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GERMAN ZEW: HIGH HOPES FOR BRIGHT 2021 AFTER DARK WINTER

Berenberg Macro View

High(er) hopes: Ever more financial analysts are turning optimistic about the outlook for the German and Eurozone economy.

Both in Germany and Eurozone: Against our and consensus expectations of a small fall to c60 points, the ZEW headline expectations index for Germany surged to 71.2 points in February from 61.8 points in January. Well above the long-term value of 19.7 points, it fell only slightly short of the post-pandemic peak in September 2020. Between December and February the index has recovered most of the losses it suffered between September and November when it dropped from 77.4 to 39.0 amid the start of the second wave. The share of optimists in the panel rose from 71.1% in January to 79.1% in February, while that of pessimists fell from 9.3% to 7.9%, respectively. The corresponding Eurozone index for the 6-month ahead expectations was up by 11.3 points to 69.6 points.

Rebound driven by consumer (services): The accompanying press release of the ZEW survey stated that panellists were expecting “consumption and retail trade to recover significantly, accompanied by higher inflation expectations”. While the consumption of goods and retail trade are already close to or beyond pre-pandemic peaks, the rebound in demand for services – which are hit by lockdowns much more than goods – should particularly drive the rebound in economic activity in 2021 from spring onwards. Another big US fiscal stimulus should further boost foreign demand.

Buoyant equity markets provide boost to ZEW: Betting on an economic recovery to come, equity markets have performed well over the past three months. That most ZEW panellists follow markets more closely than panellists of other surveys, has probably contributed to pushing the ZEW even higher than the Ifo, PMIs or the European Commission’s economic sentiment index.

Current conditions unchanged in Germany: While expectations of a bright and warm spring are running high, the winter remains dark and cold. The assessment of the current situation in Germany fell slightly to -67.2 points from -66.4 in January, roughly in line with expectations of -67 points. With virus containment measures largely unchanged in Germany since mid-January, domestic demand was probably flat. Amid some international supply chain disruptions and somewhat less foreign demand from the rest of the Eurozone, economic activity may have slowed a little over the past 4-5 weeks. Going forward, border closures between Germany and some of its neighbours could restrict cross-country trade and industrial production in late February and – possibly – in March as well.

Beyond the worst in the Eurozone? More and more Eurozone countries are re-gaining control over the second wave of the pandemic. France, Italy and a few other countries have slowly started to ease restrictions over the past couple of weeks. As a result, ZEW panellists judged economic

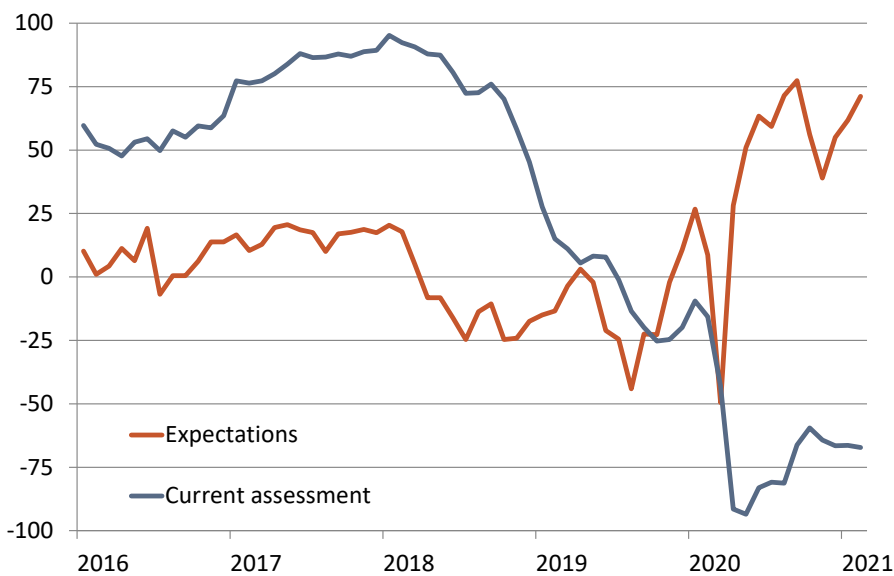


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conditions had improved in the Eurozone. The current assessment index for the Eurozone rose by 4.3 points.

GDP Q4 slightly revised upwards: Separately, Eurostat revised up slightly its flash estimate for GDP qoq in Q4 2020 to -0.6% from -0.7%. A further rise in employment by 0.3% qoq after 1% in Q3 limited the damage in Q4 a little.

