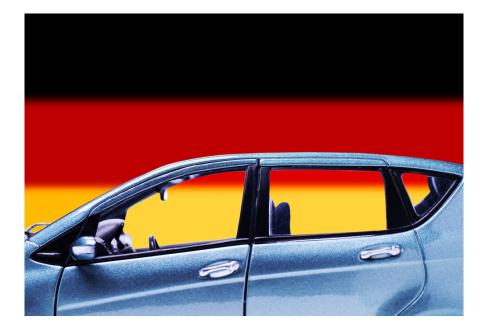
THINK economic and financial analysis



Germany

Germany: Industrial hibernation

German industry has taken a long winter break, with data disappointing at the start of the year



A weak start...

Just released industrial data confirms the German economy had a weak start to the new year. After yesterday's disappointing new orders data, industrial production and trade were also weaker than expected. Industrial production dropped marginally in January by 0.1% month-on-month, from -0.3% MoM in December. On the year, however, industrial production is still up by 5.5%. Interestingly, activity in the construction sector continued its downward trend of the last few quarters. At the same time, exports and imports both declined by 0.5% MoM respectively, narrowing the trade surplus to 17.4bn, from 18.2bn in December. Finally, the German statistical agency also released a number that will definitely catch the ECB's attention: labour costs slowed down in the fourth quarter of 2017 to 1.5% YoY, from 2.2% in the third quarter.

In our view, a weak start to the new year is nothing new for the German economy. In recent years, German economic data has been increasingly sensitive to seasonal effects and vacation planning. We believe the weak January data is more a sign of an extended vacation period after Christmas than a structural slowdown at the end of a mature cycle.

But the outlook is rosy

At least in the near term, the prospects for German industry have rarely looked rosier. Capacity utilisation is at its highest level since 2008; the last time companies regarded equipment as such a strong limitation to production was in 2007. Order books are filled and companies currently report the longest ever period of assured production.

The biggest risk

As regards trade, obviously the biggest risk currently for German exports seems to come from the US, illustrated by US President Trump's announcement last night of import tariffs. In fact, the risk for Germany is a real one. In 2017, the US was Germany's largest export partner. The bilateral trade surplus amounted to more than 50bn euro, with vehicles and machinery recording the largest bilateral surplus. At the same time, Germany runs a significant trade deficit with the US in agricultural products. The only comforting factor for Germany is that it has a very diversified export sector. Looking at bilateral trade data for the entire last year, the geographic diversity of German exports once again seems to be the key to success. In particular, Germany's close and distant neighbours in the East have safeguarded last year's export revival. Germany currently exports as much to Hungary, Poland and the Czech Republic as it does to the Netherlands, Belgium and Luxembourg. Exports to China have also rebounded.

No room for complacency

In recent days, some darker clouds have appeared in the German economic sky. New protectionism would definitely hurt the self-proclaimed export world champion and the Italian elections could slow down current euphoria. However, at least for the near term, there is plenty of evidence that the German economy will power ahead. And as regards the longer term, the latest events should be a clear reminder to the new German government that complacency, either on Eurozone integration or on domestic investment, is not an option.

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