

## Germany: Paving the path for a recovery

With the fourth consecutive increase, the latest ZEW index paints a good picture of the path of recovery. After a sharp rebound, some flattening out should follow



Source: Shutterstock

### A handwritten 'r'

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 and has taken the pattern of our current favourite: a handwritten 'r'.

In June, the ZEW index increased to 63.4, from 51.0 in May, the fourth consecutive increase. At the same time, the current assessment component increased for the first time during the crisis to -81.3, from -93.5 in May. The further improvement in expectations probably reflects the lifting of lockdown measures as well as central bank and government actions.

### Could the ZEW index be right?

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 was seen in 2008 and has stabilised in May and June, suggesting investors' increasing optimism

that the worst might be behind us.

Indeed, we would agree that the worst could be over. The dreadful macro data should have marked the trough of the crisis. 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 almost 90%. The truck toll mileage index has already returned to some 95% of its pre-crisis level. Combined with the huge fiscal support by the German government, the rebound of the economy should continue well into the second half of the year.

Needless to say, the structural challenges the German economy was already facing prior to Covid-19 have not suddenly disappeared. The latest fiscal stimulus package will tackle some of these weaknesses, but it will take some time. Therefore, any initial sharp rebound will be followed by a flattening out.

It could very well be that this time around, and different from past experiences, the ZEW index could gain a better track record in predicting short-term movements in the economy.

## 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).