

## 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.

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