

## Germany: Trade closes disappointing quarter

June trade data did not bring any relief, making a small contraction in the economy more likely in the second quarter



Trade figures just added to dismal data coming out of the eurozone's largest economy this week. German exports (seasonally and calendar adjusted) dropped by 0.1% month-on-month in June, from 1.1% MoM in May. On the year, exports were down by a painful 8%. Imports increased by 0.5% MoM, from -0.5% MoM in May. As a result, the trade balance narrowed to €18.1 billion in June, from €18.7bn in May. Not adjusted for seasonal and calendar effects, the trade balance shrank to €16.8bn, from €20.6bn in May.

### Preparing for a small contraction of the economy in 2Q

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 the indirect impact from the ongoing trade conflict, which weighs on German exports. In fact, German exports to China and the US have performed better in the first half of the year than exports to other, often European countries. 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. What is hurting German exports currently, is the uncertainty, which has spread across the globe and has also paralysed many European economies.

Brexit also plays a role for German exports. In the run-up to the March deadline, German exporters benefited significantly from UK stockpiling. Now, they are suffering from the hangover of the stockpiling party. In April and May, German exporters sold almost as much to Austria as to the UK.

Looking ahead, the outlook for German exporters is clearly in the hands of the US and China. Not only regarding the ongoing conflict but also regarding 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 recent devaluation of the Chinese currency is another channel through which the trade conflict can harm the German economy. The nominal effective exchange rate of the euro has increased to the highest level since mid-January. If the ECB or the eurozone were really currency manipulators, they are unsuccessful ones...at its current level, the nominal effective exchange rate is close to its 2018 average, indicating that further weakening on the back of new monetary stimulus could support exports.

All in all, today's trade data marks the end of a disappointing second quarter. The bean counting season has started and will end next Wednesday with the release of German 2Q GDP. So far, it looks as if private consumption and government consumption were the weak growth drivers, while investment, construction, and trade were all negative. The only hope is on the residual: inventories. With today's data, a small contraction has just become more likely.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

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