

## Germany: Premature turnaround

Too good and too early to be true. The surprise increase in the ZEW index suggests that there will be light at the end of tunnel but just not yet



Source: Shutterstock

German investor confidence surprisingly increased in April but don't get too excited.

The ZEW index staged an impressive comeback in April, jumping to 28.2 from -49.5 in March. After March was the sharpest monthly drop ever, today's increase is the largest monthly increase ever. In all honesty, this number is too good to be true. It probably reflects the stock market rally of the last few weeks, central bank and government action as well as a good portion of optimism that up to now all viruses eventually ended with a U- or V-shaped recovery. The drop of the current assessment component to -91.5, which is close to the record lows in 2003 and 2008, shows how severe the current economic situation is.

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Coming from a very low point, it is no surprise that the future looks more optimistic. 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 still smaller than when the German economy came out of the 2003 and 2008 recessions, suggesting that investors' optimism remains subdued.

Today's ZEW index is another data point on the long road to fully grasp the magnitude of the Covid-19 crisis. After four weeks in almost full lockdown, the German economy has just entered the next phase of the crisis - very gradual easing of the lockdown measures.

From Monday, many stores are open again, under strict conditions, and schools will very gradually reopen in the coming days and weeks. While some sectors of the industry, for example, the chemical industry was able to continue production throughout the lockdown period, other sectors like the automotive industry have only recently restarted production.

To be very clear, this is far from being a return to normality, with hotels and restaurants still being closed and public events prohibited until the end of August. It will take several more months and many data points before we will have a better grip on the full magnitude as well as the pace of the recovery.

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