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PARTNERSHIP SINCE 1590

MACRO NEWS 25/03/19

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GERMAN IFO: TENTATIVE SIGN OF SPRING AFTER PMI CHILL

Berenberg Macro Flash

German Ifo, March

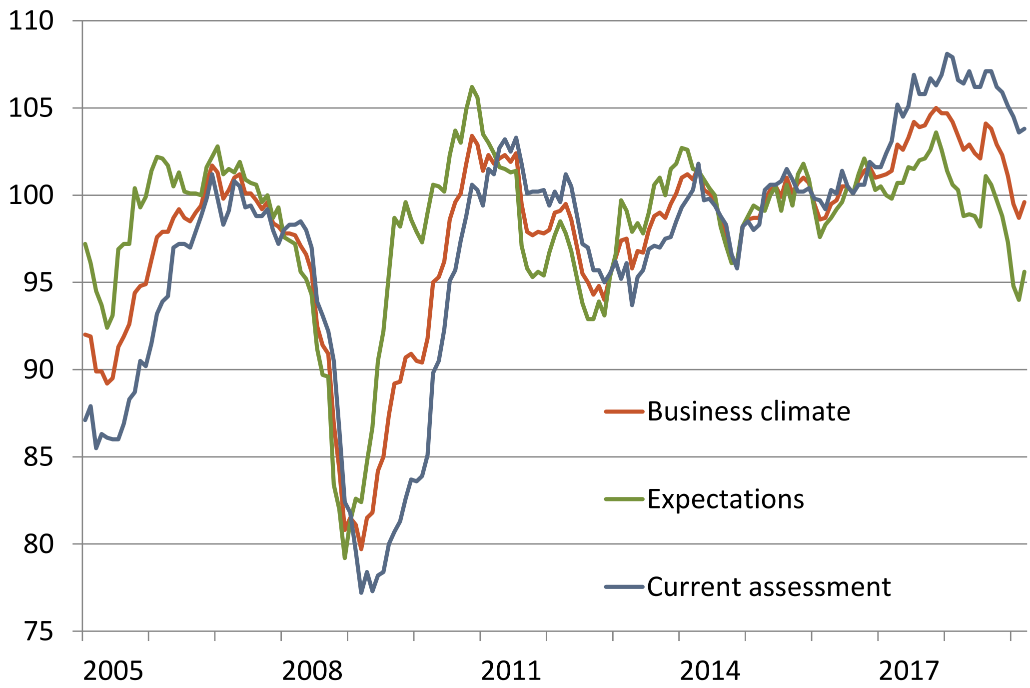
	Business climate	Expectations	Current assessment
Actual:	**99.6**	**95.6**	**103.8**
Previous:	98.7	94.0	103.6
Consensus:	98.5	94.0	102.9
Berenberg:	98.5	94.0	103.0

An inflection point? For the first time in seven months German business climate improved from 98.7 in February to 99.6 in March according to the Ifo survey. We and consensus had expected another setback (98.5). Businesses judged both the current situation and their future prospects as better (see Chart 1). A robust showing of domestically orientated service providers offset another hit to the export-reliant manufacturers (see Chart 2). Taking the German Ifo at face value, last week's eyebrow-raising drop in the purchasing managers' index (PMI) may have exaggerated the hit from the external shocks to the German domestic economy.

Domestic demand holding up well: After today's German Ifo, it would be premature to talk of an inflection point. After all, German manufacturing seems to be stuck in hibernation. In the manufacturing sector, business expectations for the next six months fell from -9.4 in February to -12.2 in March, the lowest level since November 2012. The rebound in overall expectations was driven almost exclusively by a surge in expectations in services from 1.3 to 8.5. Even more so than the earlier PMI data for March, the German Ifo suggests that the domestic economy is holding up surprisingly well amid an industrial recession.

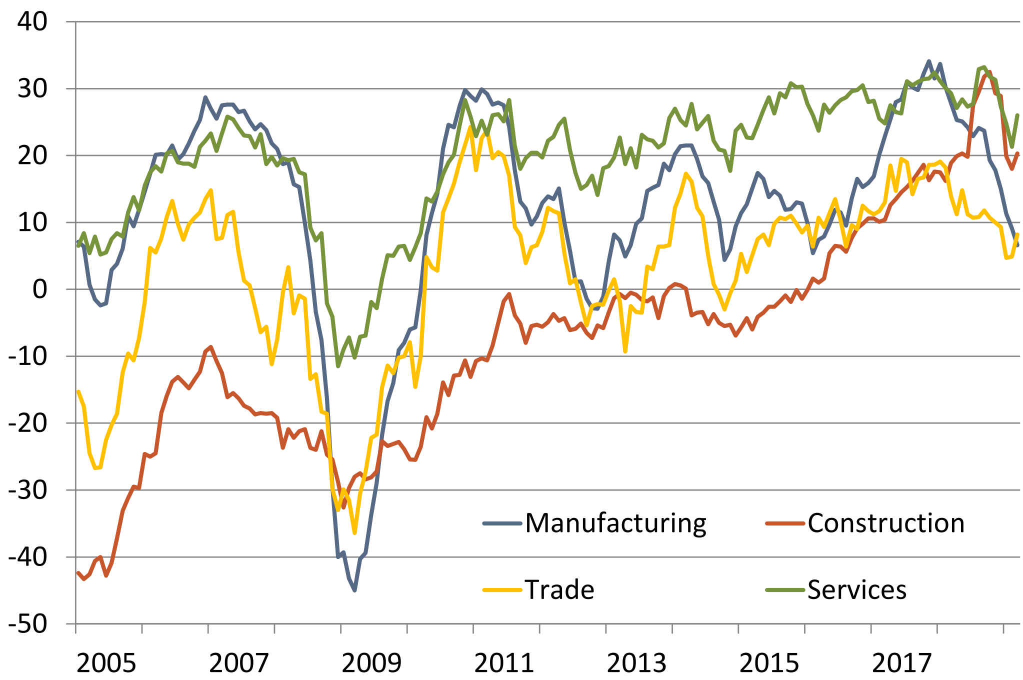
However, domestic demand cannot decouple from the external economy forever: Our forecast for German and Eurozone growth of 0.7% and 1.1% for 2019 remain below the Bloomberg consensus of 1.0% and 1.2%, respectively. The risks to our call are tilted to the downside. If manufacturing slides ever deeper into recession, the domestic economy will eventually be affected more strongly. The (close-to-)inversion of the US yield curve has resurrected the recession talk. Still, the current resilience of services suits our call that the downside risks will not materialise. We also maintain our view that the external environment will improve if and when the US and China defuse their trade tensions, the Chinese monetary-fiscal stimulus starts to work and the risk of a hard Brexit fades. The data for manufacturing indicate that, for the German and Eurozone economy, spring may still be delayed for a while. Still, the overall rise in Ifo expectations bolsters the hope that, in economic terms, a genuine spring is only a few months away. As the domestic economy remains resilient, a modest upturn in manufacturing expectations could suffice to turn overall growth momentum up again.

Chart 1: Ifo business climate, current assessment and expectations



Indexed at 2015=100. Source: Ifo

Chart 2: Ifo business climate by sector



Source: Ifo

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