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Economic Research

Economic Briefing

Germany – ECB gives Early Bird a boost

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Our leading indicator for the German economy rose again in October, from 14 to 18 points. As in previous months, this is almost solely due to a steady improvement in the monetary policy environment. Even if the weak global economy remains a negative factor, the Early Bird is increasingly signaling an economic recovery. However, this is likely to take until next year and then be comparatively moderate.

The Early Bird is rising and rising. In October, it increased for the tenth month in a row and is now well above the zero line at 18 points (Chart 1). The rise in October, as in previous months, is almost exclusively due to a better monetary policy environment. The ECB's massive rate hikes are receding further and further into the past, meaning that they are less likely to slow down the economy, especially as the ECB has been lowering its key interest rates again since the summer. There has been little change in the other two components of our leading indicator in recent months. The indicator of the price competitiveness of the German economy – the real external value of a notional Deutschmark – has hardly changed for more than a year, meaning that developments on the FX market are currently neither noticeably boosting nor slowing down the economy. A clearly negative factor is the weak global economy. All three purchasing managers' indices for manufacturing that we take into account when calculating the Early Bird – for the US, China and the eurozone excluding Germany – are well below their long-term average and are therefore tending to slow down growth.

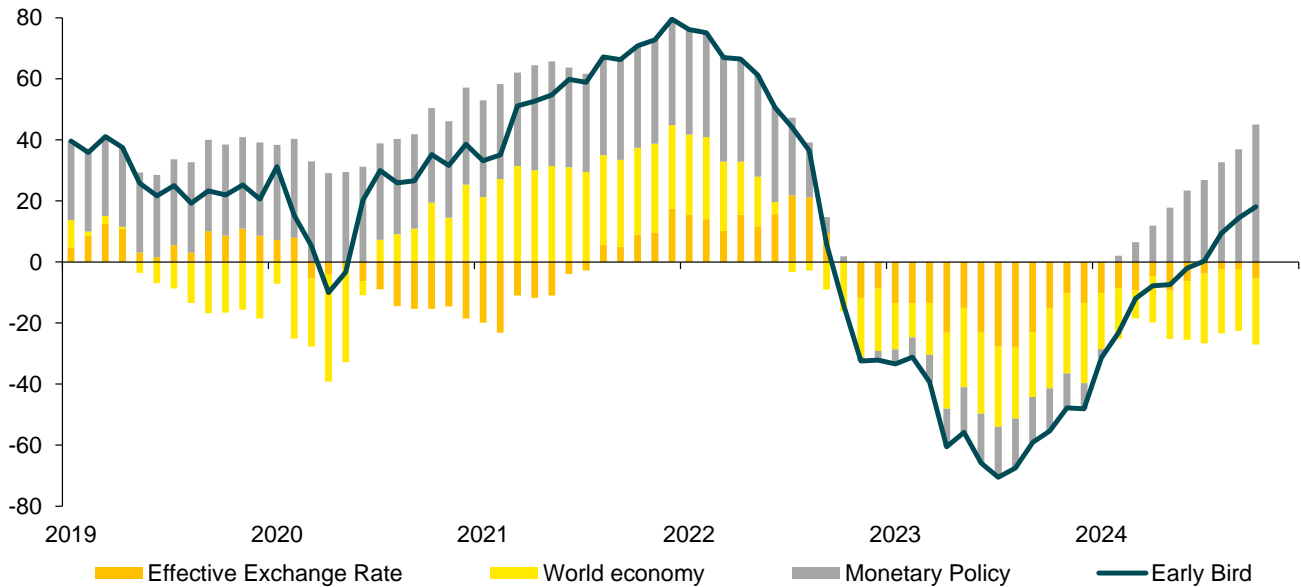


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Chart 1 - Monetary policy supporting the economy, while the world economy is a drag on growth

Early Bird and the contribution of its sub-components



Source: Bloomberg, S&P Global, Commerzbank Research

With its strong rise since summer 2023, the Early Bird signals a significant improvement in the cyclical environment for the German economy, which will be followed by a revival of the economy sooner or later. However, as the rise in the Early Bird is primarily driven by monetary policy and the length of the lag of its impact on the real economy fluctuates greatly, the timing of this recovery is very uncertain. The sentiment indicators, which remain very weak despite their rise in October, suggest that the economy will remain weak at least in the final quarter of this year. However, the chances of an upturn in the coming year are increasing, although this is likely to be moderate due to the ongoing structural problems in the German economy.

Commerzbank leading indicator for the German economy (Early Bird)

	Okt 24	Sep 24	Aug 24	Jul 24	Jun 24	Mai 24	Apr 24
Early Bird	18	14	9	0	-2	-7	-8

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Source: Commerzbank Research



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