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GERMAN IFO FALLS BY LESS THAN EXPECTED

Berenberg Macro Flash

Less bad than expected: In response to a renewed partial lockdown in November and the likely extension if not tightening of restrictions until 20 December, German business climate soured for the second consecutive month in November according to the Ifo survey. But in line with the German PMIs yesterday, the Ifo data held up better than expected. Despite the still high infection rates, the second wave is depressing sentiment much less than the first wave in spring. The widely watched Ifo business climate index fell by 1.8 points to 90.7 in November from 92.5 in October (see Chart 1) versus our expectations of 89.0. Going forward, however, the balance of risks is tilting to the downside near-term.

Current conditions holding up, expectations down: The headline index is a simple average of the subindices for businesses' assessment of the current situation and their expectations. After gaining for five months in a row, current conditions slipped slightly to 90.0 from 90.4 in October. That is well above the pandemic low of 78.9 in May, but significantly short of the January/February average of 99.0. Amid the mounting near-term uncertainty, businesses scaled back their expectations for the six-month outlook to 91.5 from 94.7 in October. Consequently, the Ifo business cycle clock suggested the German economy moved a little further into downturn territory (see Chart 2).

Split economy: As elsewhere, the contact-intensive sectors of the economy are hit hard. The business climate subindices for services and retail trade fell by 6.9 points and 3.8 points, respectively (see Chart 3). At the same time, the subindex for manufacturing increased by 2.0 points – the seventh consecutive rise – to the highest level since May 2019. Manufacturers do not seem to suffer from the renewed wave of restrictions. For now, they are backed by a need to replenish run-down inventories and a solid backlog of export orders despite a softening of export expectations.

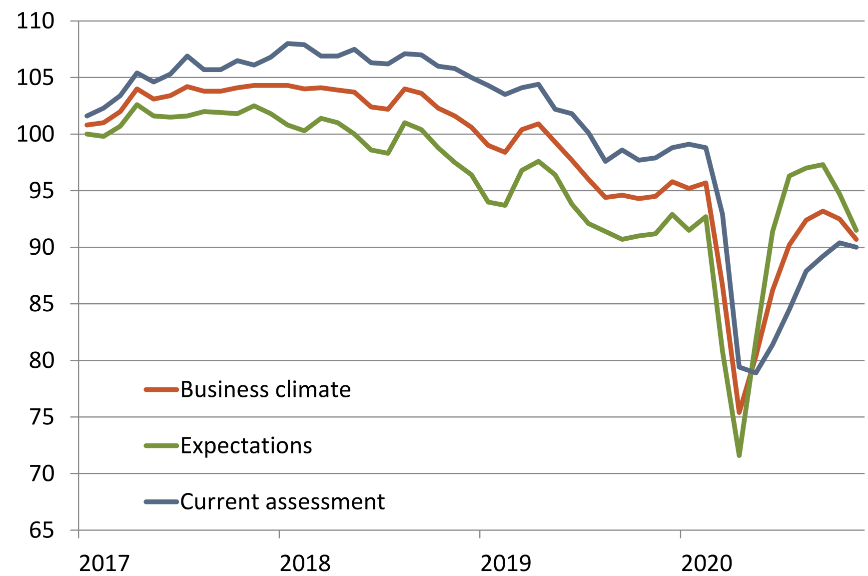
The German economy can probably get away with stagnation or a mild contraction in Q4 GDP. While in France, the UK and some other countries closed non-essential shops in November, Germany "only" required restaurants, pubs and entertainment venues to shut down. Also, the statistical overhang from Q3 is likely a tad bigger in Germany than in the Eurozone after a still strong September. Surveys – including the Ifo and the German PMIs – as well as high-frequency data suggest the German economy may still have expanded a little in October. Ongoing buoyant manufacturing production may have partly limited the damage of services in November.

But the risks of a small dip are rising. Since early November daily new infections have stabilised in Germany. But they have not fallen notably as in other countries (even though they still remain below the numbers of most countries in per capita terms). The German government will most likely announce an extension to its current restrictions of the hospitality and leisure sector way into December at a meeting tomorrow between Chancellor Angela Merkel and state premiers.

