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ZEW GERMAN SENTIMENT: CLOSE TO THE TROUGH?

Berenberg Macro Flash

Are we at or close to the trough? Financial analysts monthly surveyed by the ZEW seem to think so. We largely agree. Economic performance in Q2 2020 will be dismal, but less so than the extremely weak data for April may suggest. In many European countries, economic activity can probably start to recover in May already and gather some pace in June. A gradual if cautious easing of lockdowns will help.

It cannot get much worse: According to ZEW panellists, economic activity in Germany and the Eurozone worsened further in April and by the most since the start of the survey in 1991. The corresponding indicator for Germany dropped by 49.4 points from -43.1 in March to -91.5 this month, close to the hypothetical lower bound of -100. Because the current situation is so dismal already, most panellists believe that it cannot get much worse. Instead, the situation should start to improve in the next few months. The indicator for their 6-month ahead expectations for the German economy shot up by 77.7 points to a positive balance between optimists and pessimists of 28.2. This was the biggest rise since 1991. It more than offsets the drop in March by 58.2 points.

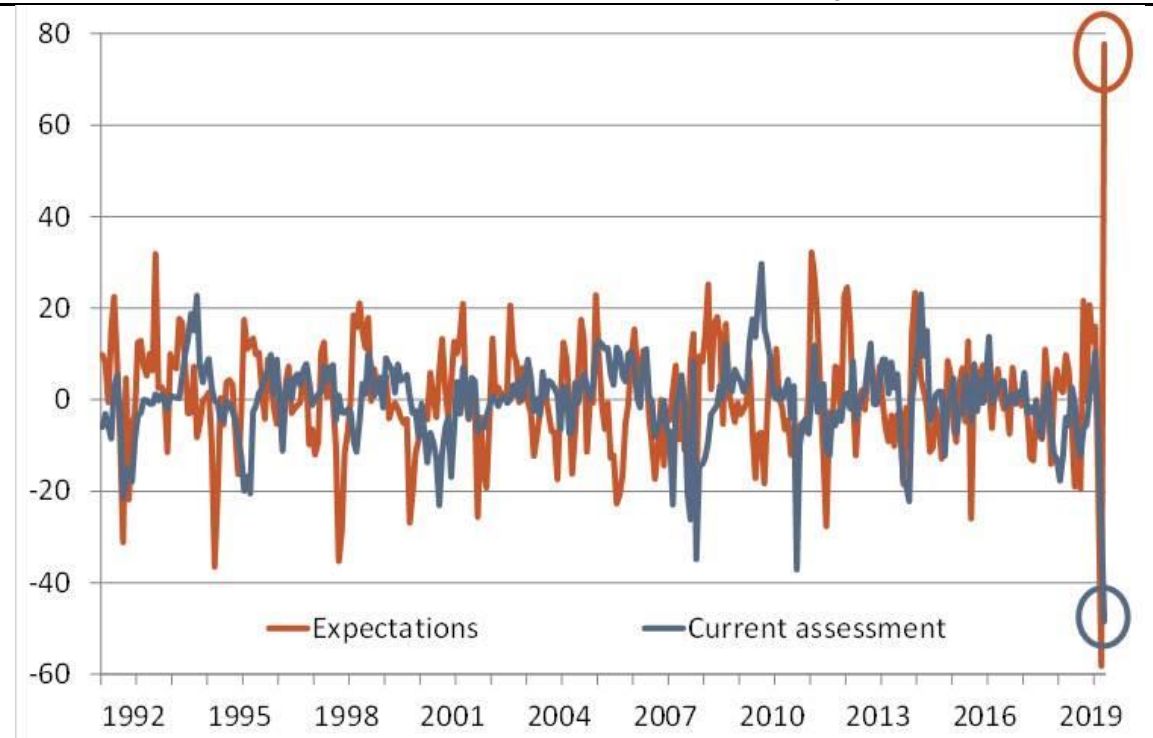
More extreme moves than during 2008/2009: The dynamics for the assessment of the current vs. future situation roughly correspond to those seen in April/May 2009 during the financial crisis, but in a much more extreme way. A combination of very weak assessment of the current situation and a marked improvement in the outlook for six months ahead is usually a clear sign of a cyclical turning point.

