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Economic Research

Economic Briefing

Early Bird halts descent

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Our leading indicator for the German economy, the Early Bird, rose from 14 to 20 points in January, bringing its downward trend to an end for the time being. The decisive factor was a significant improvement in the global economic environment, which more than offset the fading impulse from monetary policy and a stronger euro. This means that the cyclical conditions recorded by the Early Bird are no longer as good as they were for much of last year, but they remain above average. Together with the highly expansionary fiscal policy, which is not taken into account by the Early Bird, this should boost the economy. However, the recovery is likely to be rather subdued due to the many structural problems.

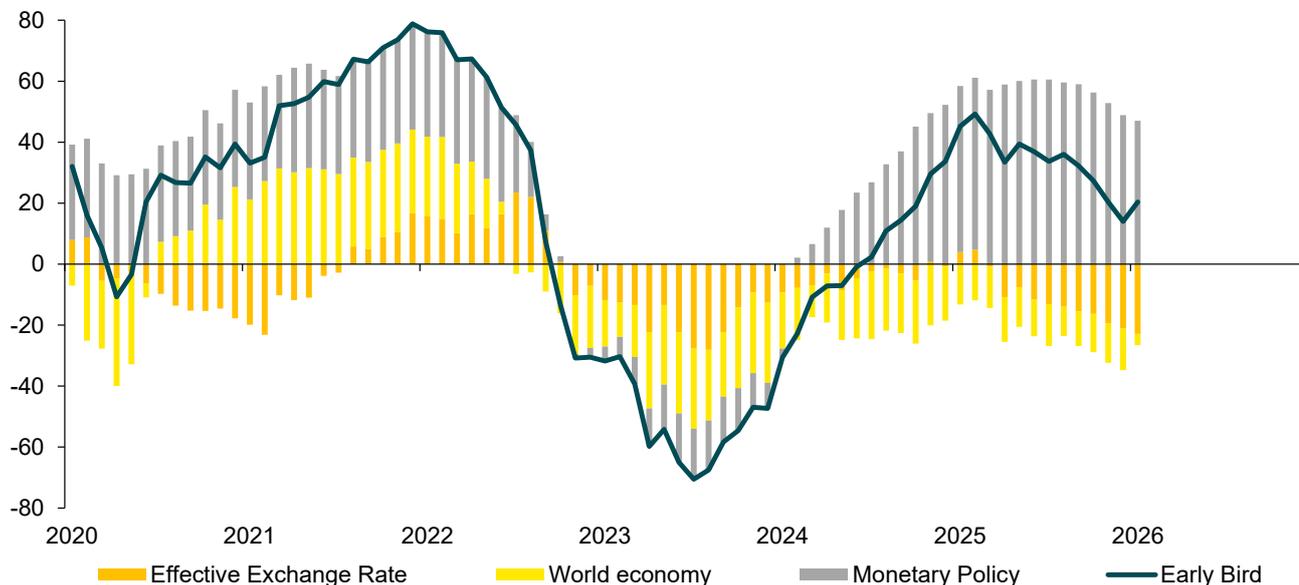
The Early Bird got off to a good start in the new year, rising from 14 to 20 points in January (Table 1). This has halted the downward trend that was observed over much of last year. The decisive factor here was the significant rise in the Purchasing Managers' Index for US manufacturing (ISM), which, together with its counterparts for the eurozone (excluding Germany) and China, represents the global economic environment in our indicator, which consequently improved significantly in January (Chart 1). The other two subcomponents of the Early Bird, however, deteriorated. The ECB's interest rate cuts are receding further and further into the past, which means that the stimulus they provided is likely to gradually diminish. In addition, the indicator of the German economy's price competitiveness - the real external value of a fictitious Deutschmark - was probably around 3% higher in January than a year ago, which in itself reduces the competitiveness of German products on the world market.



