

## In case you missed it: Europe's challenges

As PM May requests the EU for an Article 50 extension, the threat of a hard Brexit becomes nearly inevitable, but that's not the only headache Europe has. European elections are around the corner, the ECB meets again next week and if the German auto sector faces another leg lower, expect the likes of the Czech Republic, Romania and Hungary to bear the brunt

### In this bundle



#### United States

##### US jobs report provides more cheer

After disappointment in February, job creation bounced back nicely in March. With pay set to continue grinding higher consumer fundamentals are in decent...

By James Knightley



#### France

##### How would a 'hard' Brexit hurt France?

In France, the trade deficit decreased in February to 4.0 billion euros. Trade is nevertheless expected to be a less important support for growth in 2019...

### Video

#### Watch: Don't panic, but be cautious!

Trade wars, slowing growth and Brexit: How is all this feeding into global economic sentiment? Get answers from ING's economists in Singapore,...

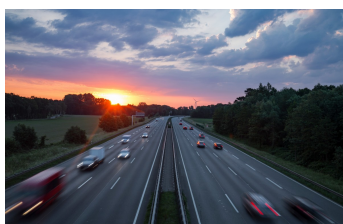
By Marieke Blom, Carsten Brzeski and Robert Carnell



#### ECB: Here we are now, enter-tier us

While tiering currently looks like the next big thing for the ECB, the minutes of the March meeting support our view that today's ECB meeting will not...

By Carsten Brzeski



FX | Germany...

### German car trouble and the CEE

Central and eastern Europe's direct exposure to the US car market is relatively small. However, its indirect exposure via Germany is much larger. Were...

By Carsten Brzeski, Rafal Benecki and 5 others



FX | Bulgaria | Croatia...

### CE4 policy tools for the next downturn: Who's got the firepower?

The early months of 2019 have seen the global economy struggling to shake off fears of a slowdown.

By Chris Turner, Rafal Benecki and 4 others



France

### France: Another 'national' European election campaign

President Macron's party is improving in the opinion polls ahead of the European elections in May. So too are France's economic indicators....



### Germany: Head scratching continues

A positive headline number, further weakening manufacturing data. What to make of this morning's German industrial data?

By Carsten Brzeski

## US jobs report provides more cheer

After disappointment in February, job creation bounced back nicely in March. With pay set to continue grinding higher consumer fundamentals are in decent shape



# 196,000

US jobs created in March

consensus was 177,000

Better than expected

### Payrolls back on track

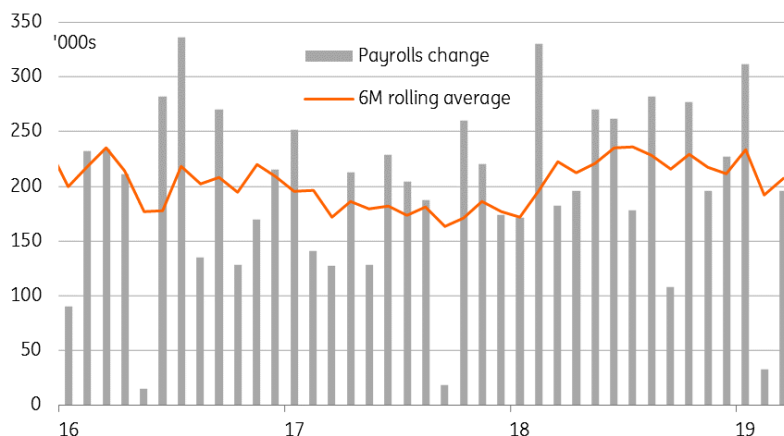
After a poor start to the year, some better news has started to come through including today's US jobs report. Payrolls growth has been very choppy recently, possibly due to the government shutdown and weather, with January's 311,000 increase followed by a poor (but upwardly revised) February figure of 33,000. We seem to be back on track with a 196,000 gain for March, above the 177,000 consensus. Separately, wage growth slipped a little to 3.2% YoY from 3.4% but the unemployment remains close to 50-year lows at 3.8%.

The details on payrolls show that manufacturing employment fell 6,000 which is the first fall for this component since July 2017. Unfortunately for President Trump it doesn't fit with his narrative that talking tough on trade and offering corporate tax cuts leads to re-shoring of jobs. Construction

employment rose 16,000 while private sector services saw employment rise 170,000 and government was up 14,000. All these latter components are broadly in line with recent trends.

The household survey, which is used to calculate the unemployment rate was not so positive – but it is important to remember there tends to be much more volatility within this survey. It reported that employment fell 201,000 but with worker participation falling (it had been steadily rising over the past 12 months) it helped keep the unemployment rate unchanged at 3.8%

## US monthly payrolls growth



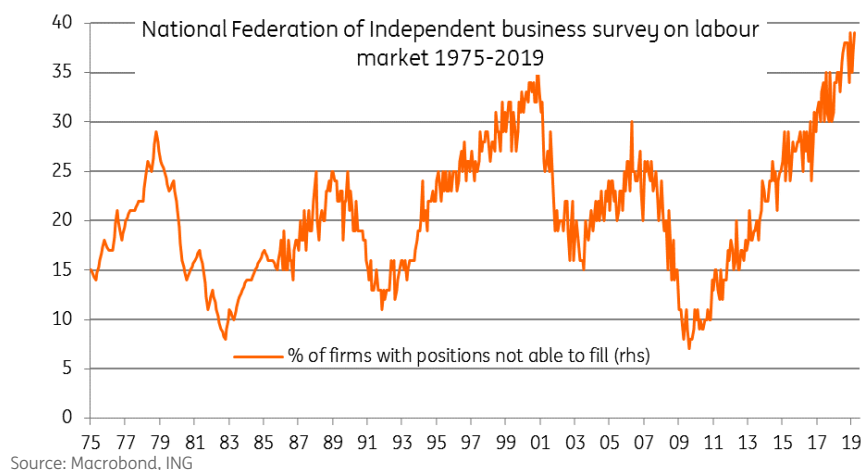
Source: Bloomberg, ING

## Demand for labour remains strong

We expect payrolls growth to continue averaging 150-200,000 through the summer given reasonable economic activity. After all, the latest economic figures have shown some signs of life with the Atlanta Fed GDPNow measure signalling 2.1% annualised growth in 1Q19 versus just 0.2% three weeks ago. At the same time the National Federation of Independent Businesses released its March labour indices yesterday and they showed a net 18% of businesses are looking to hire while the ISM employment components are also looking healthy.

