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## MACRO NEWS

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### GERMAN IFO: DARK WINTER

#### Berenberg Macro View

In response to the worsening pandemic and tighter restrictions, the German economy has come off to a soft start in 2021. In line with Friday's softer German [PMI survey](#) in January, the widely watched Ifo business climate index fell to 90.1 in January from 92.2 in December.

**Both current and future conditions weaker:** Unlike the PMI survey and previous prints, the Ifo survey surprised to the downside (Berenberg projection: 92.0; consensus estimate: 91.8). While the current conditions subindex came in only a little weaker-than projected, the forward-looking expectations subindex sprang a surprise, dropping to 91.1 from 93.0 against expectations of a small rise. The tighter lockdown, the slow rollout of vaccinations and the risk posed by more infectious SARS-CoV-2 variants seem to be clouding the outlook.

**Downside risk to our Q1 call?** After stagnating in Q4, the German economy will likely contract in early 2021. The bigger-than-expected drop in the Ifo business climate indicates a downside risk to our -1.4% qoq call for Q1 GDP.

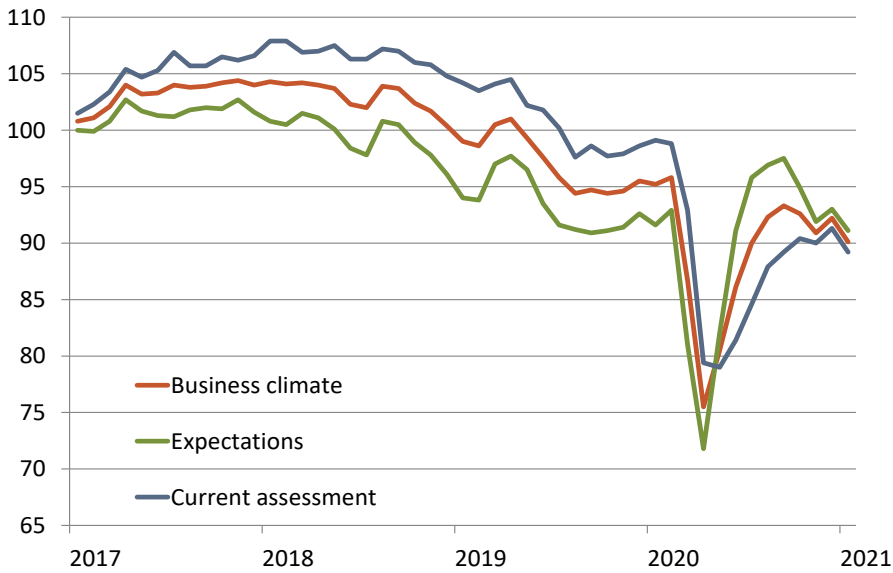
**Manufacturing remains resilient, retail trade battered:** Despite the third setback in four months, the economic impact of the second wave continues to be far less severe than that of the first wave in spring last year. Back in April, the business climate index had collapsed to 75.4. The second wave has been less of a nasty surprise, factories remain open and many households and companies have adapted their behaviour to restrictions – think online shopping, takeaway food and working-from-home. Thanks to solid goods demand from China and the US, the manufacturing sector – down in January to 8.8, but still close to December's almost two-year high of 9.1 – has limited so far the damage from close-contact services (the Ifo subindex for trade plummeted to -17.2 from 0.3 and services fell to -4.4 from -0.4). Confidence, production and consumption are holding up much better than 9 months ago.

**Outlook positive beyond near-term:** Faster spreading virus strains and a slow inoculation progress suggest the situation will unlikely change near-term. Still, prospects for a strong rebound from Q2 remain good. After two years of shocks – the pandemic in 2020 and the Trump-led trade war in 2019, Germany should benefit notably from a likely fading of the pandemic in the coming Spring and from a calmer US trade policy. In addition, the surge in German households savings by €90bn yoy in the first three quarters of 2020, equivalent to 4.9% of private consumption in the same period in 2019, should unleash pent-up demand for consumer services and provide a sizeable tailwind for the early stage of the upswing from spring 2021 onwards.



