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PARTNERSHIP SINCE 1590

## MACRO NEWS

24 / 06 / 19

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### GERMAN IFO: ABSENCE OF IMPROVEMENT

#### Berenberg Macro Flash

##### German Ifo, June

	Business climate	Expectations	Current assessment
<b>Actual:</b>	<b>97.4</b>	<b>94.2</b>	<b>100.8</b>
Previous:	97.9	95.3	100.6
Consensus:	97.4	94.6	100.3
Berenberg:	97.8	95.0	100.5

**The worst may not be over yet for the German economy.** According to the Ifo survey, German business climate in June fell to the lowest level since November 2014 (97.4 after 97.9 in May). This has two implications: 1) it adds to the risk that German GDP declines in Q2, and 2) it strengthens the case for the ECB to take some action at its July meeting.

**German businesses downgraded their expectations from 95.3 to 94.2, close to February's 6-year low of 94.0** (see Chart 1). While the assessment of the current situation stabilised at 100.8 after 100.7 in May, this was after a significant drop from 103.5 in April. The drops were broad-based across sectors (see Chart 2). That business climate among export-reliant manufacturers fell to the lowest since December 2012 (to 1.5 after 3.9 in May) also seemed to weigh on the more domestically-oriented sectors. Services fell for a second month in a row from 21.0 to 20.0 largely due to some softening in services that support industry. Construction remained buoyant, but also fell from 24.3 to 22.9. Trade (retail and wholesale) was the only sector reporting better business climate (up from 5.4 to 7.9).

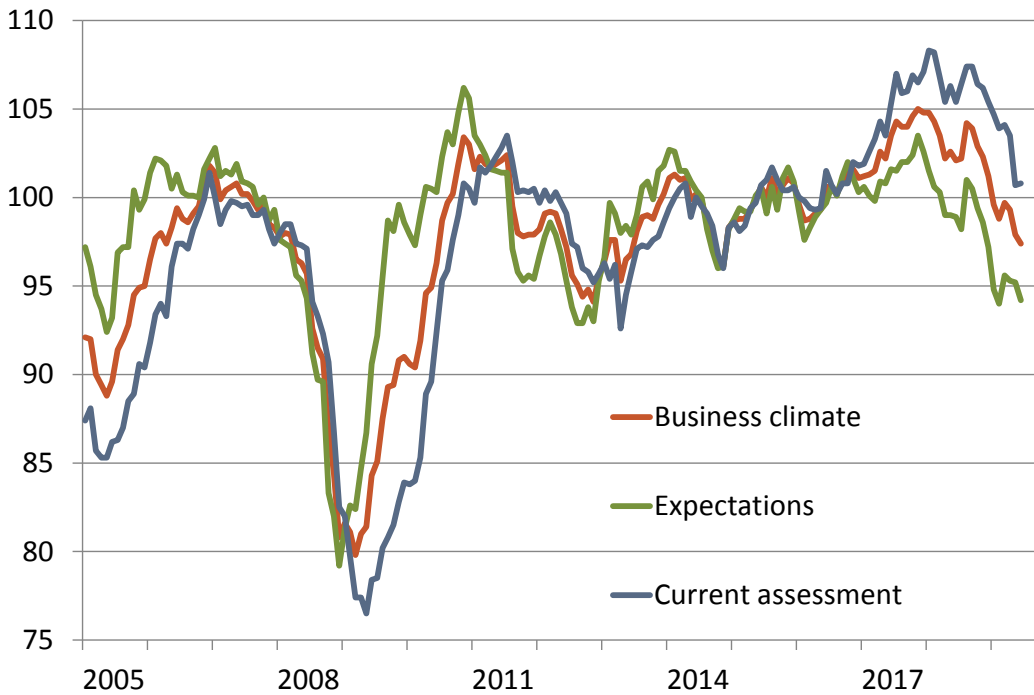
**Downside risks to our below consensus calls:** Friday's published weak but stabilising PMIs for June had raised hopes that things would at least not turn worse for the German economy. After all, April's production and export data may have been disappointing because of planned car production closures in the UK, and factory orders were less bad. We expected German GDP to stagnate in Q2 (see Chart 3 for the Ifo and other indicators). After today's Ifo these risks have become even clearer as the manufacturing sector continues to suffer and its weakness could be starting to weigh on the domestic side of the economy a little bit more than before. Currently, we forecast Q2 to come in at 0% qoq and Q3 at 0.2%. Both calls are below consensus of 0.2% and 0.3% in these two quarters, respectively. The risks to these calls are tilted to the downside.

**ECB and the "absence of improvement":** The ECB stands ready to act if growth or core inflation fall short of expectations. Given its importance for the rest of the Eurozone, the health of the German economy is of particular concern for the ECB. Following Mario Draghi's ultra-dovish Sintra speech, we expect the ECB to change its guidance in July to pave the way for potential rate cuts in September, vowing to keep rates at "present or lower levels" instead of just "present levels". If the data over the next couple of weeks continues to be on the weak side like today's Ifo, the ECB may even decide about a rate cut already in July.



