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Economic Research

Economic Briefing

Germany – Early Bird is losing momentum

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Our leading indicator for the German economy increased only slightly in July and remains just below the zero line at -1 point. Nevertheless, the chances of an economic upturn are increasing. In view of the deteriorating global economic environment, however, this is likely to be very subdued and the recent fall in sentiment indicators suggests that it will not start until the end of the year or even the beginning of next year.

The upward trend observed in our Early Bird Indicator in recent months has flattened out. In July, it increased by just one point and is therefore still just below the zero line at -1. The monetary policy environment has continued to improve, as the short-term real interest rate has fallen further in light of the fact, that a further interest hike of the ECB is generally expected for the September meeting. In addition, the rate is now significantly lower than a year ago. At the same time, however, the global economic environment has deteriorated for the fourth month in a row, which is only partially offset by easing headwinds from the FX market.

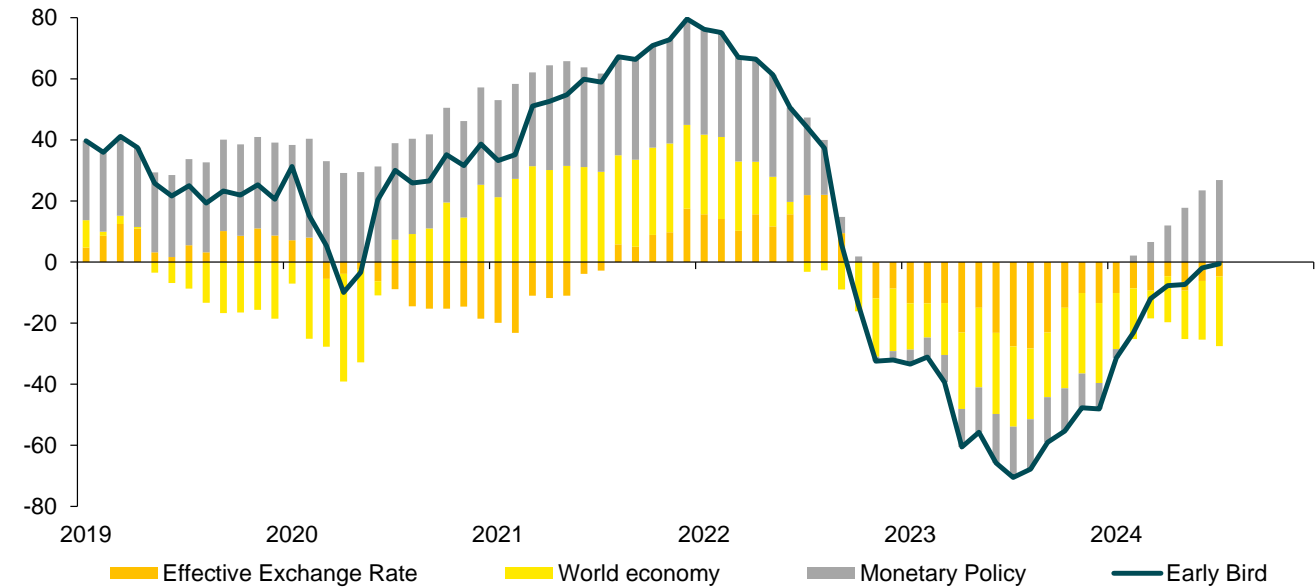


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Chart 1 - Monetary policy is supporting the economy again

Early Bird and the contribution of its sub-components



Source: Bloomberg, S&P Global, Commerzbank Research

Despite the recent slower increase, the Early Bird still shows that economic conditions have improved significantly over the past twelve months. This does not necessarily contradict the Ifo business climate or the purchasing managers' indices, which have recently fallen and thus put a noticeable damper on hopes of an imminent economic recovery. This is because the economic conditions indicated by our indicator only have a delayed impact on actual developments. For this reason, the Early Bird was also ahead of the sentiment indicators in previous cycles. For example, it reached its lowest point in July 2008 – before the collapse of Lehman Brothers – and rose again significantly in the following months, while the Ifo Business Climate fell for a further six months (Chart 2).

