

Flash Comment

Euro area: Ifo current conditions in new all-time high

- The Ifo expectations index has rebounded in November and is now off what had been the lowest level in almost three years. The current conditions index also increased and overall today's release was somewhat better than both our and consensus expectations.
- The leading indicators for Q4 signal that growth has been stalling and negative growth in Q4 cannot be ruled out. Looking forward, we expect the Ifo figures to improve over the coming months and that we will see a moderate recovery in 2013.

Ifo points to further improvement

The Ifo expectations index increased from 93.2 in October to 95.2 in November – the first increase in eight months. This level is slightly below the average value for this index. Ifo current conditions also increased from 107.3 to 108.1. Despite decreases since the spring, the level of the current conditions index has remained remarkably resilient. The aggregate Ifo business climate increased from 100.0 to 101.4. Manufacturing expectations increased from 88.6 to 89.2. The level is still very low and apart from October the reading has not been lower since 2009. Overall today's release is somewhat better than our and consensus expectations.

Germany avoided recession in Q3 and the leading indicators for Q4 indicate that growth has been stalling and negative growth in Q4 cannot be ruled out. The improvement in today's number together with the positive signal in yesterday's PMI indicate further improvement going forward, see also *Euro area: PMI details signal improvement going forward*.

Retail expectations increased sharply from 102.8 to 110.0. This is the most positive aspect of today's release as it indicates that private consumption is recovering. Construction expectations also improved slightly from 102.6 to 104.5. In wholesale, expectations increased from 97.6 to 101.3.

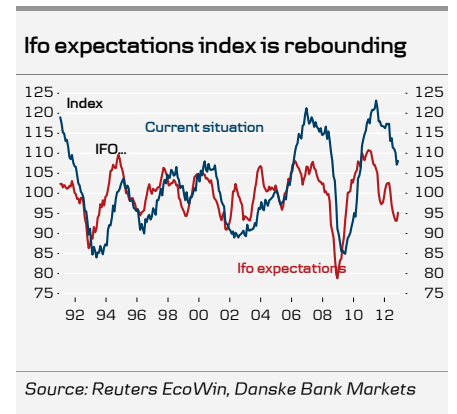
Looking forward, we expect the Ifo figures to improve over the coming months and that we will see a slow recovery in growth in 2013. Our Ifo expectations model also points to further improvement.

The German economy is faced with headwinds, very low consumer confidence and ongoing fiscal consolidation. There has been a deterioration in its export markets but recently there has been some improvement outside Europe. The debt crisis continues to weigh on the German economy and investments, exports and private consumption have been affected negatively. However, some support could come from the weakening in the EUR. Germany's large exposure to emerging markets should support growth during 2013 as the policy response in China in particular should support the global manufacturing cycle.

See charts on the following pages.

Ifo (November)				
	Act	DB	Con	Last
Expectations	95.2	94.0	93.0	93.2
Current cond.	108.1	107.0	106.3	107.3
Bus. climate	101.4	100.3	99.5	100.0

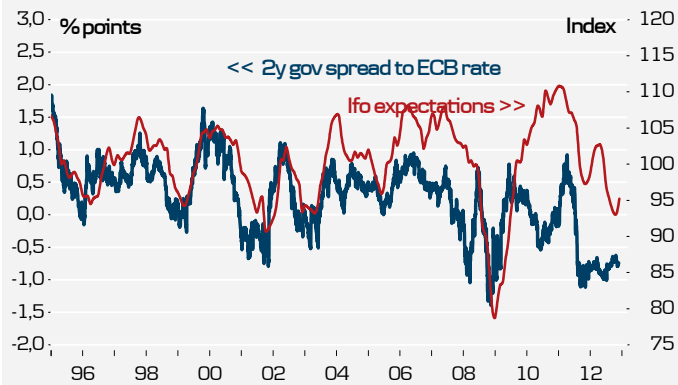
Source: Danske Bank Markets



Senior Economist
 Frank Øland Hansen
 +45 4512 85 26
 franh@danskebank.dk

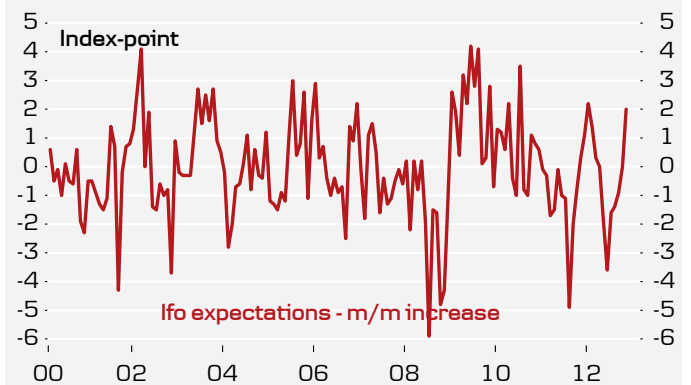
Senior Analyst
 Anders Møller Lumholtz
 +45 4512 84 98
 andjrg@danskebank.dk

