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To the point!

Cross-Asset- and Strategy-Research

Germany's export model has peaked

Germany's trade balance in deficit!
That is no reason to worry

In May, Germany's foreign trade statistics showed a deficit. Although it was only about €1 billion, it was still the first time since 1991 that imports exceeded exports.

There are two main reasons for the trade deficit:

1. The high price of energy causes ballooning import bills. Since oil in particular is invoiced in U.S. dollars, the weak euro reinforces import costs.
2. International supply chains have come under additional pressure from China's rabid zero-covid-policy. The German export industry, dependent on foreign supplies, was therefore reduced in its ability to sell.

High export surpluses are a thing of the past

While these two currently dominant factors are likely to disappear in the medium term, structural changes will slow down the export performance of German producers:

1. It is likely that many export-oriented companies will adjust their business strategy and respond to the damaging experience with fragile supply chains. This is likely to include increased local stockpiling of inputs and geographic diversification of global suppliers. These steps serve to increase resilience. But they also create additional costs. After all, the existing dependencies on often only one or a few foreign suppliers and just-in-time production was done against the background of minimizing production costs. Increased resilience will therefore be paid for with lower efficiency. This will weigh on the competitiveness of exports.
2. Geopolitical tensions, especially between Beijing and Washington, threaten to accelerate the protectionist tendencies of the



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The drivers of the negative trade balance are of a temporary nature...

...but structural factors do not suggest a return to the "world export champion" model

last decade (Trump, Brexit, ...). This does not bode well for Germany's export-driven growth model.

3. Demographic change in Germany will inevitably exacerbate the already rampant shortage of skilled workers. Labor costs will increase structurally. That, too, will cost competitiveness. Moreover, people who no longer work will no longer contribute to export production, but they will still import consumer goods. The number of these "deficit people" will grow steadily in Germany.

Aging societies will not be export champions

An export surplus always means that the domestic population will forego consumption to the same extent. Therefore, from the point of view of the welfare of the local population, the maximization of a trade surplus should not be considered desirable. It is good if an aging population has claims on (younger) foreign countries. Foreign assets are the result of past export surpluses. Germany is a net creditor to the rest of the world of almost [€3 trillion](#) (see chart for a per-capita view). Only more populous Japan has even higher absolute foreign claims.

But these are not a goal in themselves. They are useful when an aging population leads to structurally shrinking national savings. This results in external deficits and melting foreign assets. The median age of the German population in 2020 was almost 48. Of all the countries in the world, only Japan is older.

Germany's gigantic export surpluses of the past are therefore unlikely to be repeated. We should accept this as normality



Source: IMF

Aging societies import more and export less. That is normal.

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