

German exports stagnate in October

The post-summer export rebound has already come to a halt, suggesting that exports are unlikely to pull the economy out of stagnation



Trade is no longer a growth driver for Germany

Export recovery has halted. After a post-summer rebound, German exports in October suggest that the road to any sustainable recovery in what used to be Germany's growth engine is still long.

German exports increased by 0.1% month-on-month in October, from 1.4% MoM in September. At the same time, imports dropped by 1.2% MoM, widening the German trade surplus to €16.9bn. The volatility from US frontloading appears to have passed, and German exports are back to their new normality: sluggish growth.

Trade data illustrates how much Germany is affected by geopolitical shifts

While this morning's trade data points to a further bottoming out of the economy and even gives rise to hopes of a cyclical turning point, it also provides more evidence of how much Germany is affected by the broader geopolitical shifts. Think of US tariffs, Chinese overcapacities and restructuring of supply chains.

Since the start of the year, the share of German exports to the US has dropped to some 9.5% this year, from 10.5% last year. At the same time, the share of exports to China has dropped further to 5%, from almost 6% last year and almost 8% in the years before the Covid-19 pandemic.

While German exporters are facing more problems selling in the Chinese market, Chinese exports to Germany (and Europe) are thriving. This year, German imports from China were up by more than 10%, illustrating an increasingly uneven relationship. Yesterday's Chinese trade data suggest that the trend of China redirecting exports to Europe, often at dumping prices, will accelerate.

Possibly due to post-pandemic supply chain restructuring, the share of exports to CEE countries has risen. Currently, Germany exports more to Poland, Hungary and the Czech Republic than to the US. Overall, the US remains the single most important destination for German exporters. If you need another example of how trade relationships can structurally change, have a look at German trade with the UK; in 2014, almost 8% of all German exports went to the UK, but it now stands at some 5%.

Don't count on exports to get the economy out of stagnation

Looking ahead, German exports are still facing rough headwinds. US tariffs are still weighing on exports and will probably only show their full impact over the coming months, notwithstanding the risk of new tariffs. At the same time, German exporters are currently facing a triple China shock: weaker demand for German products in China, increased competition from Chinese producers in third markets and Germany's home market, the EU, and finally the dependence on Chinese rare earths. So far, the European market looks unable to offset these global headwinds.

More generally speaking, German trade remains in the midst of structural geopolitical changes. Half a year after US President Trump's 'Liberation Day', German exports have still not fully recovered. Given the ongoing structural challenges, it currently requires a lot of imagination to see a quick return of the export sector as a powerful growth engine for the German economy.

On a more positive note, however, the German parliament is set to approve 29 military procurement contracts worth a record €52bn next week, which supports our view of the [ketchup bottle effect of German fiscal stimulus](#) next year.

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