Economic Research

Economic Briefing

Germany – Early Bird is flying high

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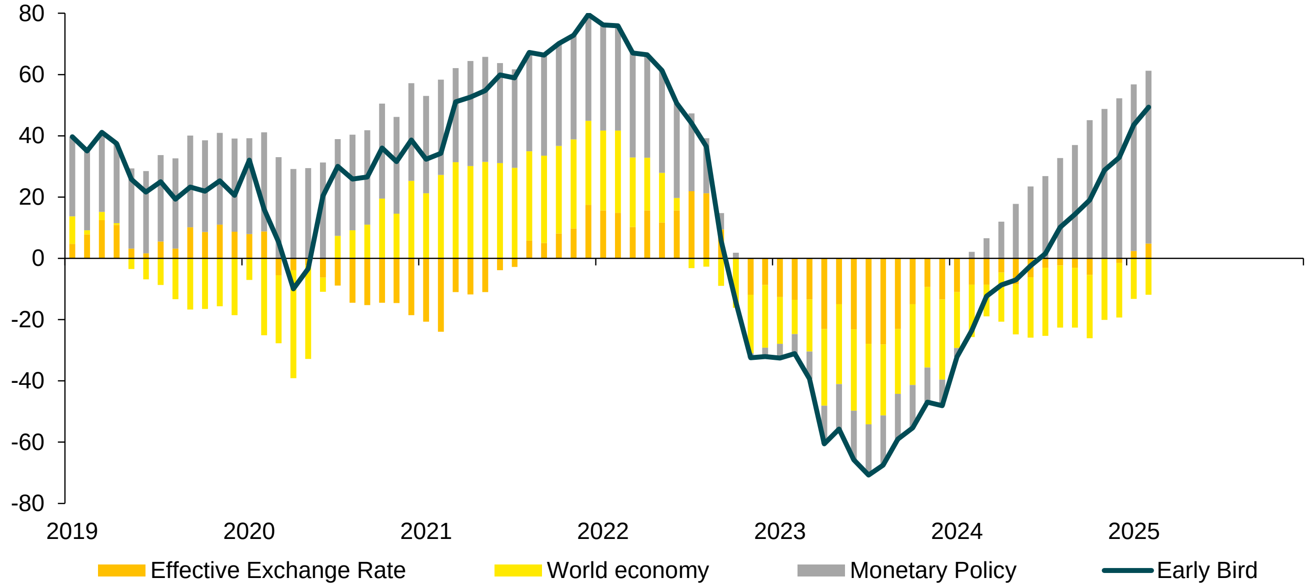
Our leading indicator for the German economy continued to rise in February. At 49 points, it is now at a level that has usually been followed by quite strong economic growth in the past. The main driver of the increase remains the ECB's interest rate cuts, but the global economic environment has also improved somewhat in recent months. This augurs well for the German economy which will pick up speed in the coming months. However, the upward trend is likely to be restrained in view of the threat of a tariff conflict with the US and the structural problems of the German economy.

The Early Bird continued its upward trend in February, rising from 44 to 49 points (Table 1). The main driver remains monetary policy (Chart 1).After all, the ECB has cut interest rates until recently and the market generally expects further downward steps. In addition, the headwind from the global economy is diminishing.The weighted average of the purchasing managers' indices for manufacturing in the US, China and the eurozone (excluding Germany) has risen in recent months and is now only just below the 50 mark, above which the indices would signal growth in the sector.The Early Bird also received a slight tailwind from a weaker euro.

Chart 1 - Monetary policy the main driver, but world economy has improved, too

Early Bird and the contribution of its sub-components



Source: Bloomberg, S&P Global, Commerzbank Research

The Early Bird thus gives hope that the German economy will recover in the near future.After all, it indicates above-average conditions for the economy, and in previous cycles such a high value of our leading indicator was usually followed by a strong increase in economic output.This supports our expectation that the German economy will pick up again in the further course of this year.

However, some negative factors currently affecting the German economy are not captured by the Early Bird. One of these is the threat of a trade war between the EU and the US, the most important export market for German companies. Should US President Trump actually impose significantly higher tariffs on European goods, this would undoubtedly put the brakes on German exports. Added to this are the structural problems of the German economy. In view of the different economic policy ideas of the members of the emerging new coalition government, it is to be feared that these problems will not be tackled decisively. And even if the new government were to push ahead with far-reaching reforms, these are unlikely to give the economy a noticeable boost for several years. Government investment in defense and infrastructure, which is also not included in the Early Bird, is also unlikely to increase noticeably until next year.

Commerzbank leading indicator for the German economy (Early Bird)

	Feb 25	Jan 25	Dez 24	Nov 24	Okt 24	Sep 24	Aug 24
Early Bird	49	44	33	29	19	14	10

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