

Germany: Weak ZEW index signals vigilance

Strong current assessment and weak expectations are a good reminder that robust German growth should not be taken for granted



5.1 German ZEW index, March

From 17.8 in February

In recent months, we often skipped the ZEW index due to the fact that it has a rather poor track record when it comes to predicting GDP growth but also due to the decoupling of financial markets and the real economy in recent years. Today, however, given the recent turbulence in financial markets and the fact that the ZEW tends to signal economic turning points some four to six months ahead, we did not want to miss it. Also, it is the very first sentiment indicator released in the Eurozone since the final agreement on a grand coalition in Germany but also since the US administration announced its protectionist measures and related rhetoric.

ZEW index drops to lowest level since late 2016

The verdict of today's ZEW index is to watch out! The index, which measures investors' confidence, dropped to 5.1 in March, from 17.8 in February. At the same time, however, the current assessment component decreased to 90.7 in March, from 92.3 in February. While the current assessment component remains close to all-time highs, expectations are below their historical average.

No reason to worry, yet, but...

The stock market turmoil of the last two months, including a rollercoaster ride of bond yields, the stronger euro since the beginning of the year as well as political events seem to have dented investors' enthusiasm. The sworn-in new government in Berlin has not (yet) been able to offset recent market and global political turbulence.

A single bad ZEW reading does not make a downswing. However, the increasing discrepancy between the current assessment component and expectations is remarkable. This discrepancy has reached a new temporary peak, the highest level since late-2011. The strong current assessment component still offers lots of comfort for the near-term outlook for the German economy. However, weak expectations suggest that some vigilance could be useful.

Author

Carsten Brzeski

Global Head of Macro

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 <http://www.ing.com>.