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Economic Research

Economic Briefing

Germany – Revised Early Bird gives hope

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Our revised leading indicator for the German economy gives us hope that growth will pick up in the second half of the year. Although it remains in negative territory with a value of -11, it has risen significantly in recent months. In addition to a somewhat stronger world economy and diminishing headwinds from the FX market, the main reason for this is that the dampening effect of the ECB's interest rate hikes is gradually diminishing.

Will the German economy finally regain its footing in the second half of this year, as most forecasts currently expect? Our Early Bird has not given us much hope so far. However, this was primarily due to the fact that its component for the monetary policy environment was determined by the *real* interest rate, which has risen until recently. However, developments over the past two years in particular suggest that the economy is more strongly influenced by *nominal* interest rates. We have therefore revised our leading indicator for the German economy accordingly (for details see [here](#)). We have also changed the dimension of the indicator by multiplying the indicator values by 100.

Based on the new calculation method, the Early Bird has been pointing upwards since last summer (Chart 1). It also continued to rise in March, but is still in negative territory at -11 (after -24 in February). The general conditions are therefore still below average. This is due to the continuing rather weak global economy and a slight headwind from the FX market. However, both components have improved significantly in recent months. The monetary policy environment was even slightly above average again in March. This is because the short-term real interest rate is still quite low based on our calculation method. What is more important, however, is that the ECB's interest rate hikes are increasingly falling out of the year-on-year comparison that we also recorded. The dampening effect they have is therefore diminishing.

This increases the chances that growth of the German economy will gradually pick up in the second half of the year. However, we continue to assume that the recovery that starts then will be very moderate, as the correction in the construction sector is likely to drag on for some time and the numerous structural problems will also slow down growth.

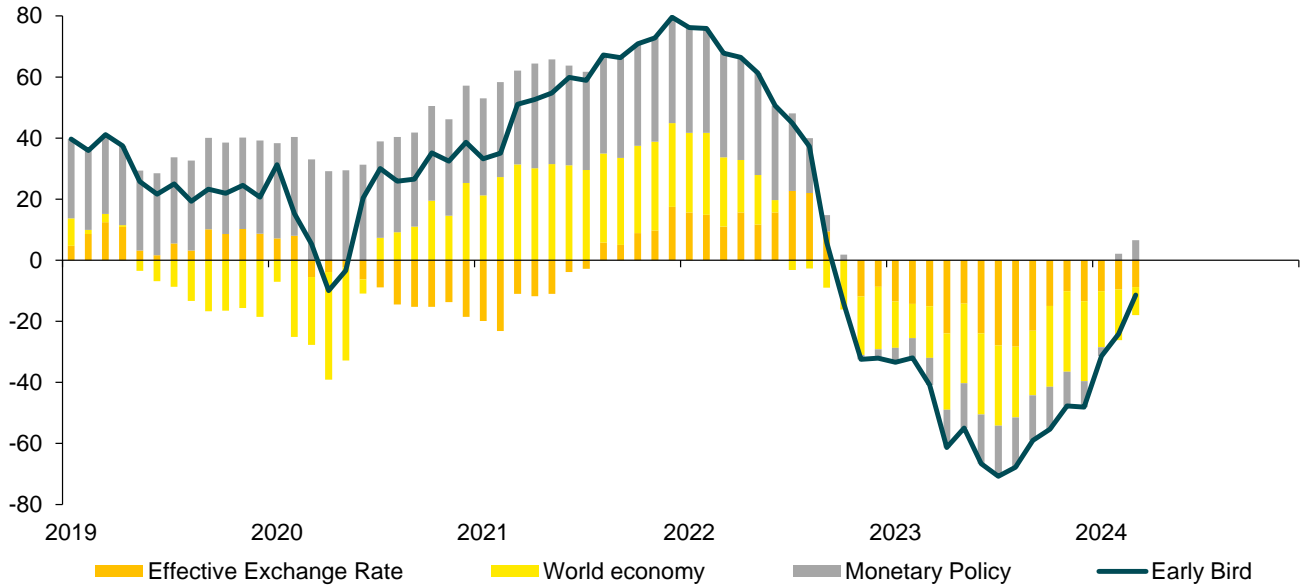


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Chart 1 - Monetary policy is now supporting the economy

Early Bird and the contribution of its sub-components



Source: Bloomberg, S&P Global, Commerzbank Research

Commerzbank leading indicator for the German economy (Early Bird)

	Mrz 24	Feb 24	Jan 24	Dez 23	Nov 23	Okt 23	Sep 23
Early Bird	-11	-24	-31	-48	-48	-55	-59

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Source: Commerzbank Research



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