

# The export-driven growth model is back in Germany

March trade data confirmed the return of the export-driven German growth model. However, industrial orders remain weak and that suggests this return will be short-lived



March exports increased by 0.9% month-on-month, from -2% MoM in February. At the same time, imports increased by 0.3% MoM, from 3.2% MoM in February, widening the trade balance to €22.2bn from €21.4bn in February. Don't forget that this is in nominal terms and not corrected for high inflation. While March trade data provided a nice confirmation of the German economy's return to growth in the first quarter, industrial orders spoiled the party of optimism, dropping by 0.4% MoM in March from a downwardly revised -0.8% MoM in February.

## Warning against too much enthusiasm

This morning's data confirms last week's initial estimate of first-quarter GDP growth but also warns against too much enthusiasm. Indeed, net exports have returned as an important growth driver. Interestingly, German trade is experiencing shifts in global trade and geopolitical tensions. The share of exports to the US increased to more than 10% of total exports in 2023, while the share of exports to China dropped to 6%, significantly below pre-pandemic levels. At the same time, Germany exported more to Poland, the Czech Republic and Hungary than to the US.

However, banking on a return of the well-known success formula of the export-oriented growth model would be deceptive. The long list of geopolitical risks, potential trade tensions and increasing global competition should provide sufficient arguments against policy complacency. The German economic business model still needs to be much more balanced.

To some extent, industrial orders this morning illustrated the high risk that the revival of the export-oriented success formula is only short-lived. In fact, after the first post-lockdown recovery, demand for German manufacturing goods has been weak. In fact, since the start of 2022, industrial orders have dropped on average by 0.5% every month.

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