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GERMAN ZEW: A PRE-CHRISTMAS CHEER

Berenberg Macro Flash

German ZEW sentiment, December

	Current assessment	Expectations
Actual	-19.9	10.7
Previous	-24.7	-2.1
Consensus	-22.0	0.3
Berenberg	-24.0	0

Financial market analysts expect the German and Eurozone economy to rebound next year. German ZEW expectations rose from -2.1 in November to 10.7 in December, the highest since February 2018 (see Chart 1). The gains were similar for the whole Eurozone (from -1 to 11.2), the highest since March 2018 (see Chart 2). However, the ZEW expectations indices remain well below their long-term averages of 18.4 for Germany (since 1992) and 22.2 for the Eurozone (since 1999).

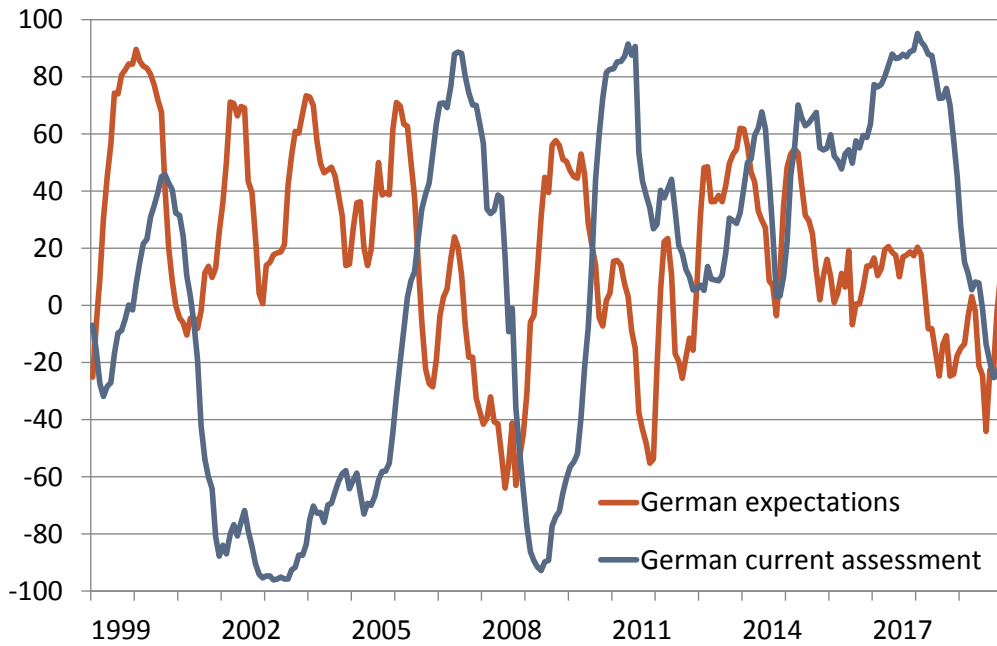
The significant rebound in expectations since August reflects partly an improving economic environment, and partly hopes for easing trade and Brexit tensions in 2020. If these hopes come true, activity can pick up next year. **However, the process will likely be gradual.** After stagnation in Q4, we expect lacklustre GDP growth of 0.1% qoq in Q1 and 0.2% in Q2 for the German economy. Thanks largely to France and Spain, growth in the Eurozone will probably come in a tad higher. The German economy may return to rates of growth close to its previous trend of 0.4% qoq only in H2 2020.

The assessment of the German economy's current situation also edged higher from -24.7 to -19.9 (long-term average: -5.3). Financial market analysts took last week's softer industrial data (orders and production) in their stride. Instead, they seemed to take their cues from the better than expected Q3 GDP print and possibly yesterday's uplifting trade numbers for Germany, showing a 2.2% yoy gain in exports for October.



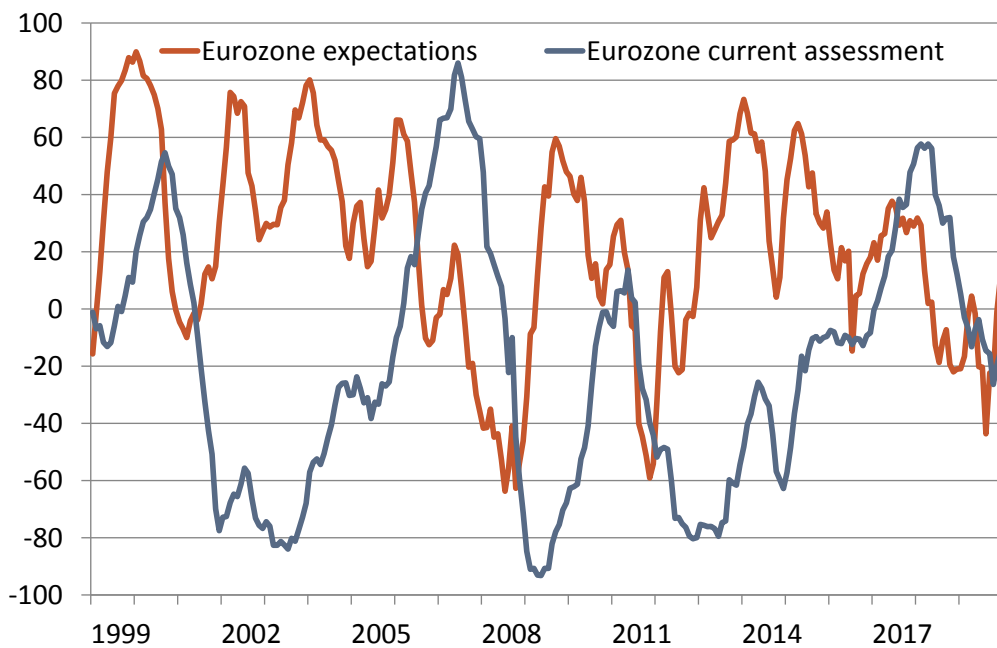
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Chart 1: German ZEW expectations versus current assessment



Source: ZEW

Chart 2: Eurozone ZEW expectations versus current assessment



Source: ZEW



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