

## Germany: Believing in the recovery

Another strong ZEW index provides further signals that the low point of the crisis could be behind us



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### Strong belief in the recovery

After a real V-shaped move in March and April, the ZEW index, which measures financial analysts' assessment and expectations of economic and financial developments, returned to normal monthly changes. In May, the ZEW index increased to 51.0, from 28.2 in April, the highest reading in more than five years. At the same time, the current assessment component dropped to -93.5, the lowest reading since 2003. Improved expectations probably reflect the first lifting of lockdown measures, the stock market rally of the last few weeks, central bank and government action as well as a good portion of optimism that all previous viruses have eventually ended with a U- or V-shaped recovery.

### But don't get carried away

Coming from a very low point, it is no surprise that the future looks more optimistic. It is simply in the technical nature of the index, which is a relative assessment of future developments vis-à-vis the current situation. Given that traditionally, the ZEW index has a better track record in predicting turning points in the economy, rather than predicting exact outcomes for GDP growth, it is interesting to look at the difference between current assessment and expectations. This difference

is currently larger than in 2008, suggesting investors' increasing optimism that the worst might be behind us.

Indeed, the worst could be over. Even if backward-looking macro data continues to be dreadful for quite some time, more real-time data, such as Google mobility data, shows that activity already accelerated by mid-May. While (social and economic) activity slowed down to 60% of its January level during the peak of the lockdown, it has now returned to more than 80%. The lifting of the lockdown measures, as well as the huge fiscal support by the German government (more than 30% of GDP), support the view that the German economy could leave the crisis earlier and stronger than most other countries.

## Lasting damage?

To be clear, it is currently still impossible to measure the more permanent damage the crisis has caused and a return to pre-crisis levels is unlikely to happen before 2022, even for the German economy. However, today's ZEW index presents encouraging evidence that at least the low point of the slump could be behind us.

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