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MACRO NEWS

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Florian Hense, Economist | florian.hense@berenberg.com | +44 20 3207 7859

GERMANY VULNERABLE TO CORONAVIRUS DESPITE ENCOURAGING IFO

Berenberg Macro Flash

German Ifo, February

	Business climate	Expectations	Current assessment
Actual:	96.1	93.4	98.9
Previous:	96.0	92.9	99.2
Consensus:	95.3	92.1	98.6
Berenberg:	95.2	92.1	98.6

More encouraging signs: Following on from the modest upside surprise to the German PMIs last Friday, the uptick in the Ifo index suggests that the German economy continued to improve in February despite the disruptions from coronavirus. The evidence so far suggests that the impact of the [virus outbreak is no yet overwhelming](#) the positive effects of lower political uncertainty for Germany or major European economies.

Two factors drove the improvement in the headline number from 96.0 in January to 96.1 in February: 1) While German businesses slightly downgraded their assessment of the current situation to 98.9 in February from 99.2 in January, their expectations improved from 92.9 to 93.4 over the same period. 2) As in January, while service providers reported a slightly more muted business climate (driven by lower assessment of both the current and future situation), business expectations in the highly cyclical manufacturing sector continued to turn up – from -9.2 to -7.4. That chimes well with our call that the German economy will regain some momentum over the course of this year, driven by a rebound in export-oriented production.

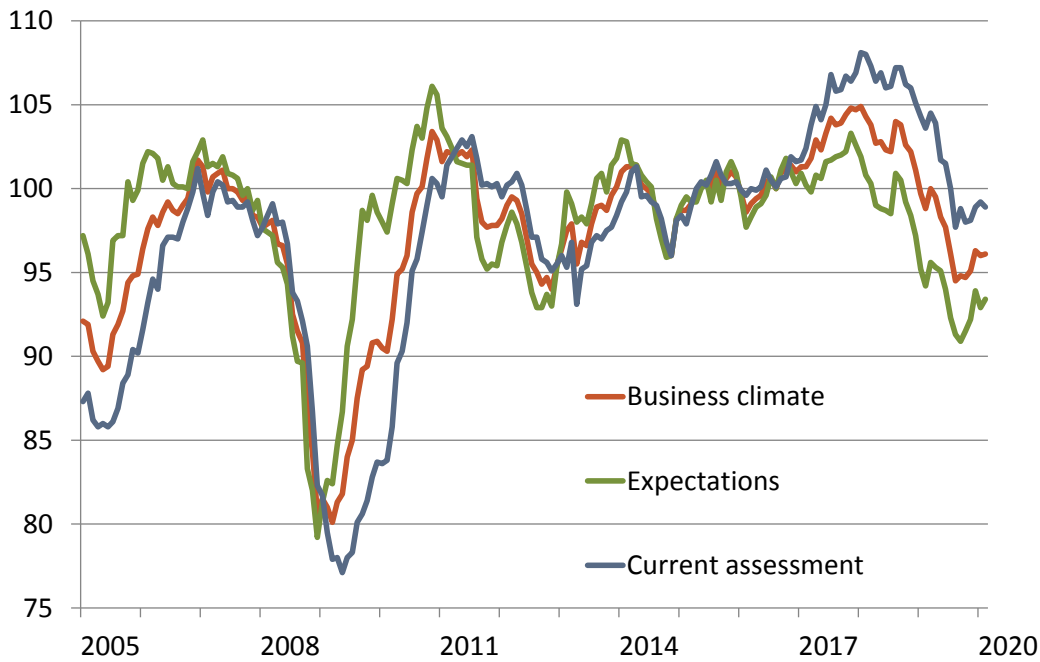
Coronavirus risks loom large: We still have to brace for worse news in the next few months linked to the outbreak of the coronavirus and its spreading beyond China. Lower demand for travel and tourism is already harming services activity. Manufacturers may face increasing supply chain disruptions in the weeks to come. The surge in coronavirus cases in Northern Italy presents a risk to the European economic outlook. The potential lockdown of bigger parts of the highly industrialised region accentuates the downside risks for Italy's neighbours, too. Germany, Switzerland and Austria all have close links to Northern Italy's manufacturing hubs. *Note: the February survey period ended before the reported rise in Italian coronavirus cases.*

European rebound still on track? Yes, probably. The disruptions to economic activity from coronavirus may not yet have peaked and the worst for Europe may still be to come. But the downside risk remains that the epidemic delays the rebound beyond spring. The risk that it could completely derail it remains low. We still expect the German economy to start to gradually rebound during Q2 as long as the coronavirus impact begins to fade and the political risks (trade and Brexit) remain contained. In Q1, we project a 0.1% qoq drop in GDP. The resilience of the Ifo and PMIs surveys for February supports this call.



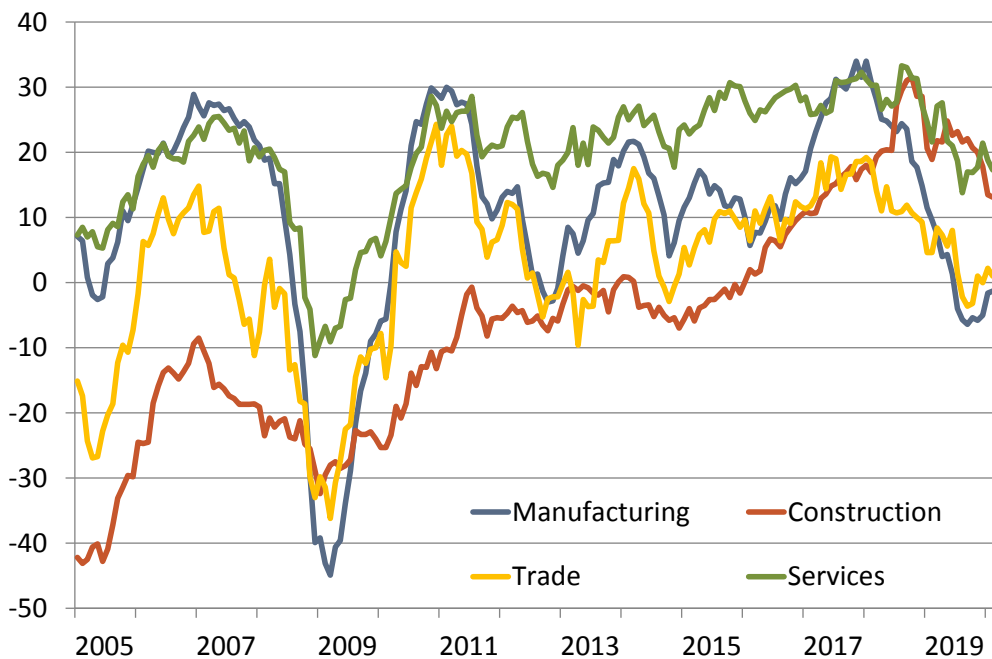
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Chart 1: Ifo business climate, current assessment and expectations



Indexed at 2015=100. Source: Ifo

Chart 2: Ifo business climate by sector



Source: Ifo



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Joh. Berenberg, Gossler & Co. KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7859
www.berenberg.com
florian.hense@berenberg.com