Germany: A start to forget

Trade data have completed what has been another disappointing month for German industry. It is the weakest start to a new year since 2009. While downside risks have clearly increased, short term prospects for the economy overall are still good.

The latest trade data confirm that the German economy has had a weak start to the new year. Both exports and imports took an unexpected hit in February. Exports dropped by 3.2% MoM (from -0.4% in January), while imports decreased by 1.3% MoM, (from -0.4%). The trade surplus widened somewhat, from 17.3bn euro in January to 18.4bn euro in February.

These days, talking about trade means talking about Trump and tariffs. In Germany, these talks have caused quite some goose bumps. Rightly so. In 2017, the US was Germany's largest export partner. The bilateral trade surplus amounted to more than 50bn euro, with vehicles and machinery recording the largest bilateral surplus. At the same time, Germany runs a significant trade deficit with the US in agricultural products. The only comforting factor for Germany is that it has a very diversified export sector, particularly in terms of geographic diversification.

Still, even though the current stage of the global trade conflict seems to be limited to China and the US, Germany could become the first prominent victim outside of these two countries. China announced to impose a 25% import tariff on cars produced in the US. This would immediately harm Germany as the single largest car exporting company in the US is in fact a German car manufacturer.

While the prospects for the German export machinery have deteriorated significantly in recent weeks, the present state of the economy gives some reasons for concern. In fact, the entire start to the year 2018 has been a disappointment. Sentiment indicators have started to weaken, albeit from record highs, and industrial data for the first two months showed the weakest performance since 2009. In our view, seasonal effects, the cold winter weather and a flu epidemic were probably the main drivers of this disappointment. At least in the near term, sound fundamentals, low interest rates, record high employment, high capacity utilization, low inventories and filled order books are strong arguments in favour of a re-acceleration of the economy. However, if anything downside risks for the economy have clearly increased in recent weeks.

Author

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

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