The decline of "Made in Germany"

German goods exports are following a steady downward trend. The heyday of exports "Made in Germany" are long gone. This is likely due to China and Germany's declining competitiveness. Trump's tariff policy and slower growth in Europe are further clouding the outlook. The trend toward higher investment abroad and deindustrialization at home is likely to continue.

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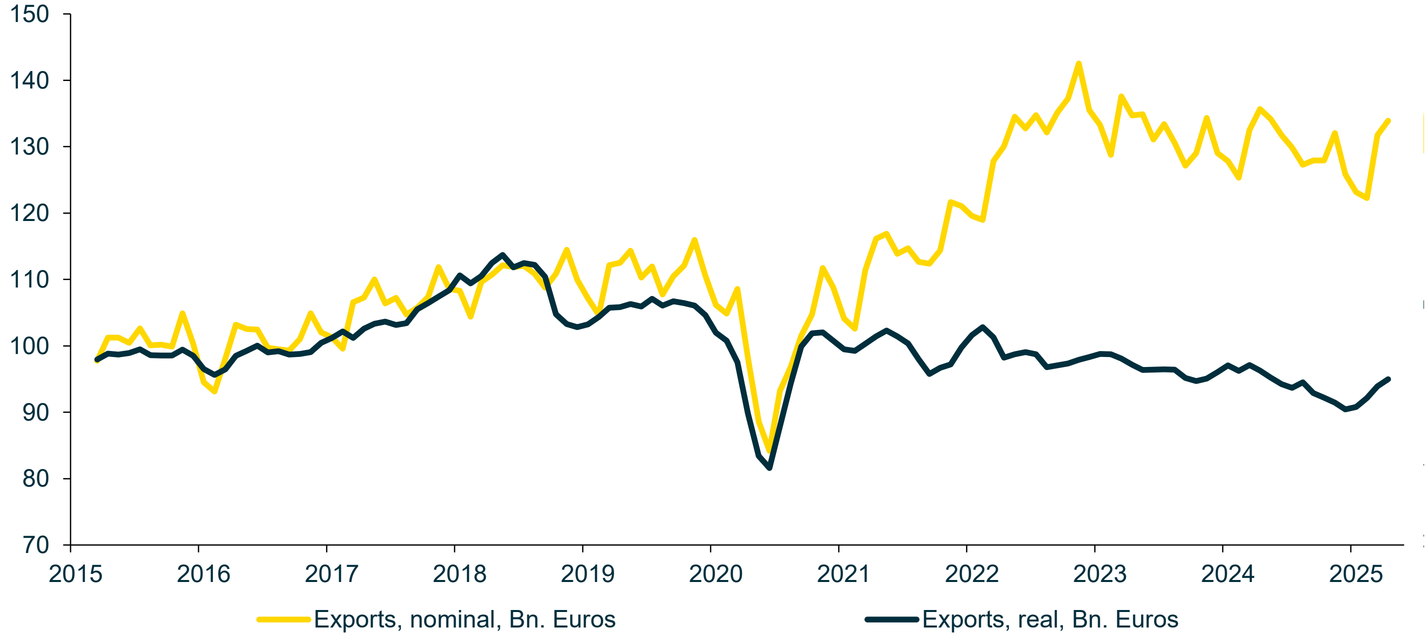
Real exports are falling

It has now been 17 years since the German economy was last able to call itself the “world export champion”, i.e. the world's largest exporter of goods. Germany now has to settle for third place behind China and the US. Our analysis shows that there is a worrying trend behind the decline in the export rankings: although nominal exports rose sharply in 2021 and 2022, this is only due to high inflation [1]. Adjusted for price changes (in real terms), exports have been falling since 2018 (Chart 1). We examine why Germany is exporting fewer and fewer goods and provide an outlook.

