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## MACRO NEWS

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### GERMAN IFO SUFFERS ANOTHER HIT AHEAD OF XMAS - WAIT FOR EASTER

#### Berenberg Macro Flash

##### German Ifo, December

	Business climate	Expectations	Current assessment
<b>Actual:</b>	<b>101.0</b>	<b>97.3</b>	<b>104.7</b>
Previous:	102.0	98.7	105.5
Consensus:	101.7	98.4	105.0
Berenberg:	101.6	98.2	105.0

**German businesses are not in a festive mood.** Another broad-based setback to business confidence suggests Germany's winter is likely to be grey. In line with last week's German PMI, the German economy's most closely watched gauge, the Ifo business climate, fell in December for the fourth consecutive month and to the lowest level since September 2016 (see chart 1). Manufacturers have led the way this year, as they usually react most sensitive to the cycle. But that services and trade continue to report weaker sentiment month after month shows that the external weakness is gradually spreading to the domestic economy (see chart 2).

**The numbers:** The Ifo business climate index edged lower from 102.0 in November to 101.0 in December, driven by both a more clouded outlook and a scaled-back assessment of the current situation. Businesses' assessment of the current situation fell (from 105.5 to 104.7) to the lowest level since June 2017 (104.4). While the indices for climate and the assessment of the current situation remain above their long-term averages since 2005 (climate: 97.6 and current assessment: 96.9), the expectations subindex has fallen below it (98.3) for the first time since February 2016.

**The setback is hardly a surprise.** A number of external shocks (trade war, emerging markets, concerns about China), political risks (Brexit) and home-grown problems (car industry) continue to keep the German business cycle at bay. We largely agree with Ifo President Clemens Fuest's assessment that this is a "cooling of the economy" rather than a "downturn" and still expect that a lighter spring could follow, though. Once trade tensions ease somewhat and Brexit as well as Italian issues do not end in complete disasters, the still-solid domestic fundamentals should propel German growth to slightly above trend again from Q2 2019 onwards. According to the Ifo institute, Brexit has now risen to the top of the list of concerns that is weighing on sentiment. Export expectations have fallen to their lowest level since November 2016.

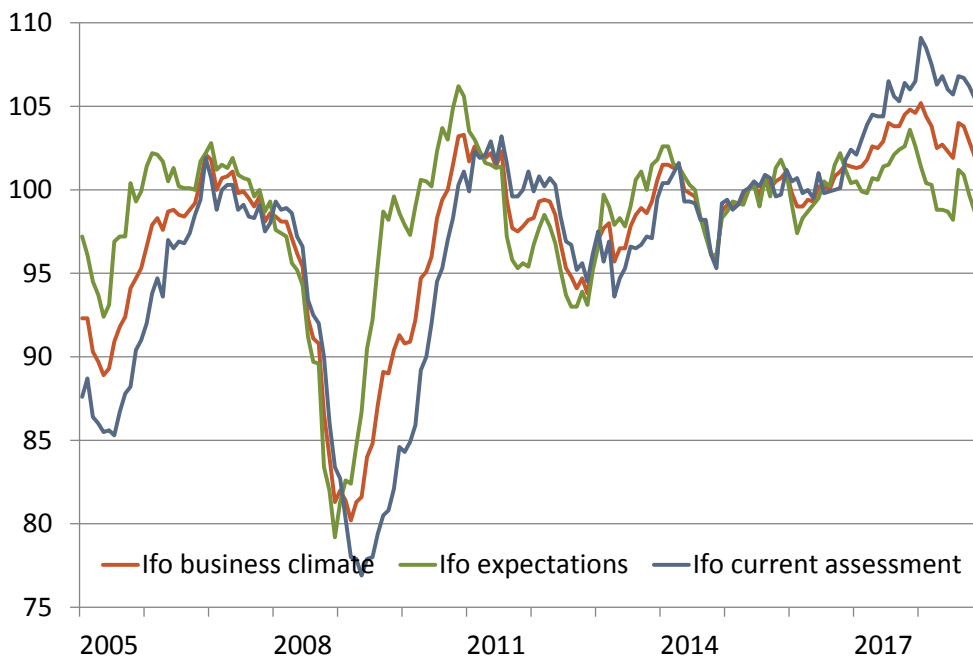


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**Downside risk to our near-term calls:** The hit to confidence in December was a little worse than expected, especially to the forward-looking component. If businesses expect worse times ahead, they adjust their investment plans accordingly. Expectations in Germany's industry and trade sectors, dominated by export-oriented and highly cyclical manufacturing, usually lead changes in Eurozone industrial output by some three months (see chart 3). That indicates a downside risk to our near term calls for real German GDP growth for Q4 and Q1 of 0.3% qoq. The rebound partly reflects an expected snapback of the auto sector which had driven the decline of 0.2% qoq decline in GDP in Q3 due to a delayed adjustment to new emission testing standards. For 2019 we expect the economy to expand by 1.2% which is below Bloomberg consensus of 1.6%.

