

Economic Briefing

9 October 2020

Germany - Stronger Euro a burden for the Early Bird

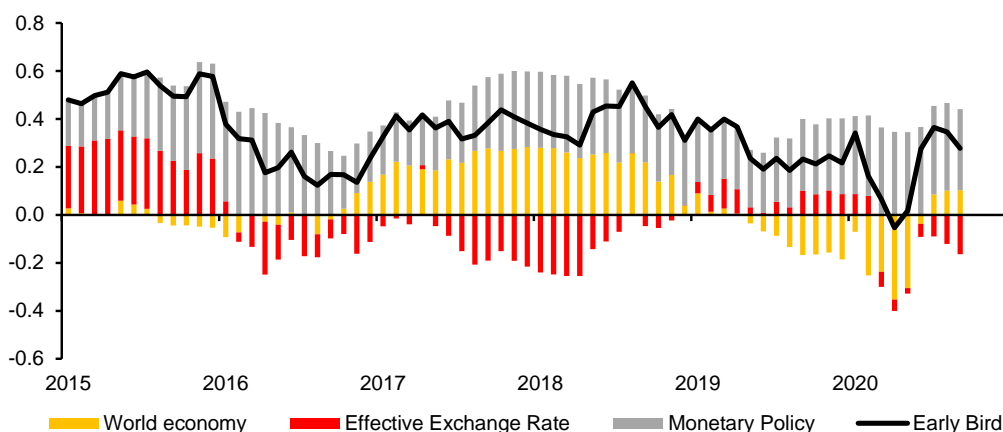
Our leading indicator for the German economy fell for the second month in a row in September. The main reason for this was once again the stronger euro, while the external economic environment even improved slightly once again. However, the Early Bird remains clearly in positive territory, showing that the recovery is also being supported by normal cyclical factors.

The Early Bird fell for the second month in September, but remains clearly in positive territory at 0.28 points (Table). As in the previous month, the decline is mainly due to the stronger euro. Excluding the effect of the temporary reduction in VAT [1], the indicator of price competitiveness of the German economy – the real external value of a fictitious Deutschmark – was more than 3% higher in September than in February. There were no major changes in the other two sub-components: The external environment has again improved slightly and monetary policy remains highly expansionary, although the 3-month Euribor was some basis points higher in September than in August.

With its continued positive value, the Early Bird signals that the recovery of the German economy is supported by the "normal" cyclical factors, in addition to the easing of anti-corona measures and the stimulus package. Therefore, the recovery should continue in the coming months, even if the pace has slowed down noticeably recently. For the coming year, however, there are increasing signs of headwinds from the FX market, which could further hamper the return of economic output to pre-crisis levels.

Germany: Strong euro the only negative factor

Early Bird and the contribution of its sub-components



Source: Bloomberg, Global Insight, Commerzbank Research

Commerzbank leading indicator for the German economy (Early Bird)

	Sep-20	Aug-20	Jul-20	Jun-20	May-20	Apr-20	Mar-20
Early Bird	0.28	0.35	0.36	0.28	0.02	-0.05	0.06

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Source: Commerzbank Research

[1] The real external value of a currency is not only based on the exchange rate, but it takes also into account the relative development of the CPI in the individual countries. Lower domestic inflation in itself improves price competitiveness, as does (nominal) depreciation of the national currency, since it makes domestic products cheaper. As a consequence the temporary reduction in VAT on 1 July and the resulting fall in German CPI has depressed the real external value of a fictitious D-mark. However, this tax reduction also applies to foreign goods. Moreover, it will be reversed on 31 December, so it has no permanent effect on the price level. ([back](#))

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