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## GERMAN ZEW REFLECTS MARKET PANIC

### Berenberg Macro Flash

#### German ZEW sentiment, March

	Expectations	Current assessment
<b>Actual</b>	<b>-49.5</b>	<b>-43.1</b>
Previous	8.7	-15.7

**Expectations plummet:** According to the ZEW survey, financial analysts' expectations of the economic outlook plunged by the most in March since the survey started in 1991 (see Chart 1). The 6-month ahead expectations subindex collapsed by 58.2 points from 8.7 in February to -49.5 in March. In almost one go, the subindex has come down to the lows seen during the 2011/2012 euro crisis (November 2011: -55.2) and the 2008/2009 great financial crisis (July 2008: -63.9, see Charts 2 and 3). The subindex' long-term average is 18.1. Panellists also downgraded their assessment of the current situation significantly – the most since August 2011 – by 48.5 points from -15.7 to -43.1 (the lowest since March 2010, see Chart 2 and 3).

**Recession, here we go:** According to the accompanying press release by the ZEW, a majority of panellists expect the German economy to decline by c1% this year. Our below-consensus [estimate for German real GDP](#) is -3.2% for 2020. The risks to our call remain heavily tilted to the downside amid unprecedented near-term disruptions to normal economic activity.

**Pessimists on the march:** The value for the ZEW sentiment indicators is the difference between the percentage of positive (“improve”) and negative (“worsen”) replies to the survey. The share of the pessimists' camp more than tripled from 21.8% to 68.5, very close to the all-time low in October 2008 (70.1%, see Chart 4). Few (12.5%, down from 47.7%) were left – the fewest since January 2000 – that expected no change in macroeconomic conditions.

**Some optimists remain:** Interestingly, the share of panellists who thought economic conditions would improve over the next six months in Germany fell (only) from 30.5% in February to 19% in March. That compares to lows of 5.8% during the euro crisis and 3.8% during the great financial crisis. One explanation: probably most of the optimists maintain a positive outlook because the ZEW surveys asks them for their 6-month ahead view and they judge the Covid-19 pandemic hit to the German – and global – economy to be sharp, but temporary. Of course, the more the economic impact of the Covid-19 pandemic turns out to be persistent, the more the camp of the optimists will shrink – and the expectations subindex can further fall.

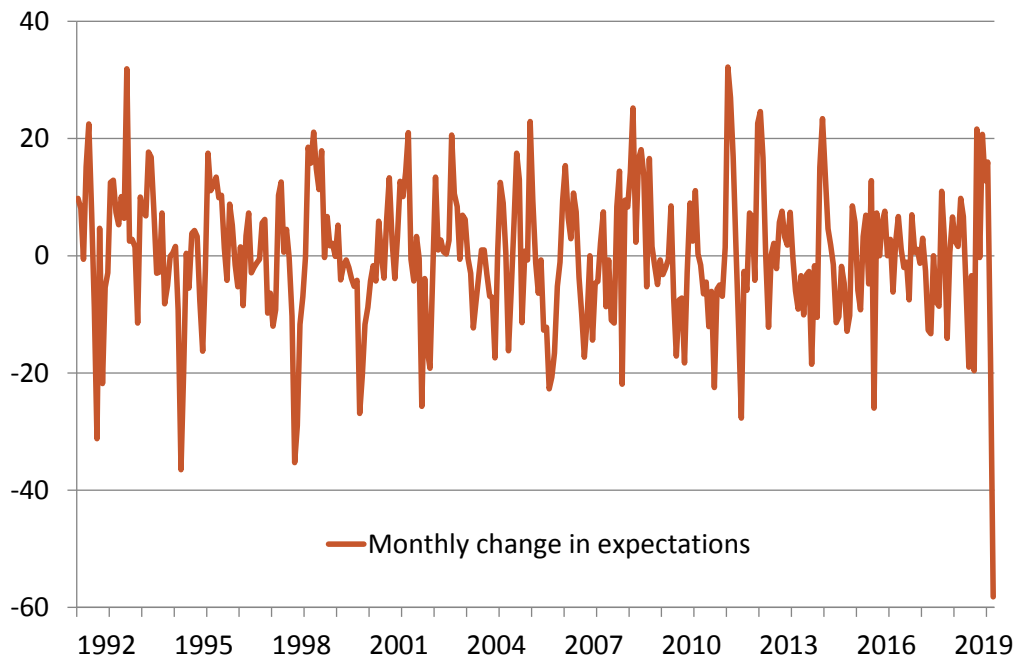
**Financial analysts downgraded their expectations across the sector board,** with the outlook for those sectors first in line to shutdowns (retail, electronics and other services) particularly slashed while pharma, telecom and utilities businesses doing less bad (see Chart 5). The somewhat sur-



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prisingly bigger-than-average drop in expected construction activity probably owes to the elevated level and activity going into the Covid-19 recession. Conversely, the automotive sector's seemingly resilience is largely a reflection of the challenges pre-Covid-19.