Chart 1 - The real goods exports have fallen since 2018

Exports of Germany in nominal prices and in prices of 2015 (real), 3-month average in Bn. Euros



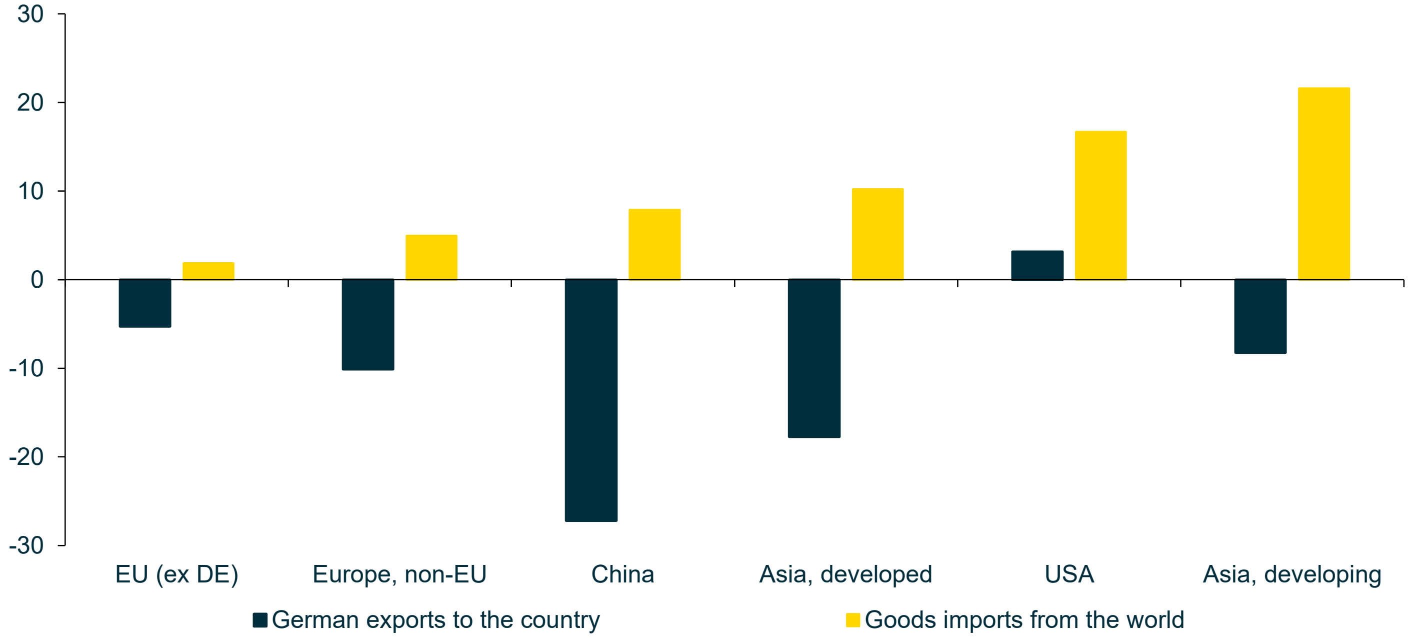
Source: Eurostat, Commerzbank-Research

The problem only affects Germany

One possible explanation could be that the countries buying German goods are importing less because their economies are stagnating. But if that were the case, other countries would also have to record declines in exports. This is not the case, however, because the advanced countries excluding Germany have increased their exports of goods in price-adjusted terms (title chart). The most important importers of German products actually imported more goods overall between 2019 and 2024 – just not from Germany (Chart 2). This loss of market share is particularly striking in Asia. Germany's exports to China fell by more than a quarter in price-adjusted terms over the five-year period. China's total imports, on the other hand, rose. Asian developing countries also increased their imports from the rest of the world by more than 20%. However, German exports to these countries fell by around 8%.

Chart 2 - The countries of the world import more, just not from Germany

Changes in real trade flows between 2019 and 2024, Exports of Germany to individual countries and regions and imports of those countries from the world, in percent



Source: Eurostat, CPB, Commerzbank-Research

The price competitiveness of German exports falls …

An important reason for Germany's declining exports is falling price competitiveness. In the 2000s, German companies still benefited greatly from very slow wage growth, which allowed them to produce at low cost. The euro also lost significant value against other currencies in the wake of the sovereign debt crisis that began in 2010, making German goods cheaper from the perspective of foreign importers.

