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## GERMAN IFO SETBACK: A LITTLE TRUMP SCARE?

### Berenberg Macro Flash

Is Trump scaring German industry? Driven by less optimistic expectations, German Ifo business confidence fell back in January following a strong surge late last year. Few countries depend on free trade in the world as much as Germany does. While we should hesitate to read too much into somewhat volatile monthly data, the January correction in expectations could suggest that some German companies are starting to worry about the risks of rising protectionism. Germans are known for succumbing to occasional spells of “angst”.

However, we need to put the correction into perspective: at 109.8 after a cyclical high of 111.0 reached last December, the Ifo headline index remains far above the long-term average of 101.8. As it also exceeds the 2016 average of 108.3, it still points to robust economic growth ahead in line with the 1.8% gain of last year. Whereas forward-looking expectations fell back to 103.2 in January after 105.5 in December, the assessment of current conditions improved a little further to a 116.9 after 116.7 in December. Taken at face value, this contrast between somewhat softer expectations and the stellar current assessment indicates that fewer companies now expect the situation to get even better than it already is at the moment.

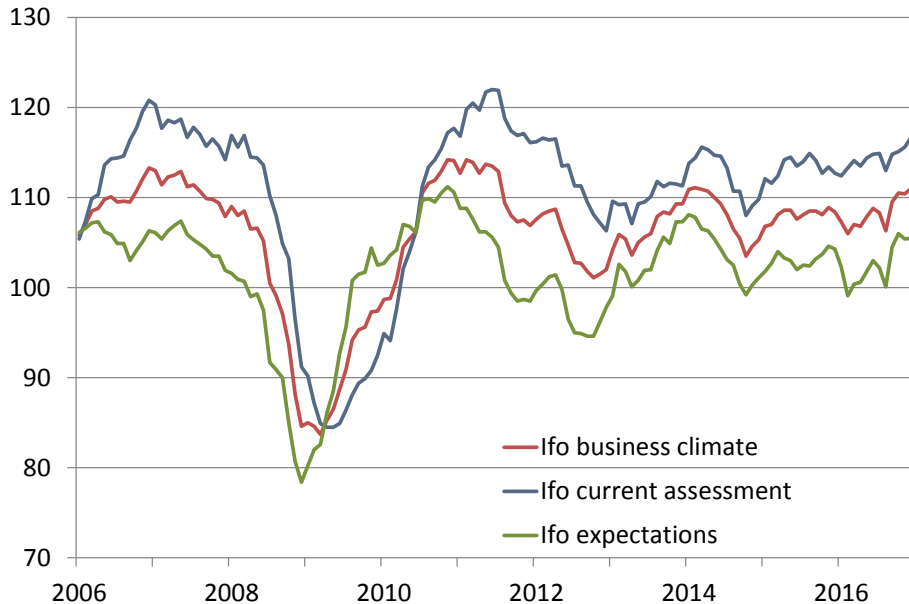
The January drop in the Ifo headline index probably overstates the genuine change in sentiment. First, some of it is simply due to the return to more normal conditions in retail trade in January after an exceptional Christmas shopping season. In the retail sector, confidence retreated from 9.4 in December to 5.8 in January. Second, a cold spell in January after a warm December probably contributed to a decline in construction sentiment from an exceptionally strong 13.1 in December to 10.7 in January. Third, the more modest dip in manufacturing sentiment from 15.4 in December to 13.8 in January contradicts the firmer reading for German manufacturing in the narrower purchasing managers’ index published yesterday. Nonetheless, the overall message seems to be: after picking up significant momentum in late 2016, with growth probably accelerating to a quarterly annualised rate of at least 2%, the German economy will probably not strengthen much further in coming months.

Economic fundamentals remain encouraging. Significant gains in employment and real wages, a modest fiscal stimulus of around 0.2% of GDP, a competitively valued exchange rate and a very accommodative monetary policy point to an ongoing robust and broad-based economic upturn. Modest fluctuations around a solid trend are normal. Nonetheless, the decline in forward-looking expectations serves as a reminder: we need to watch the risks to the outlook, which stem mostly from political uncertainties and potential protectionism.



## MACRO NEWS

### German Ifo business confidence



Source: Ifo, Haver Analytics

### German Ifo

	JAN	DEC	NOV	OCT	SEP	AUG
Business climate	109.8	111.0	110.4	110.5	109.5	106.3
Expectations	103.2	105.5	105.4	106.0	104.5	100.1
Current assessment	116.9	116.7	115.6	115.1	114.8	113.0

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