

Flash Comment

Germany: Ifo improving again

- The Ifo expectations increased again and current condition was close to unchanged. It appears that the forward-looking Ifo index bottomed out in October.
- We expect Ifo expectations to increase moderately and to stay in line with very moderate positive growth in Q1. Our Ifo expectations model also points to further increases.
- Today's release added upside risk to our estimate of zero growth q/q in Q1 in Germany. We forecast German growth in 2012 of 0.8% and 1.9% in 2013.

Ifo expectations increased again

The Ifo expectations increased again in January and it appears that it bottomed out in October. Expectations surprisingly increased from 98.4 in December to 100.9. This level is around the average value for this index. Ifo current conditions decreases slightly to 116.3 in January from 116.7. The current condition index has remained remarkably resilient. The aggregate Ifo business climate increased to 108.3 from 107.3. Manufacturing expectations increased from 93.1 to 96.6, which is somewhat comforting. Overall today's release is much better than consensus expectations. This is in line with yesterday's better than expected PMI data, see *Euro area: PMIs signal that worst is over* published on 24 January 2012.

Despite a drop in retail expectations from 113.4 to 109.3 the index remains at a decent level. Construction expectations increased for the third month in a row from 106.2 to 110.9 and in wholesale expectations increased moderately from 104.1 to 104.8. We expect Ifo expectations to increase moderately and to stay in line with very moderate growth in Q1. Our Ifo expectations model also points to further increases.

The German economy faces substantial headwinds from ongoing fiscal consolidation. The ongoing debt crisis should weigh on the German economy as investments, exports and private consumption are being affected negatively. However, some support can come from the strong rise in the DAX, which is up by around 10% since the beginning of year. The introduction of the 3 year LTROs has halted the escalation of the crisis and has limited the negative impact of the European bank recapitalization. The improvement in both US and emerging market yields support the export-sensitive German economy as well.

Today's release adds upside risk to our estimate of zero growth q/q in Q1 in Germany. We forecast German growth in 2012 of 0.8% and 1.9% in 2013.

- See charts on the following pages.

Ifo (January)

| | Act | DB | Con | Last |
|---------------|-------|-------|-------|-------|
| Expectations | 100.9 | 99.6 | 99.0 | 98.6 |
| Current cond. | 116.3 | 116.8 | 116.8 | 116.7 |
| Bus. climate | 108.3 | 107.8 | 107.6 | 107.3 |

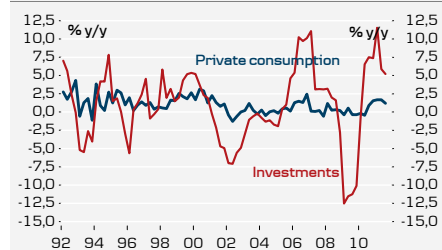
Source: Danske Markets

Ifo current condition remains resilient - expectations bottomed in October



Source: Reuters EcoWin and Danske Markets

German private consumption and investments

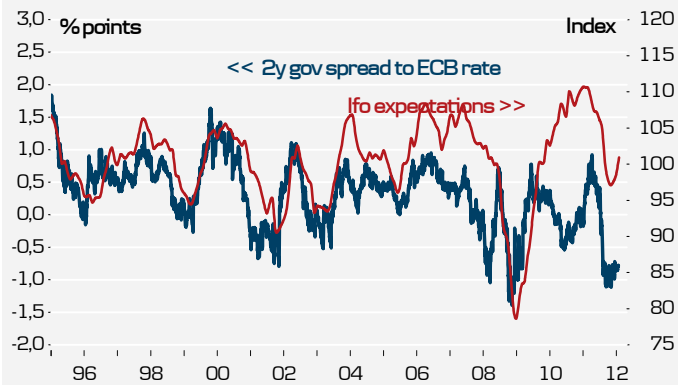


Source: Reuters EcoWin and Danske Markets

Analyst

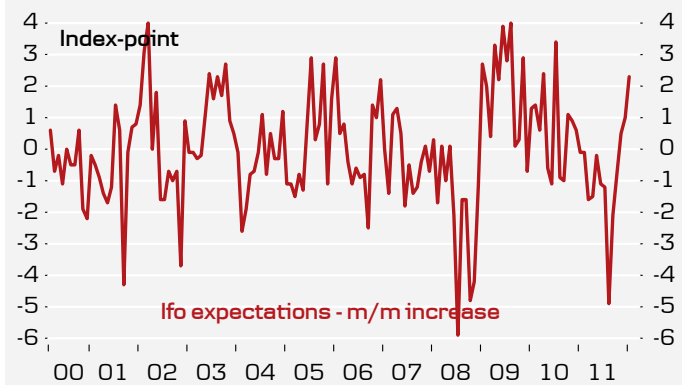
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Ifo expectations and government bond yields



