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Economic Research

Economic Briefing

Germany – Early Bird flying even higher

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Our leading indicator for the German economy continued to rise in January and is now at 45 points, well above the zero line. The monetary policy environment has improved once again. In addition, the weaker euro should give the economy some tailwind. The demand from abroad remains a drag, even if it was somewhat more positive in January. Overall, the early bird speaks for a recovery of the economy, and the recent slightly better sentiment indicators at least give hope that the German economy will grow again somewhat this year.

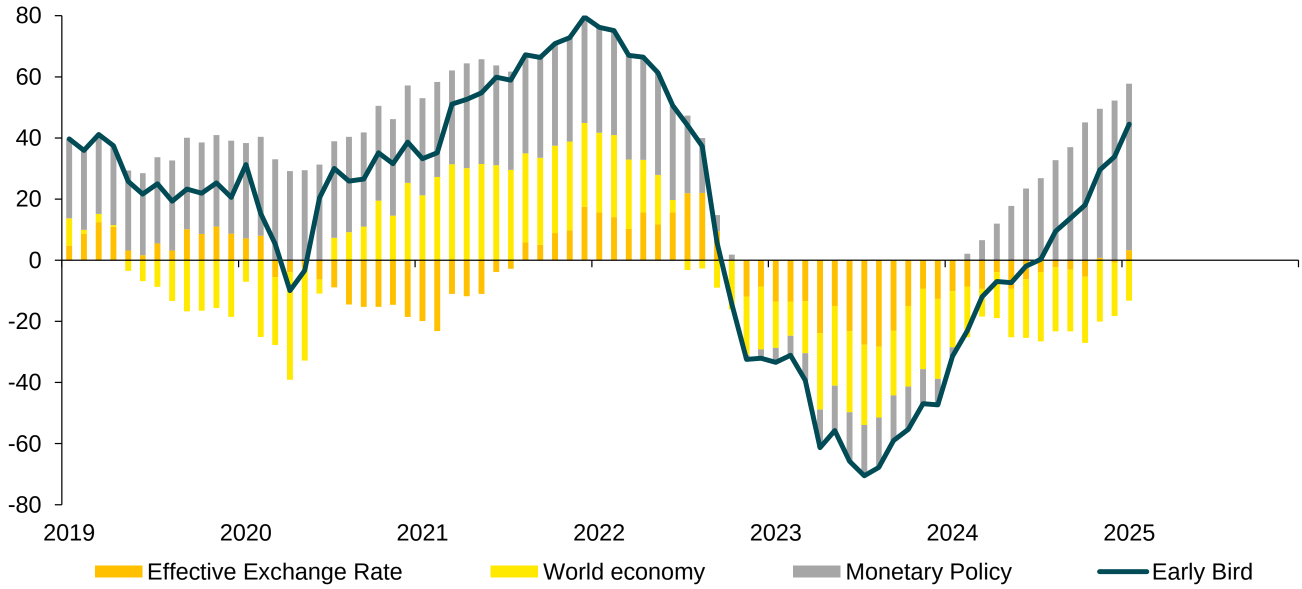
The Early Bird keeps rising. In January, it jumped from 34 to 45 points (Chart 1). Monetary policy remains the main driver of the rise. After all, the ECB has cut its interest rates by a total of 125 basis points since the summer, which should have a positive impact on the economy with a certain time lag. Added to this is a weaker euro. There was also positive news in the currently weakest sub-component of the Early Bird – the external economic environment. This is because the rise in the manufacturing PMIs for the US and the euro area (excluding Germany) more than compensated for the fall in the Chinese index. Nevertheless, the external economic environment remains clearly below average and continues to hold back the economy.

All in all the statement made in recent months still applies: the economic conditions depicted by the Early Bird are clearly above average and therefore point to an economic upturn. However, the big question remains as to when this will start and how strong it will be. The recent improvement in sentiment indicators – the PMIs in particular have risen recently – gives us hope that a turn for the better is not too far away.

However, a strong upturn is unlikely even then, as demand from China is likely to remain weak due to the country's numerous structural problems. Moreover, there are no signs that the next German government will tackle the structural problems of the German economy with determination. And finally, there is a risk that the US will also impose significantly higher tariffs on imports from Germany, which would make it noticeably more difficult for German companies to access their most important export market. We therefore expect an upturn from the spring, particularly due to the easing of monetary policy, although this will probably only be moderate.

Chart 1 - Monetary policy encourages hope for the economy

Early Bird and the contribution of its sub-components



Source: Bloomberg, S&P Global, Commerzbank Research

Commerzbank leading indicator for the German economy (Early Bird)

	Jan 25	Dez 24	Nov 24	Okt 24	Sep 24	Aug 24	Jul 24
Early Bird	45	34	30	18	14	9	0

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