



BERENBERG

PARTNERSHIP SINCE 1590

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

GERMAN IFO HIGHER IN JUNE AS EXPECTATIONS SURGE

Berenberg Macro Flash

Continued improvement: The German Ifo survey for June adds to the growing pile of evidence that the recovery from the Covid-19 mega-recession is firmly underway. The Ifo business climate index rose to 86.2 in June from 79.5 in May and its historic low of 74.2 in April (see Chart 1). Expectations, which had started to recover already in May, jumped further in June (from 80.1 to 91.4) surprising to the upside (Reuters consensus: 87.0). Businesses' assessment of current conditions improved for the first time in five months. That it did so only a little, from 78.9 in April to 81.3, well below consensus of 84.0, is a little difficult to interpret – similar to [yesterday's PMIs](#). Judging by high-frequency indicators, we think the rebound over the past two months from the extremely depressed levels of activity in April has, in fact, been unusually sharp as supply and production facilities are simply being switched on again.

The key findings from the survey chime with other indicators for June:

- Having suffered even more disruptions from the lockdowns, consumer facing services industries are catching up with manufacturers as they benefit even more from the easing of social distancing measures. After plunging by 51.5 points from February to April, the business climate in the service sector has surged by 28.2 points since then. This compares to a collapse in the manufacturing sector of 42.6 points followed by a jump of 21.5 points (see Chart 2).
- Although current economic activity remains c10-15% below pre-crisis levels, compared to probably 25-30% in April, expectations are surging (see Chart 3 for the Ifo business cycle clock). This supports our view that, as long as we face no major virus-related setbacks in major economies (rather than the regional ones Germany currently experiences), economic output can return to the pre-crisis level some two years from now.

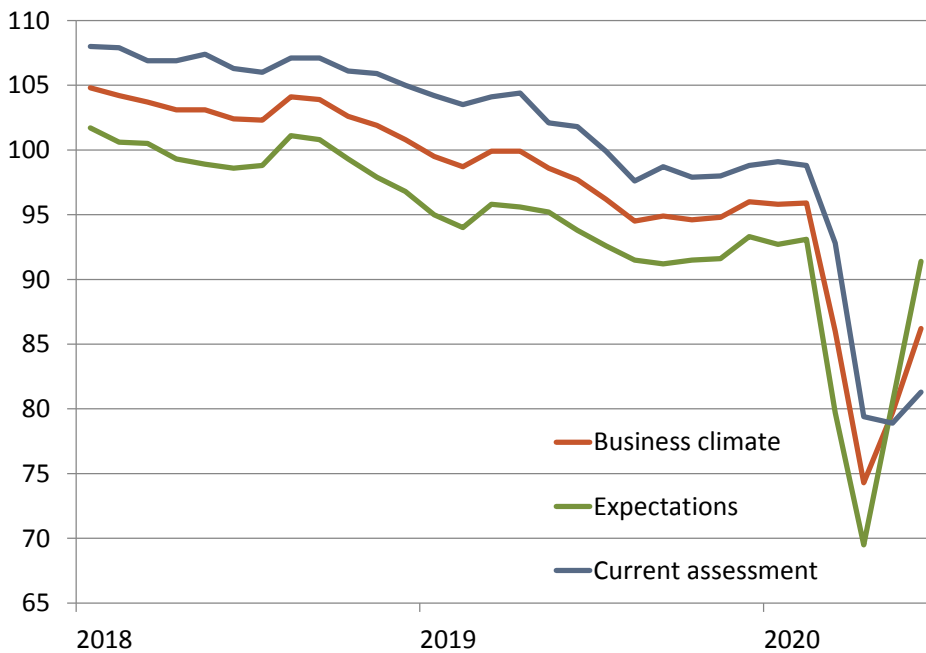
We remain on track for a [tick-shaped recovery](#). Going forward, as we transition into the shallower part of the upward leg of the tick mark rebound, the gains in activity will likely slow. Germany has largely re-opened and restarted the supply and production facilities with the most economic relevance such as manufacturing plants, ports, shops/restaurants/hotels and construction sites. If an effective vaccine arrived sooner than expected, strong gains would continue.

Germany remains exposed to weak foreign demand: Germany has fared the Covid-19 pandemic better than most other major advanced economies. Its lockdown was softer and shorter than elsewhere. Its aggressive fiscal response has helped to limit the downside risks of a damaging financial crisis or protracted downturn. Now the policies are helping to speed up the recovery. At the margin, its relatively smaller services sector compared to its European peers may have also contributed to a smaller drop in activity. However, its export-oriented economic model relies on healthy global demand and thus Germany remains partly exposed to potential downside risks in other parts of the world.



