Germany: Still struggling

February trade data did not bring any relief to the German economy. But wait, it can only get better

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Still struggling. German exports (seasonally and calendar adjusted) dropped by 1.3% month-on-month in February, from a flat reading in January. Imports decreased by 1.6% MoM, from +1.5% MoM in January. As a result, the trade balance widened to €17.9 billion in February, only slightly lower than in February 2018. On the year, exports were still some 3.9% stronger than in February 2018. The German export sector is still wrestling with global uncertainty.

The last piece in a series of disappointments

In fact, the export sector had been on a rollercoaster ride through all of 2018, with problems in emerging markets, trade tensions between the US and China, US protectionism, a possible cooling of the Chinese economy and increasing fears of a hard Brexit. There simply seem to be too many crises in global trade for the German export sector to defy all of them at the same time. Another factor, which was somewhat underestimated in 2018, was the exchange rate. Despite the euro's weakness vis-à-vis the US dollar, Germany's real effective exchange rate had appreciated significantly since the start of 2017 on the back of falling emerging market currencies. The currency tailwind German exporters experienced between 2015 and early 2017 had turned into a headwind.

Looking ahead, there are in our view several factors pointing to another wind of change, this time around for the positive. The trade-weighted exchange rate has lost some 2.5% since the end of 2018 and has dropped to the lowest level since May 2018. Also, recent real-time indicators suggest a rebound in global trade since the start of the year and relief in the trade tensions between the US and China should also benefit German exports.

Today's trade data is yet another disappointment for the German economy. However, chances are high that the February disappointments simply came at the trough of global uncertainties and that some improvement is in the offing.

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