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## Germany: Ifo Survey Falls Again

### German GDP to Fall in Q2

Undershooting expectations only slightly this time around, the June Ifo business climate index fell 1.6 points to 105.3, a second successive drop but only half that seen in May. *Regardless, the latest reading is the lowest in 27 months, but still leaves the headline index above its long-term average.* Meanwhile, the sector break-down showed the latest decline, unlike the fairly broad based deterioration seen in May, was mainly due to a clearer weakening in manufacturing.

Notably, the latest deterioration was evident purely in expectations components; surprisingly the current conditions component recovered some of the drop seen in May. Otherwise, the Ifo services sector update this month dipped to 21.3, actually more than unwinding the surprise jump seen in the previous month.

*It is worth noting that the latest Ifo survey appears to be portraying a less divergent (albeit still clearly more upbeat) picture for German economic activity compared to other surveys.* Indeed, the June flash manufacturing PMI data (released earlier this week) actually implied a clearer contraction in the factor sector, while its services sector counterpart hinted at very weak growth.

**DE View:** The manufacturing parts of the Ifo data are showing more signs of echoing the weakness seen in the PMI data, now notably echoing a clear turn for the worse regarding exports. This suggests that German manufacturing has seen a distinct fresh weakening in recent months which is very likely to be corroborated by forthcoming official industrial activity numbers. As a result, and at this juncture, it does seem as if German GDP is likely to suffer a fresh drop in Q2.