

## Another setback for Germany

June trade data disappoints but does that mean the German economy has passed its peak?



### Downhill from here?

German trade data just brought some doubts to the strength of the recovery with exports dropping by 2.8% MoM in June, from 1.5% MoM in May. At the same time, imports dropped by 4.5% MoM, from 1.3% in May. As a result, the seasonally-adjusted trade balance still widened to the highest level since February.

### How have exports coped with potential risks to date?

Despite today's disappointing data, German exports have been weathering a series of potential risks relatively well. Tensions with the new US administration, Brexit uncertainty and a strengthening of the euro mainly against the US dollar and British pound sterling have left German exports almost unharmed. Bilateral trade data over the first five months of the year show that only Brexit and the weaker pound sterling continue to leave their marks on German exports to the UK.

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However, stronger exports to the Netherlands, Eastern European countries and, remarkably, Italy have more than offset the negative Brexit impact. If the current trend continues, the UK could end the year as only the fifth biggest export destination for Germany, the lowest ranking since 2010.

## What does a stronger euro mean for the German economy?

Looking ahead, the recent appreciation of the euro has created some unease in financial markets and with some German observers. The fear is spreading that a stronger euro could harm the German economy. In our view, this fear is exaggerated. Previous episodes have shown that there is no such thing like an explicit pain threshold for German exporters when it comes to the exchange rate. Instead, German exports have proven to be rather resistant against currency appreciations. Currency hedging, price insensitive foreign demand for German goods and margin squeezing by corporates have been the main reasons behind this relative invulnerability. On top of that, let's not forget that the trade-weighted euro has only appreciated by 6.5% since April, while the euro gained more than 11% vis-à-vis the US dollar.

Even though this morning's trade data add to a disappointing month for the German industry, we don't think that the German economy has suddenly passed its peak.

Instead, strong confidence indicators point to a continuation of the recovery. Also, some investment boost after the German elections combined with the gradual recovery of private investment already this year should extend an already mature business cycle of the German economy well into 2018.

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