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GERMAN SENTIMENT IMPROVES FURTHER: ZEW BACK TO AUGUST 2015 LEVEL

Berenberg Macro Flash

German ZEW sentiment, April

	Expectations	Current situation
Actual	80.1	19.5
Previous	77.3	12.8
Consensus	77.5	14.0
Berenberg	77.5	14.5

German economy enjoying a little boom: The headline expectations indicator of the ZEW survey jumped to its highest level since August 2015. The survey showed that the current situation improved considerably, to a near six-year high. The further pick-up in sentiment provides two key takeaways: First, the expected acceleration in German real GDP growth in Q1 may continue in Q2. So far, we expect a normalisation of the rate of expansion back to trend of 0.4% in Q2 after an acceleration to 0.6% in Q1. While the data is just for the first month of the quarter, the ZEW suggests that risks to our call are skewed a little to the upside (see chart 1). Second, 12 days before the French presidential elections at least the panellists of the ZEW do not seem to be worried about Frexit. In fact, expectations for the French economy strengthened by more than in Germany.

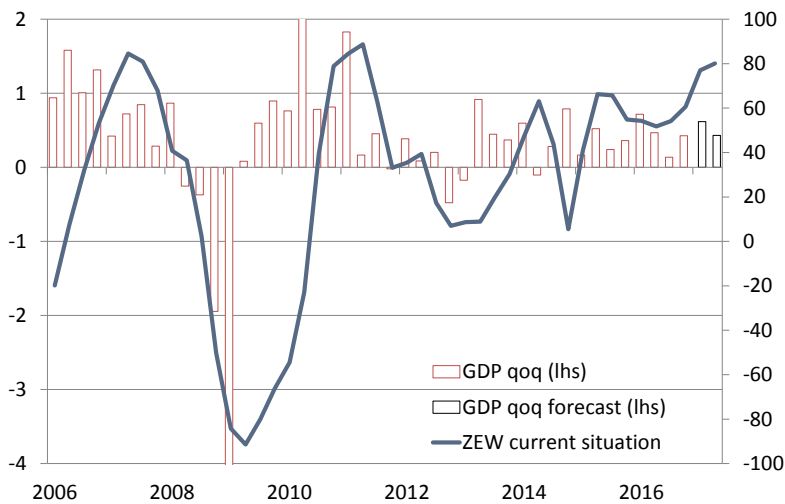
Solid economic fundamentals drive expectations and current assessment: The forward looking component of the German ZEW survey surged to 19.5 in April, from 12.8 in March – well above expectations. While it remains below the long-term average of 23.9 points (since December 1991), in April it breached, for the first time, the pre-Brexit level of June 2016 (19.2) (see chart 2). The ZEW survey is the first of Germany's main surveys to be released in April. A major move usually signals turning points in the economy up to six months in advance. The indicator for the assessment of the current situation rose from 77.3 to 80.1, the highest level since July 2011 (chart 2). The current assessment mostly reflects hard data for the last few months, hence relates to Q1. Can the positive sentiment carry into Q2? Yes. Recent hard data (industrial production, construction and retail sales) have all been upbeat and with continued improvement in the labour market, the optimism can remain resilient.

Eurozone sentiment enjoying an uptick too: The Eurozone ZEW survey showed that expectations increased a little from 25.6 to 26.3, the highest level since December 2015. The assessment of the current situation improved strongly (+4.1 points), reaching the highest level since May 2008. This bodes well for the firming and broadening recovery of the Eurozone.



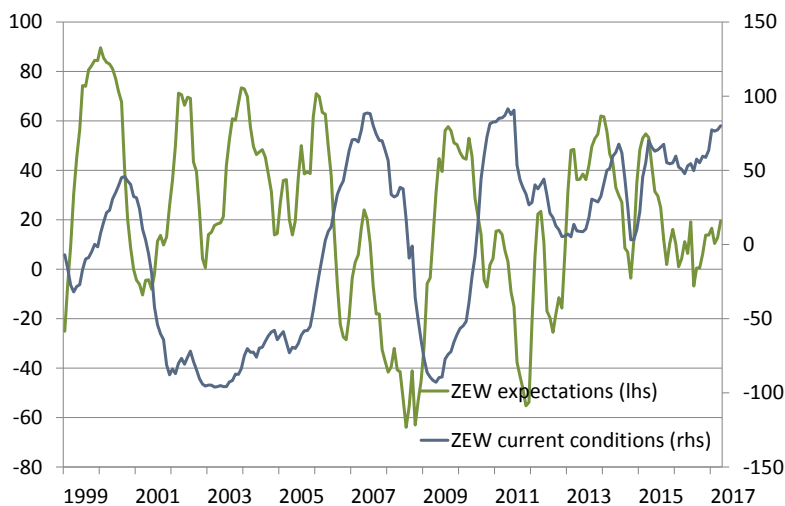
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Chart 1: German GDP qoq (in %) versus ZEW current situation



Source: Destatis, ZEW, Berenberg calculations

Chart 2: ZEW expectations versus current situation



Source: ZEW

	APR	MAR	FEB	JAN	DEC	NOV
Expectations	19.5	12.8	10.4	16.6	13.8	13.8
Current situation	80.1	77.3	76.4	77.3	63.5	58.8



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