



Talking point



Two charts and a painful message

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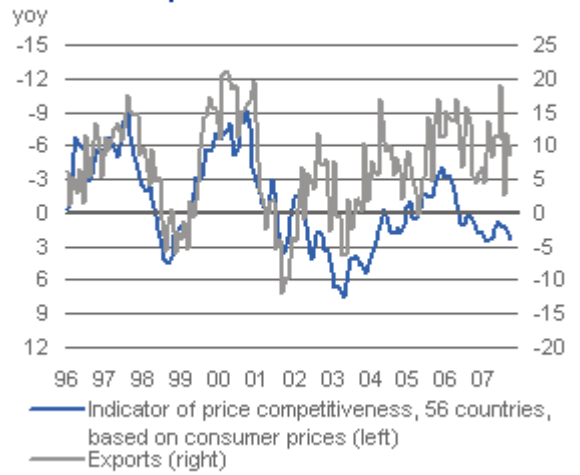
The euro is flirting with the USD 1.50 mark. At the same time, signs are mounting that the world's (still) largest economy will – if nothing worse – slow down noticeably on the back of the sub-prime crisis.

One would expect such messages to considerably depress sentiment in Germany, the world's export champion. Indeed, the ifo business climate index has looked a little sickly for six months now, but it is still higher than average and has even risen again slightly in November. Companies' export expectations have been even more of a surprise, as they have edged down only a little from the record highs seen one year ago.

After all, Germany isn't the world's export champion for nothing. For our customers, quality and creativity, reliability and service certainly count for more than the simple price. This and similar assertions can still be heard from many sectors of German industry. The Bundesbank, too, has applauded the robust state of German industry, its full order books and highly attractive range of products. So who cares if the R-word is beginning to make the rounds in talk about the US. Today, no more than 7.6% of total German exports go to the US. China and India, the oil-producing countries – that's where the action is. And these economies keep growing along happily - thanks to "decoupling".

But one look at the two charts and this carefree feeling could quickly disappear. They show that German exports do in fact react to changes in price competitiveness and that the euro's strength does not bode well. Particularly sobering, though, is the message to be read from the second chart. It reveals a close correlation between total German exports and the US ISM Manufacturing Index. As mentioned above, only 7.6% of German exports go directly to the US, which can only mean that the rest of the world is influenced very strongly by the US business cycle. (That cause and effect could be just the opposite is unlikely given the countries' size and degrees of openness.) Admittedly, charts may only depict past developments, but even very recent data do not point to changes in these correlations. The message is clear: export growth will slow substantially in 2008. In Germany, almost one in four jobs already depends directly or indirectly on exports. This will also weigh on domestic demand.

Price competitiveness and German exports



German exports and US ISM



To make matters worse, the two factors putting the brakes on German exports are even highly correlated. Should the US economy actually slide into recession, a look at the EUR/USD exchange rate might make us feel quite dizzy.



Stefan Schneider (+49) 69 910-31790

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