

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.

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 www.ing.com.