

Germany – Weaker Euro Helps Early Bird

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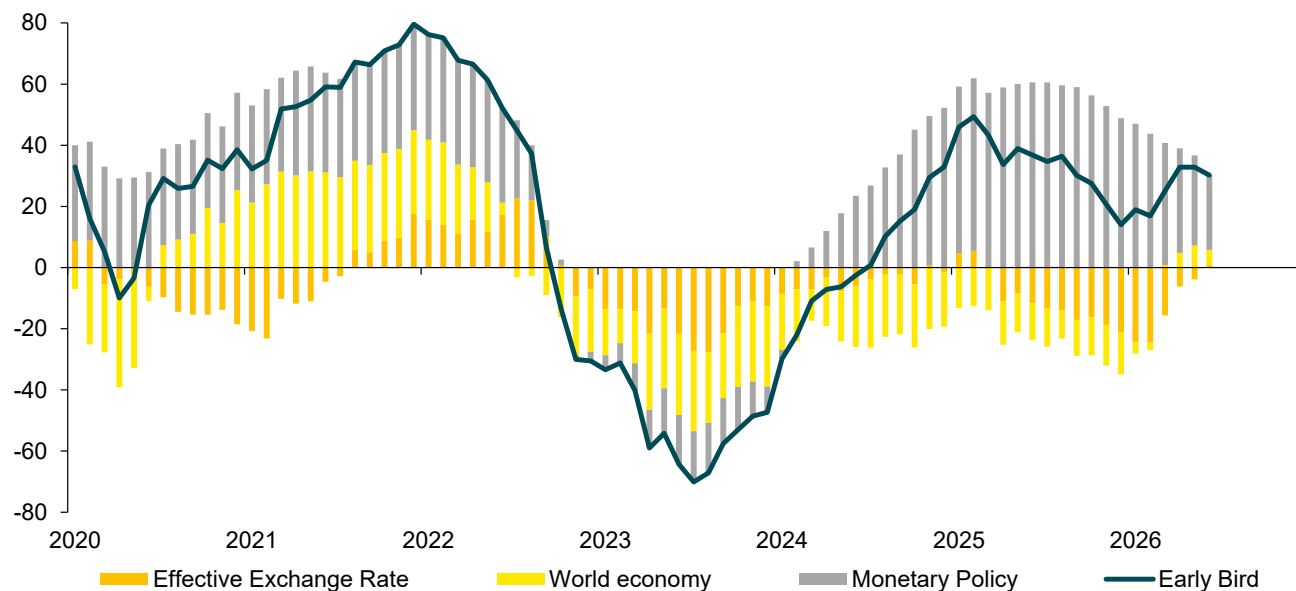
Our leading indicator for the German economy, the Early Bird, fell from 33 to 30 points in June. This is because the stimulus from monetary policy continues to wane, and the global economic environment was somewhat less favorable than in May. On the other hand, the weaker euro provided a boost. With a value well in positive territory, the Early Bird continues to offer hope that the German economy will regain momentum toward the end of this year after what is expected to be a rather weak summer half-year.

After three consecutive increases, the Early Bird fell again in June. At 30 points – down from 33 in May – it remains clearly in positive territory, however, signaling above-average economic conditions for the German economy.

One reason for the indicator's decline in June is the steadily waning impact of monetary policy (Chart 1). After all, the ECB's interest rate cuts are moving further and further into the past, and in June the central bank even raised its key interest rates slightly again. As a result, while the short-term real interest rate is still relatively low – which in itself is positive for the economy – it is slightly higher than it was a year ago, which in itself tends to slow economic growth. In addition, the global economic environment – which we measure using the PMIs for manufacturing in the U.S., China, and the eurozone (excluding Germany) – has deteriorated slightly. By contrast, headwinds from the FX market have subsided. For the first time in more than a year, the indicator of the German economy's competitiveness – the real external value of a notional D-Mark – was again slightly lower in June than it had been a year earlier.



Chart 1 - Headwinds from FX market have subsided
Early Bird and the contribution of its subcomponents



Source: Bloomberg, S&P Global, Commerzbank Research

With its still relatively high value, the Early Bird offers hope that the German economy will rebound once the pressures caused by the war in Iran – and the resulting sharp rise in energy prices – become less and less significant in the coming months. This is all the more true given that our indicator does not take into account a key factor for an economic recovery in Germany: the significant increase in government spending. Thus, there are still strong indications that the moderate recovery of the German economy – which was interrupted by the war in Iran – will continue in the second half of the year.

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

	Jun 26	Mai 26	Apr 26	Mrz 26	Feb 26	Jan 26	Dez 25
Early Bird	30	33	33	25	17	19	14

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Source: Commerzbank Research



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