Economic Briefing

Germany – Early Bird still in recession territory

In May, the Early Bird recovered slightly from its crash in the previous months. The global economic environment is somewhat less unfriendly and the headwind from the FX market has eased slightly. However, despite the fact that monetary policy has remained extremely expansionary, this has not been enough to allow our leading indicator to rise above zero again. At -0.01 points it continues to signal a recession.

After having crashed in previous months our leading indicator for the German economy recovered somewhat in May, rising from -0.08 points to -0.01 points (Table). This was mainly due to the recovery of the manufacturing PMIs for the euro zone (excluding Germany) and the US, as a result of which the global economic environment for the German economy was somewhat less catastrophic in May than in April (chart). In addition, the euro did not appreciate any further, so that the real external value of a fictitious D-Mark was only about 1.5% higher than a year ago. The headwind from the FX market has thus eased slightly. There was some movement in the monetary policy environment, too. The 3-month Euribor was on average 10 basis points higher than in April. However, the stance of monetary policy is still ultra-expansionary, such that this did not significantly impact our indicator.

Despite the slight improvement in the global economic environment and the external value, the Early Bird is still - albeit only just - below zero. In the past, this was a signal for a recession in Germany. Of course, the measures taken to contain the pandemic are primarily responsible for the current recession. But the unfavourable "normal" economic conditions indicated by the Early Bird add to these. Its negative value is a reminder that German GDP will probably only approach its pre-crisis level if these factors improve again, especially abroad.

Germany: Weak world economy keeps Early Bird in red territory

Early Bird and the contribution of its sub-components

<table>
<thead>
<tr>
<th>World economy</th>
<th>Effective Exchange Rate</th>
<th>Monetary Policy</th>
<th>Early Bird</th>
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<tbody>
<tr>
<td>-0.6</td>
<td>-0.4</td>
<td>-0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>0.0</td>
<td>0.2</td>
<td>0.4</td>
<td>0.6</td>
</tr>
<tr>
<td>0.8</td>
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Source: Bloomberg, Global Insight, Commerzbank Research

Commerzbank leading indicator for the German economy (Early Bird)

<table>
<thead>
<tr>
<th></th>
<th>May-20</th>
<th>Apr-20</th>
<th>Mar-20</th>
<th>Feb-20</th>
<th>Jan-20</th>
<th>Dec-19</th>
<th>Nov-19</th>
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<tbody>
<tr>
<td>Early Bird</td>
<td>-0.01</td>
<td>-0.08</td>
<td>0.03</td>
<td>0.15</td>
<td>0.34</td>
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