



Florian Hense, Economist | florian.hense@berenberg.com | +44 20 3207 7859

GERMAN IFO SURGE TO HIGHEST LEVEL SINCE 1991 OVERSTATES ACTIVITY

Berenberg Macro Flash

German Ifo, May

	Business climate	Expectations	Current assessment
Actual:	114.6	106.5	123.2
Previous:	113.0	105.2	121.4
Consensus:	113.1	105.4	120.0
Berenberg:	113.2	105.6	121.2

The good life: As Emmanuel Macron has moved into the Elysee Palace and the economic recovery is gaining traction across the globe, sentiment in Germany currently seems to know just one direction – up. The Ifo confirms the message from last week’s ZEW. According to the Ifo survey, German business climate surged from (a revised) 113.0 in April to 114.6 in May, the highest level ever recorded since January 1991. Both firms’ expectations and their assessment of the current situation improved strongly (from 105.2 to 106.5 and from 121.4 to 123.2, respectively), with the latter also reaching an all-time high (see chart 1). The Ifo business cycle clock, which combines expectations and the current business situation on two separate axes, suggests that the German economy has never been deeper in the boom sphere since the start of the pan-German statistics in 1991 (see chart 2). That firms’ expectations remain well below their assessment of the current situation probably stems from the fact that it cannot get (even) better than it already is. Also, firms tend to underestimate their future situation: the long-term average of expectations at 100.5 is below that of the current situation (103.7).

Surge in sentiment across sectors, with manufacturing leading: On a sector basis, sentiment among manufacturers improved significantly as the assessment of the current situation reached the highest level since 2011. Manufacturers are planning to ramp up production. In construction, the climate improved further, as expectations are high and the current situation assessment topped the highest level since 1991 reached already last month. Wholesale trade improved on the back of far better expectations. Sentiment in the retail sector declined, but remained high. The Ifo surveys covers 40% of the German economy – manufacturing, construction, wholesale and retail trade. The remaining 60% are services (excluding wholesale and retail trade). A separate PMI survey signalled strong growth among service providers, even though activity growth eased slightly to a three-month low.

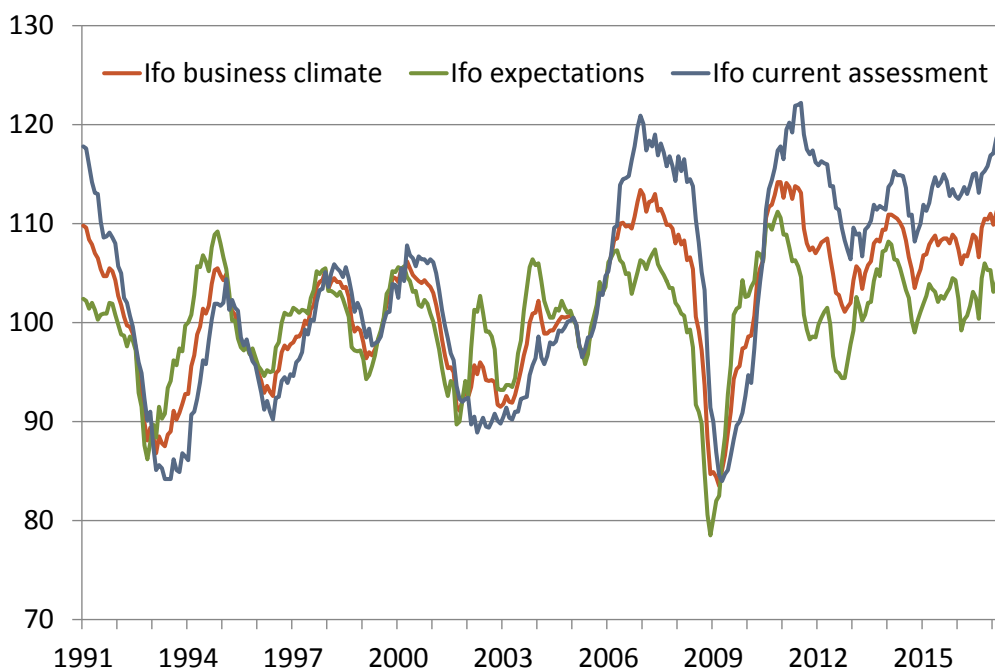
The environment for business is bright. Among Germany’s major trading partners the upswing gathers pace. That boosts German exports, with non-Eurozone exports still benefitting from a competitively valued exchange rate. More importantly, as the recovery broadens and firms across the globe, businesses start expanding their production capacity with more conviction as they believe that long-term investments will pay off. The Ifo survey showed that capital goods manufacturers in particular reported strong current business and order books filling up. For the coming quarters it helps that political uncertainties are either out of the way (Wilders in the Netherlands, Le Pen in France) or have receded (snap elections in Italy this autumn, protectionism and currency wars led by Trump). In addition, after a good first “Merkron” meeting between French President Macron and German Chancellor Merkel last week, chances are that economic reforms in France could be complemented by institutional reforms in the Eurozone.