Reports about a tightening of measures mainly relate to more face-mask wearing and social gatherings at home with little economic impact. At the same time, the UK and France consider easing their – much more stringent – lockdowns in December by allowing non-essential shops to open again, at least in many regions. Even if the German economy were to contract slightly in Q4 instead of merely stagnating, Germany looks set to fare much less badly than France (we project -5% qoq for French Q4 GDP) and the UK (for which we have just raised our Q4 call from -5.5% to -4.5%).

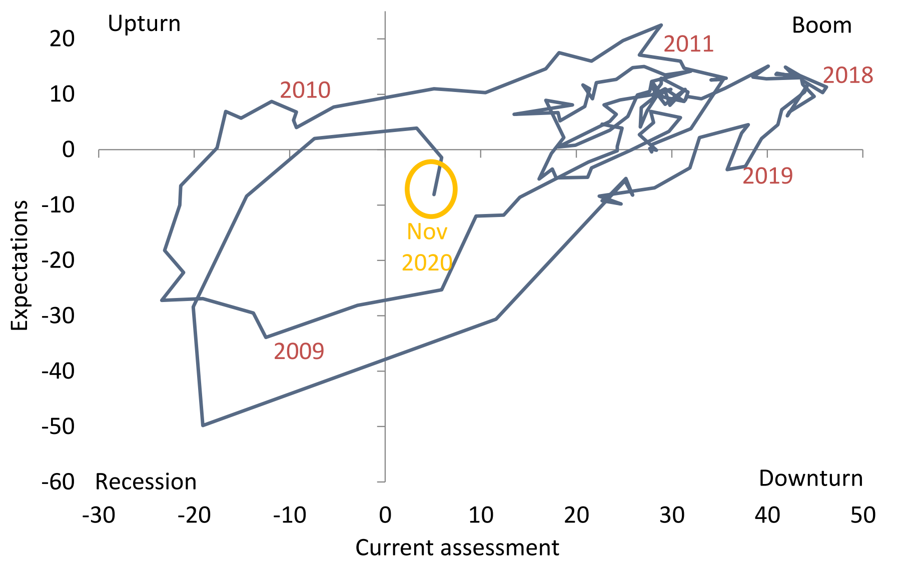
Beyond the near-term hit to economic activity, the medium-term outlook for 2021 remains positive. A calmer US trade policy under Biden, ongoing medical progress, the end of Brexit uncertainty and the prospects for a further rebound in global trade could add up to an unusually good year for the European continent – especially Germany – in 2021 after a still dark winter now.

Chart 1: Ifo business climate, current assessment and expectations



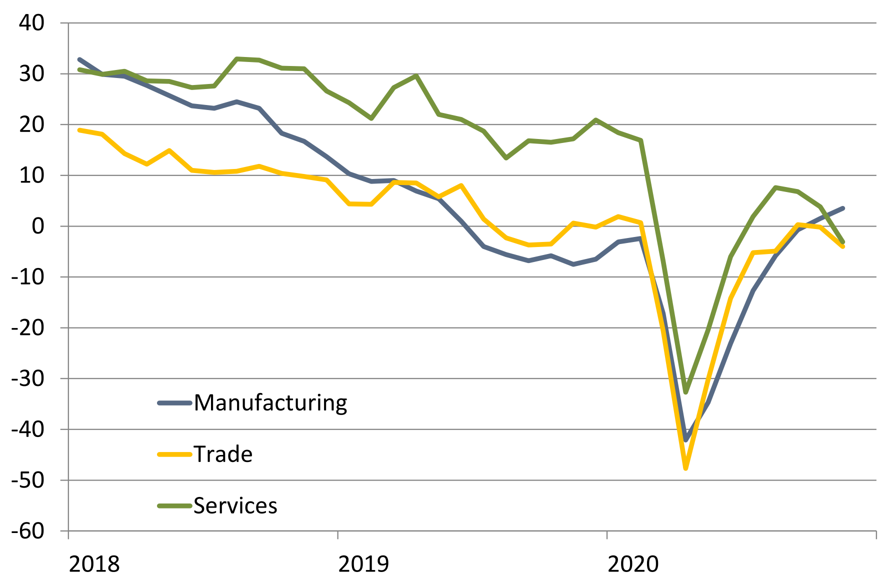
Indexed at 2015=100. Source: Ifo, Berenberg

Chart 2: Ifo business cycle clock (balances in %)



Source: Ifo, Berenberg

Chart 3: Ifo business climate by sector (balances in %)



Source: Ifo, Berenberg

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