

Germany: (No) need to panic

July industrial data continues to disappoint but should be just a normal dip and not the start of a severe downswing



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German industrial production took another summer hit, dropping 1.1% month on month in July after falling 0.7% MoM in June. On the year, industrial production was still up by 1.1%. The drop was broadly spread across all sectors and only activity in the construction sector rebounded strongly. At the same time, exports had another bad month, probably driven by global trade uncertainty, decreasing by 0.9% MoM. In June, exports remained unchanged. As imports increased by a strong 2.8% MoM, the seasonally-adjusted trade surplus narrowed for the second month in a row to €15.8 billion, from €19.3 billion in June.

Today's industrial data is clearly a dampener for growth optimists. At the same time, however, it is not the first time that monthly data has disappointed before rebounding strongly afterwards. The summer dip, in our view, seems to be driven by uncertainty stemming from global trade tensions and once again the summer vacation period. Finally, it also seems that after a strong inventory build-up in the first half of the year, companies are simply reducing their stocks.

For the time being, this week's disappointments are not a reason to worry. We have got used to the ups and downs, a permanent seesaw of disappointing and impressive German macro data. Maybe this simply is what characterizes a late-cycle economy. This seesaw makes it harder to

identify any start of a slowdown and it definitely requires some caution not to jump to conclusions. Even disappointing new orders data as released yesterday are not necessarily a prelude to an industrial slowdown.

With more ups and downs, reading and understanding the German economy has become more complex. What in our view remains is an economy which is experiencing another slight structural shift in its export sector - with the share of exports going to other eurozone countries increasing, severe supply-side constraints in many sectors of the economy and trade tensions. Regarding the latter, let's not forget that the big relief for European exporters only came at the end of July with Jean-Claude Juncker's visit to Washington, D.C.

The strongest assets of the German economy currently are the weak euro and strong domestic demand on the back of low interest rates, record high employment and wage increases. On top of that, some fiscal stimulus should support the economy next year.

All of this means that this week's disappointing industrial data are not a reason to panic but a good reminder that a late-cycle economy is characterized by light and shadow.

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