

## Germany: Believing in the recovery

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



Source: Shutterstock

### 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.

### Author

#### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).