



More difficult international environment dampens export outlook

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German exporters have had to deal with numerous challenges over the last few years. Exports to the UK, Russia and Turkey have been unusually volatile and trended downwards. Nevertheless, aggregate German exports rose by more than 3% p.a. in real terms between 2012 and 2017. Since the beginning of 2018, the trade conflict between the US and China has steadily intensified. The challenges might spread and turn into a global problem if the US begins to levy import tariffs on additional imports from China and/or increases existing tariffs. Doing so would probably cause the Chinese authorities to respond in kind.

World trade: Indicators point to lower dynamic



Sources: CPB, ifo, IHS Markit, EC, Deutsche Bank Research

The measures announced and implemented so far have considerably dampened sentiment, and not just among German exporters. This is evident from the deterioration in leading indicators. Standardised ifo manufacturing export expectations and the standardised new export order component of the global PMI dropped into negative territory in October 2018. Similarly, the European Commission's standardised competitiveness indicator has declined markedly in the last few months and is only just about positive right now. These



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indicators are strongly correlated with world trade and suggest that world trade growth is likely to slow markedly. In August, the growth rate was still near 4% yoy (latest available figures), probably not least due to the fact that some purchases seem to have been brought forward in order to beat the tariff increases.

Overall, world trade has been relatively sluggish since the financial crisis, and the momentum looks set to remain subdued under the new framework conditions, which will have a structural effect, too. The growth outlook for German exports is therefore subdued as well. We expect exports to increase by only 2.5% in real terms this year, i.e. at roughly half the rate seen in 2017 (4.6%).

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