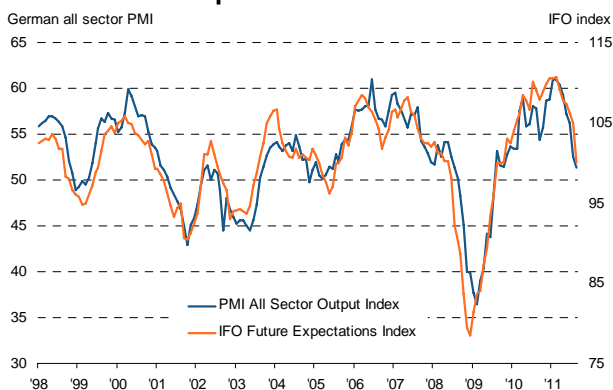
August's IFO survey provided more disappointing news for Germany and the Eurozone as a whole. The IFO survey came in well below expectations, with the overall business climate index falling from 112.9 in July to 108.7 in August. Analysts were expecting a reading of 111.0 according to Reuters. Indices of both current and expected future conditions fell more than anticipated.

### IFO Survey



Of greatest concern was a 4.9 point drop in the expectations index, which has the best track record of anticipating changes in GDP. The decline was the largest since October 2008 and comes on the back of a record fall in the Markit German Services PMI™ Business Expectations Index and the second-largest ever drop in the 26-year history of the European Commission's survey of euro area consumer confidence.

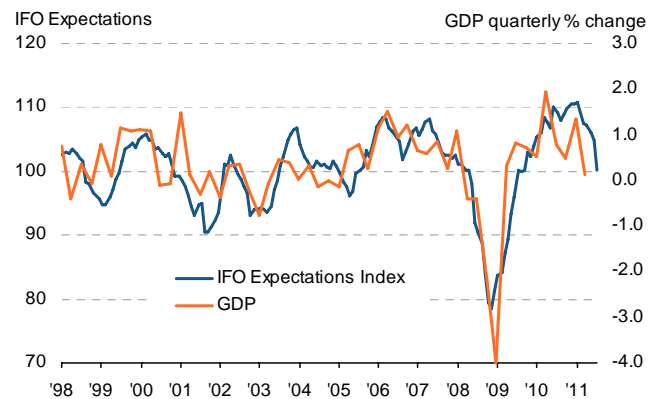
### IFO and PMI compared



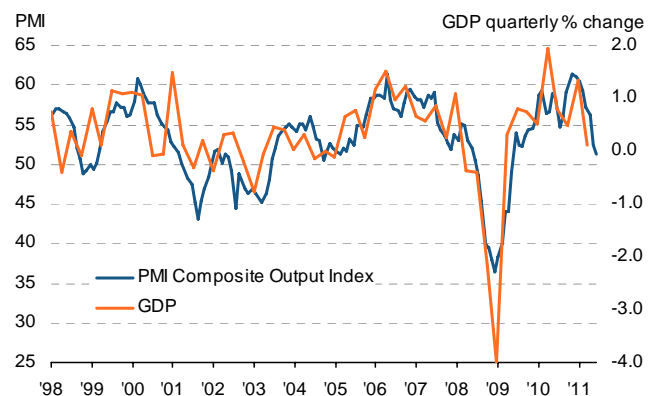
The IFO survey data therefore add to a growing picture of rapidly deteriorating business and household confidence in Germany. Worries have intensified in recent weeks as economic data have shown growth faltering, financial markets have slumped and policymakers appear unable to resolve the region's financial crisis.

The data also add to the prospect of the German economy stagnating in the third quarter, or even sliding back into contraction, having grown just 0.1% in the second quarter. With data like these, it seems very likely that the ECB will soon need to reverse the two rate hikes that we saw earlier this year.

### IFO expectations and German GDP



### Markit German PMI™ and German GDP



Sources: Markit, IFO, FSO, Ecowin.

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