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Berenberg Macro Flash

German Ifo, November

	Business climate	Expectations	Current assessment
Actual:	102.0	98.7	105.4
Previous:	102.9	99.7	106.1
Consensus:	102.3	99.2	105.3
Berenberg:	102.0	98.9	105.2

External shocks have hit business sentiment in Germany stronger than in other countries owing to its heavy reliance on exports. In line with our expectations and last week's German PMI, the German economy's most closely watched gauge, the Ifo business climate, fell in November (from 102.9 to 102.0) for the third consecutive month (see chart 1). Forward-looking expectations dropped to the lowest level since July's two year low (98.2), erasing the entire rebound that had been triggered by the US-EU trade armistice struck in late July. The losses are broad based. That not only manufacturers but also service providers are reporting weaker sentiment shows that the external shocks are now leaving their mark on the domestic economy (see chart 2).

The new drop in the Ifo business climate limits the scope for a rebound from the dismal -0.2% qoq GDP result of Q3. As car production recovers from the one-off plunge in Q3 caused by the transition to new emission testing standards, Q4 GDP can rise by up to 0.4% qoq. After a grey winter, chances are that solid domestic fundamentals can pave the way for more sustained growth again from spring 2019 onwards. Some sort of agreement between Donald Trump and Xi Jinping later this week at the G20 summit such as delaying the move from 10% to 25% tariffs on \$200 bn of US imports from China to allow more time for talks, would be a positive surprise. Some reckoning among British MPs that the just signed off Brexit deal is the best possible deal followed by an approval by the House of Commons in December, too.

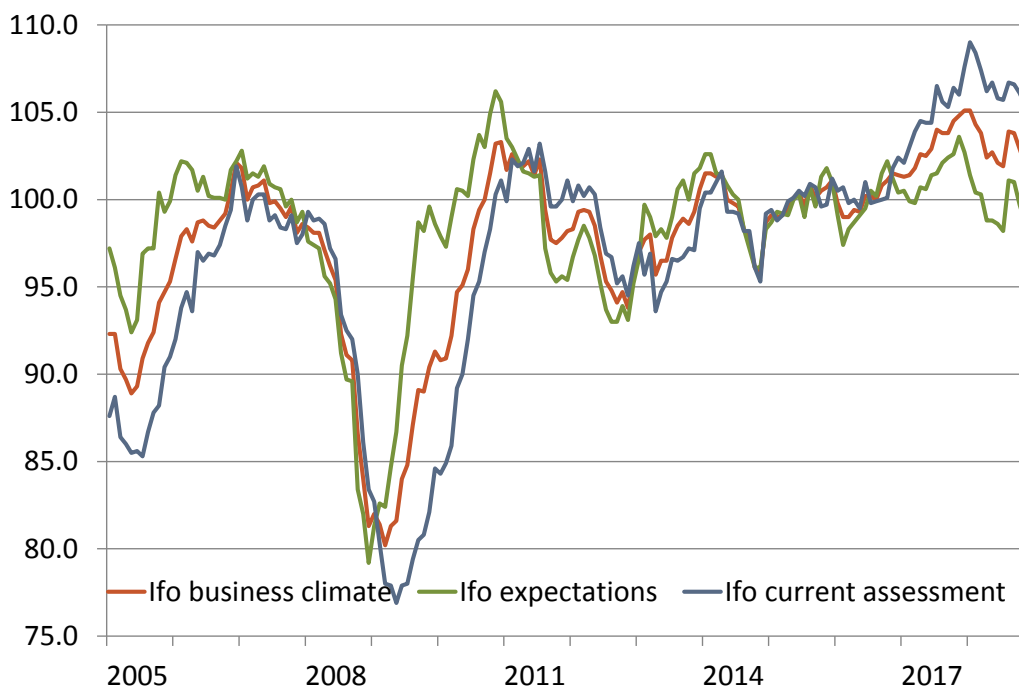
Both expectations and current assessment lower: The Ifo business climate index edged lower from 102.9 in October to 102.0 in November, driven by both a more clouded outlook and a scaled-back assessment of the current situation. Businesses' assessment of the current situation fell (from 106.1 to 105.4) to the lowest level since September 2017 (105.3). All indices remain above their long-term averages since 2005 (climate: 97.5, expectations: 98.3 and current assessment: 96.7). However, the significantly weaker expectations have caused also the overall index to fall below the 2017 average (103.2). The Ifo business cycle clock, which combines expectations and the current business situation on two separate axes, continued the downwards-left movement (weaker expectations and assessment of current situation) movement away from boom conditions that started at the beginning of the year (see chart 3).



