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GERMAN IFO: HISTORIC PLUNGE

Berenberg Macro Flash

The collapse of the Ifo index for German business climate in March to 86.1 from 96 in February marks the worst drop since the pan-German series started in 1991 (see Chart 1). As the lockdown in Germany has turned more severe by the day today's final reading of the Ifo index is even lower than last week's published preliminary estimate of 87.7.

We **should** draw the same three conclusions from the German Ifo as from [yesterday's PMIs](#): the Covid-19 recession hits ...

1. GDP more severely than the 2008/2009 financial crisis did in its initial phase
2. all industries and countries, some by (even) more than others
3. and services look more vulnerable than industry to the lockdowns.

The plunge in the forward-looking subindex of business expectations was even bigger than that of the headline index (down to 79.7 from 93.1 in February, see Chart 1). Businesses' assessment of the current situation dropped to 93 from 99. While the current assessment remains well above the low of the financial crisis (77.1), expectations have fallen close to that level in one go (79.2). All industries suffered losses, with services and trade hit in particular by measures to limit the Covid-19 spread (see Chart 2). A smaller collapse in the business climate in the construction is only a small consolation.

The depth and length of the inevitable recession ultimately depends on the course of the Covid-19 pandemic and authorities' containment measures. Economic data do not provide reliable insight into the precise scale of the recession at this stage. This applies in particular to surveys. The German Ifo survey is no different. For the time being, however, taking stock of the incoming data releases can help us gauge the potential damage so far (see Chart 3 for business cycle clock).

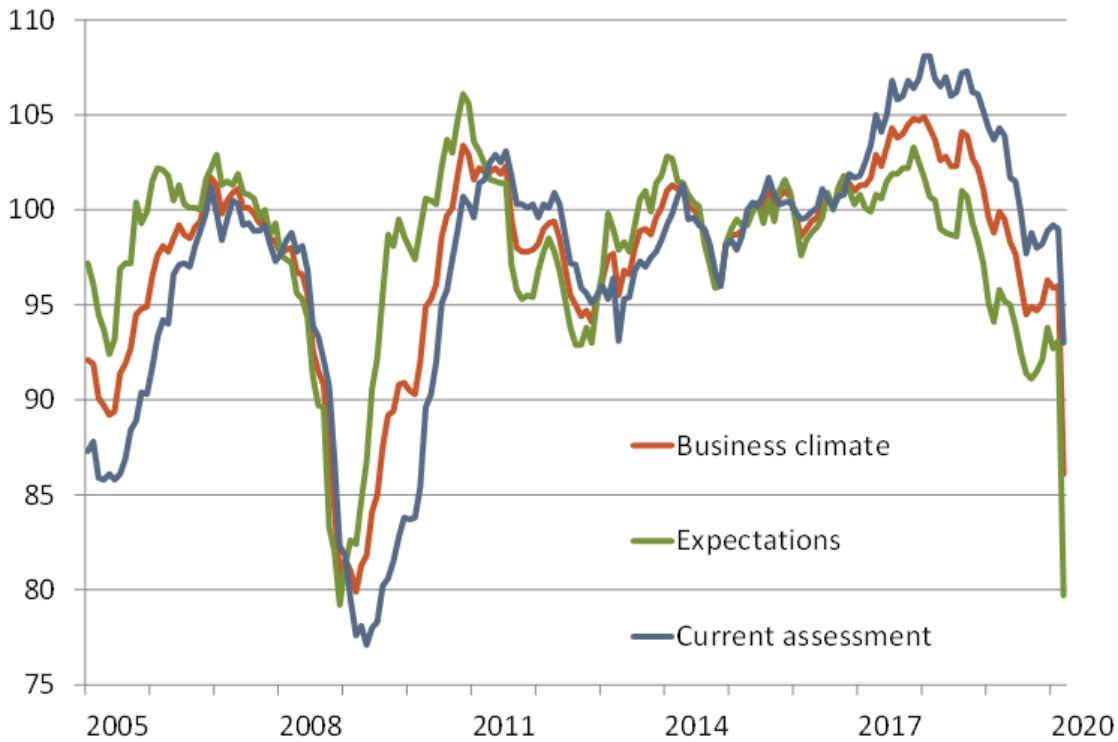
Yet to get even worse, but Chinese glimmer of hope: As ever more countries are imposing containment measures, the data in the coming weeks – and hence the monthly results for April – will likely get worse first before they may get better again once lockdowns are eased. At the same time, developments in China – where measures of daily economic activity continue to show a gradual improvement – provide a glimpse into the possible future. But that is probably at least 6 weeks away for Germany and the rest of Europe.

For our core convictions on the economic consequences of the pandemic, see [the macro essentials](#). See also our [Covid-19 chartpack](#).



