

## Germany: Not everyone believes in a German rebound (yet)

Another drop in the ZEW index suggests that financial market participants are still concerned about the negative impact of trade tensions on growth



After a series of encouraging and positive hard data, the just-released ZEW index shows that at least investors do not yet believe in a rebound of the German economy. On the back of trade tensions, market volatility and the ECB's dovish tapering announcement, the ZEW index continued its straight downward trend, dropping to -24.7 in July. It was the sixth consecutive drop, which brought the ZEW index down to the lowest level since August 2012.

At the same time, the current situation component also declined for the sixth month in a row. Since the start of the year, the German economy, or better the assessment of the German economy, has been on a rollercoaster ride, moving from overly cheerful and optimistic to almost depressive and pessimistic on the back of disappointing soft and hard data. Recent data releases support our view that the truth is somewhere in the middle.

The economy is nowhere near falling off a cliff. Instead, it seems to be in a transition period towards growth normalization. Even though today's ZEW reading clearly shows that not everyone is sharing our view. Let's take comfort from the fact that the track record of the ZEW index

predicting slowdowns is mixed. While similar downward corrections of investors' confidence were leading severe slowdowns of the real economy in 2012 and late 2010, the last most significant fall of the ZEW index in 2006 was still followed by strong GDP growth.

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