

## Germany: Another surge

Strong exports keep the 'V' hopes alive for the third quarter. However, they also mask underlying and continuing structural challenges for the German export sector



German exports (seasonally and calendar adjusted) continue to play catch up with the rest of the economy. In July, exports increased by 4.7% month-on-month, from 14.9% in June. At the same time, imports increased by a meagre 1.1% MoM, from 7.0% in June. As a result, the trade balance widened to €19.2bn, from €15.6bn in June. Both exports and imports were still more than 10% below their July 2019 levels.

### Strong growth masks underlying structural challenges

Next to hotels, restaurants and culture, which are still suffering from the effects of social distancing, the export sector is probably the most exposed to the crisis, suffering from the domestic lockdown measures as much as from lockdowns across the world and supply chain disruptions. Moreover, the export sector is also subject to structural changes in the global economy, be it more protectionism, a transition away from traditional manufacturing toward services, high tech or electric vehicles. The different degrees of lockdowns as well as the uneven recovery across eurozone countries are also reflected in German export data, with the share of exports to France, Italy, Spain and the UK having dropped significantly in the second quarter. Just as an illustration: Germany exported more to the Netherlands than to France, and more to China

than to the US.

While today's numbers are good news for our call of surging GDP growth in the third quarter and suggest that the export sector is flourishing again, we should not get carried away by these numbers. They are still part of the mechanical rebound. In fact, the German export sector is still suffering from structural challenges including trade tensions, Brexit and global supply chain disruptions as well as difficulties among its main trading partners to cope with the virus. The fact that today there will be another meeting between the government, regional governments and the automotive sector illustrates that good management of the crisis so far has not made the structural problems of industry simply go away.

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