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## GERMAN IFO SHOWS CONTINUED EXPANSION

### Berenberg Macro Flash

#### Ifo business climate headline, May

<b>Actual</b>	<b>107.7</b>
Previous	106.7
Consensus	106.8
Berenberg	106.9

May's Ifo business climate reading suggests the German economy continues its growth path at a robust pace. After stronger-than-expected growth in the first quarter of 2016, the expansion is likely to slow in Q2. The risk of a sharp drop-off in Q2, and the rest of the year, is limited, provided that the subdued growth of economic activity in the rest of the Eurozone does not weaken further.

Ifo's headline index, the business climate for German industry and trade, improved from 106.7 in April to 107.7 in May, its highest level since December. With all industry sectors improving in May compared to their April values, German businesses register a broad-based recovery. Worth noting, the construction sub-index rose to the highest level since 1991, a time when Germany experienced a post-unification boom. With the housing market experiencing currently a boom in a ultra-low interest rate environment, this comes hardly as a surprise.

Improvement in both the current assessment (+1.0) and expectations (+1.1) drove the business climate (see Chart 1). The Ifo institute's headline gauge, therefore, follows the improvement in German PMI data (Monday) and ZEW's current situation survey (yesterday). Recently, it has become more difficult to interpret the soft data in Germany. The economy had a strong start to the year in stark contrast with what the surveys signalled. The numbers may reflect a catching up to reality rather than a genuine acceleration in activity. The uptick in expectations raises hopes that the slowdown in Q2 2016, after a strong Q1 could be limited.

The business climate in German services went in the opposite direction. The Ifo institute's separate survey of confidence for the service sector weakened to 24.8 points, from 28.0 points in April, just above its March levels (24.3). Given its elevated level and strong increases over 2015, Ifo's service gauge, however, remains above its long-run average. In our opinion, the drop is not much of a cause for concern, given its still elevated level, the rather positive PMI services reading and the rise of today's released GfK's consumer confidence gauge.

We, therefore, continue to expect the German economy to post economic growth of 0.3% qoq in Q2 (after 0.7% qoq in Q1), but with growth returning to its trend rate of 0.4% in Q3. For the Eurozone, we forecast 0.2% in the second quarter (after 0.5% qoq in Q1) and a reversal to the same trend rate like the German of 0.4% for the rest of the year.



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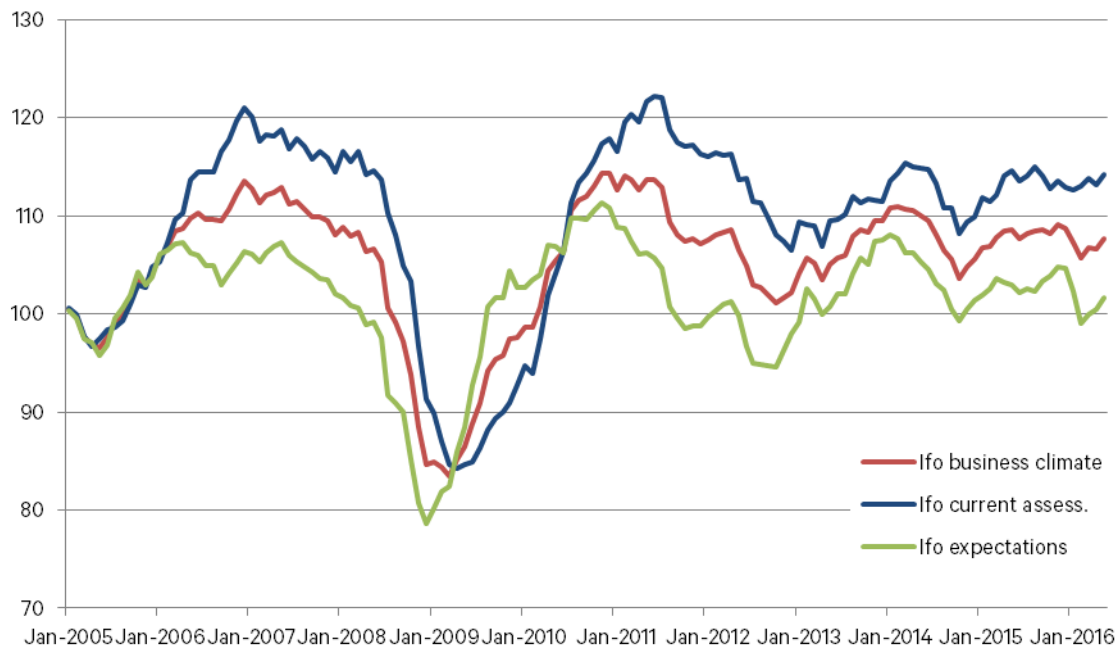
### Ifo business climate headline

Index levels	MAY	APR	MAR	FEB	JAN	DEC
Ifo business climate	107.7	106.7	106.8	105.8	107.4	108.6
Ifo current assess.	114.2	113.2	113.8	113.0	112.6	112.9
Ifo expectations	101.6	100.5	100.1	98.9	102.4	104.5

### Ifo business climate in services sector (balances)

Index levels	MAY	APR	MAR	FEB	JAN	DEC
Ifo serv. business climate	24.8	28.0	24.3	27.7	28.6	34.5
Ifo serv. current assess.	36.9	41.0	36.2	40.0	38.3	44.3
Ifo services expectations	13.3	15.7	13.0	16.1	19.3	25.0

**Chart 1: Ifo business climate headline (industry and trade)**



Source: Ifo institute



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