Economic Research

Economic Briefing

Germany – Strong euro weighs on Early Bird

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Our leading indicator for the German economy fell by four points to 37 in June. This was mainly due to a stronger euro, while the monetary policy and global economic environment remained largely unchanged. At well above the zero line, the Early Bird continues to signal very good cyclical conditions, which should help the German economy to pick up in the coming quarters.

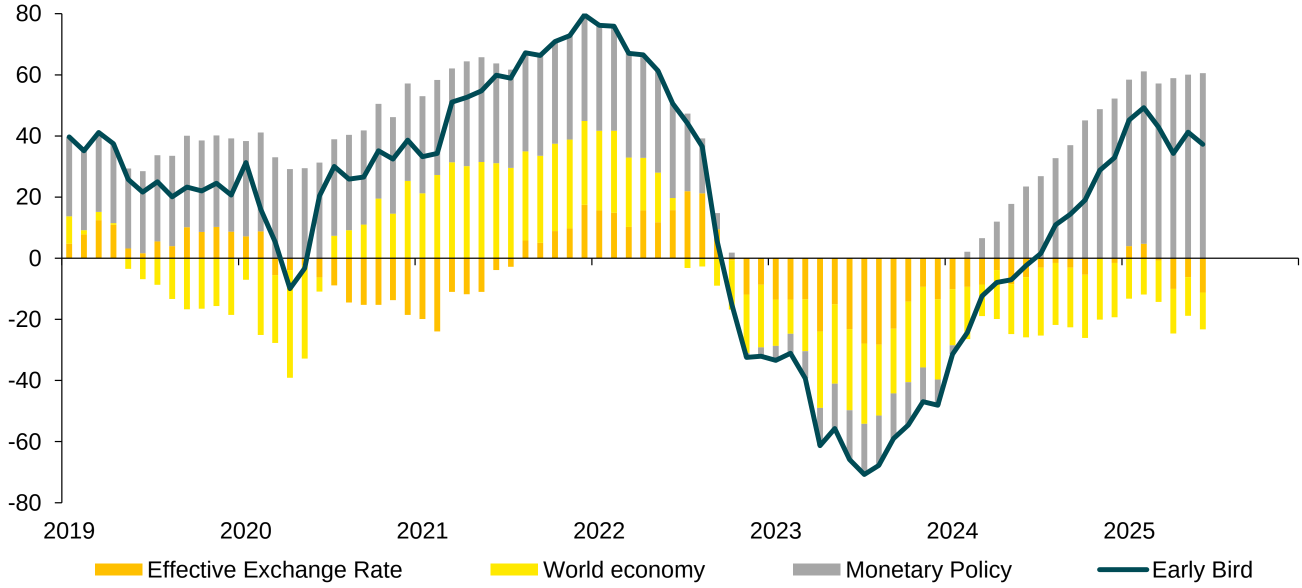
The Earl Bird continues to give hope that the German economy will overcome its three-year period of weakness. Although it fell by four points in June due to a stronger euro, it remains clearly in positive territory with 37 points, particularly due to a still expansionary monetary policy. These should ensure that the German economy continues to pick up in the coming months.

This outlook remains unchanged despite the fact that the Early Bird does not take into account two effects that will have a noticeable impact on the German economy this year and next: the trade conflict instigated by the US president and the marked change in the course of German fiscal policy. However, as these two effects are working in opposite directions, they are likely to cancel each other out, at least in part, from a macroeconomic perspective. In addition, the euro has recently strengthened, particularly against the dollar, with the dollar clearly suffering from the current erratic US economic policy and Donald Trump's continued pressure on the Federal Reserve. The reasons for the weaker global economy are also likely to be found here, at least in part. Consequently, the negative effect of the current US policy on the German economy is at least indirectly taken into account.

Overall, the continued high level of the Early Bird and the recent improvement in business sentiment reinforce our expectation that the German economy has weathered the worst for now and will grow significantly next year for the first time since 2022. However, its numerous structural problems are likely to stand in the way of a sustained strong upturn, as These problems are unlikely to be solved comprehensively by the new government.

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)

	Jun 25	Mai 25	Apr 25	Mrz 25	Feb 25	Jan 25	Dez 24
Early Bird	37	41	34	43	49	45	33

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Source: Commerzbank Research

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