Nonetheless, we think there will be some lost momentum in hiring, but this is more due to a lack of available labour to fill positions. According to the NFIB the proportion of companies that can't fill current vacancies is at an all-time high of 39%.

## Lack of labour a key constraint for jobs growth



## Competition to bid pay higher

This lack of available workers means that the competition for labour remains strong and this has been contributing to rising inflation pressures. The annual rate of wage growth rose from 2.6% in February last year to 3.4% in February – a ten year high. Unfortunately, wage growth disappointed in March, rising 0.1%MoM/3.2%YoY, but we view this as a temporary setback and expect it to soon resume its upward path.

## Implications for the Federal Reserve

Despite a period of financial market gloom, we remain relatively upbeat on the US' economic prospects. The strength in the labour market will continue to underpin consumer sentiment and spending. If progress can be made on US-China trade talks this can remove some of the economic uncertainty hanging over the global economy, which in turn should help to keep demand for workers strong.

While we acknowledge there are more headwinds for the US economy in 2019 versus last year we are in the camp that expects US monetary policy will be left unchanged this year, especially with rising wages likely helping keep inflation at or above target.

### Author

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

## How would a 'hard' Brexit hurt France?

In France, the trade deficit decreased in February to 4.0 billion euros. Trade is nevertheless expected to be a less important support for growth in 2019 than in 2018. Brexit continues to weigh as a risk. The impact of a 'hard' Brexit on French growth would be similar to that of the 'yellow vest' crisis but would affect different sectors



The French President, Emmanuel Macron and the British Prime Minister, Theresa May, at a meeting in November 2018

€4.0 Bn

Lower than expected

French trade deficit

Declined in February

### Trade will be less supportive in 2019

For most of the years since 2004, the trade deficit contributed negatively to growth in France. In this respect, 2018 was an exception as net exports (exports less imports) contributed a positive 0.6pp to GDP growth, offsetting weak domestic demand, especially at the end of the year. In fact, the performance of net exports was partly due to this weakness: the sluggish growth in consumption weakened imports last year. In fact, imports grew in real terms by only 1.3% in 2018

compared with 4.1% in 2017. Thus, even though exports saw their growth fall by 4.7% to 3.3%. % between 2017 and 2018, the contribution of net exports was still positive.

The current context does not seem as supportive for 2019. Indeed, business investment remains high, while a recovery in private consumption is expected, which should favour domestic demand and therefore imports. Meanwhile, global trade is still slowing on US-China trade crisis fears; the WTO has recently revised down its global merchandise trade growth forecast to 3% in 2019 after 3.9%. % in 2018.

In France, the trade deficit data published this morning shows a deficit of 4.0 billion euros, lower than it was in January. It is likely that the first quarter deficit will, therefore, only be slightly higher than the 4.2 billion reached in the last quarter of 2018, probably offsetting very slightly GDP growth in the first quarter of 2019.

## The UK is an important partner

Looking at geographies, Eurozone demand for French exports has seen lower dynamics recently, with a growth of only 1.4% in 4Q18. The US, and Asia (excluding China), which respectively represent 8% and 9% of total French exports, were much more dynamic (with growth of respectively 7.6% and 14.8%).

The United Kingdom is an important partner for France, with 6.6% of exports in 2018, more than China (4.2%) and almost as much as the USA (7.8%). The growth of French exports to the United Kingdom in 2018 was 5%, after a slight decrease recorded in 2017. In 4Q18, their progression was again superior to that of French exports towards the rest of Europe.

---

*We are just days away from a milestone in the Brexit process*

---

We are just days away from a milestone in the Brexit process. Indeed, if the British Parliament has not voted in favour of the agreement negotiated in December 2018 or in favour of the organisation of European elections before 12 April, there's no guarantee the European Council will agree a time extension. The United Kingdom would then, from 13 April, be considered a third country. If that probability is still low, it is also possible that we could be back here again by 2021, which should mark the end of the hypothetical transition period. However, the impact of a 'hard' Brexit on the French economy depends on two factors:

1. the importance of British demand in the activity (in the value added) of each sector of the economy and
2. the importance of each sector in the French economy.