Chart 1: German ZEW expectations (monthly change)

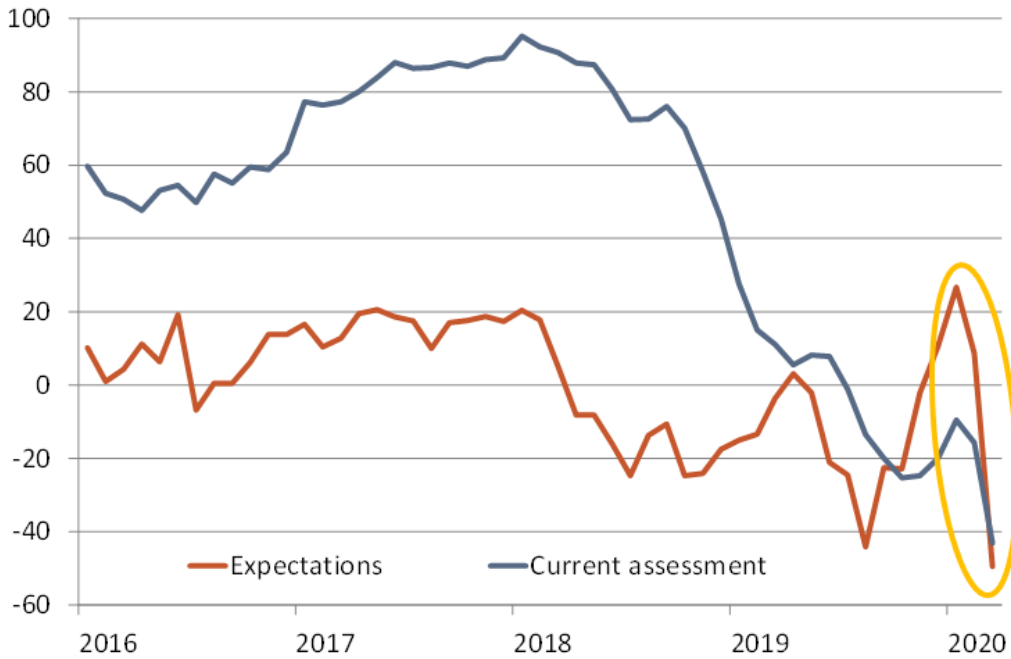


Source: ZEW



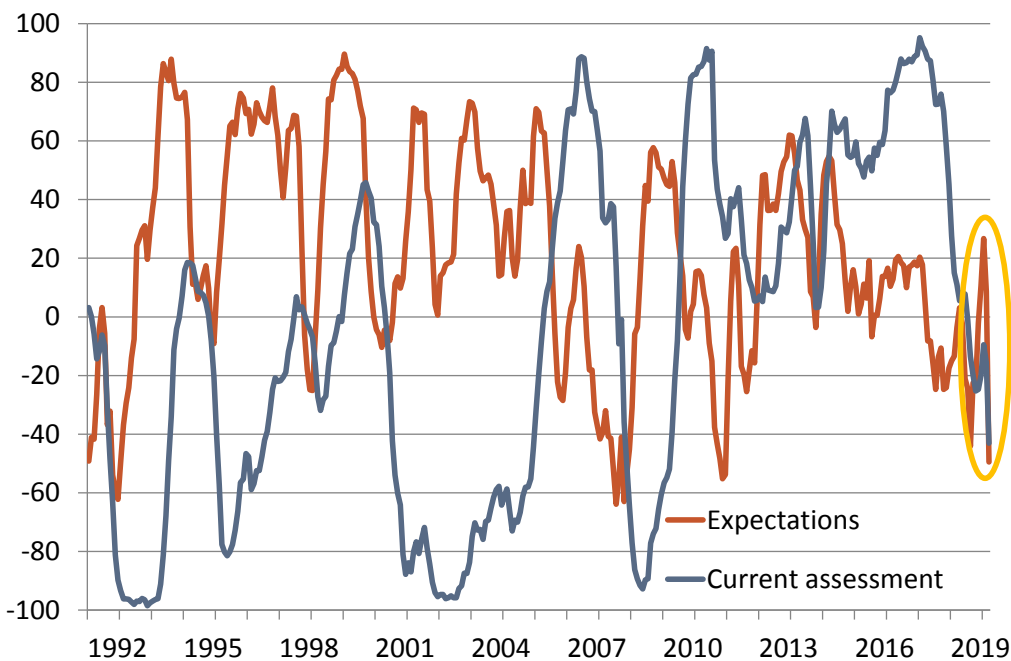
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Chart 2: German ZEW expectations versus current assessment since 2016