Of course, the economic drivers taken into account in the Early Bird can be overlaid by other factors. For example, the Ifo Business Climate turned down much earlier than the Early Bird in fall 2021, as the economy was confronted with a massive rise in energy prices that was not captured by the Early Bird. The correlation between Ifo and Early Bird movements was not particularly close in the years 2013 to 2019 either. However, the Early Bird indicated consistently above-average conditions here – particularly due to the very loose monetary policy – which certainly helped drive the long upturn in the German economy.

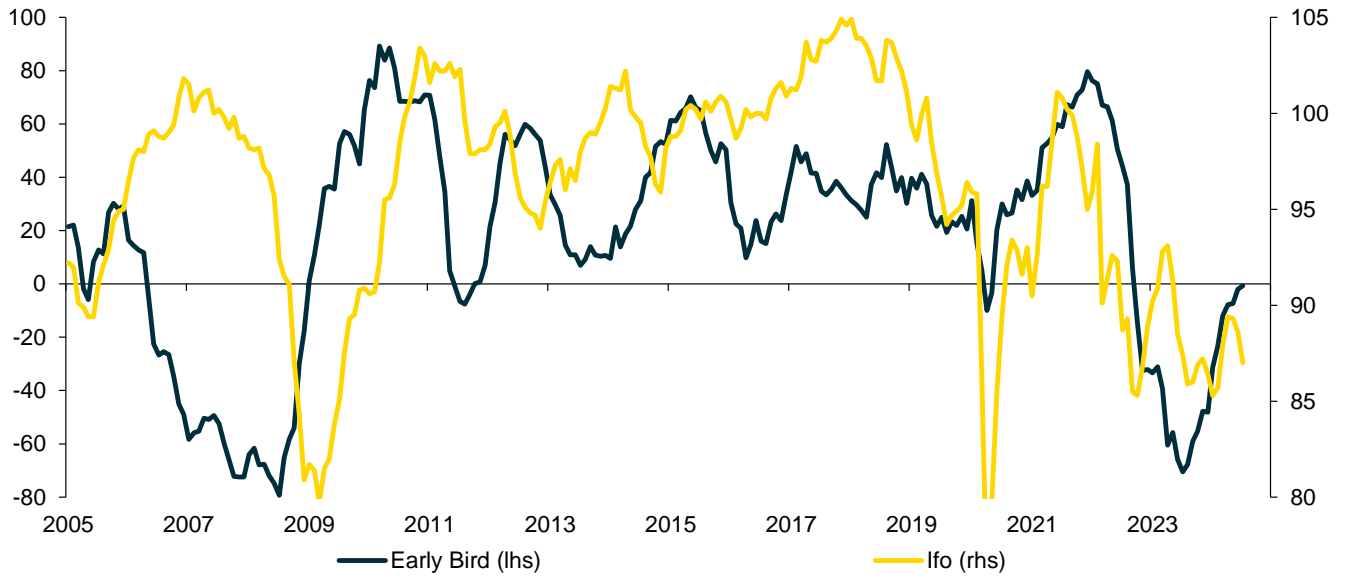
The Early Bird also shows a clear difference between the current situation and that of around a year ago, when the interim rise in leading indicators proved to be a false signal. At that time, economic conditions were still deteriorating, which argued against a better economy in the foreseeable future. In recent months, however, the general conditions have improved significantly, which will improve



the mood among companies in the coming months and will finally trigger a recovery. However, this recovery is likely to be slower and, in view of the weak sentiment indicators, may come later than previously thought.

Chart 2 - Early Bird signals a recovery in contrast to one year ago

Ifo business climate for the German economy, 2015=100; Early Bird: Commerzbank leading indicator for thje German economy



Source: Ifo, S&P Global, Commerzbank Research

Commerzbank leading indicator for the German economy (Early Bird)

	Jul 24	Jun 24	Mai 24	Apr 24	Mrz 24	Feb 24	Jan 24
Early Bird	-1	-2	-7	-8	-12	-23	-31

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Source: Commerzbank Research



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