

## More bumps as the German ZEW drops again

Another sharp drop in the ZEW index suggests that soft data are rapidly adjusting to weak hard data. That's the wrong kind of convergence



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As this week is relatively light on macro data in Germany and the entire Eurozone, it was obvious that the German ZEW index would get some special attention. With another disastrous outcome, the attention will be even higher. The verdict on today's ZEW index is to watch out! The index, which measures investors' confidence, dropped to -8.2 in April, from 5.1 in March. Within two months, the ZEW has dropped by 26 index points; the sharpest drop since mid-2016. At the same time, however, the current assessment component still brings some comfort as it "only" decreased to 87.9 in April, from 90.7 in March; still close to all-time highs.

The widening gap between the current assessment and expectations is a clear sign that the recent drop in hard data has left its marks on analysts. Rightly so. The German economy had a start to forget in the first two months of the year. In fact, while the weakening of soft data could still be labelled as a levelling off from record highs, hard data in Germany and the entire Eurozone have clearly disappointed. At least in Germany, it would require a strong rebound in March to prevent an unexpected weak first quarter. Nevertheless, there are good reasons to blame exceptional factors like the weather, the timing of vacation and the flu for weaker economic activity in the first two

months. Sound fundamentals still bode well for growth in the coming months. Let's also not forget that up to now, trade tensions are rather noise for the economic outlook and central banks than hard reality.

For the time being, disappointing sentiment indicators are, in our view, still no reason to get overly concerned. As much as the end of last year was about overshooting and too much euro-phoria, recent data could be the result of undershooting. The truth is somewhere in the middle. Still, the current convergence of soft and hard data is not a convergence ECB officials like to see.

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