

## Germany: Export recovery continues in October

The catch-up of exports continued in October, albeit at a slower pace



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German exports (seasonally and calendar adjusted) increased by 0.8% month-on-month in October, from 2.3% in September. Imports increased by 0.3% MoM, from -0.1% MoM in September. As a result, the seasonally-adjusted trade surplus narrowed to €19.4 billion in October. On the year, exports were still down by almost 7%.

### More relief in the offing but longer-term outlook remains mixed

The export recovery continues, albeit at a slower pace, but the outlook is clearly mixed. In fact, the German export sector, almost like no other, benefits from the continuing recovery of China and

other Asian countries. In the first nine months of the year, China has become the second most important destination for German exporters, taking over this position from France. The US is still the single most important export destination but China is catching up. Other important drivers of the German export revival are Poland, Hungary and the Czech Republic.

Looking ahead, with these numbers, exports (and industrial production) could still prevent the economy from falling into a second lockdown depression in the final quarter of the year. More generally speaking, given the nature of the second lockdowns, it seems as if the more export- and industry-orientated economies should suffer less than the more service-orientated economies. At least in the nearer term.

In the longer term, there are several opposing factors shaping the outlook of the German export sector. On the positive side, there is the strong Chinese recovery and the new US administration, which should both benefit German exports. On the more negative side, however, there will come a time when China no longer needs German products but can produce them on its own. Also, the export sector remains subject to structural changes in the global economy, particularly the transition away from traditional manufacturing toward services, high tech and electric vehicles. And finally, don't forget the stronger euro. If it is a sign of an upcoming synchronised global recovery, the stronger currency will do little harm to German exports but at the same time the appreciation of the nominal effective exchange rate by almost 10% since 2017 will pass by entirely unnoticed.

All in all, despite the October slowing, the export sector remains one of the few hopes of the German economy to avoid a significant contraction in the fourth quarter. The longer-term outlook, however, remains very mixed, illustrating that the sector will not easily return to its former strength.

## Author

### Carsten Brzeski

Global Head of Macro

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

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