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GERMAN ZEW EXPECTATIONS STRONG, CURRENT CONDITIONS STILL WEAK

Berenberg Macro Flash

The August ZEW survey surprises in two ways: While expectations surged, the assessment of the current situation slipped slightly (see Chart 1). We and consensus had projected the exact opposite. We should probably not overinterpret the monthly numbers. The key takeaway is that the German economy is firmly on the recovery track. But given the low level the economy is coming from and some long-term restrictions to daily life, the return to pre-crisis levels will take a long time. We expect German GDP to reach its pre-corona level in early 2022.

Expectations reach 15-year highs: The ZEW 6-month ahead expectations index for Germany jumped from 59.3 in July to 71.5 in August, far above the consensus of 58.0. It is the highest value since January 2004 (72.9). The number of pessimists fell further while the optimists' camp became more crowded. Roughly 4 out of 5 panellists expect the economy to rebound (see Chart 2). Unlike in many other months, financial markets were probably not the key driver this time (see Chart 3). In July, ZEW expectations had started to normalise, in response to flattening markets. Although the DAX30 has been virtually unchanged since the last publication of the ZEW survey on 14 July, expectations have surged. The decrease in infection rates in the US over the past three weeks, the agreement among EU leaders on a recovery plan and the conviction that policy makers will do more if need be may have turned more panellists into optimists.

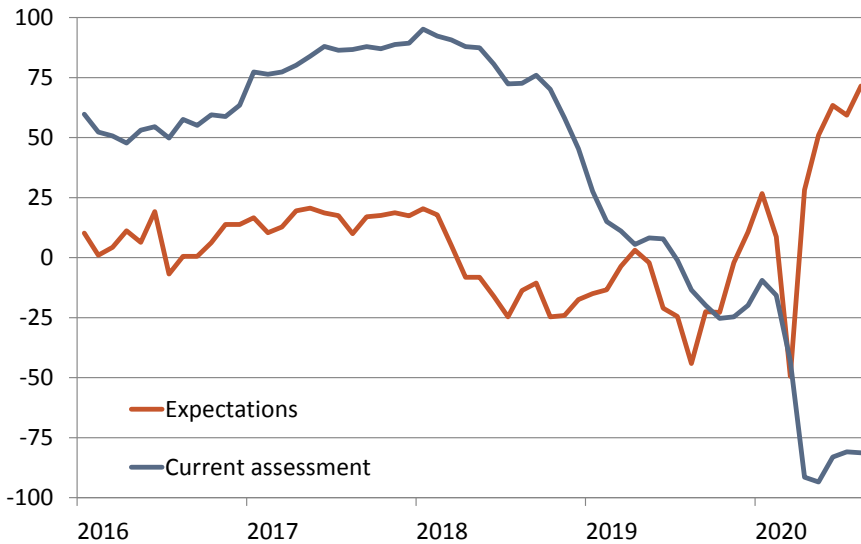
Assessment of current conditions down: However, panellists nudged down a little their assessment of the current situation after raising it in the two previous months. The subindex for the current economic conditions in Germany slipped from -80.9 points in July to -81.3 in August. The subindex is still up from the crisis low of -93.5 in May, but well below expectations of -68.8. Usually, the assessment of the current conditions responds to past developments in the hard data. The economic data for Germany in June, especially for the manufacturing sector, has been largely positive. Industrial production has further recovered, factory orders have rebounded strongly and exports also surprised to the upside. Retail sales fell only a little in June after a significant increase in May. The Bundesbank's weekly activity tracker has also further improved over the past four weeks. That the number of daily Covid-19 infections has significantly increased in Germany since mid-July and restrictions to daily life will continue for a long time may have weighed on panellists' assessment of the current situation.

The separate assessment of current and future situation in the Eurozone broadly mirrored that of Germany.



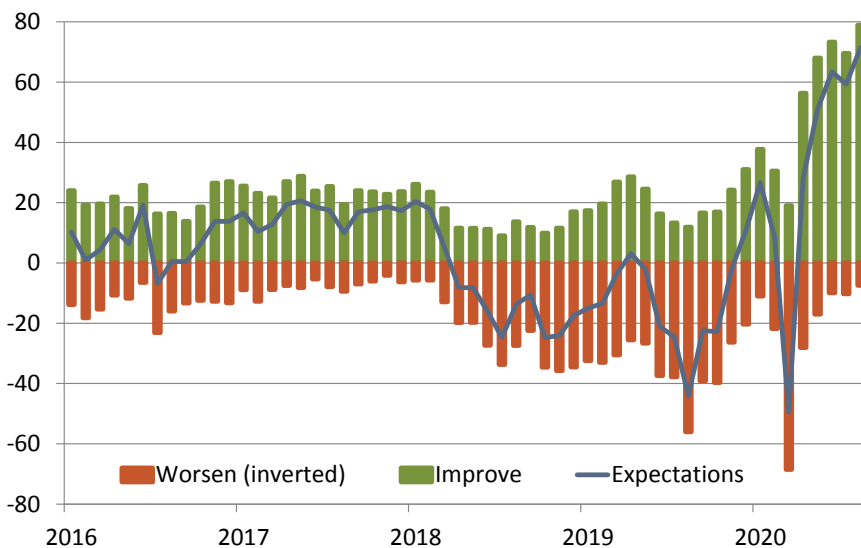
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Chart 1: German ZEW expectations versus current assessment since 2016



Source: ZEW, Berenberg

Chart 2: Hardly any pessimists

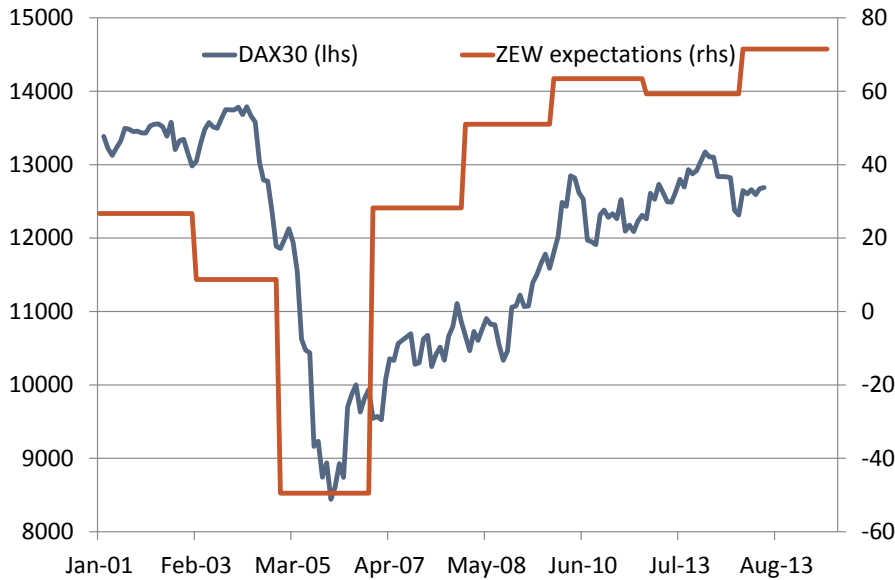


The value for the ZEW sentiment indicators is the ppt difference between the percentage of optimists ("improve") and pessimists ("worsen") among panellists. Source: ZEW, Berenberg



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Chart 3: German ZEW expectations and DAX30 in 2020



Daily data for DAX30. Monthly data for ZEW. Source: Deutsche Börse, ZEW, Berenberg

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