## The impact of a potential 20% drop in trade with the UK

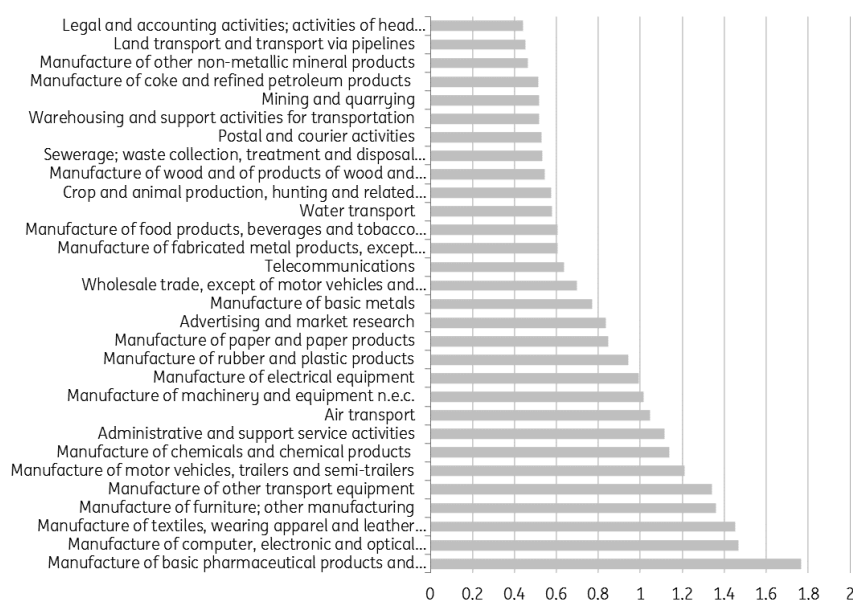
If the British demand represents 6.6% of French exports (6.9% in 2016), it is actually at the origin of 8.2% (2016 figure) of the added value due to the exchange of goods in the French economy. Trade actually creates more value than the face value of exports. As a result, British demand is also responsible for 1.6% of the total value added created in France by all sectors. In other words, assuming that a 'hard' Brexit causes a 20% drop in trade between France and the United Kingdom

in 2019, GDP for this year would be cut by 0.2pp, which would yield a GDP growth of 1.1% in 2019 in the case of 'hard' Brexit (as our current forecast is 1.3%). At the euro area level as a whole, ING currently estimates the effect at 0.3pp, so France would be slightly less affected.

Most sectors would not suffer much: in the scenario described above, 16 major sectors (representing 60% of French GDP) would have an impact less than or equal to the 0.2pp shock suffered on average by the French economy. Actually, only 11 sectors have more than 5% of their value added which directly depends on UK demand.

For the 30 sectors shown in the graph below, the effect would be greater or equal to 0.5pp of their total value added. A 'hard' Brexit would cost up to 1.8pp of value added in the pharmaceutical manufacturing industry. Of these 30 sectors, the loss of value added would, therefore, involve about 60,000 jobs (which however does not mean that they would necessarily disappear). It should be noted that most of the exposed sectors are in the manufacturing sector, but also that half of the jobs are in only three labour-intensive service sectors (administrative support, accounting or legal services, and wholesale trade).

## Sectors most impacted by a 'hard' Brexit



Source: World Input Output Database (WIOD) by Timmer et al, University of Groningen – ING computations

## An impact similar in size to the 'yellow vest' crisis

To conclude, we can say that the economic impact of a 20% decrease in trade with the United Kingdom would be absorbed by the French economy as a whole in 2019, but it would nevertheless be significant; growth would be cut by 0.2pp, an effect similar to that already endured by the economy following the 'yellow vest' crisis. However, it should be emphasised that the impact would be concentrated in certain sectors, particularly high value-added manufacturing sectors and employment-intensive service sectors which differ to those affected by the 'yellow vest' crisis at the turn of the year. The risk cannot, therefore, be ignored.

The full report in French is [here](#):



## Author

### **Alissa Lefebre**

Economist

[alissa.lefebvre@ing.com](mailto:alissa.lefebvre@ing.com)

### **Deepali Bhargava**

Regional Head of Research, Asia-Pacific

[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

### **Ruben Dewitte**

Economist

+32495364780

[ruben.dewitte@ing.com](mailto:ruben.dewitte@ing.com)

### **Kinga Havasi**

Economic research trainee

[kinga.havasi@ing.com](mailto:kinga.havasi@ing.com)

### **Marten van Garderen**

Consumer Economist, Netherlands

[marten.van.garderen@ing.com](mailto:marten.van.garderen@ing.com)

### **David Havrlant**

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

### **Sander Burgers**

Senior Economist, Dutch Housing

[sander.burgers@ing.com](mailto:sander.burgers@ing.com)

### **Lynn Song**

Chief Economist, Greater China

[lynn.song@asia.ing.com](mailto:lynn.song@asia.ing.com)

### **Michiel Tukker**

Senior European Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

### **Michal Rubaszek**

Senior Economist, Poland

[michal.rubaszek@ing.pl](mailto:michal.rubaszek@ing.pl)

**This is a test author**

### **Stefan Posea**

Economist, Romania  
[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Marine Leleux**  
Sector Strategist, Financials  
[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Jesse Norcross**  
Senior Sector Strategist, Real Estate  
[jesse.norcross@ing.com](mailto:jesse.norcross@ing.com)

**Teise Stellema**  
Research Assistant, Energy Transition  
[teise.stellema@ing.com](mailto:teise.stellema@ing.com)

**Diederik Stadig**  
Sector Economist, TMT & Healthcare  
[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

**Diogo Gouveia**  
Sector Economist  
[diogo.duarte.vieira.de.gouveia@ing.com](mailto:diogo.duarte.vieira.de.gouveia@ing.com)

**Marine Leleux**  
Sector Strategist, Financials  
[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Ewa Manthey**  
Commodities Strategist  
[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

## ING Analysts

**James Wilson**  
EM Sovereign Strategist  
[James.wilson@ing.com](mailto:James.wilson@ing.com)

**Sophie Smith**  
Digital Editor  
[sophie.smith@ing.com](mailto:sophie.smith@ing.com)

**Frantisek Taborsky**  
EMEA FX & FI Strategist  
[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Adam Antoniak**  
Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

**Min Joo Kang**

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

**Coco Zhang**

ESG Research

[coco.zhang@ing.com](mailto:coco.zhang@ing.com)