Tick mark recovery at end of tunnel: In our view, there is light at the end of the tunnel. However, we are not out of the tunnel yet. The hit to the economy in March and April is unprecedented. Economic activity may well have been 10-15% below normal in March and may fall 25-40% short of normal in April in the severely affected advanced economies. It could take two years or more for the economy to recover. See our call for a [tick mark recovery](#).



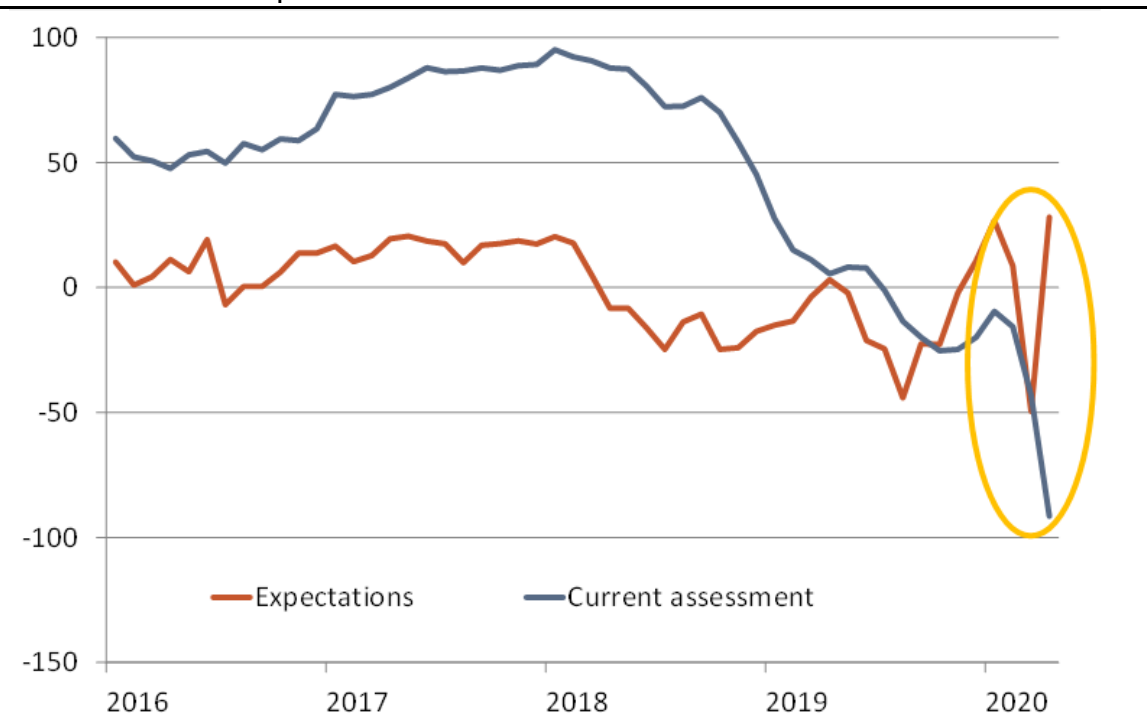
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Chart 1: German ZEW expectations and current assessment (monthly change)



