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## THE GERMAN IFO DOES IT AGAIN

### Berenberg Macro Flash

#### German Ifo, June

	Business climate	Expectations	Current assessment
<b>Actual:</b>	<b>115.1</b>	<b>106.8</b>	<b>124.1</b>
Previous:	114.6	106.5	123.3
Consensus:	114.5	106.4	123.3
Berenberg:	114.5	106.4	123.2

**The sun is shining on the German industry:** As the domestic economy remains solid and the external environment brightens ever more, the German industry is enjoying the good life. On the back of a better assessment of both the current and future situation, Ifo business climate improved yet again in June, beating the decade record it reached in the previous month. The survey is one of the most representative gauges of the German economy. The further gains in the German Ifo surveys add to the various gauges of sentiment and activity that signal ongoing or even stronger momentum this year. This suggests an upside risk to our call of 0.5% qoq gain in GDP in Q2 and 1.8% yoy in 2017, after 0.6% in Q1 and 1.8% in 2016.

**The Ifo does it again:** Business climate improved from 114.6 in May to 115.1 in June, the highest level ever recorded since the start of the pan-German series. Both firms' expectations and their assessment of the current situation improved (from 106.5 to 106.8 and from 123.3 to 124.1, respectively) (see chart 1). The Ifo's two main components have trended up since the start of the year. The averages for both expectations and the assessment of the current situation so far this year are well above their averages of the previous year (105.2 and 120.7 in H1 2017 versus 102.6 and 114.3 in 2016). The Ifo business cycle clock, which combines expectations and the current business situation on two separate axes, suggests that the pan-German economy has never been deeper in the boom sphere (see chart 2).

**Strong gains in wholesale and retail, manufacturing and construction stable:** On a sector basis, sentiment among manufacturers remained fairly flat (+0.1) after strong gains since the beginning of the year. Nevertheless, it reached a new high since 2011. As demand and new orders remain unchanged at a very high level, manufacturers plan to ramp up production. Sentiment among construction firms fell, from 12.8 to 12.4. In May the sector reached the highest level since 1991. Sentiment in wholesaling and retail surged, to the highest level since December 2010 and September 2015, respectively. This is reassuring after the German PMI survey last week showed that service providers recorded a softer expansion in June than the previous month. The Ifo surveys cover 40% of the German economy – manufacturing, construction, wholesale and retail trade. The remaining 60% are services (excluding wholesale and retail trade).

**A further uptick in activity? Possibly.** The headline figures for most of the recent soft data have been higher than the averages for Q1. The better sentiment has clearly carried into Q2. Taken at face value, this suggests that GDP growth could have accelerated slightly in Q2 and may continue to do so thereafter.

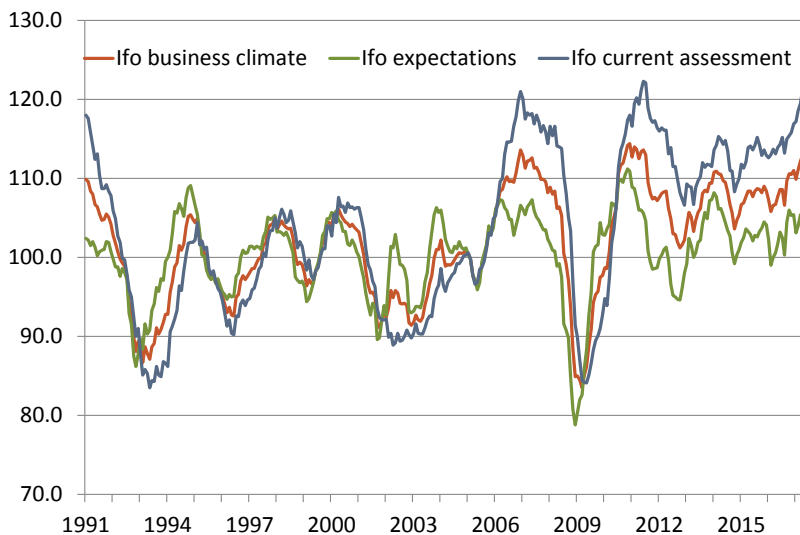
**The risks to our forecasts are clearly tilted to the upside. For two reasons, however, we do not expect German Q2 GDP to stow an acceleration beyond the pace reached in Q1 already:** 1) The German economy already expanded by 0.6% qoq in Q1. A further acceleration seems unlikely for an economy with a trend rate around 0.4%. In Q1, the economy benefitted from an exceptional warm weather (construction investment) and a strong positive contribution of net exports in Q1.



