



COMMERZBANK

Economic Research

Economic Briefing

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Germany – Early Bird back in positive territory

In August, our leading indicator for the German economy showed a positive value for the first time in almost two years, once again signaling above-average economic conditions. The monetary policy environment is increasingly brightening, while the global economy continues to face headwinds. With its jump above the zero line, the Early Bird gives hope for a revival of the economy.

Good news for the German economy: According to our leading indicator for the German economy, the Early Bird, cyclical conditions are above average again for the first time in almost two years. At 7 points (after zero points in July), the Early Bird was back in positive territory for the first time since September 2022. The Early Bird has thus risen by more than 75 points since its low in summer 2023 (Chart 1).

The biggest contribution to this sharp rise and also to the increase in August came from the improvement in the monetary policy environment. The longer it has been since the ECB's massive interest rate hikes, the more the German economy is likely to have adjusted to the higher interest rate level, meaning that the dampening effect is diminishing. In the meantime, according to our calculations, monetary policy is actually tending to stimulate the economy again, as the short-term real interest rate is now lower than a year ago – partly due to the ECB's first interest rate cut and the next move looming next week – and is also rather low in a longer-term comparison. The economy continues to face headwinds from the global economy. The purchasing managers' indices for manufacturing in the US, China and the eurozone (excluding Germany) that we take into account hardly changed in August. However, they are all below the 50 mark, signaling a contraction in this sector. Exchange rates are currently having hardly any effect on the economy, as the German economy's price competitiveness indicator is currently at a similar level to a year ago.

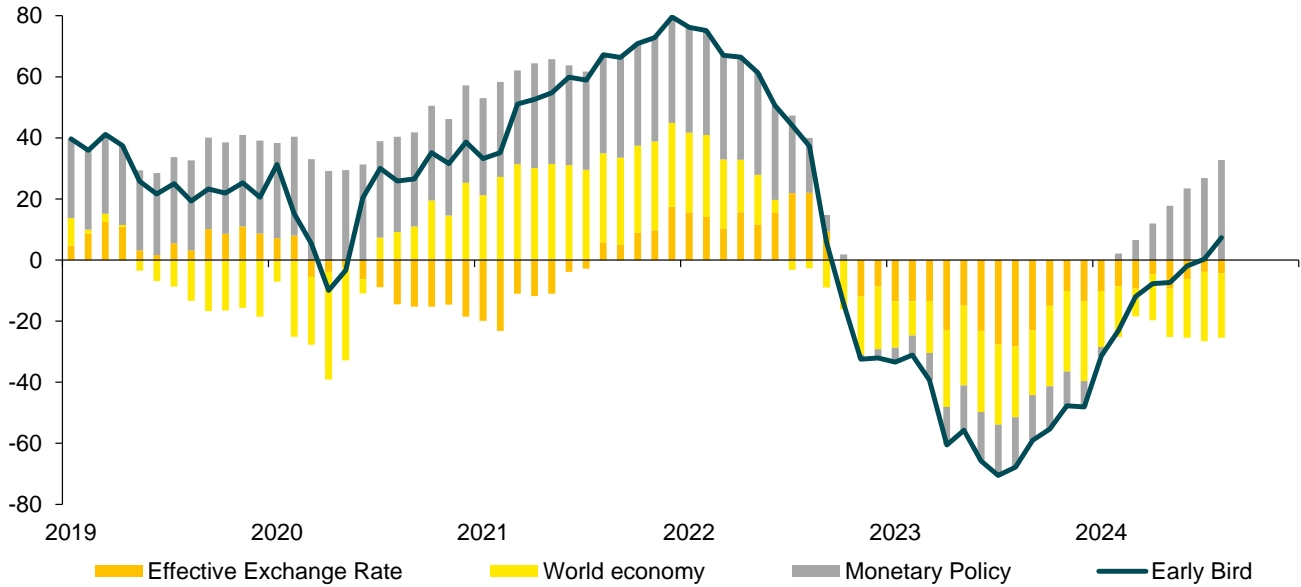


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Chart 1 - Monetary policy supporting again the economy

Early Bird and the contribution of its sub-components



Source: Bloomberg, S&P Global, Commerzbank Research

Despite the weakening global economy, the Early Bird gives hope that the German economy will pick up in the foreseeable future. However, the timing remains uncertain and the recent fall in sentiment indicators suggests that this is unlikely to happen until around the turn of the year. In addition, the numerous structural problems in the German economy give rise to fears that this recovery will be rather muted.

Commerzbank leading indicator for the German economy (Early Bird)

| | Aug 24 | Jul 24 | Jun 24 | Mai 24 | Apr 24 | Mrz 24 | Feb 24 |
|------------|--------|--------|--------|--------|--------|--------|--------|
| Early Bird | 7 | 0 | -2 | -7 | -8 | -12 | -23 |

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