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## GERMAN IFO: A FESTIVE OPTIMISM IS IN THE AIR

### Berenberg Macro Flash

#### German Ifo, December

	Business climate	Expectations	Current assessment
<b>Actual:</b>	<b>117.2</b>	<b>109.5</b>	<b>125.4</b>
Previous:	117.6	111.0	124.5
Consensus:	117.5	110.7	124.7
Berenberg:	117.5	110.5	125.0

**Strong sustained momentum:** Although German business confidence slipped slightly in December according to a fresh reading of the Ifo surveys, it remained close to November's post-unification high. A drop in expectations was offset by a rise in the current assessment. The Ifo is one of Germany's most representative surveys and adds to the slew of other soft data that suggest the German engine will at least keep up momentum in the winter months. It creates a risk to our GDP call of 0.6% qoq in Q4 and Q1 after a stellar 0.8% in Q3, but we stick to our call for the time being after hard data such as industrial production and retail sales for the month of October have come in below expectations.

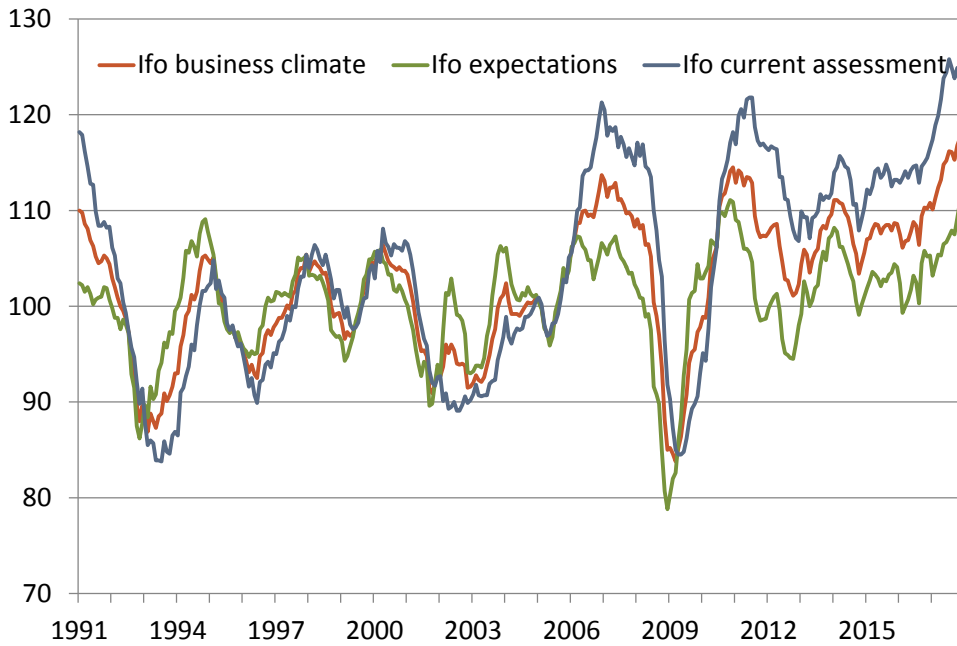
**It cannot get much better:** The business climate indicator edged lower from 117.6 in November to 117.2 in December. While firms' assessment of the current situation increased (from 124.5 to 125.4), expectations took a breather dropping from 111.0 to 109.5 (see chart 1). As company turnover and returns have surged this year, businesses probably believe things cannot get much better. 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 (107.0 and 122.9 versus 102.6 and 114.3 in 2016, respectively). The Ifo business cycle clock, which combines expectations and the current business situation on two separate axes, suggests that the pan-German economy is enjoying its best period since 1991 (see chart 2).

**Political uncertainty remains low despite government hiatus:** Three months after the general election, Germany has yet to form a new government. But it just seems a matter of time as the centre-left SPD is slowly, but steadily, accepting its fate to join the chancellor Angela Merkel's centre-right CDU/CSU in a renewed "grand" coalition. Also, even in the unlikely case where exploratory talks or more formal coalition talks collapse, and a Merkel-led minority government emerge, or repeat elections would have to be held, whichever way the cards fall, German politics will not change much. The risk that any new German government could form without Merkel's CDU/CSU looks slim. And the choice of Merkel's coalition partners or minority government supporters will likely tilt the political agenda only slightly towards either more generous pension entitlements (Social democrats), tax cuts (Liberals) or quicker transition to clean energy (Greens).



## MACRO NEWS

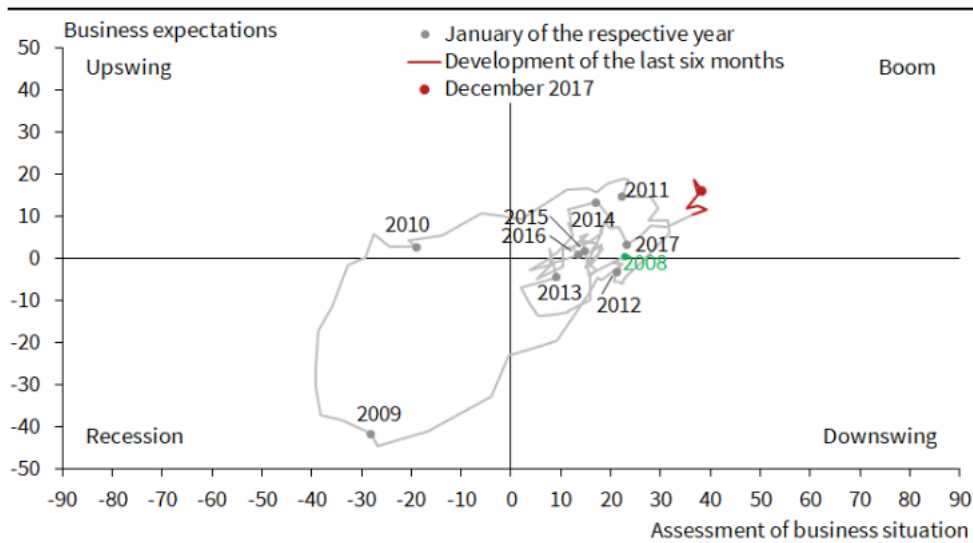
**Chart 1: Ifo business climate, current assessment and expectations**



Source: Ifo

**Chart 2: Ifo business cycle clock**

Balances, seasonally adjusted



<sup>a</sup> Manufacturing, construction, wholesaling and retailing.

Source: Ifo



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## MACRO NEWS

### German Ifo

	DEC	NOV	OCT	SEP	AUG	JUL
Business climate	117.2	117.6	116.8	115.3	116.1	116.2
Expectations	109.5	111.0	109.2	107.5	107.9	107.3
Current assessment	125.4	124.5	124.9	123.8	124.9	125.8

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