

## Germany: More disappointments

It's almost like a hangover which does not want to go away. This morning's macro data suggests the German economy has had more trouble re-accelerating than previously thought



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Industrial production took a dive in April, dropping by 1.0% month on month, from an upwardly revised 1.7% MoM in March. On the year, industrial production is still up by 2%. The drop was driven by most sectors. The only upside of today's report was that production in the construction sector increased by 3.3% MoM.

At the same time, April trade data saw a partial reversal of the March gains with exports dropping by 0.3% MoM, from 1.8% MoM, and imports increasing by 2.2% MoM, from -0.2% MoM. As a consequence, the trade surplus narrowed significantly to €20.4 billion, from €24.7 billion euro in March.

### Treading water

Not all is bad in this morning's macro data from Germany but the economy is clearly treading water and is not managing to shift up a gear. The reasons for this disappointing stagnation are manifold. Currently, the German economy is in the middle of a difficult combination of negative one-offs, dropping optimism and strong fundamentals. However, as we go on, it gets harder and

harder to explain weak activity with weather effects, the timing of holidays, the flu or strikes. It seems as if supply-side constraints are increasingly hampering Germany's growth prospects. Both equipment and labour are currently at their highest levels ever and are limiting factors to production. Against this background, more investment seems to be the best and easiest way forward. It would increase production capacity and could lift the current speed limit.

## Hope dies last

Looking ahead, high capacity utilisation and low inventories still argue in favour of a rebound of industrial activity. In fact, the German economy shows increasing parallels with the national football team, which although entering the World Cup in Russia next week as defending champion, has not won a single match this year. For the team, as well as for the economy, the old saying "hope dies last" should not be overstretched. It is getting time for the economy to really show its full strength.

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