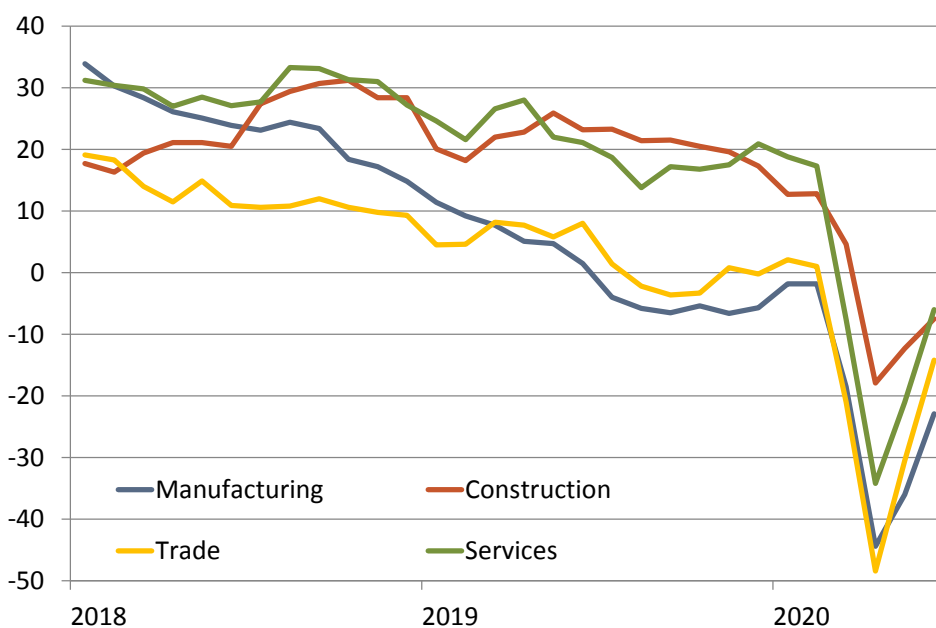
MACRO NEWS

Chart 1: Ifo business climate, current assessment and expectations



Indexed at 2015=100. Source: Ifo, Berenberg

Chart 2: Ifo business climate by sector (balances in %)

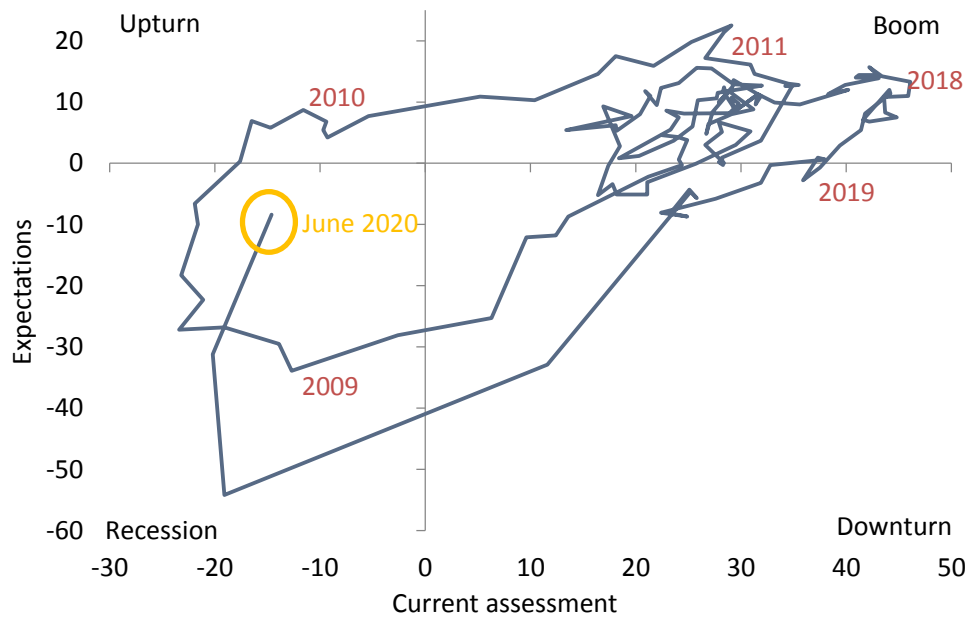


Source: Ifo, Berenberg



MACRO NEWS

Chart 3: Ifo business cycle clock (balances in %)



Source: Ifo, Berenberg

This message has been produced for information purposes for institutional investors or market professionals, it is not a financial analysis within the meaning of § 34b or § 31 of the German Securities Trading Act (Wertpapierhandelsgesetz), no investment advice or recommendation to buy financial instruments. The message does not claim completeness regarding the information on the developments referred to in it. On no account should it be regarded as a substitute for the recipient's procuring information for himself or exercising his own judgements. The message may include certain descriptions, statements, estimates, and conclusions underlining potential development based on assumptions, which may turn out to be incorrect. Berenberg and/or its employees accept no liability whatsoever for any direct or consequential loss or damages of any kind arising out of the use of this message or any part of its content. -- For full economics reports please visit our website or contact capitalmarkets@berenberg.de.

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