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Economic Research

Economic Briefing

Early Bird gives us a glimmer of hope

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Our leading indicator for the German economy, the Early Bird, rose significantly in April from 24 to 31 points, continuing the upward trend seen in recent months. It should be noted, however, that the Early Bird does not take into account two factors that are currently having a major impact on the German economy: the massive rise in energy prices and the significant increase in government spending. However, its rise in April indicates that other influencing factors have recently improved. This increases the likelihood that the German economy will not contract in the coming months despite the massive strain caused by the Iran war.

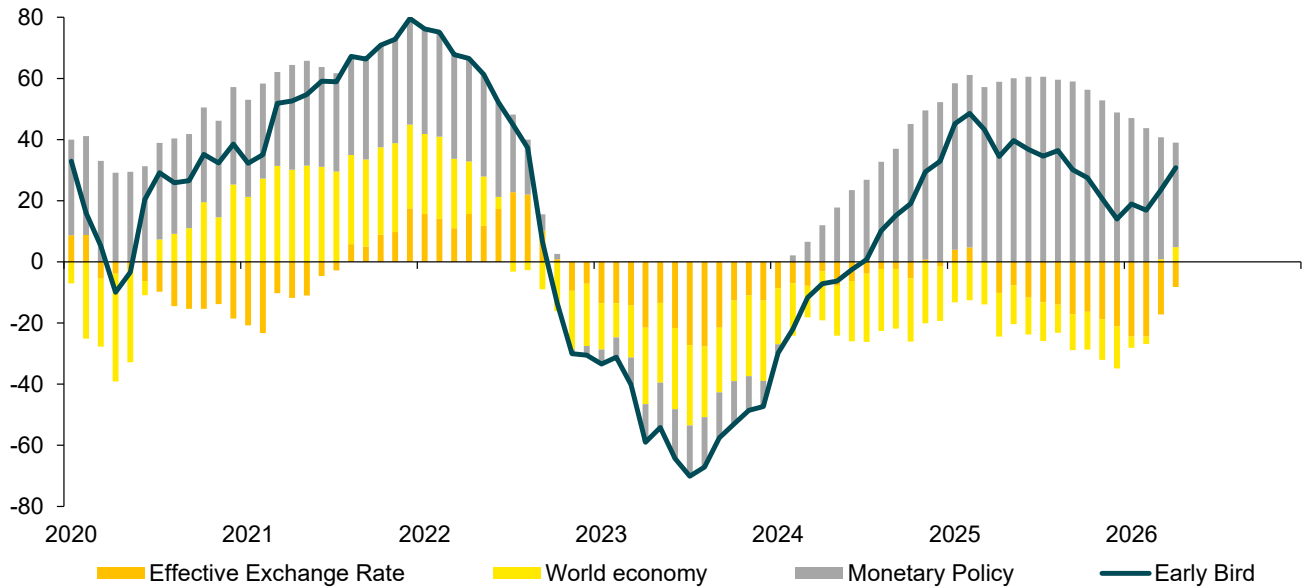
Good news for the German economy: Our leading indicator for the German economy rose quite significantly in April, from 24 to 31 points. This was partly due to the easing of headwinds from the FX market (Chart 1). According to our estimates, the indicator of the German economy's price competitiveness – the real external value of a notional D-Mark – was only about 1% higher in April than a year ago. In February, a real appreciation of more than 3% had still been recorded. In addition, the global economic environment – which we measure using the Purchasing Managers' Indices for the U.S. (ISM Index), China, and the eurozone excluding Germany – improved somewhat despite the Iran war. The index for the eurozone excluding Germany rose noticeably. Unlike last month, this was primarily due not to a one-off effect, but to improved trends in production and new orders. The monetary environment, on the other hand, has deteriorated slightly amid growing speculation about an interest rate hike by the ECB.



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Chart 1 - Head wind from the FX market subsiding, world economy improving
Early Bird and the contribution of its subcomponents



Source: Bloomberg, S&P Global, Commerzbank Research

The rise in the Early Bird index over the past few months is certainly not evidence of a further economic recovery. This is because our indicator does not take into account the massive increase in energy prices and other potential burdens resulting from the Iran war. The significant decline in German leading indicators suggests that these developments will not pass without leaving a mark on the German economy. However, the Early Bird also fails to account for the higher government spending intended to stimulate the economy. And the rise in the Early Bird indicates that the economic determinants it tracks have recently improved somewhat.

Thus, while the negative effects of the Iran war are likely to weigh noticeably on the German economy and slow down the moderate recovery that has just begun in the winter half-year, the rise in the Early Bird index fuels hope that the German economy will not shrink again in the summer half-year.

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

	Apr 26	Mrz 26	Feb 26	Jan 26	Dez 25	Nov 25	Okt 25
Early Bird	31	24	17	19	14	21	28

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Source: Commerzbank Research



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