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Chart 1 - World economy less of a burden than before
Early Bird and the contribution of its subcomponents

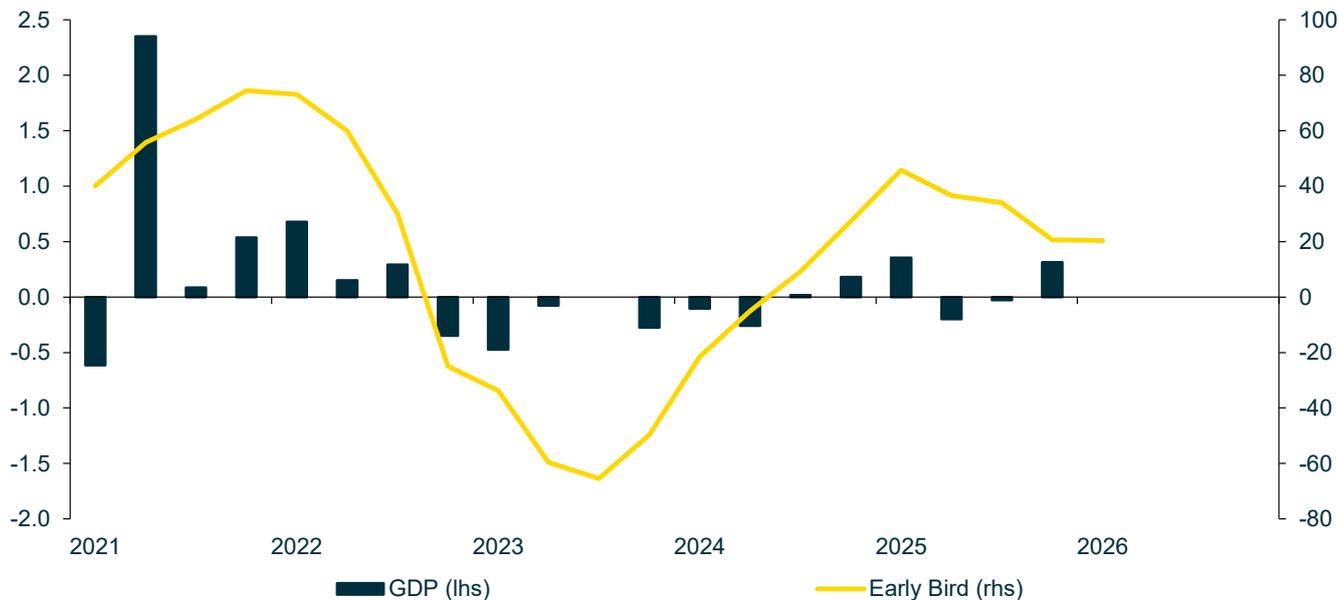


Source: Bloomberg, S&P Global, Commerzbank Research

In recent years, the Early Bird has been quite good at predicting turning points in the economy. It turned downward at the beginning of 2022, and the recession began at the end of the year (Chart 2). This ended in mid-2024, and Early Bird had again signalled this three quarters in advance with an upward turn. The growth rates of GDP changed from negative to positive (or the other way around) in the same quarter as the Early Bird.

Chart 2 - Cyclical conditions less favourable than one year ago, but still above average

Early Bird, quarterly averages, 2026Q1=January 2026; real GDP, seasonally adjusted monthly figures, change on quarter in percent



Source: Destatis, S&P Global, Commerzbank Research

At the beginning of 2025, the Early Bird turned down again, signaling that the economic conditions it tracks are likely to deteriorate again, meaning that the stimulus they provide to the economy is waning. However, with the indicator rising in January, the chances have increased that the indicator will not fall into negative territory for the time being, i.e.that conditions will remain above average. In addition, due to a lack of meaningful monthly indicators, the Early Bird does not capture fiscal policy, which is likely to give the economy a noticeable boost this year.



Consequently, the Early Bird supports our expectation that the economy will continue to recover this year. However, in view of higher US tariffs, the likely continued weakness of demand from China, and the numerous structural problems facing the German economy, this recovery is likely to be only modest.

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

	Jan 26	Dez 25	Nov 25	Okt 25	Sep 25	Aug 25	Jul 25
Early Bird	20	14	20	27	32	36	34

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Source: Commerzbank Research



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