



## Trump doesn't understand the statistics

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On the international stage, complaining about Germany's trade surplus seems to have become a popular pastime. Recently, the US President Donald Trump really outdid himself when he described the Germans as "bad" because they sell so many cars to the United States.

It is true that the US is our most important trading partner and cars are, in fact, a big part of our exports. Practically half of our trade surplus is the result of selling cars. In this sense, Trump is indeed right – but his assessment is completely wrong. On the one hand, German car manufacturers have significant operations in the United States itself and create jobs there. For example, the largest BMW production facility is located in South Carolina, from where cars are exported around the world. On the other hand, our current account surplus does not damage the United States at all.

So, how does all of this fit together? All economic transactions between Germany and the rest of the world are recorded in the balance of payments. The current account is part of that and is comprised, among other things, of the balance of trade – this is normally the largest item – and the balance of services. The balance of trade only documents the export and import of goods. The balance of services accounts for things like cross-border tourism. In purely accounting terms, Germans' wanderlust leads to a net import of services. Despite this, due to the fact that it exports a lot of goods, Germany usually runs a current account surplus while the United States has a deficit.

According to the principle of double-entry accounting, every transaction is offset by an opposite entry. Therefore, it follows that a surplus in the current account is balanced by a deficit in the capital account. In this way, by looking at the current account surplus, it is possible to make an inference about how financial claims towards other countries have changed. Last year, Germany's claims towards other countries rose by EUR 231 billion. The financial crisis taught us that many of these receivables are never paid. To put it simply, Germans first sent their products abroad and then had to write off a portion of their financial claims. In other words, part of the total production was given away to other countries free of charge. To insult Germany for this, or even the desire to punish it, does not make any sense whatsoever. In fact, other countries should be pitying us.

From an economic perspective, you can express this situation in another way. At the end of the day, Germany is "financing" investments in other countries, whose savings are too low, with its capital exports. That is to say, countries that live permanently beyond their means, such as the United States. Donald Trump ought to be happy that countries like Germany produce more than they can consume themselves and thus make goods available to other countries. This does not only apply to the abstract language of accounting techniques. If you look at capital expenditure activity in Germany over the last few years, it becomes clear that, while the current account surplus rose, there was a significant decline in capital expenditure as a percentage of total output. And this is a genuine problem - not for other countries, but for us. This is because we are gambling away our future by neglecting our capital stock.

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It appears that companies in Germany consider their earnings prospects to be too low, even if the first signs of improvement have recently emerged. However, this is far from sufficient. This is where economic policy must come in: the conditions for investing in Germany must be significantly improved. Then, the current account surplus would automatically fall and, as a positive side effect, we would no longer be reprimanded – at least not for a current account surplus, anyway. ■