Economic Briefing

Germany – Early Bird getting tailwind from abroad?

After moving sideways on a rather low level, our leading indicator for the German economy rose significantly in January from 0.20 to 0.31 points. The decisive factor was the more upbeat sentiment in manufacturing, especially in the advanced countries, which gives hope that the German economy will get a little more tailwind from external demand in the months ahead. However, the spread of the coronavirus puts a question mark behind this positive signal, because uncertainty about its economic consequences could again depress sentiment in February.

The Early Bird gained sharply in January, reaching 0.31 points, the highest level since April 2019 (see table). The decisive factor was a more friendly global economic environment. For example, the manufacturing PMIs for the US and the euro area excluding Germany increased appreciably at the beginning of the year. Although the corresponding index for China has eased somewhat, the Early Bird has been pushed down by its global economic sub-component much less in January than it had been in the second half of last year (chart).

The changes in the other two sub-components have largely neutralized each other: the slight upward trend in core inflation rate has caused the short-term real interest rate to fall somewhat, thus increasing the degree of expansion of monetary policy once again slightly. On the other hand, the tailwind from the FX market has lessened somewhat.

The fairly significant increase in Early Bird in January is undoubtedly good news. This is in line with the general expectation that the German economy will prevent a recession and that it will grow somewhat more strongly in the coming quarters. However, the economic impact of the coronavirus remains a factor of uncertainty which is currently difficult to assess reliably. This uncertainty could also push the Early Bird down again next month. At the very least, however, developments in January show that without this virus – the effect of which is likely to be temporary – the German economy is getting more tailwinds again, which gives hope for a slightly better economy in the period after the infections have subsided.

Germany: World economy less a burden

Early Bird and the contribution of its sub-components

Source: Sources: Bloomberg, Global Insight, Commerzbank Research

Commerzbank leading indicator for the German economy (Early Bird)

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<td>Commerzbank AG</td>
<td>Commerzbank AG</td>
</tr>
<tr>
<td>DLZ - Gebäude 2, Händterhaus</td>
<td>PO BOX 52715</td>
<td>225 Liberty Street, 32nd floor, New York,</td>
<td>71, Robinson Road, #12-01, Singapore</td>
<td>15th Floor, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong</td>
</tr>
<tr>
<td>Mainzer Landstraße 153</td>
<td>30 Gresham Street</td>
<td>NY 10281-1050</td>
<td>Singapore 068895</td>
<td>Causeway Bay</td>
</tr>
<tr>
<td>60327 Frankfurt</td>
<td>London, EC2P 2XY</td>
<td></td>
<td></td>
<td>Hong Kong</td>
</tr>
<tr>
<td>Tel: +49 69 136 21200</td>
<td>Tel: +44 207 623 8000</td>
<td>Tel: +1 212 703 4000</td>
<td>Tel: +65 631 10000</td>
<td>Tel: +852 3988 0988</td>
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