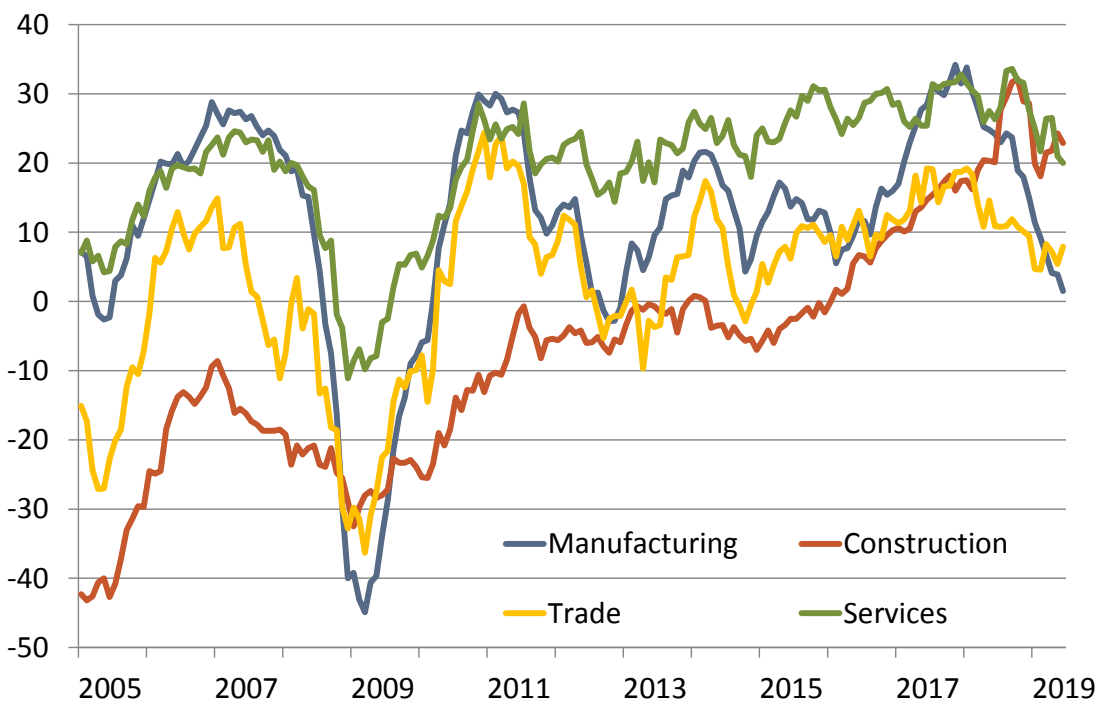
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**Chart 1: Ifo business climate, current assessment and expectations**



Indexed at 2015=100. Source: Ifo

**Chart 2: Ifo business climate by sector**

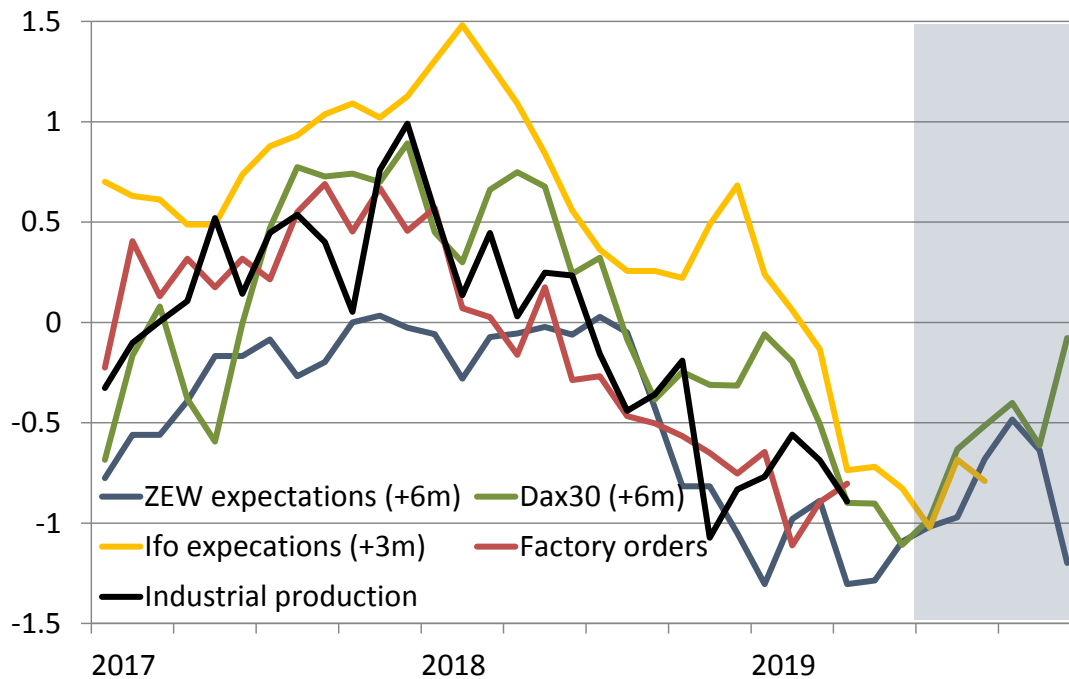


Source: Ifo



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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 June taken for DAX30 June value. Sources: ZEW, Deutsche Börse, Ifo, BmWi, Destatis, Deutsche Bundesbank, Haver Analytics, Berenberg.

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