German business confidence unexpectedly rose to an eight-month high in March, suggesting Europe’s largest economy will return to growth even as the sovereign debt crisis curbs euro-area demand for its exports.

The Munich-based Ifo institute said today its business climate index, based on a survey of 7,000 executives, increased to 109.8 from a revised 109.7 in February. Economists forecast it would remain unchanged at the initial February reading of 109.6, according to the median of 44 estimates in a Bloomberg News survey.

German manufacturing output unexpectedly contracted this month as governments and households reduced spending across the euro region, Germany’s largest export market. At the same time, policy makers have made progress in tackling the debt crisis, with the European Central Bank’s injection of more than 1 trillion euros ($1.3 trillion) into the banking system helping to bolster investor sentiment. Germany’s benchmark DAX share index is up 19 percent this year.

“The ECB’s generous liquidity injection has really helped to ease concerns over a further escalation of the debt crisis,” said Tobias Blattner, director of economic research at Daiwa International in London. “Furthermore, the German fundamentals just remain very solid.”

The euro rose about a quarter of a cent to $1.3260 after the report. Ifo’s gauge of the current situation was unchanged at 117.4, while an index measuring executives’ expectations advanced to 102.7 from 102.4.

‘Returning Confidence’

Germany’s economy contracted 0.2 percent in the final quarter of 2011. While it “may still be moving sideways,” confidence indicators suggest “a rejuvenation of the economy in the early part of 2012” as unemployment at a two-decade low boosts household spending, the Bundesbank said last week.

ECB President Mario Draghi said March 8 that the outlook for the 17-nation euro area “has improved enormously” and there are “many signs of returning confidence.”

Euro-area growth will recover to 1.1 percent next year after a 0.1 percent contraction in 2012, ECB forecasts show. The German economy will expand 0.8 percent this year, according to the panel of economic experts who advise the government.

While euro-area services and manufacturing output contracted more than economists forecast in March, a separate report showed that consumer confidence improved for a third straight month.

Debt Crisis

Policy makers have made strides in solving the debt crisis.

Greece reached a debt-swap deal with its private creditors earlier this month and European leaders approved a second bailout package for the nation. Euro-region governments have also signed up to a tighter set of budget
rules.

As austerity measures curb demand in Europe, German companies are compensating with sales in faster-growing markets.

“We are currently seeing demand in the European market weaken,” Juergen Geissinger, chief executive officer at Schaeffler AG, the world's second-largest maker of roller bearings, said on March 20. “Globally, however, our business is continuing to show a positive trend.”

Bayerische Motoren Werke AG (BMW), the world’s largest maker of luxury vehicles, said on March 13 that it plans to surpass last year's record profit. “We are off to a promising start,” with car sales in the first two months of the year at an all-time high, BMW Chief Executive Officer Norbert Reithofer said.

China Slowdown

Continental AG (CON), Europe's second-largest tire maker, is sticking to its forecast for a 5 percent revenue increase this year even as signs mount that growth in China, the world's second-largest economy, is slowing.

“Even if the Chinese economy only grows 7 percent, then the car market has to grow by at least 5 percent,” Chief Executive Officer Elmar Degenhart said on March 21, adding that the Asian car market as a whole will grow about 5 percent this year, offsetting declines anticipated in Europe and North America.

Germany and its companies “are still the euro region’s Champions League players,” said Carsten Brzeski, an economist at ING Group in Brussels. “There will be growth.”

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