

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

GERMAN IFO: HOLDING UP

Berenberg Macro Flash

German Ifo, September

	Business climate	Expectations	Current assessment
Actual:	103.7	101.0	106.4
Previous:	103.9	101.3	106.5
Consensus:	103.2	100.5	106.0
Berenberg:	103.0	100.0	106.0

Not too bad: A further escalating trade war is not good news for anybody, not least for Germany's export-oriented manufacturers. In August, Germany's business community had welcomed the US-EU trade truce struck by Juncker and Trump, with the Ifo business climate index strengthening for the first time since November 2017. In September, the separate trade dispute between the US and China escalated. As of today, the US imposes a 10% tariff on further \$200 billion Chinese imports and China responds in kind with new duties on additional \$60 billion of American exports to China. Not surprisingly Germany's leading gauge of business confidence thus slipped slightly in September. However, it did so by less than expected. Thanks to strong fundamentals and healthy gains in domestic demand, the German economy seems to cope with the current external headwinds relatively well. Still, the risk has risen that the likely rebound of the German economy to above-trend growth of c2.0% may not come before 2019.

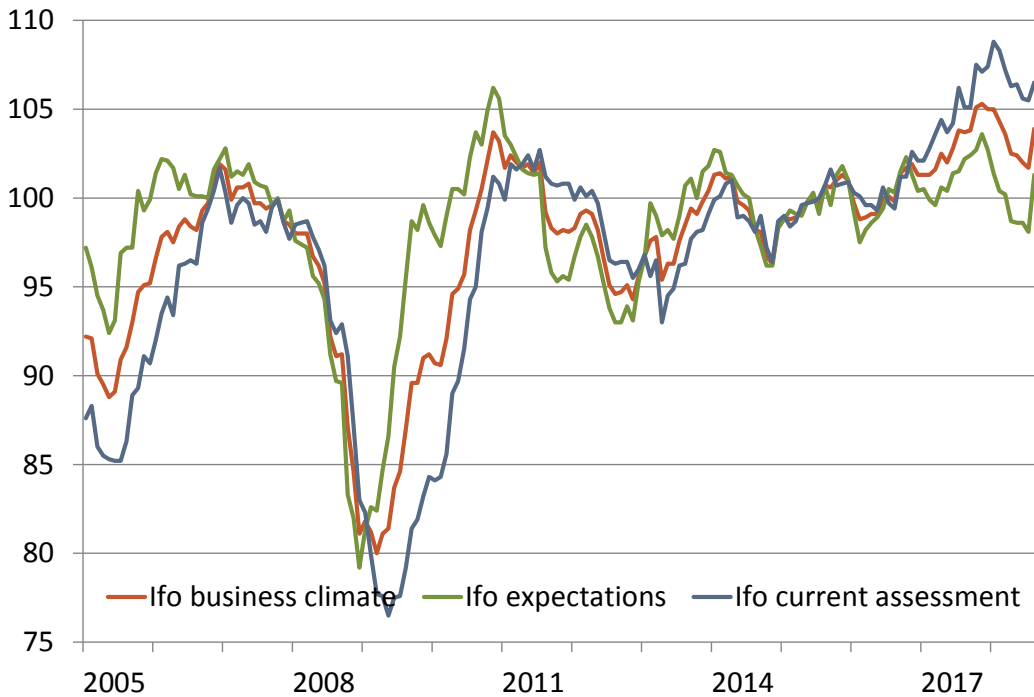
Both expectations and current assessment weaker: The Ifo business climate index edged lower from 103.9 in August to 103.7 in September, largely driven by a slightly weaker outlook (101.0 after 101.3 in the previous month). Businesses' assessment of the current situation fell marginally (106.4 after 106.5). All indices remain above their long-term averages since 2005 (climate: 97.5, expectations: 98.3 and current assessment: 96.7) and, with the exception of the forward-looking expectations subindex, also above their 2017 levels (103.2, 101.5 and 104.9, respectively). The Ifo business cycle clock, which combines expectations and the current business situation on two separate axes, suggests Germany's business environment remains fairly positive and the economy should continue to grow at a solid pace (see chart 2).

Export-focused manufacturing sector down, domestically oriented sectors up: Manufacturers drove the headline index lower offsetting the gains from service providers, trade and the construction sector (see chart 3). Interestingly, while manufacturers assessed their current situation less positive, they revised their expectations up which bodes well for the next couple of months. After the exporting manufacturers have been a drag to the economy for most of the year, there is hope that the time of the domestically oriented sectors having to do all the heavy lifting may come to an end. However, the escalating trade war between the US and China, the Italian budget noise, the culminating Brexit talks and the crisis in some emerging markets could continue to overshadow the strong domestic fundamentals for a while.



