Economic Research

Economic Briefing

Germany – Early Bird rising again

6 June 2025

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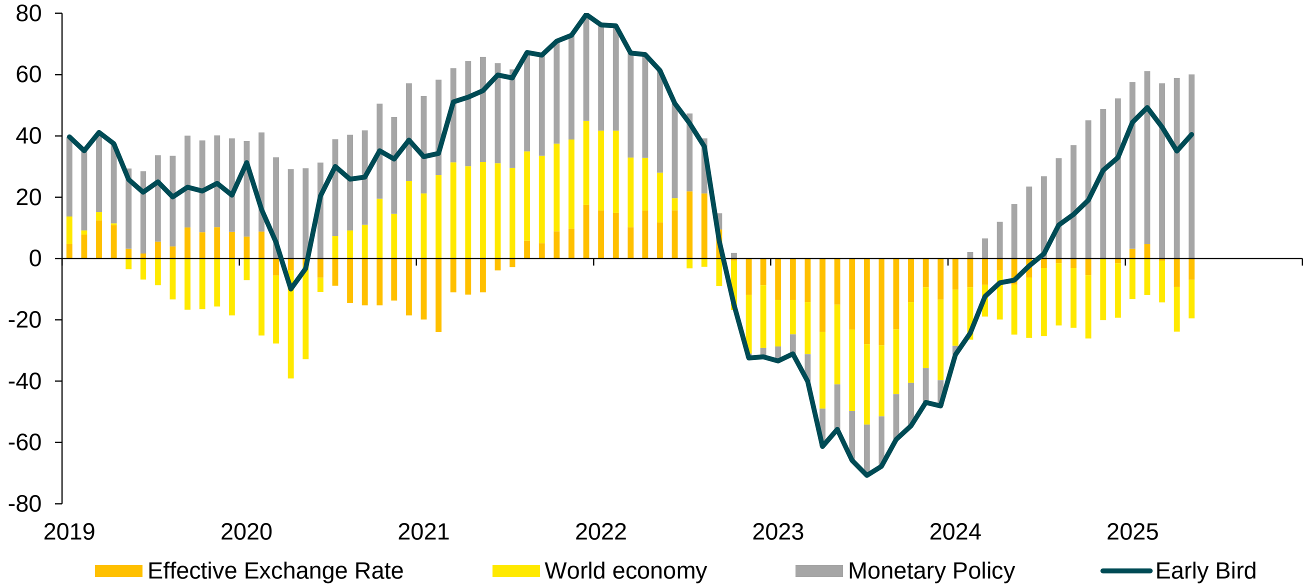
Our leading indicator for the German economy rose from 35 to 40 points in May, stabilizing for the time being after two consecutive declines. The global economic environment improved slightly and headwinds from the currency market eased somewhat. However, the decisive factor for the high level of the Early Bird is monetary policy, which has been loosened until recently. This should contribute significantly to a revival of the German economy in the coming months, despite higher US tariffs.

After falling in March and April, the Early Bird rose again by 5 points to 40 points in May. It thus continues to indicate a clearly above-average environment for the German economy. This is due to the ECB, which has significantly eased its monetary policy. Our leading indicator is being held back by the relatively weak global economy and developments on the FX market, although both subcomponents improved slightly in May. The purchasing managers' indices for the manufacturing sector in China and the eurozone (excluding Germany) rose, more than offsetting the slight decline in the corresponding US indicator, and the euro depreciated slightly, making German products somewhat more competitive on the world market again.

The increase in May further reinforces the Early Bird's signal that the German economy is likely to pick up in the course of this year. There are also initial positive signs, particularly from manufacturing and construction (see **here**). These two sectors are very capital-intensive. Therefore, they are benefiting most from the looser monetary policy, having previously suffered most from the ECB's interest rate hikes. However, the upturn is likely to be very moderate. This is indicated not only by the higher US tariffs, which are likely to hurt German companies' business in the US, but also by the structural weaknesses of the German economy, which the new federal government is unlikely to address decisively enough.

Chart 1 - Expansionary monetary policy main reason for Early Bird flying high

Early Bird and the contribution of its sub-components



Source: Bloomberg, S&P Global, Commerzbank Research

Table 1 - Commerzbank leading indicator for the German economy (Early Bird)

	Mai 25	Apr 25	Mrz 25	Feb 25	Jan 25	Dez 24	Nov 24
Early Bird	40	35	43	49	44	33	29

Next publication: 4 July

Source: Commerzbank Research

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This report was completed 6/6/2025 07:58 CEST and disseminated 6/6/2025 07:58 CEST.

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