Ifo expectations and government bond yields



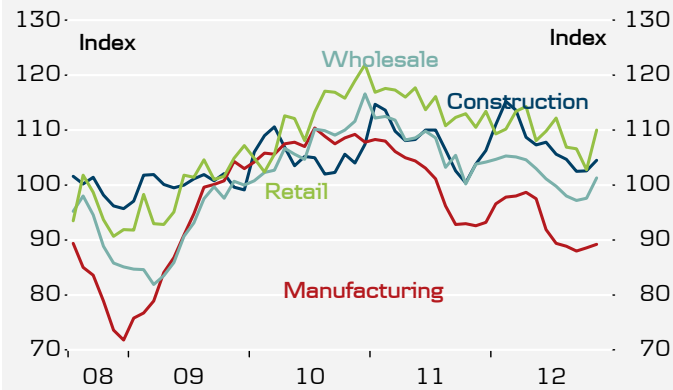
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Ifo expectations bottoming out



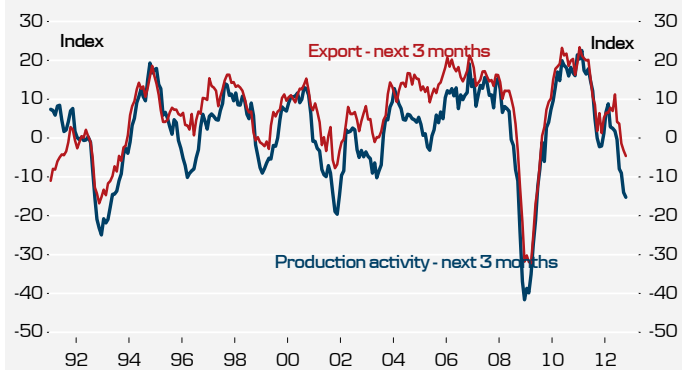
Source: Reuters EcoWin, Danske Bank Markets

Business expectations



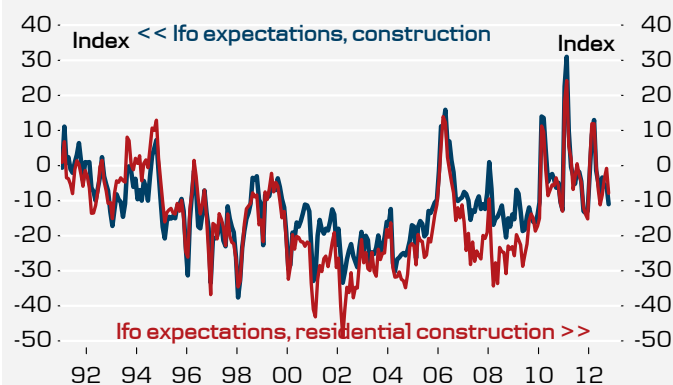
Source: Reuters EcoWin, Danske Bank Markets

Export expectations



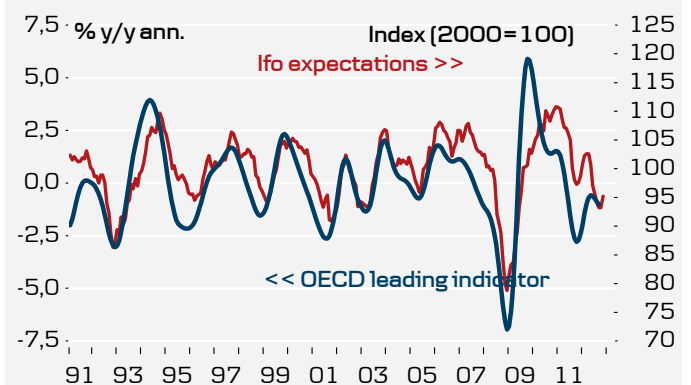
Source: Reuters EcoWin, Danske Bank Markets

Expectations in construction



Source: Reuters EcoWin, Danske Bank Markets

OECD leading indicator and Ifo expectations



Source: Reuters EcoWin, Danske Bank Markets

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

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