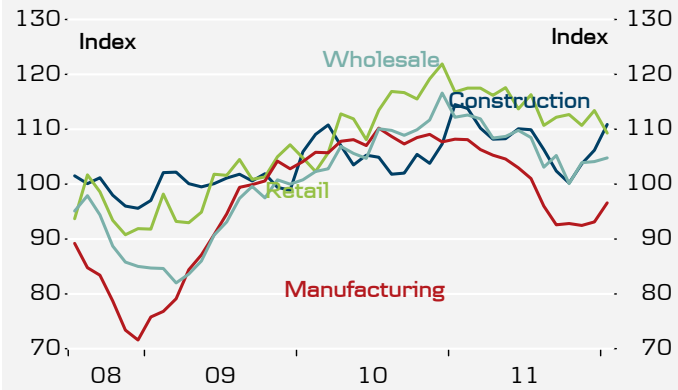
Source: Reuters EcoWin and own calculations

Ifo expectations have recovered



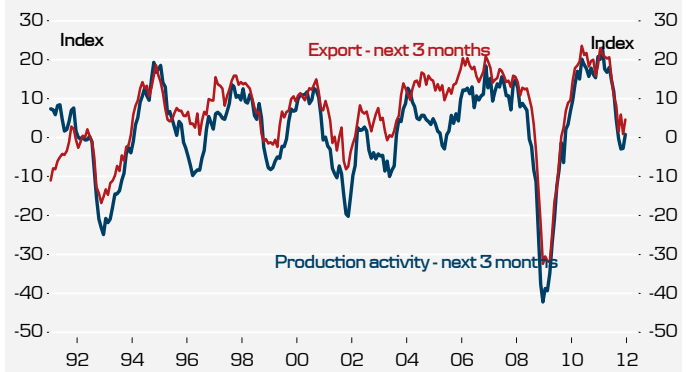
Source: Reuters EcoWin and own calculations

Business expectations



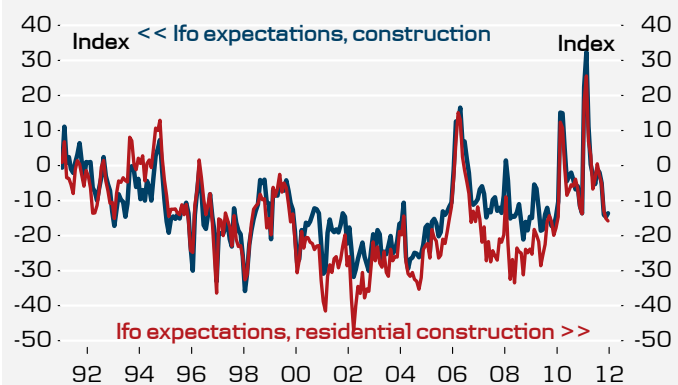
Source: Reuters EcoWin and own calculations

Export expectations



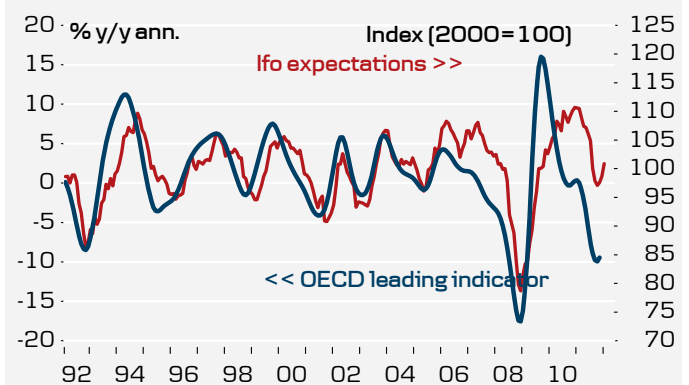
Source: Reuters EcoWin and own calculations

Expectations in construction



Source: Reuters EcoWin and own calculations

OECD leading indicator points to further decreases



Source: Reuters EcoWin and own calculations

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This research report has been prepared by Danske Research, a division of Danske Bank A/S ("Danske Bank"). The authors of the research report are Frank Øland Hansen, Senior Economist and Anders Møller Lumholtz, Analyst.

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