Chart 1: German ZEW expectations versus current assessment since 2016

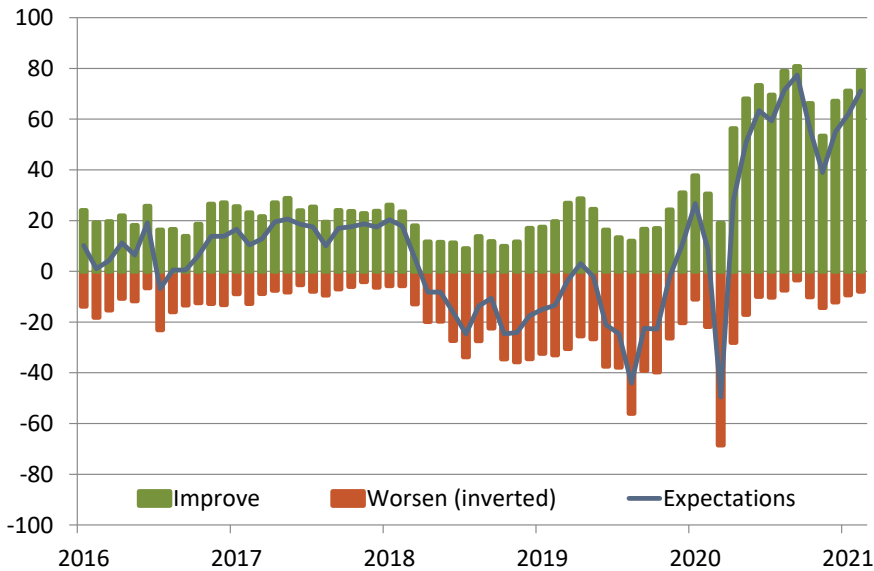


Source: ZEW, Berenberg.



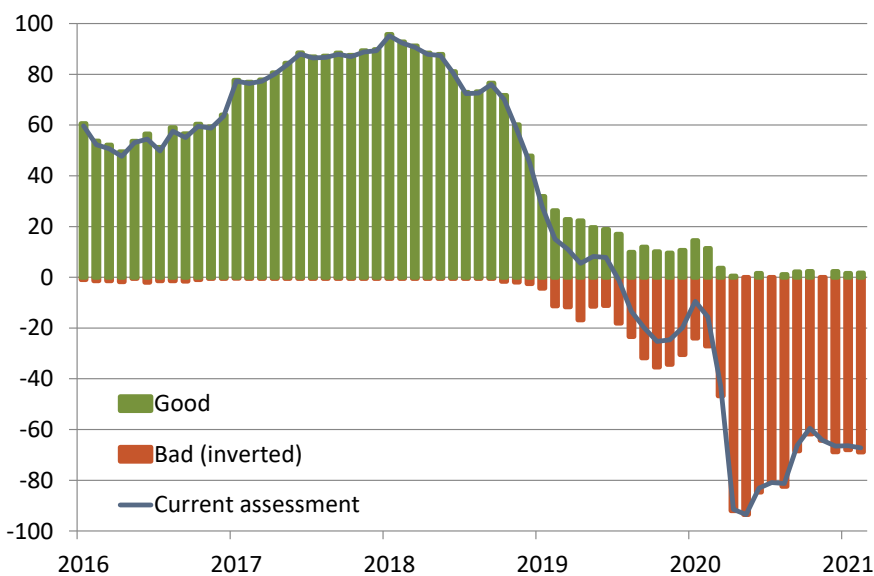
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Chart 2: Hardly any pessimists left



The value for the ZEW expectations index is the ppt difference between the percentage of optimists (“improve”) and pessimists (“worsen”) among panellists. Source: ZEW, Berenberg

Chart 3: The situation is still bad

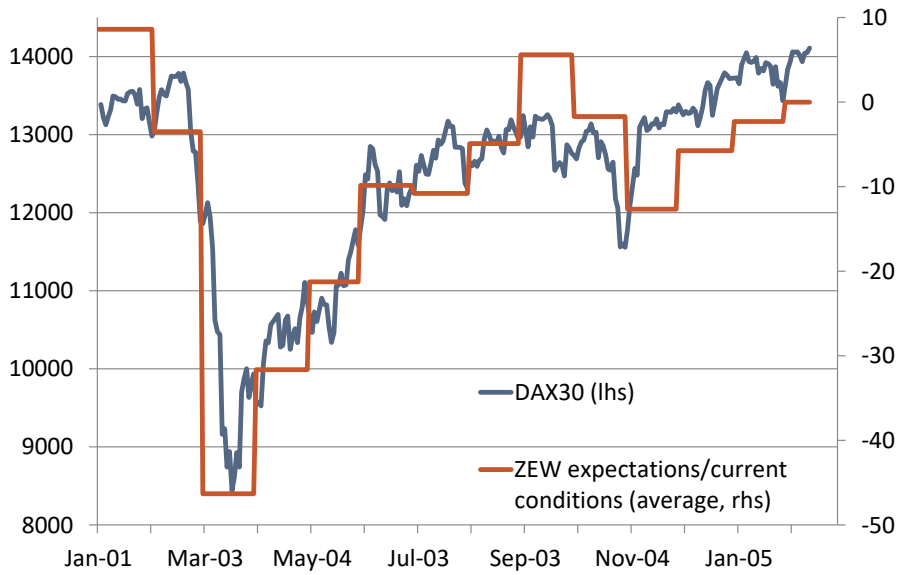


The value for the ZEW current conditions index is the ppt difference between the percentage of “good” and “bad” responses among panellists. Source: ZEW, Berenberg



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Chart 4: German ZEW sentiment and DAX30 in 2020



Daily data for DAX30. Monthly data for ZEW. Source: Deutsche Börse, ZEW, Berenberg



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