

German ZEW index increases in February

There are still some pockets of optimism. The increase in Germany's ZEW economic sentiment index in February shows there is still light at the end of a very long tunnel



Financial analysts see light at the end of the tunnel, even though that tunnel seems to be never-ending. In February, the German ZEW index, which measures financial analysts' assessment and expectations of economic and financial developments, increased for the seventh consecutive month to 19.9, from 15.2 in January. At the same time, the current assessment component weakened for the second month in a row, dropping to -81.7, the lowest level since the start of the pandemic, from -77.3 in January.

It is the nature of the ZEW index that a weakening current assessment component almost automatically increases expectations. The further you fall, the easier it is to rebound at some point. Still, even though the ZEW index is definitely one of the worst-performing leading indicators in Germany when it comes to predicting GDP growth, it has a recent track record in predicting turning points.

With this in mind, today's numbers very tentatively signal better times ahead. At the same time, however, any cyclical improvement of the German economy will be too weak to offset structural weaknesses. Today's ZEW index does little to change the base case scenario of yet another year of recession in Germany.

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