However, both trends have since reversed: since 2012, labor costs per employee have risen by at least 2% annually. The value of the euro has stabilized since 2015 and has even risen slightly. The Bundesbank summarizes both trends and calculates how the effective prices of German goods for importers have developed (“price competitiveness”). Since 2015, German goods have become more expensive again for importers abroad (Chart 3). Germany is thus losing competitiveness, particularly vis-à-vis Asian exporters such as China, South Korea, and Japan.

However, the trend in competitiveness is likely to have developed similarly since 2015 due to the common currency and comparable inflation in the other eurozone countries, yet German exports are falling faster than those of other eurozone countries. What additional burdens are weighing on the German economy?

Chart 3 - Exports "Made in Germany" are becoming more expensive for trade partners

The external value of an extrapolated German mark against 60 trading partners; an increase means more expensive exports and declining price competitiveness for Germany, index value

Source: Bundesbank, Commerzbank-Research

… especially in comparison to Chinese production

The Chinese market has been more important for German exporters than for other major eurozone countries. Compared to its European neighbors, the German economy is therefore particularly hard hit by a slowing trade with China.

Technological progress in China has enabled Chinese companies to produce many goods – including complex machinery – more cost-effectively. In a past edition of the **Week in Focus** we had already documented that German companies not export less to China, but have built production capacities in China using their retained earnings. In addition, machine and car manufacturers based in China are increasingly exporting their products to other countries. This not only reduces the importance of the Chinese market for German exporters, but also means that China is increasingly becoming a competitor for German exporters in third-party markets.

The increasing competition from China is particularly evident in the automotive sector: many advanced economies such as the United Kingdom, Japan, Italy, and Spain are importing significantly fewer cars and car parts from Germany, but have noticeably increased imports from China in this sector. Overall, China's changing role could be responsible for almost half of Germany's export decline.

No improvement in sight

Monetary policy offers a ray of hope for German exporters. Falling key interest rates in Europe and America should make it easier for companies worldwide to finance German capital goods such as machinery, thereby increasing demand. However, this positive effect of monetary policy is likely to be offset by a number of negative factors:

1. The **tariff regime of the US** is making it more difficult to export to the last major sales market that has still grown for German exporters over the past five years. Trump's tariffs are likely to reduce exports from the EU to the US by 20 to 25% over the next two years.

2. In addition, **demand from European partner countries** such as France and Italy is likely to weaken in the coming quarters because their economies could grow more slowly than before due to lower government spending.

3. **German production conditions** make exports more expensive. In the coming years, the working-age population is likely to decline noticeably, causing wage costs to rise further. Nor is there any sign of a new start in the fight against bureaucracy under the new government. This means that German exports will remain expensive in comparison.

The outlook for the export business therefore remains gloomy for the coming years.

Conclusion: Germany's economy will change

Many German companies, especially global market leaders from the SME sector, will continue to export successfully in the future. Nevertheless, the importance of goods exports for the German economy is likely to decline overall. Free trade agreements with large developing countries such as India or the South American states may slow down this process, but they will not stop it.

Companies have been relocating production abroad for some time now. This trend toward offshoring is likely to increase further. In Germany, services surrounding the corporate headquarters remain. Demographic change is also likely to mean that services will continue to gain in importance for Germany's economy – and that the importance of manufacturing will decline. This is a natural process in highly developed economies. Since 2000, for example, the share of manufacturing in gross domestic product has declined in the US and France, for example, and now stands at around 10%. In Germany, the importance of manufacturing has also declined over the past 30 years, but not at the same pace as in other countries, and now stands at a comparatively high 18%. With the downturn in exports, the trend toward deindustrialization could now also intensify in Germany.

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[1] To adjust for price effects, we divide exports of goods into 1,200 products (Harmonized System Headings) and calculate the value in euros per ton in 2015. We multiply this value per ton by the quantities of goods measured in tons in subsequent years. This method may underestimate quality improvements, but this applies to all price adjustment methods to a certain extent. The resulting trend for Germany's real exports lies between that of Eurostat and the CPB Netherlands Bureau for Economic Policy Analysis. (Back)

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