

# The NewsLine

January 25, 2019

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## GERMANY

# Economic outlook with questions marks

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The sentiment in the German economy deteriorated considerably in January. The ifo business climate index fell to its lowest level for almost three years. Political risks such as Brexit and the trade conflict are increasingly not only affecting sentiment but also economic development. We question our current growth forecast of 1.7% for this year.

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In January, the ifo business climate index fell by just under two points to 99.1 points. The index thus recorded its fifth consecutive decline. The companies surveyed assessed their business expectations in particular as significantly less positive than in December. This should certainly be seen against the backdrop of the continuing uncertainty surrounding the Brexit negotiations. On the other hand, there were only slight cuts in the assessment of the current business situation, which is still quite favorable overall.

The deterioration in sentiment was broadly based. It took place in all major sectors of the economy. The strong downward correction in the construction sector is striking in particular, after the corresponding index had previously hurried from one record level to the next. In light of the latest economic data, we question our 1.7% growth forecast for this year. We do not expect the economy to slide into recession. However, the long-standing uncertainty in connection with political risks such as Brexit and the trade conflict is not only dampening sentiment, but is also increasingly weighing on the economic performance. In the coming quarters, this is likely to be reflected in an at least somewhat lower growth momentum than previously expected.

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