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Economic Research

Economic Briefing

# Germany - Early Bird crawls to the zero line

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**Our leading indicator for the German economy also rose slightly in May, but at -6 points it is still just below the zero line. The economy continues to be held back by a below-average global economic environment, which hardly changed in May. On the other hand, monetary policy is increasingly boosting the economy, which suggests that the economy will pick up in the second half of the year.**

The chances of a sustained recovery in the German economy improved further slightly in May. Our Early Bird has risen for the fifth month in a row and now stands at -7 points (after -8 in April), just below the zero line. The main driver of the upward movement of the indicator, which has now been observed for ten months, is its monetary policy sub-component. While the ECB's significant interest rate hikes had a massive negative impact on the economy in summer 2023, this dampening effect has steadily diminished since then. This is because these hikes are now quite far in the past, meaning that the economy should have gradually become accustomed to the higher interest rate level again. As the real interest rate calculated by us is higher than for much of the past ten years, but still quite low compared to the average of the past thirty years, our indicator now even points to a positive monetary environment for the economy again (Chart 1)

By contrast, the global economic environment remains below average. Following a significant decline in April, it deteriorated slightly further in May. While the PMI for manufacturing in the eurozone (excluding Germany) partially made up for the April decline, the corresponding indices for the US and China fell again. The FX market also continues to provide a slight headwind, even if it is significantly weaker than it was for much of last year.

With its value close to the zero line, the Early Bird indicates that the economic conditions for the German economy are roughly in line with the average of recent years. This is not yet enough for a strong upturn, especially as the structural problems of the German economy will probably slow down any upward trend. However, there are increasing signs of a moderate recovery, partly because the early bird is likely to pick up in the coming months. We therefore assume that the German economy will grow again in the second half of the year after almost stagnating in the second quarter.

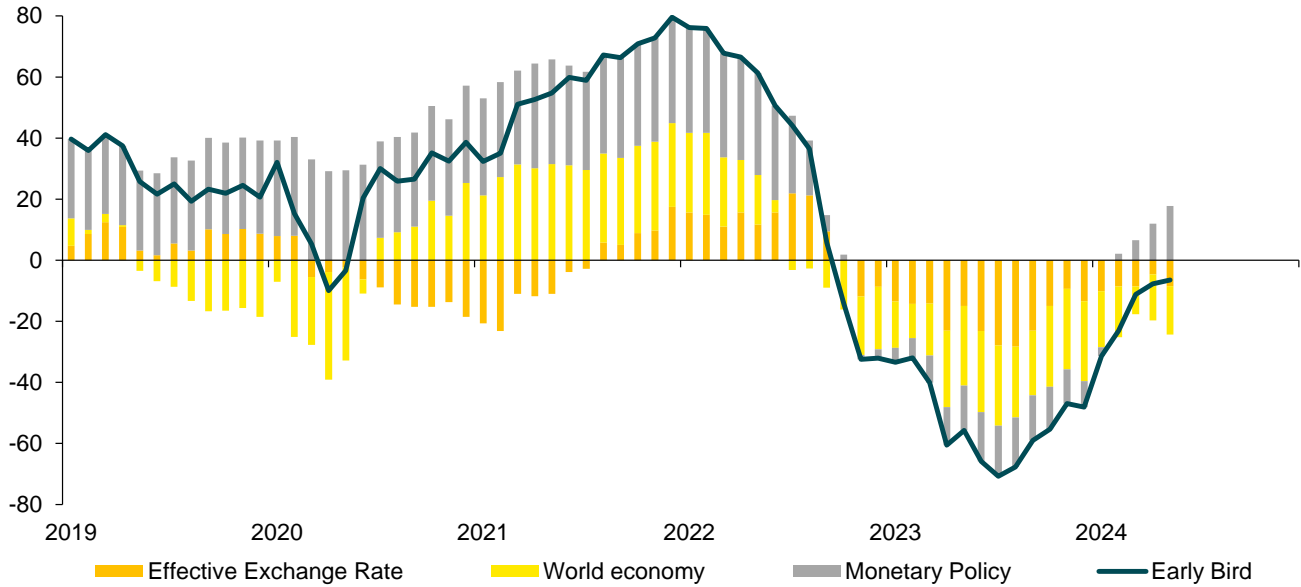


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**Chart 1 - Monetary policy supporting again the economy**

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)**

	Mai 24	Apr 24	Mrz 24	Feb 24	Jan 24	Dez 23	Nov 23
Early Bird	-7	-8	-11	-23	-31	-48	-47

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Source: Commerzbank Research



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