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No reason for “German angst”: While we share the concerns that business sentiment in Germany is not going to rebound anytime soon (orders have softened by quite a bit – see chart 4), in our view, it is not appropriate to invoke the re-emergence of “German angst” and forecast a persistent slowdown in German growth. According to the Ifo business cycle clock Germany’s business environment remains in positive territory (see chart 3). Domestic fundamentals are still solid. The [economy did contract in Q3](#) by 0.2% qoq, but that was largely due to temporary problems in the car sector adding to high oil prices and the fall-out from global trade tensions. The booming labour market drives (nominal) disposable income and consumption, while businesses keep on expanding at still high capacity utilisation and to work off their backlogs. With the external headwinds likely to blow less forcefully next year, growth in the Eurozone’s biggest economy can return to a rate beyond trend of 1.7% in spring 2019 on a more permanent basis.

Chart 1: Ifo business climate, current assessment and expectations

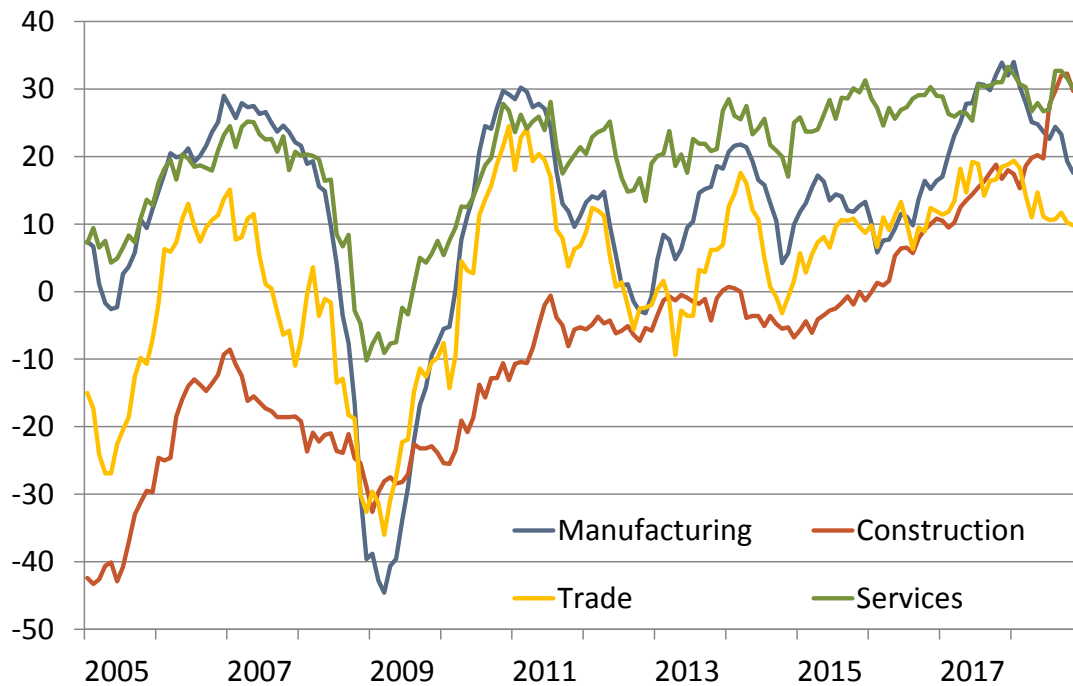


Source: Ifo



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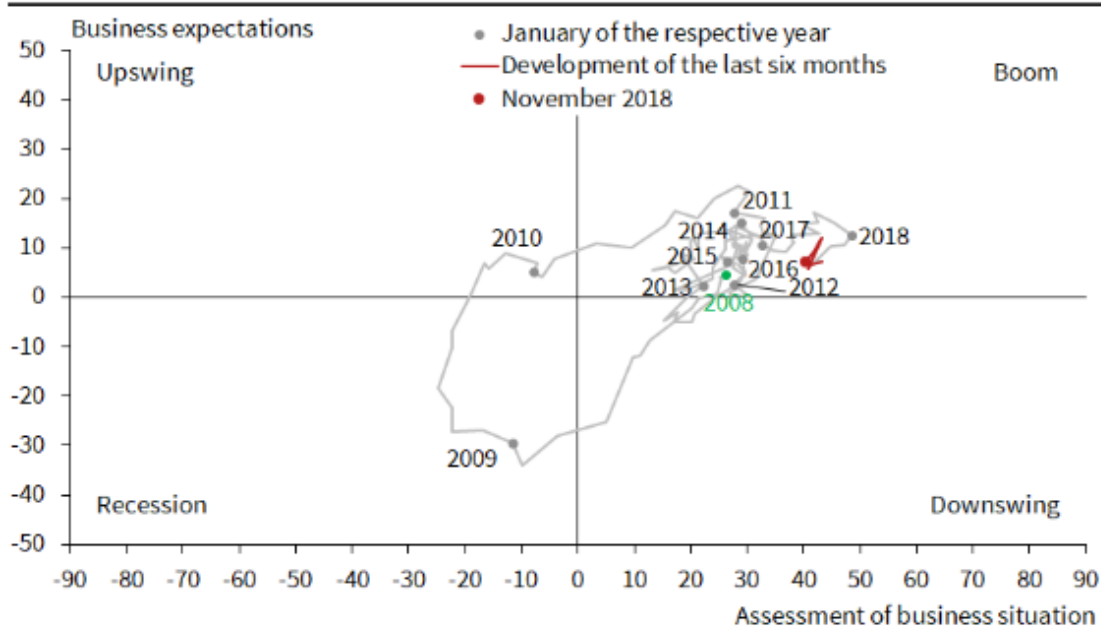
Chart 2: Ifo business climate by sector



Source: Ifo

Chart 3: Ifo business cycle clock

Balances, seasonally adjusted



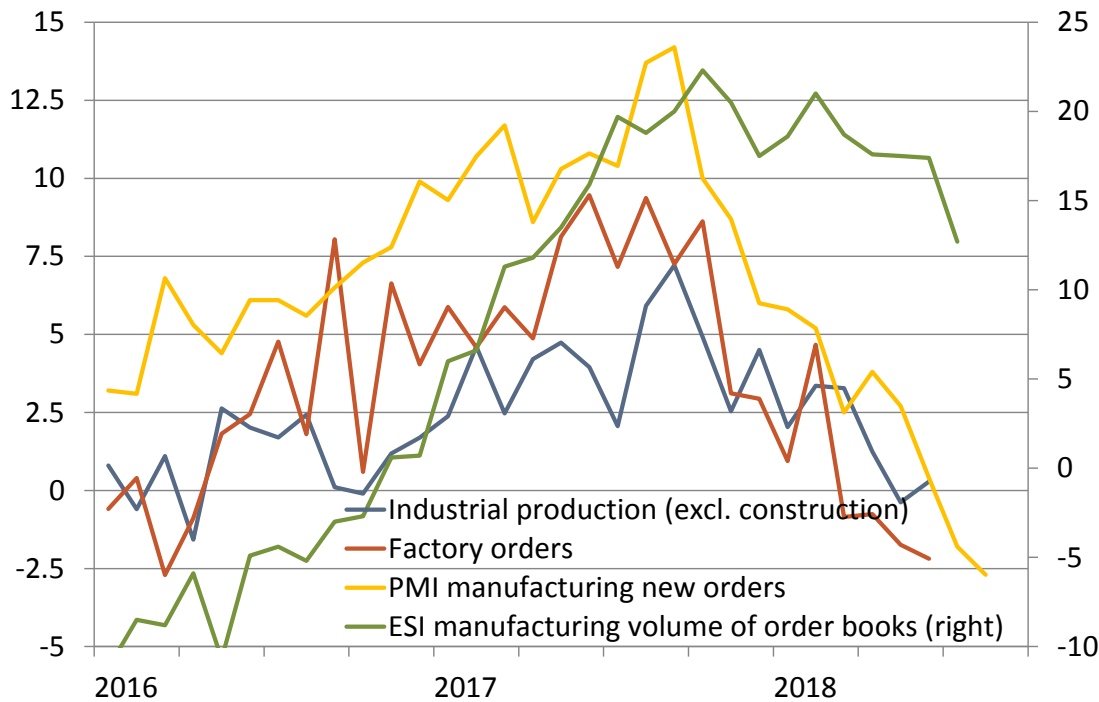
^a Manufacturing, service sector, trade and construction.

Source: Ifo



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Chart 4: Industrial production vs. orders



Yoy changes of industrial production and factory orders, in %. PMI manufacturing new orders value subtracted by 50 to make comparable with other series. Sources: Destatis, Markit, European Commission, Berenberg calculations

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