**Jan Frederik Slijkerman**

Senior Sector Strategist, TMT

[jan.frederik.slijkerman@ing.com](mailto:jan.frederik.slijkerman@ing.com)

**Katinka Jongkind**

Senior Economist, Services and Leisure

[Katinka.Jongkind@ing.com](mailto:Katinka.Jongkind@ing.com)

**Marina Le Blanc**

Sector Strategist, Financials

[Marina.Le.Blanc@ing.com](mailto:Marina.Le.Blanc@ing.com)

**Samuel Abettan**

Junior Economist

[samuel.abettan@ing.com](mailto:samuel.abettan@ing.com)

**Franziska Biehl**

Economist, Germany

[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

**Rebecca Byrne**

Senior Editor and Supervisory Analyst

[rebecca.byrne@ing.com](mailto:rebecca.byrne@ing.com)

**Mirjam Bani**

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

**Timothy Rahill**

Credit Strategist

[timothy.rahill@ing.com](mailto:timothy.rahill@ing.com)

**Leszek Kasek**

Senior Economist, Poland

[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

**Oleksiy Soroka, CFA**

Senior High Yield Credit Strategist

[oleksiy.soroka@ing.com](mailto:oleksiy.soroka@ing.com)

**Antoine Bouvet**

Head of European Rates Strategy

[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

**Jeroen van den Broek**

Global Head of Sector Research

[jeroen.van.den.broek@ing.com](mailto:jeroen.van.den.broek@ing.com)

**Edse Dantuma**

Senior Sector Economist, Industry and Healthcare

[edse.dantuma@ing.com](mailto:edse.dantuma@ing.com)

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Rico Luman**

Senior Sector Economist, Transport and Logistics

[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

**Jurjen Witteveen**

Sector Economist

[jurjen.witteveen@ing.com](mailto:jurjen.witteveen@ing.com)

**Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

**Nicholas Mapa**

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

**Egor Fedorov**

Senior Credit Analyst

[egor.fedorov@ing.com](mailto:egor.fedorov@ing.com)

**Sebastian Franke**

Consumer Economist

[sebastian.franke@ing.de](mailto:sebastian.franke@ing.de)

**Gerben Hieminga**

Senior Sector Economist, Energy

[gerben.hieminga@ing.com](mailto:gerben.hieminga@ing.com)

**Nadège Tillier**

Head of Corporates Sector Strategy

[nadege.tillier@ing.com](mailto:nadege.tillier@ing.com)

**Charlotte de Montpellier**

Senior Economist, France and Switzerland

[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

**Laura Straeter**

Behavioural Scientist

+31(0)611172684

[laura.Straeter@ing.com](mailto:laura.Straeter@ing.com)

**Valentin Tataru**

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

**James Smith**

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

**Suvi Platerink Kosonen**

Senior Sector Strategist, Financials

[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

**Thijs Geijer**

Senior Sector Economist, Food & Agri

[thijs.geijer@ing.com](mailto:thijs.geijer@ing.com)

**Maurice van Sante**

Senior Economist Construction & Team Lead Sectors

[maurice.van.sante@ing.com](mailto:maurice.van.sante@ing.com)

**Marcel Klok**

Senior Economist, Netherlands

[marcel.klok@ing.com](mailto:marcel.klok@ing.com)

**Piotr Poplawski**

Senior Economist, Poland

[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

**Paolo Pizzoli**

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

**Marieke Blom**

Chief Economist and Global Head of Research

[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Raoul Leering**

Senior Macro Economist  
[raoul.leering@ing.com](mailto:raoul.leering@ing.com)

**Maarten Leen**  
Head of Global IFRS9 ME Scenarios  
[maarten.leen@ing.com](mailto:maarten.leen@ing.com)

**Maureen Schuller**  
Head of Financials Sector Strategy  
[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

**Warren Patterson**  
Head of Commodities Strategy  
[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

**Rafal Benecki**  
Chief Economist, Poland  
[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

**Philippe Ledent**  
Senior Economist, Belgium, Luxembourg  
[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

**Peter Virovacz**  
Senior Economist, Hungary  
[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

**Inga Fechner**  
Senior Economist, Germany, Global Trade  
[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

**Dimitry Fleming**  
Senior Data Analyst, Netherlands  
[Dimitry.Fleming@ing.com](mailto:Dimitry.Fleming@ing.com)

**Ciprian Dascalu**  
Chief Economist, Romania  
+40 31 406 8990  
[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

**Muhammet Mercan**  
Chief Economist, Turkey  
[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

**Iris Pang**  
Chief Economist, Greater China  
[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

**Sophie Freeman**

Writer, Group Research

+44 20 7767 6209

[Sophie.Freeman@uk.ing.com](mailto:Sophie.Freeman@uk.ing.com)

**Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

**Tim Condon**

Asia Chief Economist

+65 6232-6020

**Martin van Vliet**

Senior Interest Rate Strategist

+31 20 563 8801

[martin.van.vliet@ing.com](mailto:martin.van.vliet@ing.com)

**Robert Carnell**

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

**Karol Pogorzelski**

Senior Economist, Poland

[Karol.Pogorzelski@ing.pl](mailto:Karol.Pogorzelski@ing.pl)

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

**Viraj Patel**

Foreign Exchange Strategist

+44 20 7767 6405

[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

**Owen Thomas**

Global Head of Editorial Content

+44 (0) 207 767 5331

[owen.thomas@ing.com](mailto:owen.thomas@ing.com)

**Bert Colijn**

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

**Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

**Benjamin Schroeder**

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Gustavo Rangel**

Chief Economist, LATAM

+1 646 424 6464

[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

**Carlo Cocuzzo**

Economist, Digital Finance

+44 20 7767 5306

[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)



