



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

GERMAN IFO: SHRUGGING OFF THE TRUMP EFFECT

Berenberg Macro Flash

German Ifo, February

	Business climate	Expectations	Current assessment
Actual:	111.0	104.0	118.4
Previous:	109.9	103.2	116.9
Consensus:	109.6	103.0	116.6
Berenberg:	109.6	102.9	116.7

The German industry may be concerned, but definitely not scared. When less optimistic expectations weighed on the German Ifo business confidence in January, we alluded to the possibility of a little Trump scare. Today's reading for February shows that the sharp decline in forward-looking optimism in the previous month was just a blip. It provides further evidence that the German economy steps up a gear at the start of 2017. We expect the rate of expansion to accelerate to 0.5% in Q1 2017, after 0.4% in Q4 2016.

Business sentiment is back to December 2016 level, the highest since March 2014. Driven by a further improved assessment of the current situation and a rebound of expectations, the headline index of the Ifo survey rose from 109.9 in January to 111.0 in February. This compares to a long-term average of 101.9 (up from 101.8 in the previous month), signalling the strong momentum the German economy has gained over the recent months. Unlike in the previous month when only the current assessment improved, firms signalled also rosier expectations, thereby partly correcting the deterioration in January. That firms' expectations remain well below their assessment of the current situation probably stems from the fact that it cannot get (even) better than it already is. To some extent it may also be explained by the phenomenon of German "angst", fuelled by the prospect of a year ahead full of political risks. After all, according to the Ifo survey German firms fundamentally tend to underestimate their future situation: the long-term average of expectations at 100.4 is well below that of the current situation (103.5). This bodes well for the outlook.

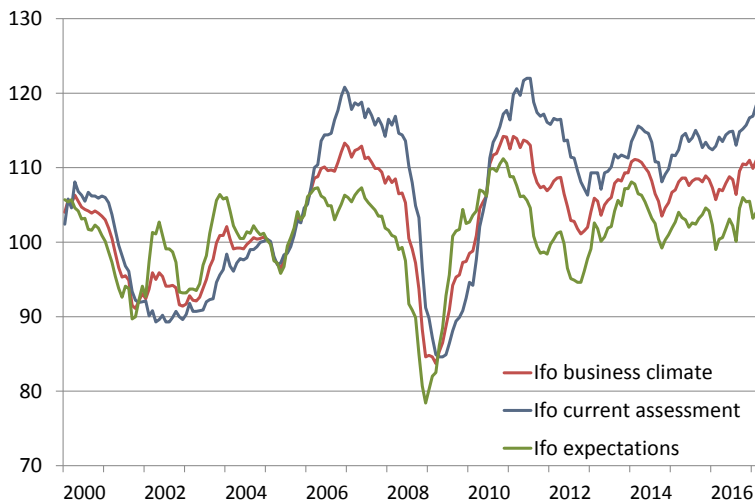
On a sector basis, we saw that sentiment among manufacturers improved further (16.5, from 13.9) as both current demand and incoming orders picked up – mirroring the stronger reading of yesterday's PMI manufacturing headline rising to a 69-month high. Weaker confidence in both the retail (4.4 after 5.8) and construction sector (7.6 after 10.8) paid tribute to caution after an exceptionally strong Christmas (retail) and bad weather (construction).

As applies to every month's data – we should not read too much into the volatile ups and downs. Last month's Ifo showed we need to watch the risks to the outlook, which stem in the case of Germany more from potential protectionism and the economic situation elsewhere than political uncertainty at home. After all, few countries depend on free trade in the world as much as Germany does. But, economic fundamentals are strong. Significant gains in employment and real wages, a modest fiscal stimulus of around 0.2% of GDP, a competitively valued exchange rate and a very accommodative monetary policy point to an ongoing robust and broad-based economic upturn.



MACRO NEWS

German Ifo: Business climate, current assessment and expectations



Source: Ifo

German Ifo

	FEB	JAN	DEC	NOV	OCT	SEP
Business climate	111.0	109.9	111.0	110.4	110.5	109.5
Expectations	104.0	103.2	105.5	105.4	106.0	104.5
Current assessment	118.4	116.9	116.7	115.6	115.1	114.8

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