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GERMAN IFO: BOTTOMING OUT IN THE MAKING?

Berenberg Macro Flash

German Ifo, October

	Business climate	Expectations	Current assessment
Actual:	94.6	91.5	97.8
Previous:	94.6	90.9	98.6
Consensus:	94.5	91.0	98.0
Berenberg:	94.7	91.4	98.0

Businesses raise expectations for first time in seven months: Germany's most reliable leading indicator has not fallen for two consecutive months – the last time this happened was at the end of 2017. While two readings hardly make a trend, yet, the Ifo survey suggests the German economy could start to stabilise around the turn of the year and make its way out of recession in Q1. Ifo business climate stood firm in October at 94.6 (see Chart 1). While German businesses nudged down their assessment of the current situation a little from 98.6 to 97.8, importantly they lifted their expectations for the first time in seven months from 90.9 to 91.5.

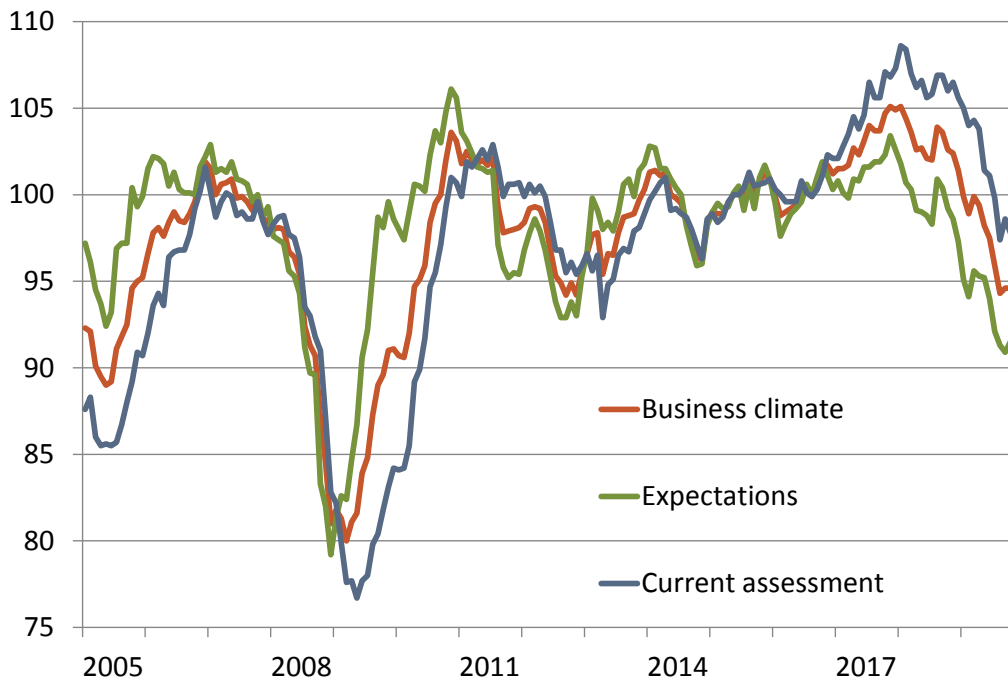
Manufacturing stabilises, services soften: The Ifo survey also showed that the export-driven industrial weakness continues, but a bottoming out could be in the making (see Chart 2). Ever since early 2018, the business climate in manufacturing has come down. Since July these downgrades turned smaller. For the first time since May, manufacturers reversed the trend on a mom basis and judged the climate better in October. As orders and output have started to stabilise, the yoy growth rates find a floor and turn less negative. Among services the situation is somewhat different: they are in a better spot relative to manufacturing, but the direction of travel is down. As the trade-driven weakness in the manufacturing sector has spread, domestically-oriented businesses are feeling the heat ever more, too. Domestic demand is slowing down and some service providers report job losses. Construction is the exception which is still doing very well and acts as a stabilising force for the economy.

Wait for 2020: Progress on trade and Brexit has laid the foundations for entrenched pessimism to give way to a less downbeat outlook in financial markets over the last couple of weeks. Today's Ifo combined with yesterday's PMI show that the progress is far from sufficient for 1) a return to healthier levels of manufacturing confidence any time soon and 2) a reversal in softening sentiment among service providers. But that is necessary for German industrial production, retail sales and the whole economy to pick up steam again. Until the turn of the year, we expect the German economy to continue to struggle and GDP to decline in Q4 by 0.1% qoq like in Q2 and (probably) Q3. If trade tensions recede further, the UK decides on an orderly Brexit from the EU and the Chinese economy does not weaken too much, which is our base case, the German economy could return to positive growth in Q1 (our call: +0.1% qoq) and gather momentum throughout 2020.



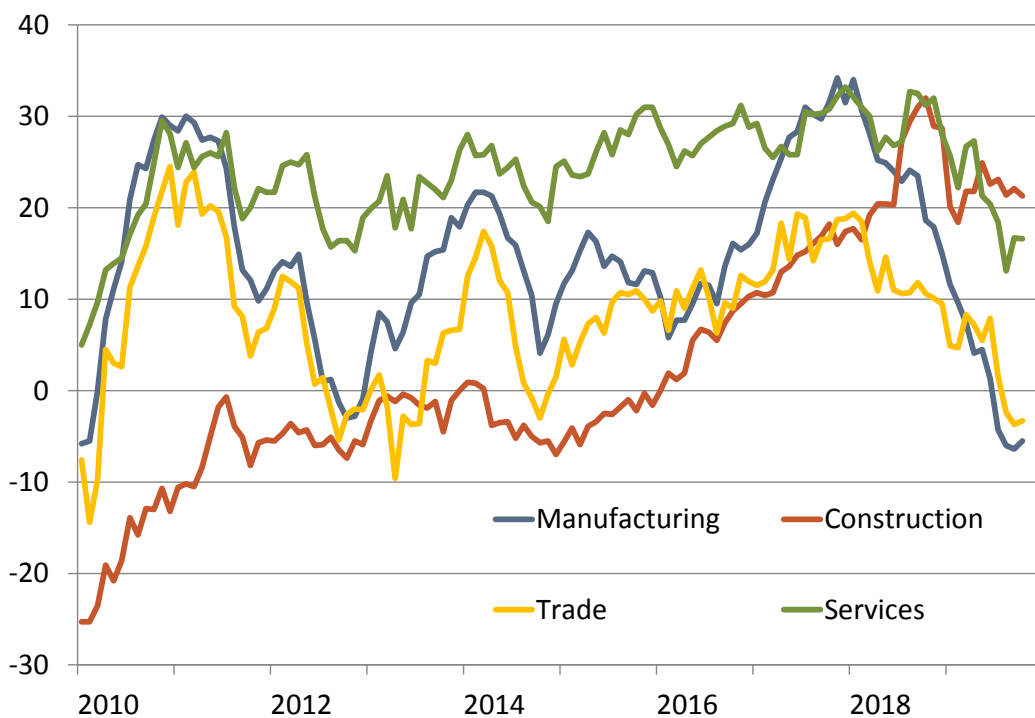
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Chart 1: Ifo business climate, current assessment and expectations



Indexed at 2015=100. Source: Ifo

Chart 2: Ifo business climate by sector



Source: Ifo



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