## Watch: Don't panic, but be cautious!

Trade wars, slowing growth and Brexit: How is all this feeding into global economic sentiment? Get answers from ING's economists in Singapore, Frankfurt and Amsterdam



**Don't panic, but be cautious!**

[Watch video](#)

### Author

**Marieke Blom**

Chief Economist and Global Head of Research

[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

**Robert Carnell**

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

Snap | 4 April 2019

## ECB: Here we are now, enter-tier us

While tiering currently looks like the next big thing for the ECB, the minutes of the March meeting support our view that today's ECB meeting will not yet deliver any final decisions



Source: Shutterstock

European Central Bank HQ, Frankfurt

Even the ECB cannot escape seasonal distortions. The Easter break has somehow mixed up the ECB's usual schedule. The minutes of the March meeting were only released four weeks and not three weeks after the meeting and the next policy meeting is five weeks and not six weeks after the last meeting. And, on top of that, the meeting falls on a Wednesday, not on a Thursday. Looking through all these calendar mix-ups, however, we can see that the ECB has become increasingly concerned about the economy and inflation ever reaching the ECB's target.

The minutes of the March meeting illustrated the ECB's growing concerns about the economic outlook for the eurozone, doubts about any sustainable convergence of inflation to target and an awareness of negative side-effects on the banking sector. Interestingly, some ECB members were contemplating labelling the risks surrounding the eurozone outlook as balanced.

### From review to preview

The minutes, as well as recent comments by ECB President Mario Draghi and Chief Economist Peter Praet, signal that the ECB is investigating whether and how the bank should provide some relief to the banking sector. Also, don't forget that the ECB still has not explained what the so-called built-in

incentives in the next TLTROs could be. In our view, there is no rush to present any details this week. Instead, we expect the ECB to wait until the June meeting.

Up to now, the overwhelming “official” view of the ECB has always been that negative interest rates have been good for the economy, with hardly any negative effects on banks. The latter part of this view has now started to shift, even though one should not forget that all targeted longer-term refinancing operations (TLTRO) up to now have been instruments to mitigate adverse side-effects on banks due to the built-in incentives. At the same time, the ECB will always have to find a monetary policy reason to justify any mitigating measures. Indeed, there are currently much bigger challenges for banks’ profitability than the negative deposit rate, and a tiering system will not make an unprofitable bank suddenly profitable. Therefore, the ECB will have to investigate whether the negative deposit rate actually leads to a smaller (or more expensive) supply of loans than a zero deposit rate or a tiering system.

## Will the ECB enter-tier us?

There are at least four considerations the ECB will have to assess before introducing a tiering system:

1. It could be perceived as a sign that the ECB is preparing for a “low for much longer” period and even open the door for further rate cuts
2. It could actually complicate the pass-through of monetary policy to the real economy; depending on the technical details of such a system
3. Rapid introduction of a tiering system could be perceived as yet another “free lunch” for the banking sector
4. While a tiering system would open the door to further rate cuts, these cuts would mainly be seen as exchange rate manipulation rather than supporting the bank lending channel

All in all, reviewing the ECB minutes and previewing today's ECB meeting, we do not expect the bank to announce further details of the built-in incentives for the next TLTROs or of any tiering system already. The ECB will continue its balancing act between demonstrating that it is not running out of ammunition while still keeping some cards to its chest. The most likely next step is still the announcement of the detailed conditions for the third batch of TLTROs (at the June meeting). Introducing a tiering system will be investigated but probably only announced in case the economy has not started to rebound by June.

Still, “tiering” remains the current buzzword in the ECB universe. Many financial market participants are getting overly excited about possible new steps by the ECB, even though it is clear that the real answer to tackle any next protracted economic slowdown in the eurozone should come from fiscal, not monetary policies. Back in March, Draghi talked about a dark room, in which “you don’t run but you do move”. Back in the good old days, Kurt Cobain sang “with the lights out, it’s less dangerous” but today we don’t expect the ECB to entertain us.

### Author

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

## German car trouble and the CEE

Central and eastern Europe's direct exposure to the US car market is relatively small. However, its indirect exposure via Germany is much larger. Were the German auto sector to face another leg lower this year, we expect the likes of the Czech Republic, Romania and Hungary to bear the brunt of the challenge



Cars on a German Autobhan

- Inventory reductions knocked 0.6% QoQ off German GDP growth in 4Q18 – an outcome largely blamed on the auto sector. While it seems unlikely this sector will fare as badly this year, China, Brexit and President Trump's threat of auto tariffs add to the sense of uncertainty.
- With regard to the US tariff threat, the CEE's direct exposure to the US car market is relatively small. However, its indirect exposure via Germany is much larger. Were the German auto sector to face another leg lower this year, our team expect the likes of the Czech Republic, Romania and Hungary to bear the brunt of the challenge.

