Germany: Finally some positive data

At least some relief for the economy, as exports increased in July. The outlook, however, has not improved

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The numbers

Trade figures just brought some relief for the battered German economy. In July, exports increased by 0.7% month-on-month (seasonally and calendar adjusted), from -0.1% MoM in June. Imports dropped by 1.5% MoM from 0.7% MoM in June. As a result, the trade balance widened to €20.2 billion in July. Not adjusted for seasonal and calendar effects, the trade balance widened to €21.4bn from €16.6bn in June. Since the start of the year, exports have still dropped by 0.1% MoM on average every single month.

Indirect impact from trade conflict is what matters

When talking trade in Germany, everyone immediately thinks of the trade conflict between the US and China. Interestingly, however, it is not the direct but rather the indirect impact from the ongoing trade conflict, which currently weighs on German exports. In fact, German exports to China and the US have performed better than exports to other eurozone countries in the first half of the year compared with the first half of 2018. While exports to the rest of the eurozone were only up by 0.5%, exports to both the US and China were each up by more than 4%. Looking at the

EU, German exports to Scandinavian and Baltic countries suffered significantly, while exports to Eastern European countries remain an important driver for growth. The economic stagnation in Italy left a big mark on German trade, with exports to Italy down by 1.5%. The US is still the single most important export market for Germany, followed by France. While this currently is good news, it is also a double-edged sword as it shows how vulnerable the German economy is to possible US tariffs. Nevertheless, what is hurting German exports the most right now is not the direct impact from the US-Chinese trade conflict but the uncertainty, which has spread across the globe and has also paralysed many European economies.

Looking ahead, however, the US-China trade battle remains important for the outlook for German exporters. This is not just because of the ongoing conflict but also because of a possible conflict between the US and the EU, with President Trump already joking about tariffs on cars, and future trends in the Chinese market for automotives. The currency is another channel through which the trade conflict can harm the German economy. In August, the nominal effective exchange rate of the euro was still close to its 2018-average, providing little support for exports. However, over the last few weeks, the effective exchange rate has lost some ground.

Following and analysing the German economy requires a high capacity for suffering these days. This morning's trade data brings a very weak ray of sunshine. Nothing more but luckily also nothing less.

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