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Economic Research

Economic Briefing

Germany – Early Bird continues to give hope

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Unlike the Ifo business climate and PMIs, our leading indicator for the German economy continued to rise in June. At -2, it is now only slightly below the zero line. As in previous months, the main reason for the rise was the fact that monetary policy is no longer slowing the economy, but is in fact now actually boosting it again. On the other hand, the global economy and the FX markets are still tending to create headwinds. Overall, the Early Bird continues to raise hopes of an economic recovery in the second half of the year, although this is likely to be rather muted.

The recent setbacks in the Ifo business climate and purchasing managers' indices have put a damper on the hope shared by many that the German economy will pick up in the second half of the year. However, our Early Bird suggests that the weaker June values of the sentiment indicators do not herald a trend reversal, but rather that these are the outliers that are repeatedly observed in individual monthly values of these indicators. This is because our leading indicator, which reflects the most important drivers of the German economy, rose again in June and, at -2, is now only just below the zero line, a significant improvement compared to a year ago.

The monetary policy environment in particular has changed over the past twelve months. To date, the ECB has only cut interest rates once by 25 basis points and this move at the beginning of June, like the interest rate hikes that are likely to follow, is not expected to take full effect until next year. However, it is now more than a year since the previous massive rate hikes, meaning that the economy has probably increasingly adapted to the rise in interest rates and its braking effect is likely to diminish. As the real interest rate is actually rather low by historical standards, monetary policy is actually even giving the economy a tailwind.

On the other hand, growth continues to be held back by developments on the FX market and a still rather weak global economy. While the headwind from the FX market is weaker than a year ago, the global economic environment had improved somewhat in the meantime, but there has recently been a setback here.

Bottom line: With its sustained upward trend, the Early Bird continues to raise hopes of an economic upturn in the second half of the year. However, the persistent headwinds from the global economy and the FX market have been a reminder not to expect too much momentum.

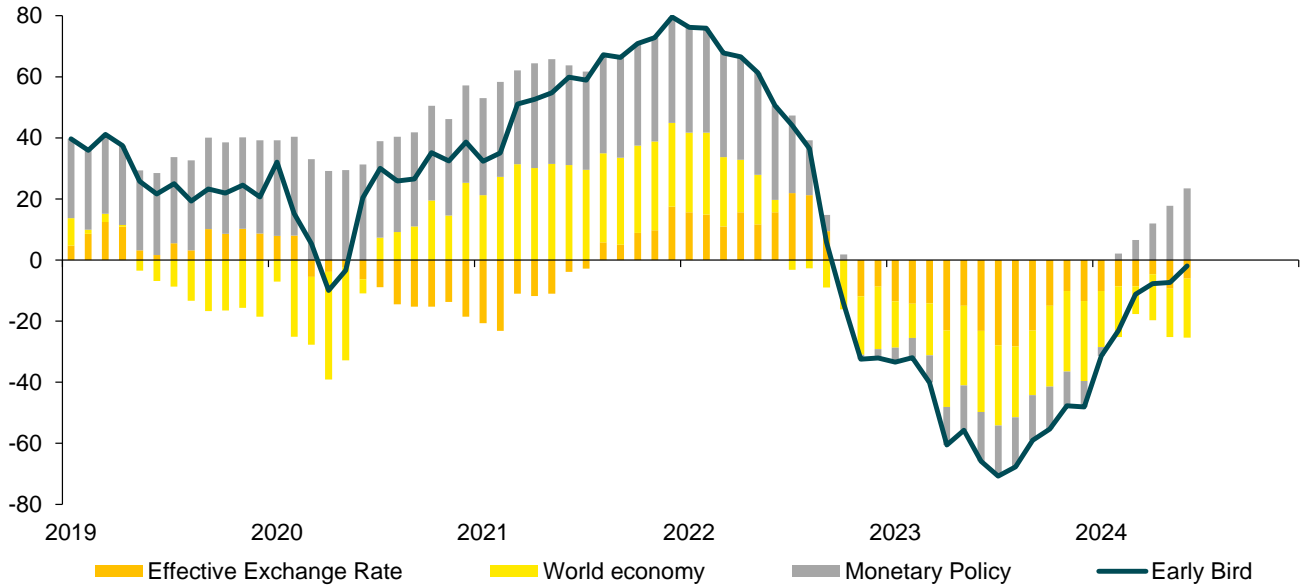


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Chart 1 - Monetary policy supporting again the economy

Early Bird and the contribution of its sub-components



Source: Bloomberg, S&P Global, Commerzbank Research

Commerzbank leading indicator for the German economy (Early Bird)

	Jun 24	Mai 24	Apr 24	Mrz 24	Feb 24	Jan 24	Dez 23
Early Bird	-2	-7	-8	-11	-23	-31	-48

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Source: Commerzbank Research



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