Germany: Worst month ever - the final chapter

The only upside from this morning's trade numbers is that in terms of monthly economic data, the worst should now be behind us

German exports (seasonally and calendar adjusted) were clobbered in April, dropping by 24% month-on-month, from an already dreadful -11.7% in March. At the same time, imports decreased by 16.5% MoM from -5.1% MoM in March. As a result, the trade balance narrowed to €3.2 billion in April. Germany's trade surplus disappeared within just two months.

In the midst of the financial crisis, it took German exports five months to shrink by a total of 26%. In the Covid-19 crisis it only took the month of April to get practically the same result. In March and April, exports have now shrunk by almost 36%. The export sector is probably the most exposed to the crisis, suffering from the domestic lockdown measures as much as from lockdowns across the world and supply chain disruptions. The different degrees of lockdowns across eurozone countries are also reflected in German export data, with exports to France, Italy and Spain dropping more significantly in March than to most other trade partners.

Looking ahead, while April was the worst month ever in terms of most economic data releases, the month of May could become one of the best months ever. Judging from mobility data, the lifting of the lockdown measures should lead to a strong pick-up, even though this pick-up might be spread across May and June- at least in terms of domestic economic activity. As regards the export sector, there will definitely be a temporary rebound but structural challenges including trade tensions, Brexit and global supply chain disruptions, do not bode very well for the medium-term outlook. A rebound here in the coming months will not be the same as a return to normality.

The only upside from today's data is that it was the final chapter in what has been the worst month ever for the German economy. With the worst now behind us, things will start to brighten. In past recoveries, the German economy could always count on exports to kickstart the recovery. After the 2008/9 crisis, it was the Asian countries and strong demand for German investment goods which helped the German economy to overcome the recession swiftly. This time around, the economy will have to look to something other than exports to stimulate growth.

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