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
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.

Carsten Brzeski
Chief Economist, Eurozone and Global Head of Macro
+49 69 27 222 64455
carsten.brzeski@ing.de
Disclaimer

“THINK Outside” is a collection of specially commissioned content from third-party sources, such as economic think-tanks and academic institutions, that ING deems reliable and from non-research departments within ING. ING Bank N.V. (“ING”) uses these sources to expand the range of opinions you can find on the THINK website. Some of these sources are not the property of or managed by ING, and therefore ING cannot always guarantee the correctness, completeness, actuality and quality of such sources, nor the availability at any given time of the data and information provided, and ING cannot accept any liability in this respect, insofar as this is permissible pursuant to the applicable laws and regulations. This publication does not necessarily reflect the ING house view. This publication has been prepared solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice. The information in the publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam).