

Germany: small rebound in July exports

Trade data confirms industry's summer break but current positive cycle should continue



Source: istock

German trade data brought more evidence of a summer calm. A calm, however, which should be no reason to worry. Exports increased by only 0.2% MoM in July, from -2.7% in June. At the same time, imports increased by 2.2%, from -4.4% MoM in June. As a result, the seasonally-adjusted trade balance narrowed to 19.6bn euro, from 21.2bn euro in June.

While financial markets and the ECB are getting increasingly concerned about the strength of the euro, the country which often claims to be the world champion is still enjoying a strong export recovery in spite of two weak months. In fact, average monthly exports growth this year have been the strongest since 2010.

There are several reasons for this export revival, amidst the strengthening of the euro :

- i) It takes a while before exchange rate fluctuations reach the real economy and hedging activities by companies have lengthened this lag in recent years.
- ii) German exports are often less price sensitive than exports from other countries due to the product specialisation and market segment.

iii) Global growth and the Eurozone recovery have created a stronger demand for German products.

iv) Diversification of export destinations best illustrated by the trade-weighted exchange rate.

While the euro has gained more than 13% vis-à-vis the US dollar since April this year, the German effective exchange rate has only increased by 4%.

Even though this week's industrial data was anything but splendid, strong fundamentals combined with buoyant confidence indicators still point to quick rebound of industrial activity after the summer break. The upside of the weak start to the third quarter is that the upside potential has increased.

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