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DISAPPOINTING GERMAN IFO HIGHLIGHTS NEAR-TERM RISKS

Berenberg Macro Flash

	Business climate	Expectations	Current assessment
Actual:	99.2	95.2	103.3
Previous:	99.7	95.6	103.9
Consensus:	99.9	96.1	103.5
Berenberg:	99.9	96.0	103.8

Not quite there yet: Today's disappointing Ifo survey for April suggests that the period during which German data are mixed or weak still looks set to last for a few more months. While the first rise in seven months of the Ifo business climate in March had raised hopes that the worst could be over for Germany's industry-heavy economy, April's renewed fall (to 99.2 after 99.7 in March and 98.7 in February) shows that patience is still warranted. In April, businesses downgraded both the assessment of the current situation and their future prospects (see Chart 1).

The tale of two sectors continues: Another hit to Germany's export-reliant manufacturers (4.0 after 6.7) offset yet another strong showing of service providers (26.3 vs. 26.1 in March, see Chart 2). While domestically orientated services are holding up well hitting a 4-month high and construction continues to boom, German industry is still stuck in hibernation.

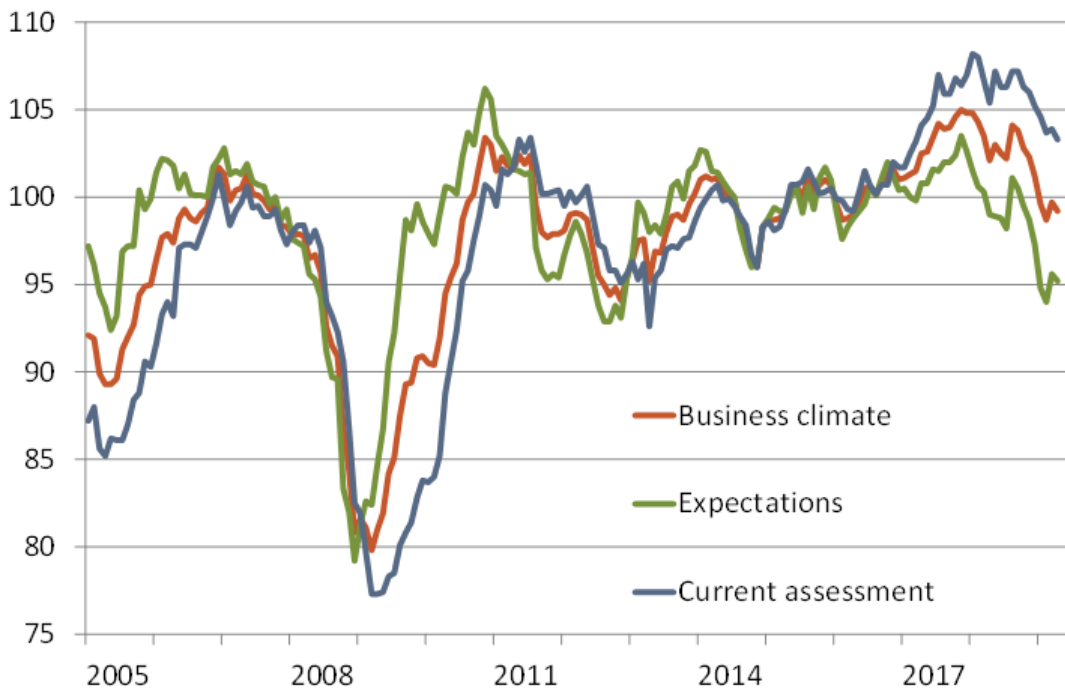
The Ifo highlights the near-term risks: In line with equity markets, German ZEW expectations of financial analysts have rebounded this year (see Chart 3). Over the past few weeks, US-China trade tensions have eased, news from China have suggested the Chinese stimulus has started to work and the risk of an immediate hard Brexit has receded. [Despite the turn in the news flow](#) from bad to mixed, the German Ifo echoes other indicators – including last week's PMIs – that Germany's industrial recession is not over yet. We also have to brace ourselves for [noisy US-EU trade talks](#) that could start in earnest once the US and China have defused their dispute. Our forecasts for German and Eurozone growth of 0.7% and 1.0% for 2019 remain below the Bloomberg consensus of 0.9% and 1.1%, respectively, with the risks still tilted slightly to the downside.

A recovery could start by mid-year: By and large, the necessary conditions for an industrial turn-around are falling into place. As a result, we still expect the recovery to start by mid-year. If and when the industrial cycle among Germany's export-reliant manufacturers turns, it could do so noticeably. Some uptick in domestic activity on top of fading external burdens could see to that. We are thus more optimistic than consensus for the outlook from mid-2019 onwards. Our calls for German and Eurozone growth of 1.6% each for 2020 are above the Bloomberg consensus of 1.4% each.