### Germany: How bad is it?

#### From fast lane to slow lane – the German economy's car problem

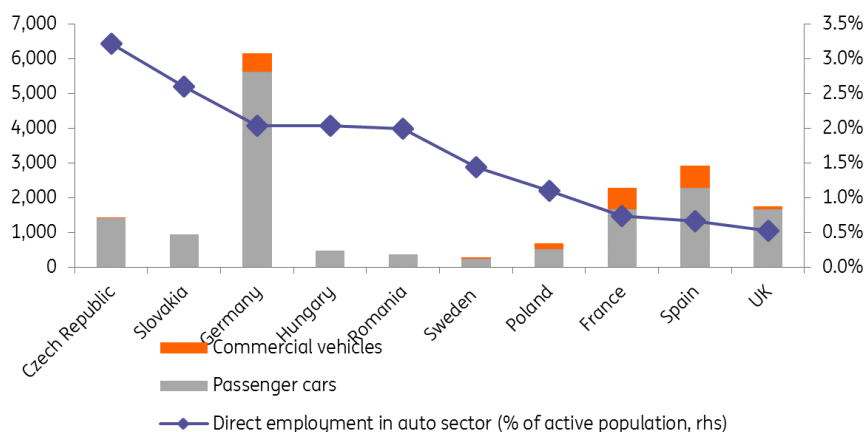
The second half of 2018 saw the German economy grind to a sudden halt. While increasing global

uncertainties, looming trade wars and one-off factors like the low water levels in many of Germany's rivers also mattered, the automotive industry has probably been the most significant driver of the growth disappointment. From fast lane to slow or crawling lane within less than six months, how could this happen?

### Importance of the automotive sector for the German economy

Let's start with a reminder: the German economy is not only about cars, but cars do play an important role. Currently, some 2% of total employment is in the automotive industry. However, adding second and third round effects (just think of entire villages close to production plants), between 7% and 8% of the entire German economy is linked to the automotive industry. And there is more. Between 70% and 80% of automobiles produced in Germany are exported making automobiles one of the most important export goods. Also, one-third of all investments in Research and Development in Germany stem from the automotive industry.

## Vehicle production in the EU (000 units in 2017) and auto employment (2016)



Source: ACEA, European Automobile Manufacturers Association

## What caused the current slowdown?

The slowdown in the German automotive industry started in the summer of last year with announcements of city bans for cars with older diesel engines. Some five million cars could become subject to these bans. As a result, demand for diesel cars dropped and precautionary savings of German households increased. More than half a year later, however, there are first rulings that these bans will not be implemented. A complete U-turn looks possible.

Also, the introduction of a new emissions standard (WLTP, worldwide harmonised light vehicles test procedure) and delays in complying with these new standards led to severe disruptions in German automotive production and delivery. Also, the trade war between the US and China and the subsequent slowdown of the Chinese economy have left their marks. However, these marks are still very small and nothing compared with often-heard doomsday scenarios.

In 2018, total car sales in China dropped by some 4% YoY - the first decrease in twenty years. German car manufacturers, however, saw their sales increase by 2%. A slowdown, but not a contraction. In 2018, almost one quarter of all cars sold in China were German. More than one third of all cars sold by VW, BMW and Daimler went to China. VW sold almost 40% of its cars in China.

## Outlook – between gloom and rebound

Contrary to the last crisis in 2008/09, the German automotive industry is currently not suffering from significant excess capacities. Nevertheless, the (German) automotive industry is facing an entire list of challenges. Some are external, like Brexit, the trade wars or a cooling of the Chinese economy; others are sector-specific, like electric mobility, CO2 emission reductions, autonomous driving or car sharing; and some are intertwined. The current trade US-China trade war has already affected German car producers in several ways as BMW is, for example, the single largest US car exporter.

---

*The most imminent threat for the German automotive industry seems to be any Chinese slowdown*

---

The most imminent threat for the German automotive industry seems to be any Chinese slowdown - given the abovementioned importance of the Chinese markets for German car manufacturers. Here, the fact that fiscal stimulus should lead to an overall rebound of the economy as well as the fact that there is still ample room for growth in the Chinese market (currently some 14 cars per 100 inhabitants, while in Germany it is 56), both bode well for a gradual rebound.

## The elephant in the room

As regards the two other external risks, Brexit and trade wars, the downside risks are far greater than any upside. Aside from short-term disruptions of supply chains for some German car manufacturers, a hard Brexit could lead to a drop of around 30% of German car sales in the UK (according to Deloitte). The biggest elephant in the room is possible US tariffs on European cars.

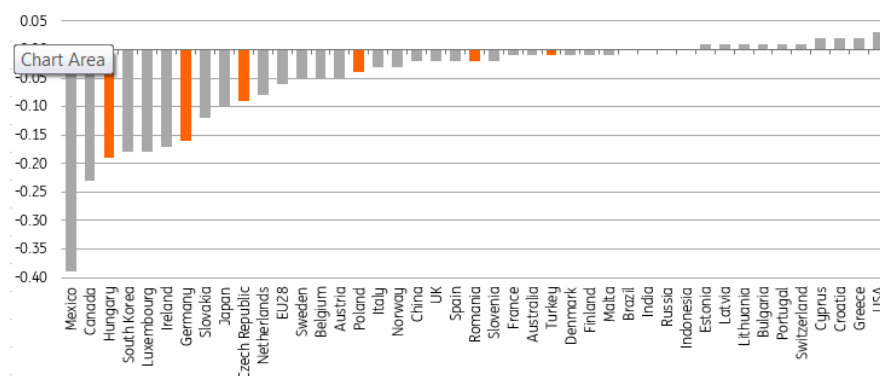
---

*The biggest elephant in the room is possible US tariffs on European cars*

---

In theory, President Trump is due by mid-May to follow up on the Commerce Department's as yet unpublished findings as to whether US auto and auto-part imports are proving a national security threat. For reference, the three largest German car manufacturers import more than half the vehicles they sell in the US from other countries (Daimler about 50%, BMW around 70% and VW more than 80%). Not all imports come from the EU, they also come from Mexico. German car exports to the US account for between 3% and 12% of the three companies' annual sales. BMW and Daimler export around 50% of the cars produced in the US to countries outside the US.