Source: ZEW

Chart 2: German ZEW expectations versus current assessment since 1992

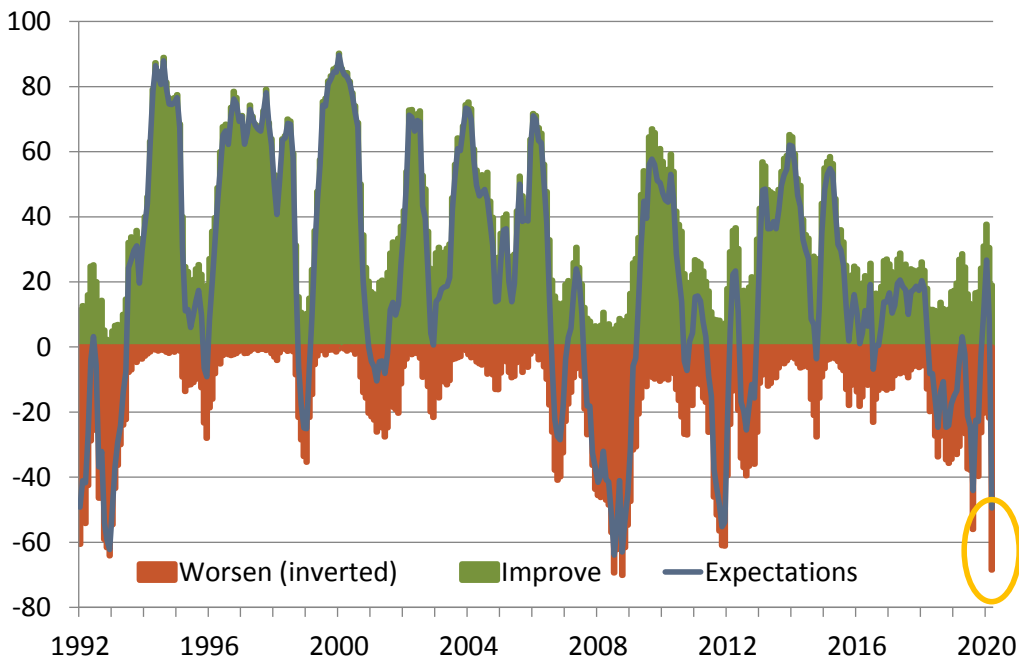


Source: ZEW



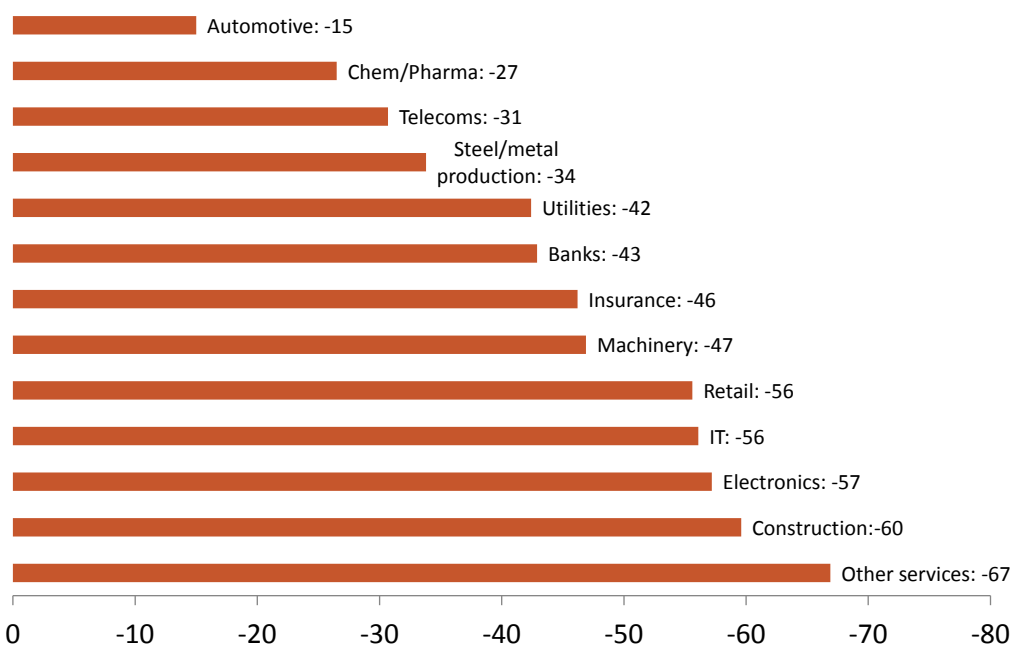
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**Chart 4: German pessimists on the march – remaining optimists hope for a temporary hit**



The value for the ZEW sentiment indicators is the ppt difference between the percentage of optimists ("improve") and pessimists ("worsen") among panellists. Source: ZEW

**Chart 5: ZEW expectations – monthly change by sector**



Source: ZEW



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