Economic Briefing

Germany: Early Bird approaching the zero line

Our leading indicator for the German economy again fell sharply in March, from 0.16 to 0.06 points, rapidly approaching the zero line, which in the past was a fairly reliable signal for an impending recession. There is no doubt that the German economy is already in a recession because of the measures taken to combat the coronavirus. However, the Early Bird, which does not take these measures into account, shows that other factors have also deteriorated massively recently. For example, the German economy is now also facing headwinds from a stronger euro.

In March, the Early Bird fell again significantly. With a drop from 0.16 to 0.06 points, the minus was smaller than in February, but the zero line is getting closer and closer. In contrast to the previous month, the decline is not due to a deterioration in the global economic environment. The corresponding sub-component even improved slightly, as the declines in the manufacturing PMIs in the USA and the euro zone (excluding Germany) were more than offset by the strong rise in the Chinese PMI. Rather, the main reason for the decline in March was a stronger euro, which appreciated significantly, especially against numerous EM currencies. As a result, the indicator of the price competitiveness of the German economy - the real external value of a fictitious D-Mark - was a good 1/2 percent higher in March than in March 2019, whereas in February it was still well below the previous year's level. The tailwind from the FX market that has existed since the middle of last year is thus over for the time being; now the German economy is again facing headwinds from the development of exchange rates. The additional measures taken by the ECB, which have barely noticeably changed the already very high degree of expansion of monetary policy, had hardly any effect on our indicator.

Of course, the German economy is currently primarily influenced by the measures to combat the corona pandemic. As a result, the economy will develop much worse in the coming weeks than the still slightly positive Early Bird figure indicates. However, with its significant decline in the last two months, the Early Bird signals that the "normal" economic environment for the German economy has also deteriorated massively. This is due to the "shutdowns" in other countries, but also to the current movements on the FX market. Should these not be reversed in the course of a revival of the global economy, they would at least make the recovery of the German economy more difficult.

Germany: Headwind from the FX market again

Early Bird and the contribution of its sub-components

Commerzbank leading indicator for the German economy (Early Bird)

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<tr>
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<th>Mar-20</th>
<th>Feb-20</th>
<th>Jan-20</th>
<th>Dec-19</th>
<th>Nov-19</th>
<th>Oct-19</th>
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<td>Early Bird</td>
<td>0.06</td>
<td>0.16</td>
<td>0.34</td>
<td>0.22</td>
<td>0.25</td>
<td>0.24</td>
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