## Effect of US unilateral import tariffs on GDP (import tariffs of 25% on cars, % of price-adjusted GDP)



Source: IFO Institut, May 2018

### The threat of tariffs

The introduction of tariffs on European cars is therefore a very complex and complicated issue. Next to the pure sentiment effect, the actual impact of a 25% import tariff on cars would, according to the Ifo index, lead to a reduction of German GDP by 0.16%. Given the inter-linkages of German automotives and automotive suppliers, the short-term impact could be even higher. In our view, the US administration will try to leverage the threat of tariffs on European cars for as long and as much as possible. This could be done without even imposing these tariffs.

*The German automotive industry could leave the crawling lane in the coming months*

All other structural challenges the (German) automotive industry is currently facing are longer term with unclear implications currently. The only thing that is clear is that the sector will undergo further changes and shake-ups. At the current juncture, this means that cost pressures will probably mount, investment needs will increase and restructurings will occur. How far and when this will play out at the macro level is impossible to tell.

Nonetheless, we believe the German automotive industry could leave the crawling lane in the coming months as some of last year's braking factors should disappear. A quick return to the fast lane, however, looks unlikely and unexpected collisions cannot be excluded.

### ✓ Poland - less exposed to autos, more insulated on the fiscal side

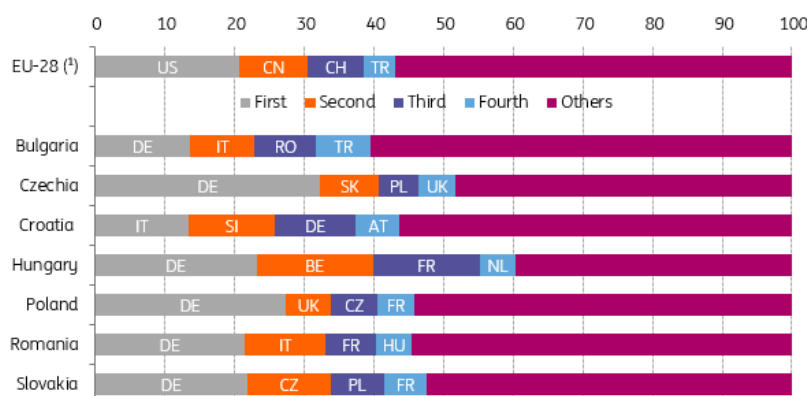
The Polish economy, and its export structure, is one of the most diversified among the CEE economies. Also, Poland's reliance on the automotive sector is one of the lowest in the region. As a result, only limited value added (0.03% of GDP) is linked to car exports to US. We worry about the secondary effects via Poland's main trading partner, Germany, where the reliance on the US car market is much higher (up to 0.34% of German GDP is linked to value added created by cars sent to

the US). Moreover, US car tariffs would hit already weak German manufacturing, which has fallen into recession.

So far, the Polish production sector has demonstrated an impressive resilience to the slowdown in German manufacturing. We think strong domestic demand in Germany and the eurozone is probably offsetting the weakness of the markets for Western Europe's exports. Should US car tariffs (or other factors) start to impact German labour markets and domestic demand,

Polish production may start suffering and deduct from GDP growth. Still, due to the significant fiscal stimulus announced ahead of the October 2019 general election, Poland may prove to be among the least sensitive of the CEE economies to the eurozone and German slowdown. Some CEE peers might have lower fiscal room (especially Romania) or are much more open economies (such as the Czech Republic and Hungary).

## Top four trading partners for exports of goods, 2016



Source: Eurostat

### ✓ Czech Republic – in the firing line on autos

Car production represents the most important industrial and export segment in the Czech Republic, having an almost 30% share in total Czech exports. In 2018, there were 1.4 million cars produced in the Czech Republic (1.7% YoY increase), which makes it one of the countries with the highest car production per capita in the world, after Slovakia. There are three main car manufacturers, Škoda Auto (61% share), Hyundai Motor Manufacturing Czech (24% share) and Toyota Peugeot Citroën Automobile (15% share).

*A further slowdown in global car production would have greater implications for the Czech economy*

According to the Czech Automotive Industry Association (AIA, AutoSAP) the automotive industry employs around 150,000 people directly (3% of total workforce), but there are a further 400,000 jobs linked to the automotive industry indirectly. As such, due to the significant supply chains



related to the automotive industry, the total share of the automotive sector for the Czech economy represents around 9% of GDP. Official statistics imply a weaker dependence as the car segment represents around 20% of industry, which had a 29% share in GDP last year. This equates to around 6% of GDP, but this figure does not include the abovementioned supply chains producers. Due to the relatively limited link of the Czech automotive industry with the US market, the impact of US-EU car tariffs would not be significant, slightly below 0.1ppt, based on IFO estimates, as you can see in the chart above.

However, a further slowdown in global car production, mainly affecting German producers, would have greater negative implications for the Czech economy. That said, carmakers in the Czech economy were operating at stretched capacity last year, so there is no expectation of any further growth in the car industry this year anyway.

As such, some decline in demand should resettle the economy towards more balanced growth, with very limited negative consequences for the Czech economy. However, a more prolonged and severe slump in global car demand would hit the Czech economy sooner or later, as currently-solid domestic Czech demand would not be enough to compensate for a slowdown in one of the most important sectors of the economy.

## Passenger car production plants across Europe



Source: ACEA, European Automobile Manufacturers Association

### Hungary – insulated by high margin brands?

There are several reasons why Hungary would be among the most affected countries by tariff impositions and any impact on Germany. The Hungarian automobile industry produces about 5% of GDP, also it employs (on some measures) 4% of total workers in the country. Most cars and car parts are produced by German companies (VW Group and Daimler), and 90% of the production is exported. About 10% of exported cars go to the US, thus tariffs would cause a 0.2% decrease in the GDP - the highest in Europe.

