

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

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.