

Germany: Move along folks, no downswing to see here

Rebounding exports and industrial production prove that talk of a downswing has been premature



Data brings relief

This morning's macro data brought some relief to the German economy. Rebounding exports and industrial production show that talk of a downswing has been premature. Still, the rebound comes probably too late to avoid the weakest quarterly performance of the economy since 3Q 2016.

Industrial production increased by 1.0% month-on-month in March, from -1.7% MoM in February. On the year, industrial production was up by 3.2%. Growth was almost equally spread across all sectors. Notably, even though activity in the construction sector increased by 0.6% MoM, the overall performance of the construction sector since April last year has been disappointing.

At the same time, trade data brought more relief but did little to hush international criticism of the German trade surplus. Exports increased by 1.7% MoM, from -3.2% MoM in February. As imports dropped by 0.9% MoM, the trade surplus widened significantly to 25.2bn euro, close to the all-time high from March 2016. Obviously, talks about trade sanctions have been nothing more than talks

so far and have not left any marks on the German export sector, yet.

Start of a downturn?

Disappointing data, both soft and hard, since the start of the year, have cast doubt on the strength of the German economy and invited speculation about the beginning of a possible downswing of both the German and the Eurozone economy. While uncertainties and downside risks have indeed increased recently, there is, in our view, little reason to doubt the underlying strength of the current recovery.

In fact, taking a closer look at the German economy shows promising signs of a rebound in the coming months. Despite some minor levelling off, capacity utilisation is still close to record highs, assured production in the industry is close to all-time highs and the high stock of orders and historically low inventories all bode extremely well for industrial production in the coming months. Also, loans to the corporate sector are currently growing at higher rates than in the pre-crisis period.

The biggest domestic problem for the German economy is that it is almost literally coming apart at the seams. Demand is as insignificant a problem as in the first years after reunification. Instead, supply-side factors 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 limits.

All in all, the German economy is currently in the middle of a difficult combination of negative one-offs; dropping optimism and strong fundamentals. To a large extent, distorted by weather effects, the timing of vacation, the flu and strikes, next week's GDP data could show the weakest growth performance of the German economy since 3Q 2016. Today's positive macro data will probably be the famous "too little, too late". However, it should be enough to transform an almost disastrous start to the new year into a minor incident.

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