The Early Bird suffered its biggest decline in nearly nine years in February and at 0.14 points it came dangerously close to zero. The decisive factor was the economic slump in China as a result of the outbreak of the coronavirus, which has massively worsened the global economic environment. Thus, unlike sentiment indicators such as the Ifo, the Early Bird signals a weaker development of the German economy in the coming months.

With the spread of the coronavirus, at least the short-term outlook for the German economy has deteriorated markedly. This is also shown by our Early Bird which fell in February in contrast to the Ifo business climate and the manufacturing PMI. The fall from 0.33 points to 0.14 points (table) is the biggest decline since spring 2011, when the German and euro area economies were hit by the sovereign-debt crisis.

The main reason for the significant decline was a slump in the PMI for manufacturing in China. As a consequence the sub-component for the world economy deteriorated significantly in February (chart). The changes in the other two sub-components have largely offset each other: On the one hand, the short-term real interest rate fell somewhat in February due to the slight upward trend in the core inflation rate, which made monetary policy even slightly more expansionary. On the other hand, the tailwind from the foreign exchange market has faded further, as in February the euro depreciated less than in February 2019.

The significant decline in the Early Bird underlines the risk that the German economy will shrink in the first half of the year due to the negative impact of the coronavirus. Against this background, we lowered our growth forecast for Germany this week from 0.8% to 0.4%. However, we continue to assume that this is a temporary effect. As a result, we expect the decline in total output to be made up again, which is why we raised our forecast for 2021 from 0.8% to 1.2%.
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