

## Germany: Robust export growth amidst trade tensions

German exports rebounded in May, providing more evidence of a strengthening of the economy in the second quarter



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Despite ongoing trade tensions, German exports did what they normally do: grow. In May exports increased by 1.8% MoM, from -0.3% in April. At the same time, imports increased by 0.7% MoM, from 2.6% MoM in April. As a result, the trade surplus narrowed somewhat, from EUR20.1bn to EUR19.7bn.

These days, talking about German trade means talking about potential trade wars. Here, it is the German automotive sector which often is the subject of potentially adverse effects. In the ongoing conflict between China and the US German car manufacturers could suffer, given that they export more from US plants into China than any single US car manufacturer. However, even at a broader level, an escalation of the trade conflict, including US tariffs on European cars, would have a manageable impact on the German economy. According to recent estimates from the Ifo institute, this impact could amount to c.0.15% of GDP.

However, let's be clear: up to now the impact from changes of the euro exchange rate has been, and should remain, much more important to German exports than any trade tensions. While

currently German exporters are still facing the delayed impact from last year's strengthening of the euro (by c.6.5% in nominal effective terms), the latest weakening of the euro should bring some relief in coming months, more than offsetting current US tariffs on European aluminum and steel. At the same time, German exporters seem to have shifted their focus already somewhat closer to Eurozone peers. In the first months of the new year the share of German exports going to France, the Netherlands, Italy and Spain increased, while the share of exports going to the US slightly dropped.

Looking ahead, and despite the very benign impact of trade tensions so far, a fully-fledged trade war would surely leave negative marks on the German economy. However, up to now, hard data tells a different story.

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