Source: ZEW

Chart 2: German ZEW expectations versus current assessment since 2016

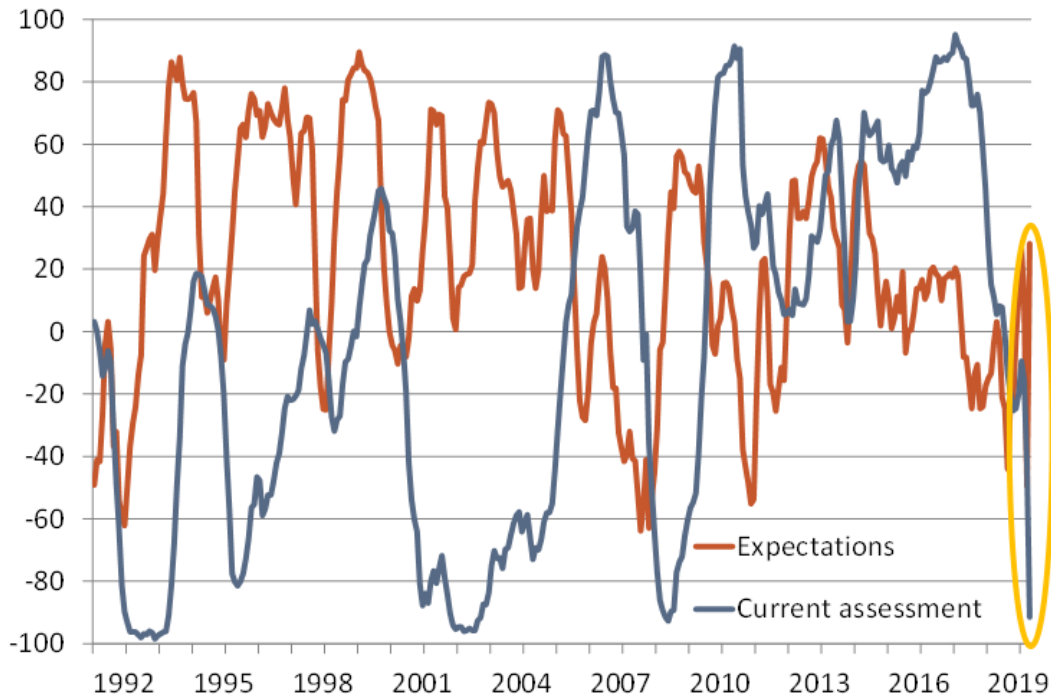


Source: ZEW



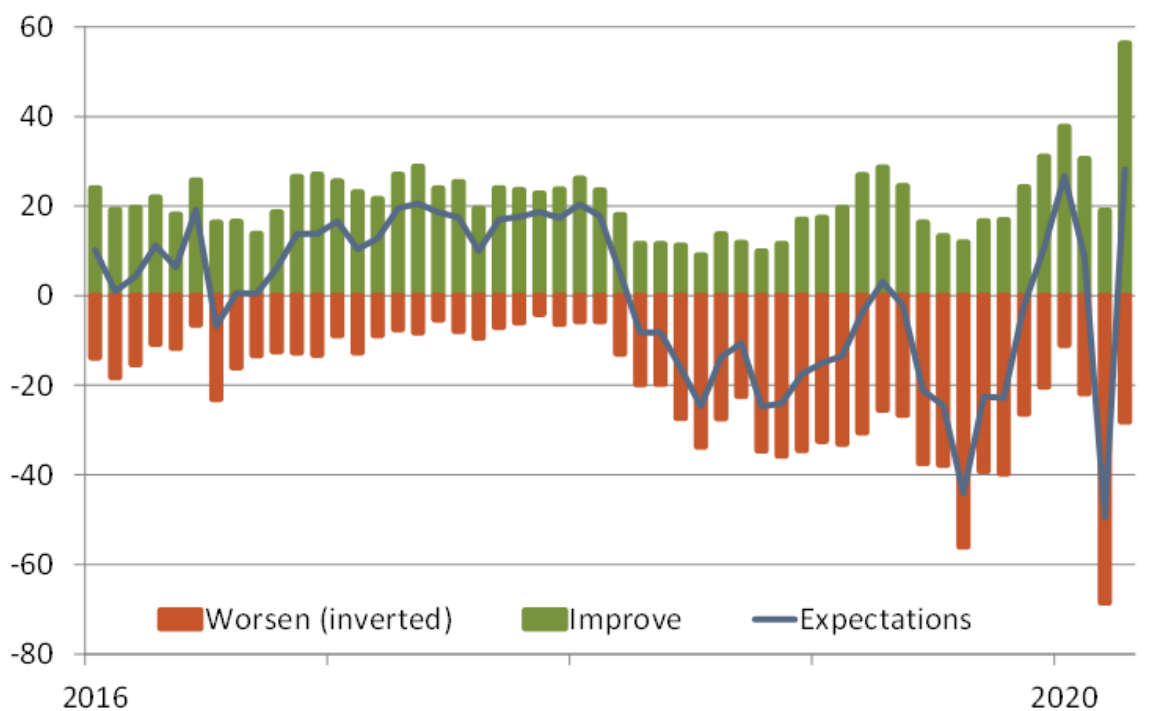
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Chart 3: German ZEW expectations versus current assessment since 1992



Source: ZEW

Chart 4: Relative majority thinks it cannot get worse and expects temporary hit



The value for the ZEW sentiment indicators is the ppt difference between the percentage of optimists ("improve") and pessimists ("worsen") among panellists. Source: ZEW



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