MACRO NEWS

Growth above trend, but further acceleration in German activity unlikely: The headline figures for most of the recent soft data have been higher than the averages for Q1 (with the PMI for Germany showing earlier today output growing at fastest pace in over six years), so the better sentiment has clearly carried into Q2. Taken at face value, this suggests that GDP growth could accelerate modestly in the next two quarters. Helped by a mild winter boosting investment in the construction sector and strong foreign demand driving exports as the second reading of GDP in Q1 showed today, the German economy already expanded by 0.6% qoq in Q1, well above its trend rate of 0.4% qoq. A further acceleration thus seems unlikely. A reversal straight back to trend, however, is also not likely. After all, inventories knocked 0.4 ppt from the headline GDP Q1 figure. In Q2, we expect GDP to grow at a solid pace of 0.5% with risks to the upside (see chart 3).

Chart 1: Ifo business climate, current assessment and expectations

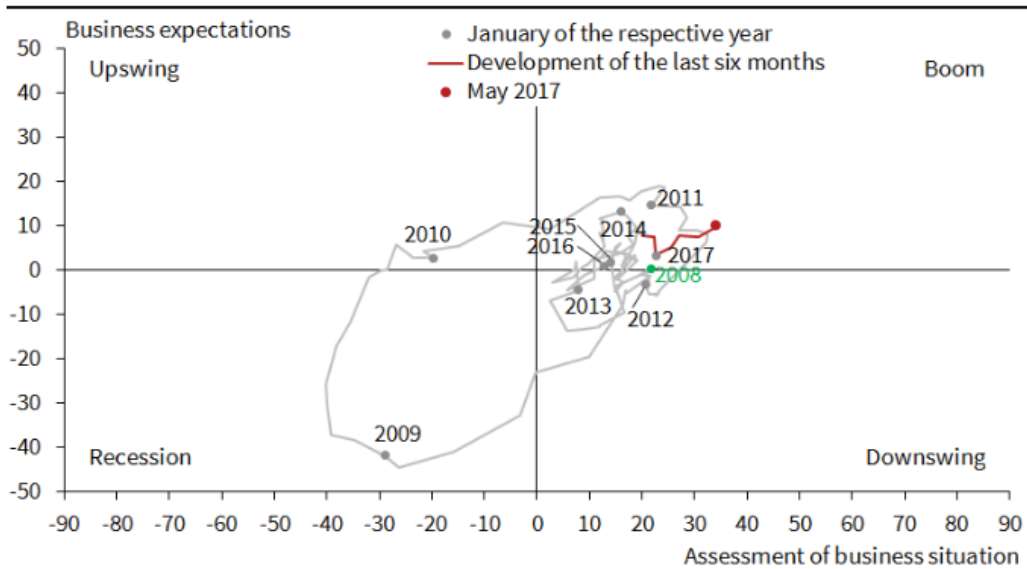


Source: Ifo



MACRO NEWS

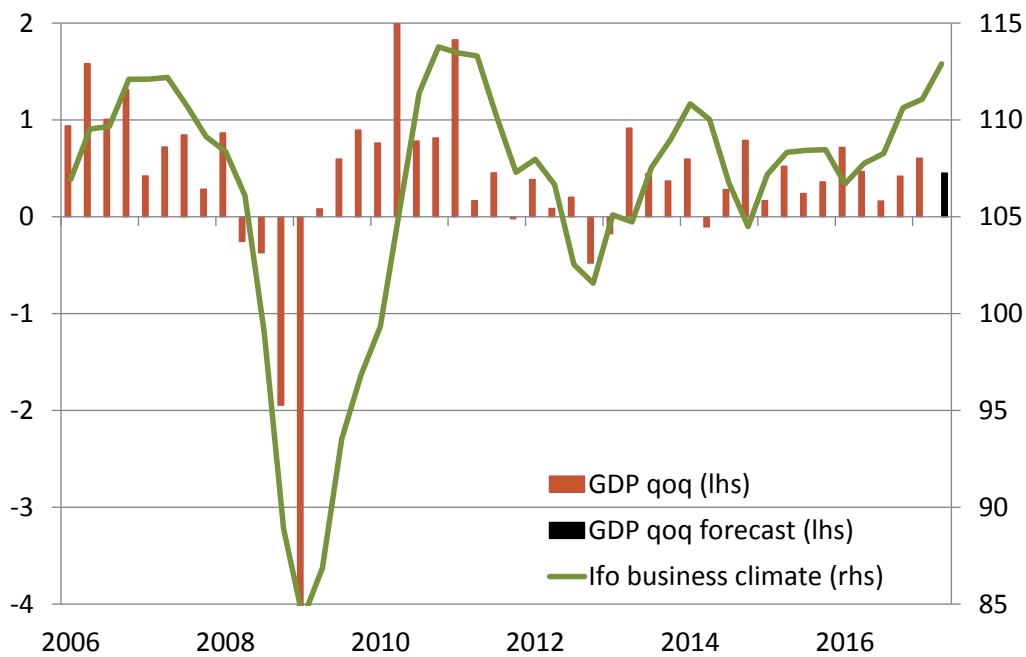
Chart 2: Ifo business cycle clock
Balances, seasonally adjusted



* Manufacturing, construction, wholesaling and retailing.

Source: Ifo

Chart 3: German GDP qoq (in %) versus Ifo business climate



Source: Destatis, Ifo, Berenberg calculations



BERENBERG

PARTNERSHIP SINCE 1590

MACRO NEWS

German Ifo

	MAY	APR	MAR	FEB	JAN	DEC
Business climate	114.6	113.0	112.2	111.1	109.9	111.0
Expectations	106.5	105.2	105.4	104.0	103.1	105.3
Current assessment	123.2	121.4	119.4	118.6	117.1	116.9

This message has been produced for information purposes for institutional investors or market professionals, it is not a financial analysis within the meaning of § 34b or § 31 of the German Securities Trading Act (Wertpapierhandelsgesetz), no investment advice or recommendation to buy financial instruments. The message does not claim completeness regarding the information on the developments referred to in it. On no account should it be regarded as a substitute for the recipient's procuring information for himself or exercising his own judgements. The message may include certain descriptions, statements, estimates, and conclusions underlining potential development based on assumptions, which may turn out to be incorrect. Berenberg and/or its employees accept no liability whatsoever for any direct or consequential loss or damages of any kind arising out of the use of this message or any part of its content. -- For full economics reports please visit our website or contact capitalmarkets@berenberg.de.

Joh. Berenberg, Gossler & Co.
KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7859
www.berenberg.com
florian.hense@berenberg.com