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## REVAMPED GERMAN IFO SLIPS FURTHER ON SIMMERING TRADE TENSIONS

### Berenberg Macro Flash

#### German Ifo, April

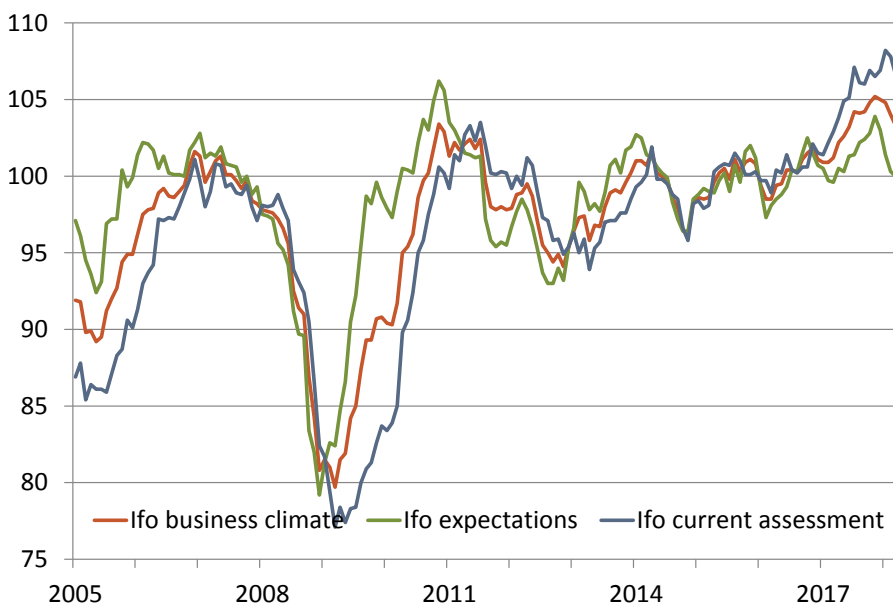
	Business climate	Expectations	Current assessment
<b>Actual:</b>	<b>102.1</b>	<b>98.7</b>	<b>105.7</b>
Previous:	103.3	100.0	106.6
Consensus:	102.8	99.5	106.0
Berenberg:	102.8	99.5	106.0

**Trade tensions continue to weigh on sentiment:** German business confidence slipped further and by more than expected in April according to the Ifo institute. The Ifo business climate dropped from 103.3 in March to 102.1 (vs. expected: 102.8) on the back of both weaker expectations and assessment of the current situation. Both major sectors, manufacturing and services, suffered losses.

**Only near-term dent to growth:** The decline for the fifth consecutive month echoes the slow of recently subdued data and suggests the German economy lost some momentum in early 2018. While the data has turned soft across the Eurozone, the sword of protectionism is hanging particularly close over the trade-reliant German economy. We expect a near-term dent to German GDP growth in Q1 (0.5% after 0.7% on average in 2017). But, from summer onwards, sentiment is likely to level off (yesterday's steady PMI pointed already in that direction) and the economy is likely to rebound (0.6% qoq from Q2 onwards) as the simmering trade tensions look set to be resolved over the next weeks.

The Ifo indices were rebased to 2015=100 and now include the services industry – see below for more information on the changes.

Chart 1: Ifo business climate, current assessment and expectations

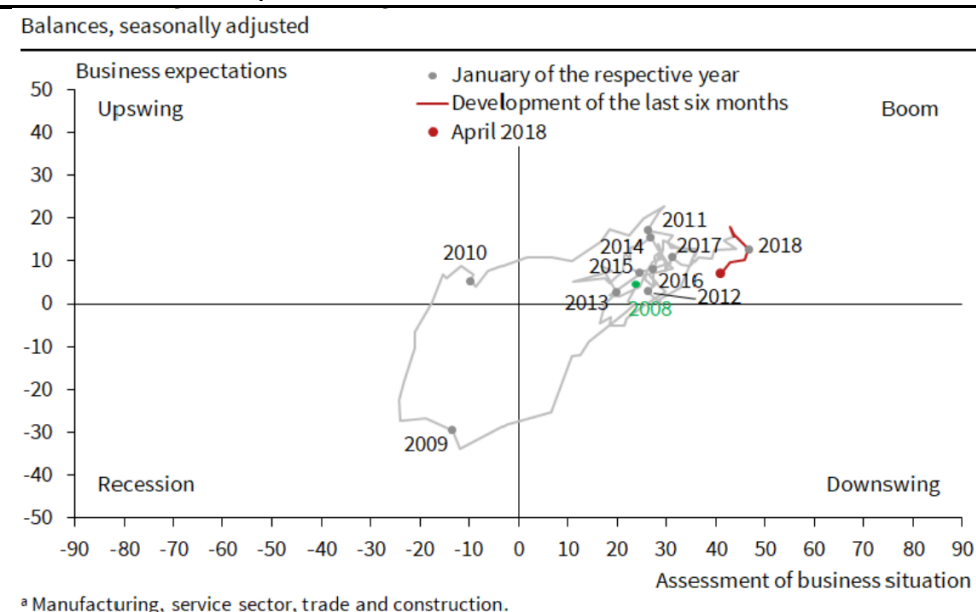


Source: Ifo



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**Chart 2: Ifo business cycle clock**



Source: Ifo

**Services expanded index represents larger part of German economy:** The Ifo institute has revised the calculation of its business climate index as of April 2018. The base year for index calculation has been adjusted from 2005 to 2015. The changes have shifted the entire series down about 10 points. The most important change is, however, that in addition to manufacturing, construction, retail and wholesale trade, it now includes the service industry. The services series was published separately so far as the time series were not sufficiently long to allow an integration into the overall index. The integration of services acknowledges the importance of the sector in the German economy and the index, thus, represents an even larger part of the German economy. Services enter with a weight of 50%, while the weight for the other sectors was halved (see Table below).

**Table: German Ifo sector weights (in %) – old vs. new**

	Old	New
Manufacturing	61.0	30.2
Construction	12.1	6.0
Wholesaling	14.5	7.1
Retailing	12.4	6.2
Services	-	50.5

Source: Ifo

**Less volatile index tracks annual GDP growth better:** By the addition of services the index' trends have not changed, but the new index is somewhat more compressed than the old index (lower volatility), for example the drop in 2009 following the financial crisis is not as severe and, similarly, the gains over the course of 2017 have been more moderate. The Ifo index continues to trace the course of German GDP closely. The



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new index has a lower correlation with regard to the quarterly growth rate than the old index (54.3% vs. 58.5%) – this can be explained that the quarterly growth rate series is more volatile, but a higher correlation with the annual growth rate (85.4% vs. 80.5%).

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