

# Europe Flash

## Mixed signals from soft data point to a slowdown in the German economy in Q4

Well into the closing quarter, confidence in the German economy looks hazy, as recently published indicators do not point to the same direction. While Ifo Business Climate improved in November, Zew Economic Sentiment (published on 13<sup>th</sup> Nov) and Gfk (published today) showed further pessimism on the consumer side. Halfway, last week PMIs show signs of stabilization. Growth for Q4 is expected to be slightly negative, compensating for the positive surprise in Q3, which was confirmed last week.

- **German Q3 GDP growth confirmed at +0.2% q/q, driven again by net exports, but also by more resilient domestic demand**

The detailed breakdown by demand components showed that both private (0.3% q/q after 0.1%) and public consumption (0.4% after -0.2%) increased again, while investment remained virtually flat (0.2% after -2.1% in Q2), supported by the significant increase in construction. Nonetheless, investment in equipment declined sharply for the fourth quarter in a row, suggesting that high uncertainty about the European crisis, along with recent worsening in exports orders and slack capacity utilization is weighing on firms' decisions. In addition, the negative contribution of change inventories (-0.3pp) resulted in a flat contribution of domestic demand (after -0.4pp in Q2). Regarding foreign demand, exports slowed down (1.4% after 3.3%), but less than imports (1.0% after 2.2%), resulting in a positive contribution of net exports (0.3pp after 0.7pp).

- **Mixed signals from soft data for Q4**

Recently published indicators, mainly soft data up to November, show a mixed picture. Today's GfK expectations for December resulted worse than expected (5.9 against our estimation of 6.3 and Consensus 6.2). November mark has also been revised to 6.1 down from 6.3. PMIs remained broadly stable at low levels, indicating that German economy could have contracted by end-year, although Ifo survey shows a somewhat more optimistic outlook in the short run, with exports expectations increasing again. The Ifo Business Climate for industry and trade rose up to 101.4, in contrast with expectations of a further decline (both our estimation and Consensus expected it to be below 100), interrupting the six-month continued fall. Companies felt slightly more satisfied with their current business situation and more optimistic about the future. Also wholesalers and retailers expect their business to bounce back in the future. However, as in the case of the PMIs, the picture drawn by ZEW Indicator of Economic Sentiment is not that rosy, as it shows an ongoing economic downturn.

- **Downwards revision of our estimation for Q4 offsets surprising GDP rise in Q3, thus growth expectations for 2012 remain close to 1%**

In short, amid the mixed signals from soft data, we expect a fall in activity for the last quarter of the year, but with a mild recovery at the beginning of next year, as domestic demand drivers continue to build up, while foreign demand should improve. According to the recently published data, we estimate that the GDP downfall could be between -0.1% and -0.3% q/q in Q4 (revised from 0.1%). It would however be offset by the upwards surprise in Q3 (0.2% q/q instead of 0% expected) so the estimation for 2012 would remain at 0.9%.

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