German investor confidence declined to the lowest level since 2012 as the crisis in Ukraine and a sluggish euro-area recovery damp the outlook for Europe’s largest economy.

The ZEW Center for European Economic Research in Mannheim said its index of investor and analyst expectations, which aims to predict economic developments six months in advance, dropped to 8.6 in August from 27.1 in July. Economists forecast a decrease to 17, according to the median of 31 estimates in a Bloomberg News survey. The gauge has slipped every month since reaching a seven-year high in December.

German gross domestic product probably fell last quarter for the first time since 2012, and escalating international sanctions against Russia over its support for rebels in Ukraine are undermining the outlook for coming months. That threatens to weigh on the revival in the 18-nation euro area, which has already seen Italy slip back into recession.

“The German economy has been a little bit weaker than we thought in the second quarter,” said Anatoli Annenkov, senior economist at Societe Generale SA in London. “What is difficult is to determine how much of it is a Russia effect.”

A gauge of current conditions declined to 44.3 in August from 61.8 the previous month, ZEW said. A measure of expectations for the euro area plunged to 23.7 from 48.1.

Sanctions Impact

The euro slid after the report, and traded at $1.3344 at 11:03 a.m. Frankfurt time.

“The decline in economic sentiment is likely connected to the ongoing geopolitical tensions that have affected the German economy,” ZEW said in a statement. “Since the economy in the euro zone is not gaining momentum either, the signs are that economic growth in Germany will be weaker in 2014 than expected.”

The European Union agreed last month to curb Russia’s access to bank financing and advanced technology in its widest-ranging sanctions yet.

Dusseldorf-based Rheinmetall AG reduced its 2014 profit forecast after the German government blocked a contract to build a military training center east of Moscow. Fraport AG, the operator of Frankfurt’s airport, cut its retail outlook after the number of Russians departing Europe’s third-busiest
hub fell 3.8 percent in the first half.

The DAX Index (DAX) of German stocks has dropped about 9 percent since closing at a record on July 3. It was down 0.4 percent at 9,141 today. Factory orders slid in June by the most since 2011.

**German Outlook**

Germany’s economy probably contracted 0.1 percent in the three months through June, according to a Bloomberg News survey. The Bundesbank has predicted German growth of 1.9 percent this year and 2 percent in 2015.

Second-quarter GDP data will be published on Aug. 14 along with figures for the euro area. The currency bloc’s economy probably expanded 0.1 percent in the three months through June, according to a separate survey. Figures last week showed that Italy, the region’s third-biggest economy, contracted 0.2 percent after shrinking 0.1 percent the previous quarter.

European Central Bank President Mario Draghi said last week that “heightened” political risks could affect the region’s recovery. He spoke after policy makers left the bank’s benchmark interest rate unchanged at a record low of 0.15 percent and kept the deposit rate at minus 0.1 percent. The ECB announced an unprecedented package of stimulus measures in June that will take time to work through to the real economy.

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