

## 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](mailto:carsten.brzeski@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.