



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

MARKET SELL-OFF EXACERBATES DROP IN GERMAN ZEW

Berenberg Macro Flash

German ZEW sentiment, October

	Expectations	Current situation
Actual	-24.7	70.1
Previous	-10.6	76.0
Consensus	-12.0	74.0
Berenberg	-11.0	74.5

Market sell-off weighs on sentiment: The recent global market sell-off that took the DAX30 down by 5% over the last week apparently drove the German ZEW lower in October. The renewed setback comes after August and September had pointed to a rebound of the ZEW. The headline number for 6-months ahead expectations fell back to this year's August low, the lowest reading since August 2012 (see chart). The market woes add to an already strong cocktail of risks that has weighed on sentiment and activity this year.

ZEW often reflects large equity swings: The ZEW is the first of Germany's major surveys. It is the most prone to large financial market swings owing to the composition of its panel. Most of the 300 panellists of the survey work in the financial sector. Following financial market moves is their bread and butter. Some drop in the ZEW was therefore widely priced in. The 14.1 point mom decline is, however, much larger than expected and the biggest since after the Brexit vote in July 2016. The assessment of the current situation fell to the lowest level since December 2016. Firmer factory orders and stable industrial production in August could not offset the strong headwinds from financial markets and political risks.

Impact from sell-off on real economy: As financial markets often lead the real economy by one or two quarters, concerns arose last week that the equity sell-off could herald an economic downturn in 2019. Unless equity prices were to drop much further, we do not think a prolonged bear market could cloud the economic outlook significantly (see [Macro update: global risks, German politics, EU summit](#)). Also, in Germany and the Eurozone, unlike in the US, negative wealth effects play little role for private consumption as a big chunk of households do not own a stake in financial markets. The US-China trade dispute, the risk of a disorderly hard Brexit and Italy's public finances pose more serious risks to the German and Eurozone economy. The press release to the ZEW survey also mentions panellists' concerns about a "more unstable" government in Berlin.

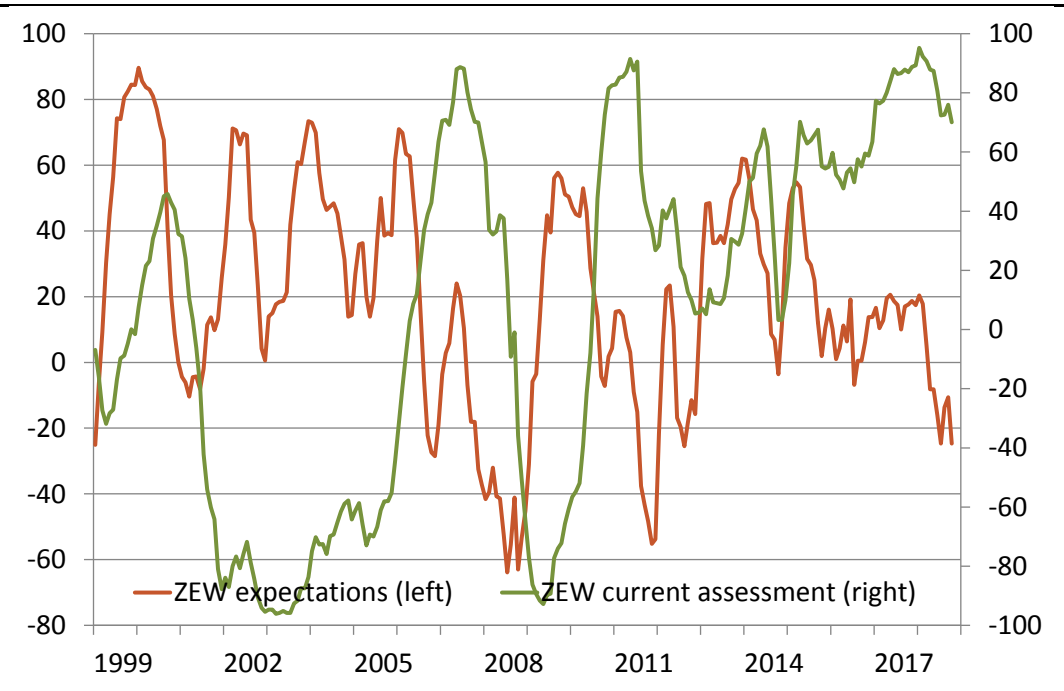
Fundamentals still point to healthy growth: While none of the major risks has materialised, yet, taken together, they matter, which is why we [nudged down our forecasts for Germany and the Eurozone](#), recently. Still, the Eurozone economy has turned more robust over recent years, with a



MACRO NEWS

shift from net exports to domestic demand, and solid fundamentals should continue to contribute to growth above trend over the next 2 years. Continued employment gains and a recent pick-up in wage growth are driving incomes and private consumption. Businesses expand their facilities as orders keep coming in at a still healthy pace and they struggle to find new workers amid labour shortages. The ZEW's assessment of the current situation in October (70.1) is well below the 2017 average of 84.1, but remains above the 2016 average of 55.2 when the economy expanded by 2.2%. After a weaker Q3 with projected growth of 0.2% qoq caused partly by temporary problems in the German auto sector due to the stricter emission testing standards (WLTP), we expect growth of 0.4-0.5% for late 2018 and throughout 2019. October's big decline in the ZEW suggests that the risks to the outlook are tilted to the downside.

ZEW expectations versus current situation



Source: ZEW



BERENBERG

PARTNERSHIP SINCE 1590

MACRO NEWS

This message has been produced for information purposes for institutional investors or market professionals, it is not a financial analysis within the meaning of § 34b or § 31 of the German Securities Trading Act (Wertpapierhandelsgesetz), no investment advice or recommendation to buy financial instruments. The message does not claim completeness regarding the information on the developments referred to in it. On no account should it be regarded as a substitute for the recipient's procuring information for himself or exercising his own judgements. The message may include certain descriptions, statements, estimates, and conclusions underlining potential development based on assumptions, which may turn out to be incorrect. Berenberg and/or its employees accept no liability whatsoever for any direct or consequential loss or damages of any kind arising out of the use of this message or any part of its content. -- For full economics reports please visit our website or contact capitalmarkets@berenberg.de.

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