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This is unlikely to be repeated in Q2. In Q2, we expect GDP to grow at a solid pace of 0.5% with risks to the upside (see chart 3). 2) We have penciled in an uptick in business investment in 2017 (to 2.3% yoy after 2.0% in 2016). Stronger foreign demand will likely drive up net exports, providing a positive contribution to GDP of 0.2 ppt this year after subtracting 0.3 ppt from growth last year. However, private and government consumption will be less supportive than in 2016. Higher inflation, mainly owing to less-depressed oil prices, has weighed a little on real household spending at the beginning of this year (1.3% yoy in Q1 after 1.9% in 2016). We will monitor closely how service providers, especially retailers, fare under these conditions – retail sales have been weaker ytd than last year. Also, the German government does not need to raise spending again as fast as it did last year as the influx of refugees has slowed down considerably.

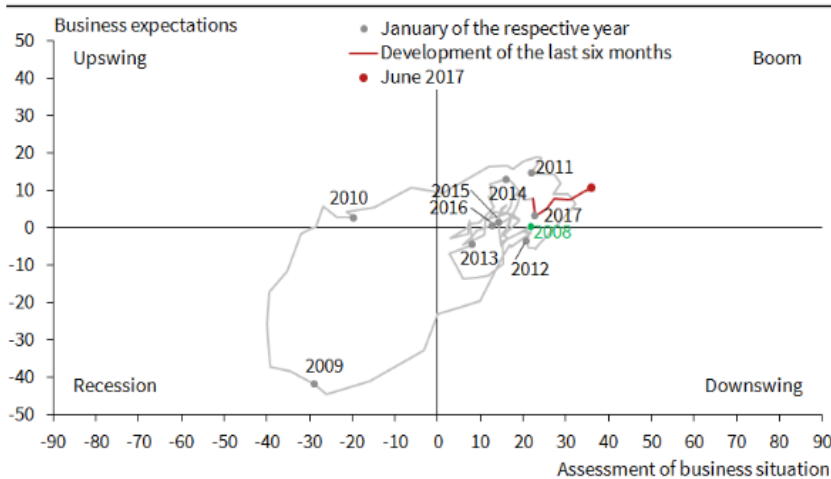
Chart 1: Ifo business climate, current assessment and expectations



Source: Ifo

Chart 2: Ifo business cycle clock

Balances, seasonally adjusted



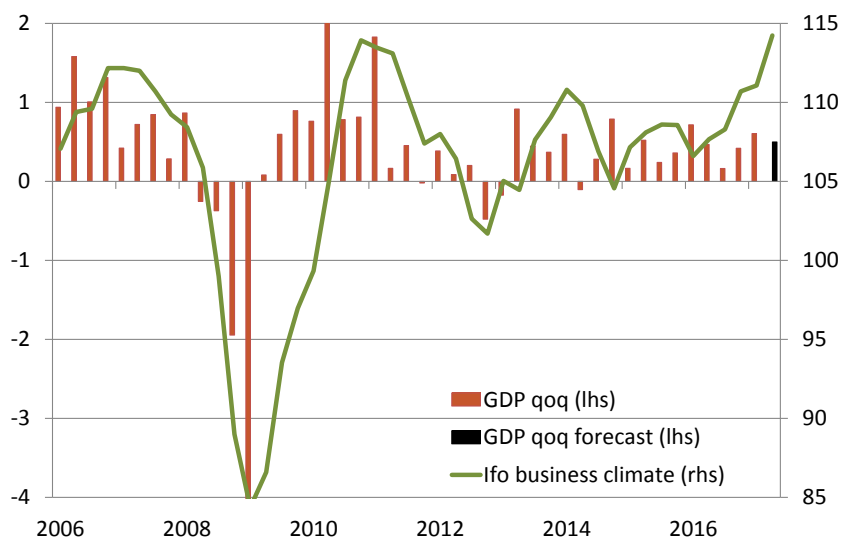
\* Manufacturing, construction, wholesaling and retailing.

Source: Ifo



## MACRO NEWS

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



Quarterly average for Ifo. Source: Destatis, Ifo, Berenberg calculations

### German Ifo

	JUN	MAY	APR	MAR	FEB	JAN
Business climate	115.1	114.6	113.0	112.2	111.1	109.9
Expectations	106.8	106.5	105.2	105.4	104.0	103.1
Current assessment	124.1	123.3	121.4	119.5	118.6	117.2

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