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Economic Research

Economic Briefing

Germany – Early Bird remains stable

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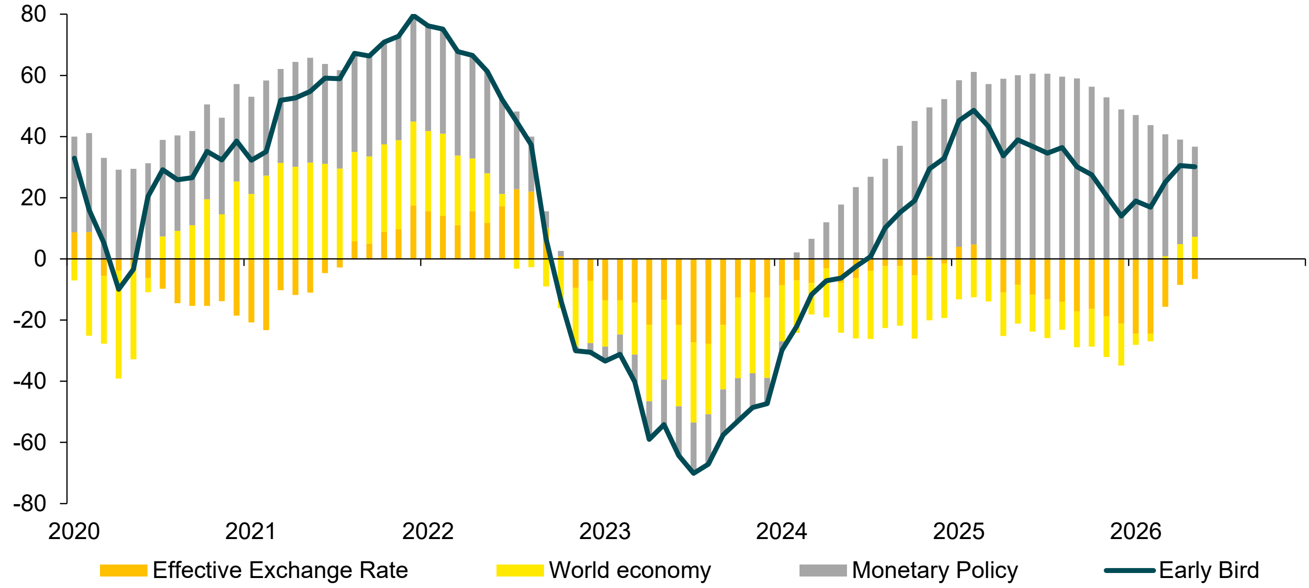
Our leading indicator for the German economy, the Early Bird, fell slightly by one point to 30 in May. The main factor was the steadily weakening tailwind from monetary policy, which the weaker euro and a more favorable global economic environment were unable to fully offset. Despite the slightly lower May reading of the Early Bird, however, "normal" economic conditions remain above average, and this, together with higher government spending, is likely to largely offset the burdens caused by the Iran war.

The Early Bird remained at a fairly high level in May. It fell only slightly, from 31 to 30 points, and thus remains well above the zero line, continuing to signal above-average cyclical conditions for the German economy. As in previous months, the boost from monetary policy has diminished (Chart 1). This is because the economy is receiving hardly any stimulus from the ECB's interest rate cuts in 2024 and 2025. The overall monetary environment remains positive only because of the low level of short-term real interest rates. On its own, the economic outlook has improved due to a somewhat weaker euro and a slightly better-than-average global economic environment, which is primarily attributable to a higher ISM index for the U.S. manufacturing sector.

Chart 1 - Tail wind from monetary policy weakening
Early Bird and the contribution of its subcomponents



Source: Bloomberg, S&P Global, Commerzbank Research

Even though the PMIs may currently be painting a somewhat overly optimistic picture of the current situation in industry due to a one-off effect (for details, see **here**), the fact remains that the traditional cyclical conditions, taken on their own, point to a further economic recovery. Moreover, the Early Bird does not even take into account that the federal government is likely to significantly increase its spending again this year, thereby giving the economy a boost. At present, these positive factors are at least offset by the burdens resulting from the Iran war, so that the German economy is likely to contract slightly rather than grow during the summer months. However, should the situation in the Persian Gulf ease and energy prices fall again as a result, the positive environment signaled by the Early Bird, together with the expansionary fiscal policy, is likely to ensure that the moderate recovery of the German economy – as was evident around the turn of the year 2025/26 – will resume.

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

	Mai 26	Apr 26	Mrz 26	Feb 26	Jan 26	Dez 25	Nov 25
Early Bird	30	31	25	17	19	14	21

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Source: Commerzbank Research

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