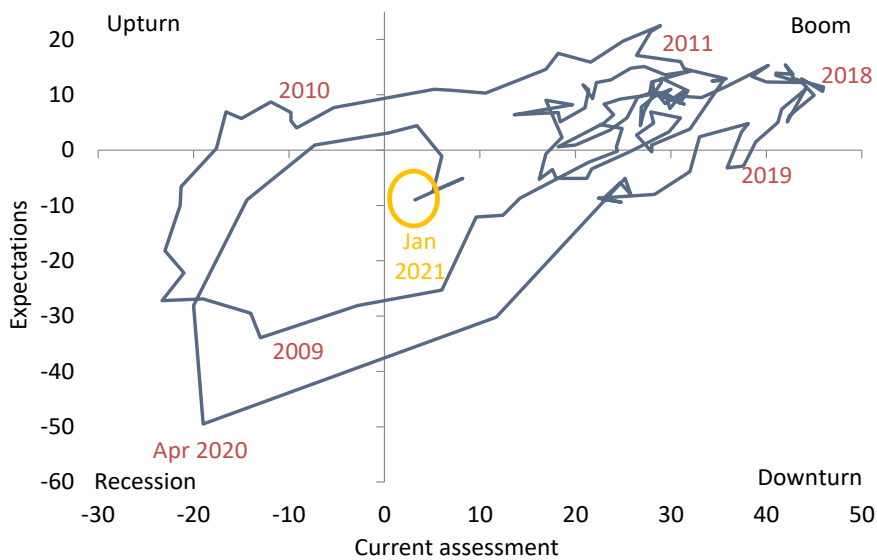
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**Chart 1: Ifo business climate, current assessment and expectations**



Indexed at 2015=100. Source: Ifo, Berenberg

**Chart 2: Ifo business cycle clock (balances in %)**

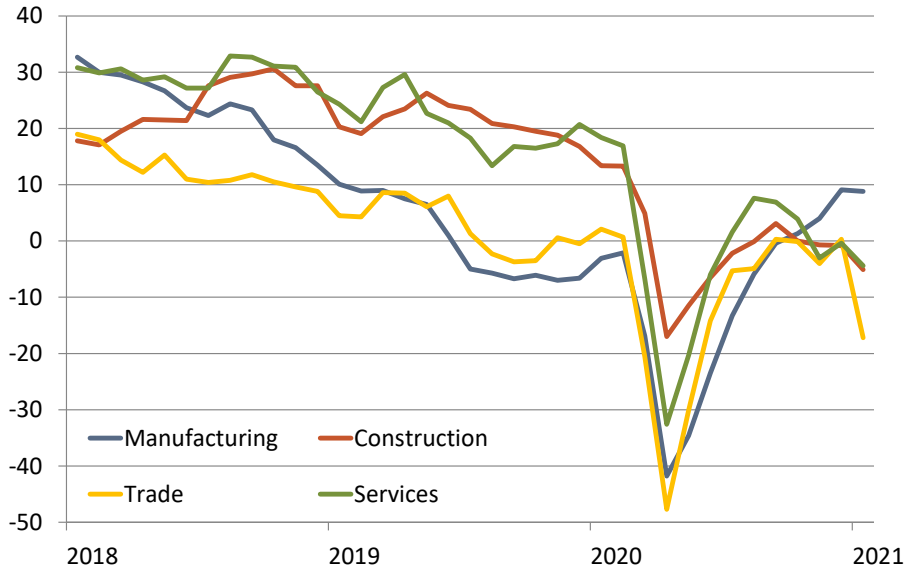


Source: Ifo, Berenberg



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**Chart 3: Ifo business climate by sector (balances in %)**



Source: Ifo, Berenberg



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