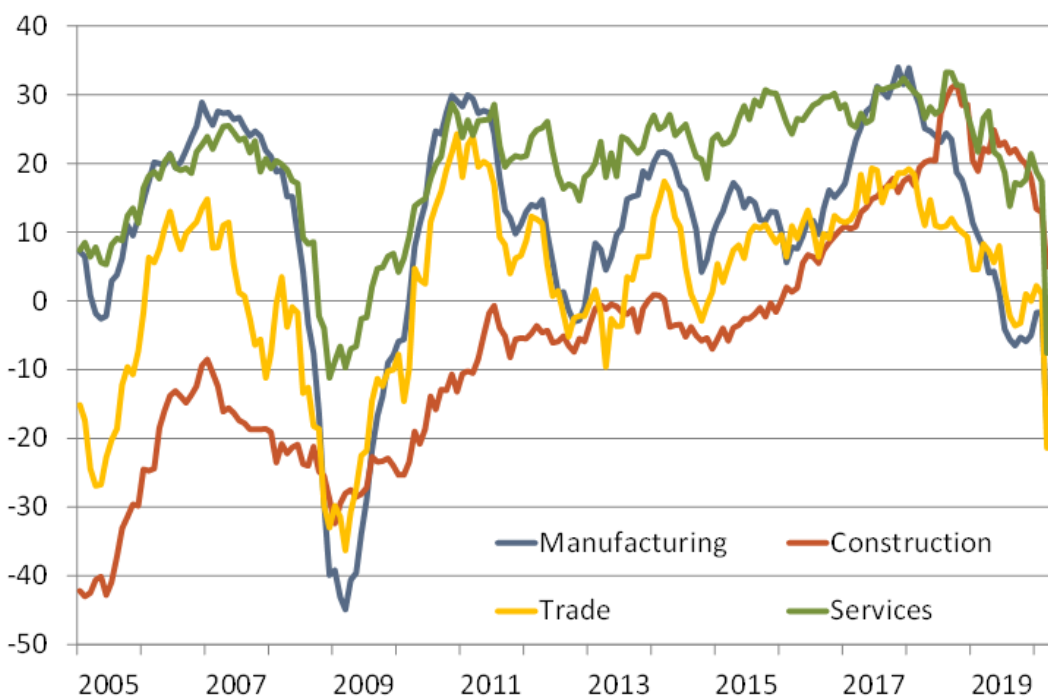
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Chart 1: Ifo business climate, current assessment and expectations



Indexed at 2015=100. Source: Ifo

Chart 2: Ifo business climate by sector (balances in %)

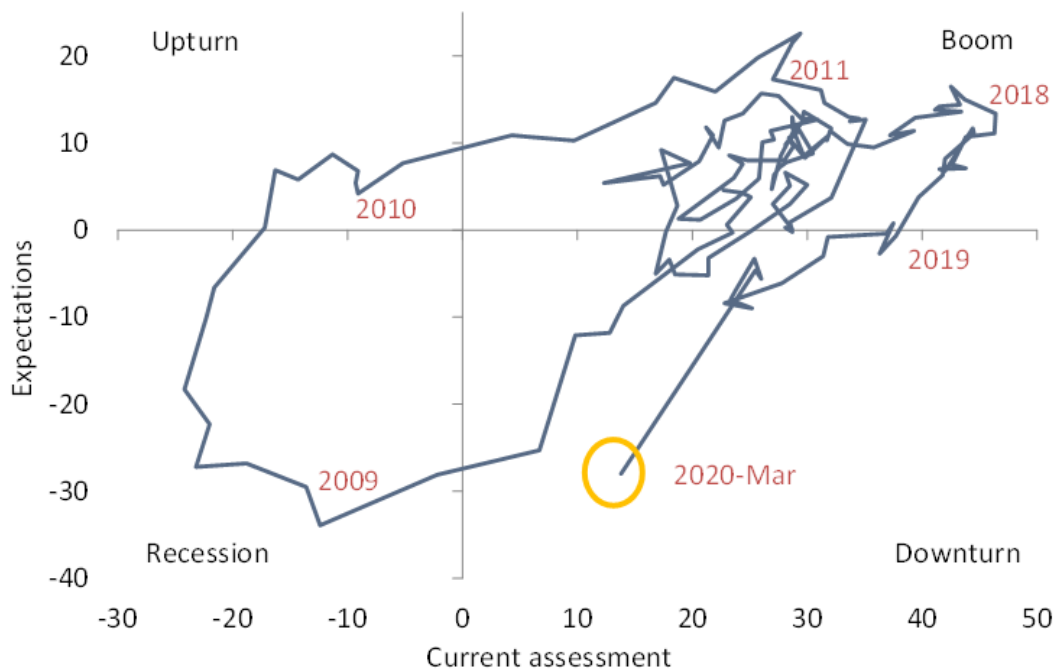


Source: Ifo



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Chart 3: Ifo business cycle clock (balances in %)



Source: Ifo

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