**Not a 1-to-1 link:** However, the link between sentiment and actual data has recently been weaker than usual. Due to temporary special factors such as the car industry issues, the actual slowdown in GDP growth has been much more pronounced than the correction in sentiment would have suggested. In other words, the further fall in the coincident indicators need not herald a further significant downturn in the actual hard data. Still, we acknowledge a risk that the hard data may continue to take their cue from the direction of the surveys (still down) rather than the level of the survey (still mostly fine).

Chart 1: Ifo business climate, current assessment and expectations

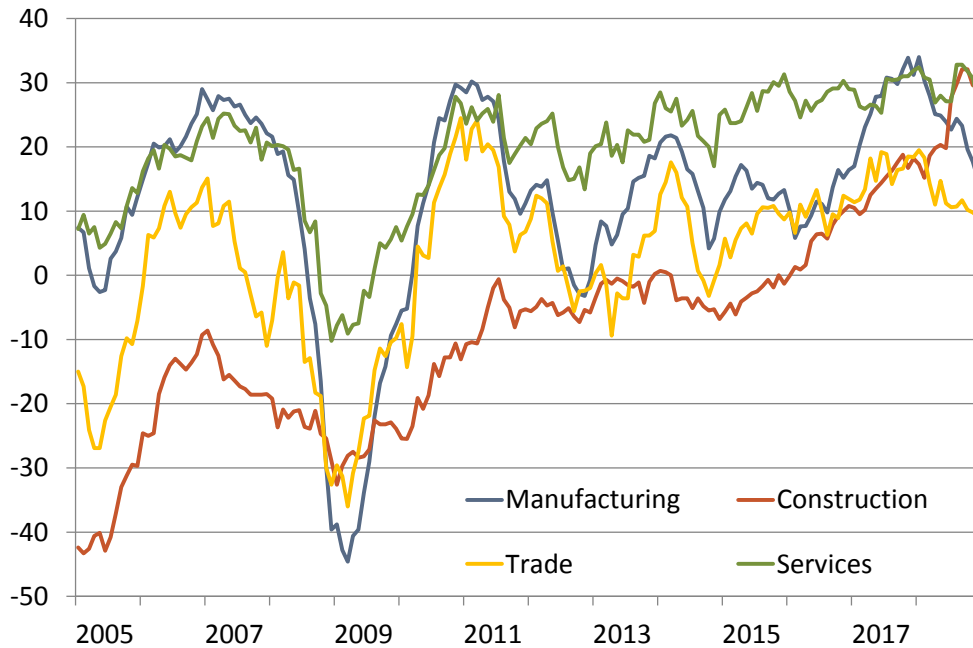


Source: Ifo



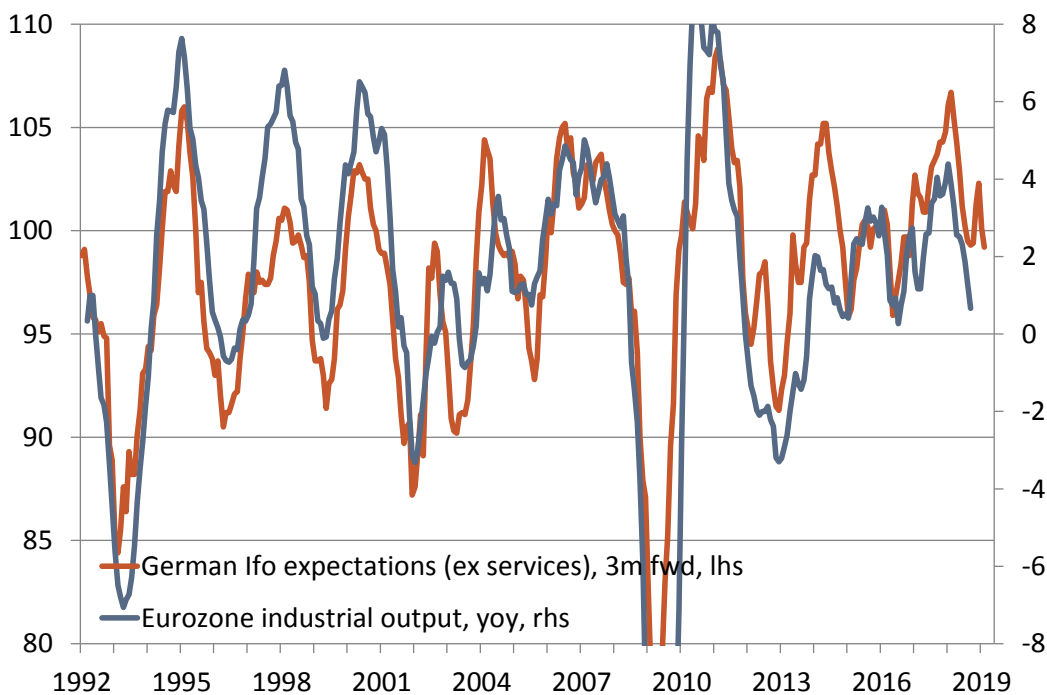
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Chart 2: Ifo business climate by sector



Source: Ifo

Chart 3: Ifo expectations and Eurozone output



German Ifo expectations (excluding services), advanced by three months, left-hand side; Eurozone industrial output, yoy change in %. Sources: Ifo, Eurostat



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