

## Germany: Exports recover but leave lots of room for further improvement

May trade data confirm that the V-shaped rebound is mainly taking place in the domestic economy. Exports and industry are still lagging behind



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German exports (seasonally and calendar adjusted) staged a comeback but still have a long way to go before returning to pre-crisis levels. In May, exports (seasonally and calendar adjusted) increased by 9% month-on-month, from -24% in April. Exports were still down by more than 26% compared with their February level. At the same time, imports increased by a meagre 3.5% MoM, from -16.6% in April. As a result, the trade balance widened to €7.1bn, far away from record highs of more than €25bn.

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. The different degrees of lockdowns across eurozone countries are also reflected in German export data, with exports to France, Italy and Spain dropping more significantly in April than to most other trade partners. Interestingly, the share of exports to China increased to the highest level ever.

Looking ahead, while April was the worst month ever in terms of most economic data releases, the

month of May has been one of the best months ever. However, it will need a couple of these record months to bring the economy back to its pre-crisis level. In particular, the divergence between domestic and external demand is remarkable. While retail sales surged with the lifting of the lockdown measures, the much more muted improvement of industrial production and exports illustrates that the former growth engines of the German economy will continue to stutter for a while.

The German export sector is 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. In past recoveries, the German economy could always count on exports to kickstart the recovery. After the 2008/9 crisis, it was the Asian countries and strong demand for German investment goods which helped the German economy to overcome the recession swiftly. This time around, the economy will have to look to something other than exports to stimulate growth. Another reason why the German government has made a remarkable U-turn on fiscal policies and has become a big spender. If it succeeds, Covid-19 could have been an important driver in finally getting a more balanced growth model of the German economy.

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