

## Germany's long slide into recession continues

Industrial production held up well in September, illustrating how the economy stumbled but didn't fall in the third quarter. Macro data and events of the last week, however, confirm our view that the economy's long slide into recession continues



German industrial production increased by 0.6% month-on-month in September, from a downwardly revised -1.2% MoM in August. On the year, industrial production was up by 2.6%. Production in the energy-intensive sectors, however, dropped by 0.9% MoM and is now down by almost 10% compared with September last year. Global supply chain frictions as well as the impact of low water levels on logistics combined with high energy prices continue to weigh on German industry. Industry didn't fall off a cliff in the third quarter but stagnated.

### Third quarter growth weaker than headline data suggest

While the first estimate of third quarter GDP growth came in at a surprisingly positive 0.3% quarter-on-quarter, seemingly defying the recession talk of recent months, the batch of September data paints a clearly more pessimistic picture. Here is a brief overview:

- The order book deflation has continued with monthly industrial orders dropping by 4% MoM

in September; the seventh monthly drop since February. At the same time, inventories have started to increase again. Shrinking order books and inventory build-up has never really boded well for future industrial production.

- At the same time, exports dropped marginally in September. Adjusted for price developments, exports have stagnated compared with 2021. With export order books also shrinking, the outlook for exports has worsened. As a result of increased energy imports at much higher prices, the famous German trade surplus has almost disappeared. While Germany was used to trade surpluses between €10bn and €20bn per month, the surplus has shrunk to a range of €1bn and €4bn.
- Finally, despite good headline numbers and seasonally-unadjusted unemployment dropping in October, there are tentative signs of the labour market turning. Monthly movements since the summer were the worst in a long time and the number of employees on short-term work schemes has started to increase again, though still shy from the numbers seen during the first lockdowns. Hiring plans in both the manufacturing and services sector have started to drop significantly since the summer, providing additional evidence of a cooling labour market.

All in all, the state of the economy is clearly worse than the third quarter GDP data suggested. We wouldn't even rule out that the second estimate will show a downward revision.

## German government to the rescue?

Last week, the federal government and the 16 federal states agreed on a number of key measures and details, which were already announced by the federal government a few weeks ago. Details of the (up to) €200bn package:

- The introduction of a €49 monthly transport ticket enabling travellers to use short-and-medium-distance public transportation nationwide. The scheme is the successor of the so-called 9-euro-ticket that was implemented in the summer months of this year. The ultra-cheap monthly pass gave people access to regional train, metro and bus services across Germany. The exact timing of the introduction remains unclear.
- Gas prices will be capped at 12 cents per kilowatt hour, while electricity would be capped at 40 cents. According to the plan, 25,000 larger businesses and nearly 2,000 hospitals and schools would benefit from the gas price cap in January next year. Households and smaller firms may have to wait until March.
- Households and companies will get one-off compensation (not payment) in December based on the gas invoice downpayment (not actual consumption) in September.
- The federal government and state governments also confirmed that the state rent subsidy would be increased by an average of €190 a month and would be paid to 1.4 million more people than before, coming in at a cost of €5.1 billion. Also, a hardship fund would be set up for hospitals, nursing homes and social institutions and some companies that could not manage without some form of relief. An amount of €12 billion would be provided for health care and social institutions.

According to the government, the above measures amount to close to €90bn euro - fiscal stimulus worth more than 2% of GDP. The problem with many of these measures, however, is the timing and implementation. One example is the December compensation. Tenants who directly pay for energy via the landlord will only receive this compensation a year from now when the actual utility consumption invoice is charged.

## Gradually sliding into recession

Today's industrial production data confirms that the German economy stumbled but didn't fall in the third quarter. But this does not suggest that the recession calls are wrong. In fact, the latest macro data shows that the long slide into recession continues.

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