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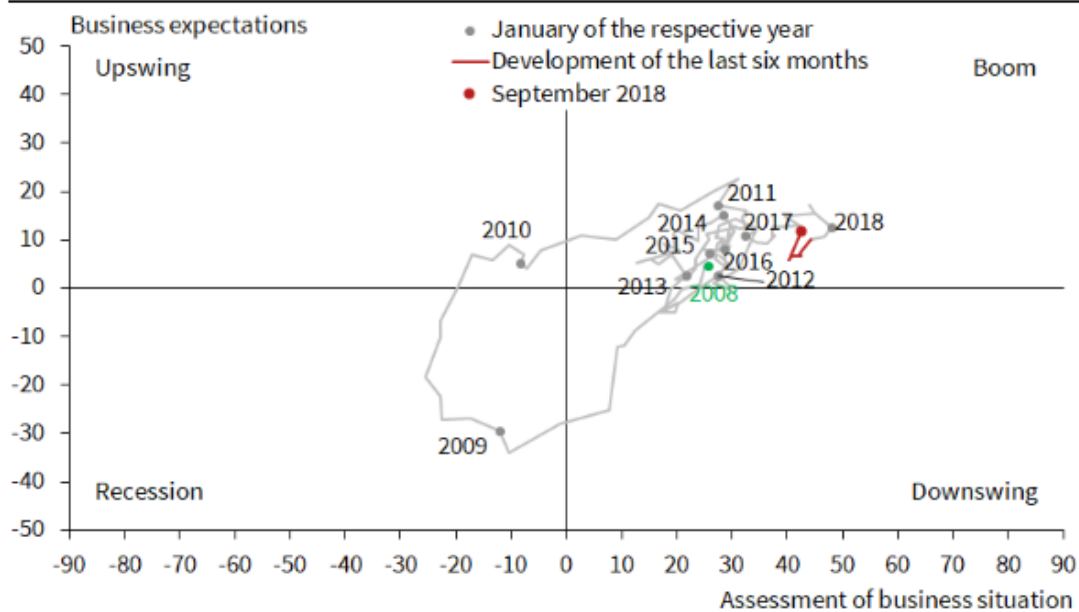
Chart 1: Ifo business climate, current assessment and expectations



Source: Ifo

Chart 2: Ifo business cycle clock

Balances, seasonally adjusted

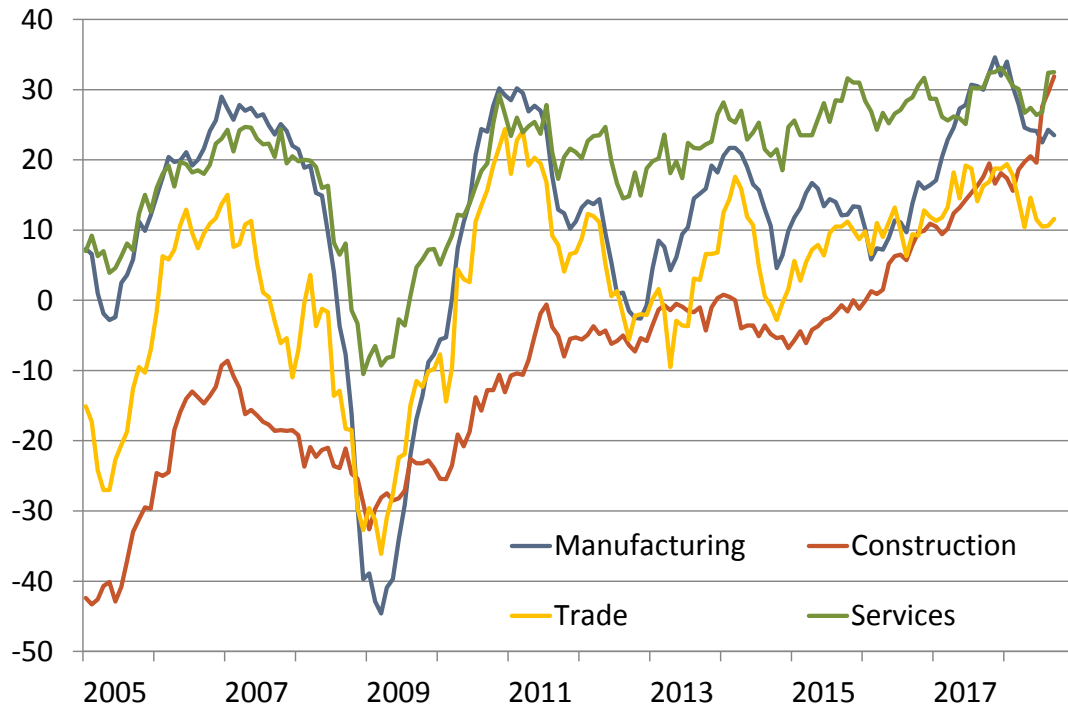


Source: Ifo



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Chart 3: Ifo business climate by sector



Source: Ifo

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