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## GERMAN IFO REBOUNDS AFTER BREXIT DIP

### Berenberg Macro Flash

#### German Ifo, September

|                | Business climate | Current situation | Expectations |
|----------------|------------------|-------------------|--------------|
| <b>Actual:</b> | <b>109.5</b>     | <b>114.7</b>      | <b>104.5</b> |
| Previous:      | 106.3            | 112.9             | 100.1        |
| Consensus:     | 106.3            | 112.9             | 100.1        |
| Berenberg:     | 106.2            | 112.7             | 100.2        |

Business confidence in Germany recovered strongly from its post-Brexit dip in July and August. The better-than-expected September reading takes the quarterly average for the third quarter above that of Q2. This suggests some upside risk to our call for German GDP growth of 0.3% qoq which is below that of the second quarter of 0.4% (see chart).

The Ifo's index for the German business climate jumped to 109.5, its highest levels since May 2014, from a revised 106.3 in August and versus expectations of 106.3. Both components of the headline number, the stable current assessment and the noisier expectations increased considerably.

**Recovery is broad-based across sectors:** Today's uptick came as a surprise given the softer reading for the German PMI last Friday. But bear in mind, the Ifo's headline number measures the sentiment across manufacturing, construction and retail and wholesale trade. It does not include service providers. While the PMI composite dropped due to a 39-month low reading of the PMI services, the manufacturing PMI rose to a 3-month high. According to the Ifo institute, sentiment across all 4 sectors improved, with the increase in the manufacturing sector the most pronounced and encouraging. Construction hit a new record high. The retail sector benefitted from a better current situation, while sentiment in wholesaling mainly drove on brighter expectations.

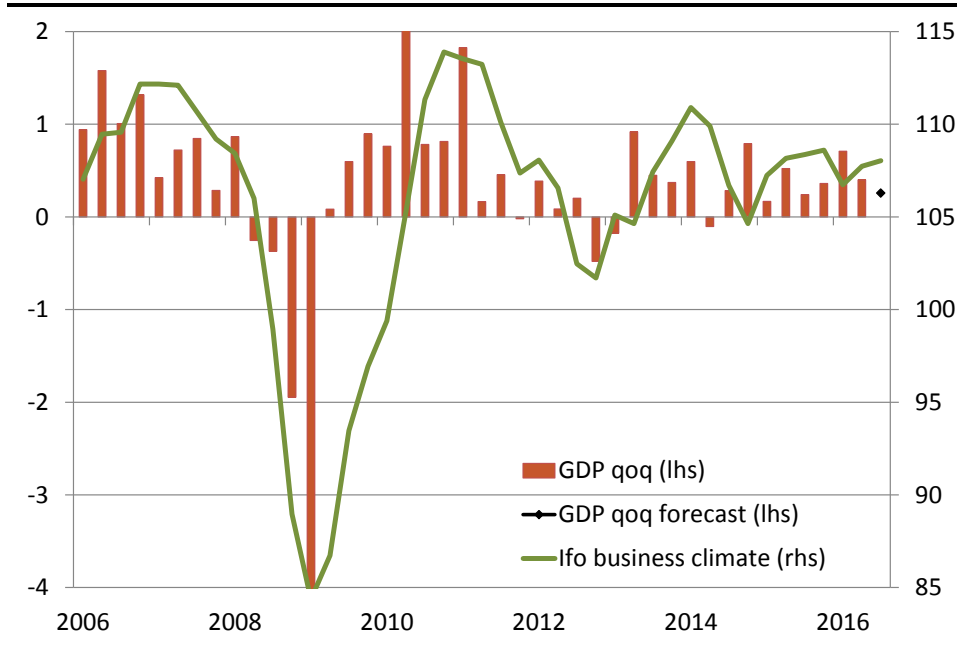
**Services improve further:** A separate Ifo survey for services, which is not included in the headline Ifo numbers, also increased. After a dip in July, service providers reported better sentiment for the second consecutive month, with both the assessment of the current situation and the outlook stronger. The business climate reading is the highest since December 2015. The drop by the PMI services last Friday may, therefore, be an outlier, as we argued, rather than indicating a material shift in sentiment.

**Upside risk to our call:** The better sentiment across all sectors bodes well for the outlook for the rest of the year. It seems that concerns are easing over the consequences of the UK's decision to leave the EU and the economic outlook. The slowdown in July and August may turn out to be a short-lived post-Brexit, summer slump. Consequently, GDP may register a qoq growth rate in Q3 which is closer to the 0.4% registered in Q2 than originally expected. The first official estimate of GDP for the third quarter is due on 15 November. Whether sentiment holds up for the remainder of the year depends on whether major risks such as a Trump victory in the US or a Renzi defeat in Italy's referendum materialise over the next three months.



## MACRO NEWS

### German Ifo vs. GDP growth qoq



Source: Ifo.

### German Ifo

|                   | Sep   | AUG   | JUL   | JUN   | MAY   | APR   |
|-------------------|-------|-------|-------|-------|-------|-------|
| Business climate  | 109.5 | 106.3 | 108.3 | 108.7 | 107.8 | 106.7 |
| Current situation | 114.7 | 112.9 | 114.8 | 114.6 | 114.2 | 113.3 |
| Expectations      | 104.5 | 100.1 | 102.1 | 103.1 | 101.7 | 100.5 |

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