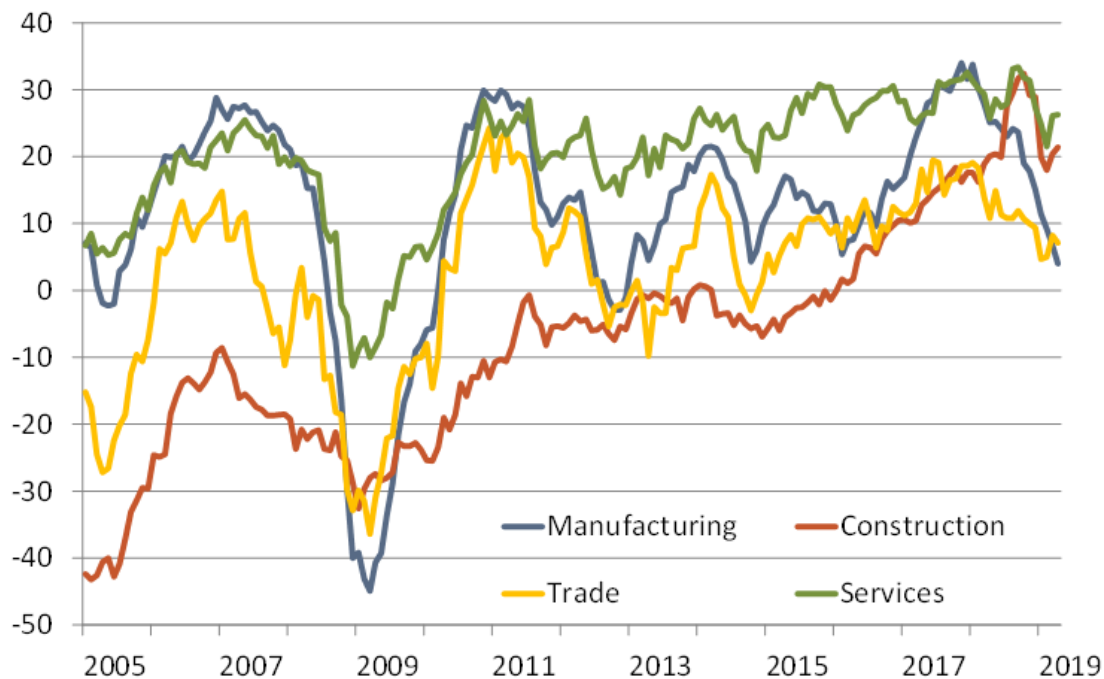
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Chart 1: Ifo business climate, current assessment and expectations



Indexed at 2015=100. Source: Ifo

Chart 2: Ifo business climate by sector

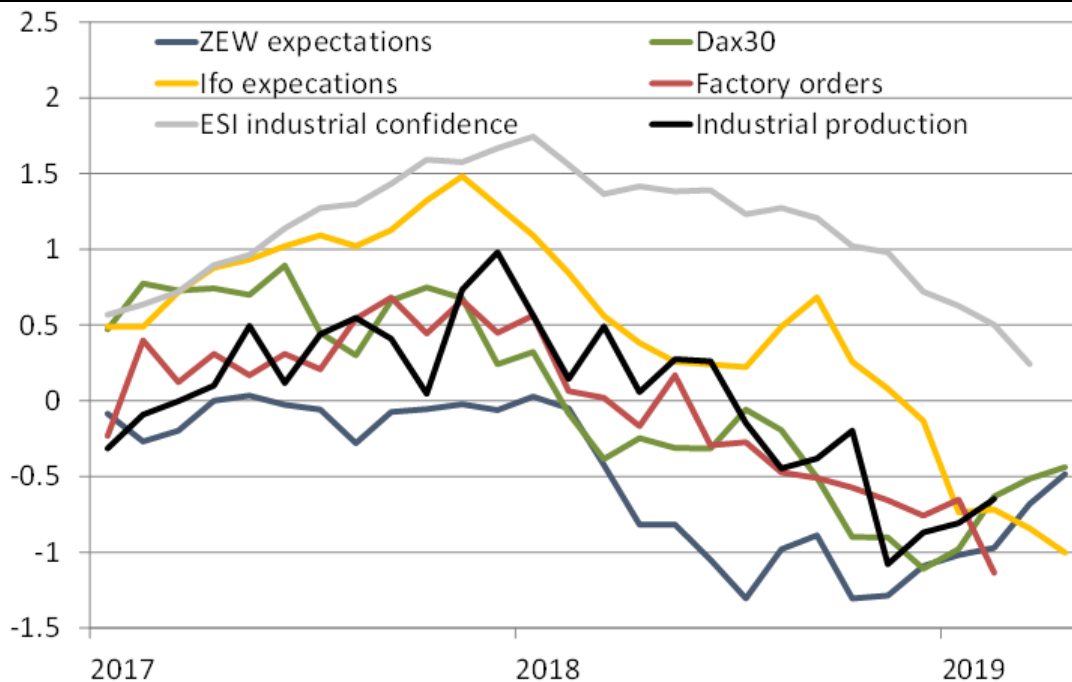


Source: Ifo



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Chart 3: German industrial production and key indicators



Industrial production and key indicators normalised by average and standard deviation since 1999. Yoy change in % for Dax30, factory orders and industrial production. 24 April taken for Dax30 April value. Sources: ZEW, Deutsche Börse, Ifo, BmWi, European Commission, Destatis, Deutsche Bundesbank, Haver Analytics, Berenberg.

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