---

*There are several reasons why Hungary would be among the worst affected countries*

---

On the other hand, the Hungarian economy has been more driven by domestic demand over the past couple of years. Indeed, export activity has decoupled somewhat from European and German trends.

If we consider industrial production in 2017 and 2018, the growth structure is more balanced than before, meaning that the car industry is not the key driver of growth currently. So despite being the biggest contributor to GDP, mid and lightweight manufacturing sectors are boosting growth in industry, counterbalancing the issues in car manufacturing. Also German carmakers (Audi and Mercedes and soon-to-arrive BMW) produce luxury cars, where demand is not really price-elastic – thus US tariffs would perhaps not hit the Hungarian auto market as much as it would hit mid-level car producers.

All things considered, the direct effect of higher US tariffs in the real economy would be relatively small, although it could cause a major turbulence in the FX market. Should a tit-for-tat trade war arise between the US and EU, it would have more serious consequences for the region than we see for it right now.

### Romania – very much in the mix

Germany is the largest export partner for Romania with a 22.9% share of total exports. Around two-thirds of total exports are automotive related. Hence, automotive-related exports to Germany account for about 15% of Romanian exports, representing roughly 10% of Romania's GDP and employing approximately 90,000 people.

A slowdown in the German auto industry would have a direct negative impact on Romanian exports, planned investments by German companies and GDP growth with subsequent implications for the currency, especially considering the twin deficits are at or above warning levels.

### Turkey – competitively positioned

Turkey is the leading CEE contributor to vehicle production as a large base for global original equipment manufacturers (OEMs) while it has been increasing its component exports over recent years, where Germany is now its number one export market. As of end-2018, automotive exports to Germany stood at US\$4.25 billion, having more than a quarter share in total exports to this country.

Exports of motor vehicles and components are roughly balanced. These numbers show a relative sensitivity to German demand, but Turkey's cost and competitive advantages, helped by a competitive Turkish Lira as well as a quite diversified export market structure, will likely help Turkey weather any slowdown in the German automotive industry.



## Russia

Russia seems more-or-less isolated from the travails in the global auto sector. According to 2018 statistics, Russia exports only 6% of light vehicles it produces locally, or 0.1 million out of 1.6 million. In USD terms, car exports total US\$1.3 billion, or 0.3% of the country's total exports.

One potential channel of pass-through is via higher costs of imports and local production. Russia imports around 0.3 million new and used cars annually, worth US\$7.3bn, or 3% of imports, which does not seem significant. However, it is worth mentioning that depending on the model, around 40-60% of local production requires imported investment and intermediary goods. Therefore, the global trade tensions can potentially affect at least half of Russia's US\$30bn car market.

### Conclusion

The German car industry faces an uncertain environment and certainly the imposition of US tariffs would be a very unwelcome headwind. Looking across the CEE space, the Czech Republic and Romania look most exposed, while Hungary will hope that its concentration in the luxury German car space will provide some insulation.

This article is from our major report, Directional Economics: [CE4 policy tools for the next downturn: Who's got the firepower?](#)

## Author

### **Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

### **Rafal Benecki**

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

### **Peter Virovacz**

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

### **Ciprian Dascalu**

Chief Economist, Romania

+40 31 406 8990

[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

### **Muhammet Mercan**

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

### **Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

### **Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

### **Inga Fechner**

Senior Economist, Germany, Global Trade

[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

## CE4 policy tools for the next downturn: Who's got the firepower?

The early months of 2019 have seen the global economy struggling to shake off fears of a slowdown. A sharp downturn into 2020 isn't our baseline scenario, but which of the CE4 countries have the firepower to resist a downturn? We assess the scope to support their economies through fiscal and conventional and unconventional monetary policy



Source: Shutterstock

## Author

### **Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

### **Rafal Benecki**

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

### **Ciprian Dascalu**

Chief Economist, Romania

+40 31 406 8990

[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

### **Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

### **Muhammet Mercan**

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

### **Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

### **Peter Virovacz**

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

## France: Another 'national' European election campaign

President Macron's party is improving in the opinion polls ahead of the European elections in May. So too are France's economic indicators. But as the campaign kicks off, we suspect the vote will be won, as usual, on domestic policies rather than on each party's European positioning



The French President, Emmanuel Macron

### A steady political and economic recovery

France's economy is recovering and so are voting intentions in favour of President Macron. French PMI indicators were confirmed to be just below the 50.0 threshold in March, indicating a slight decline in activity. However, most indicators showed improvements in the economic outlook in the first quarter, enough in any case to believe that a rebound in domestic demand is likely in the first half of 2019. In particular, hiring and investing intentions in the service sector in March were back at last October's levels, just before the "yellow vest" crisis brought virtually all confidence indicators down.

At the height of that crisis in early December, Mr Macron's poll ratings fell to a low of 15% (Ifof survey published on 3 December), with the extreme left seemingly benefiting with around 12% of

voting intentions. Since then, the president's party, LREM, is back at 22%, and the extreme left at 8% (Ifop survey published on 28 March). Marine Le Pen's Rassemblement National (RN) is close, with 21% of voting intentions. If the UK does not take part in the EU elections, we expect both parties to gain 20 seats in the new European Parliament, which will be restricted to 705 seats after Brexit.



Nathalie Loiseau, candidate for the La République En Marche party in the EU elections

## Campaigning is unlikely to swing many voters

The first TV debates haven't happened yet, but so far the first rallies appear not to have moved voting intentions. Mr Macron put Nathalie Loiseau, a former diplomat and the Government's EU Minister, at the head of LREM's list in March. She has been repeating the President's pledges (Eurozone budget, a level playing field for social protection rights, more defence cooperation) with a greener touch while the RN party does not have an official programme for the upcoming elections yet. However, one could note that, as in Salvini's Italy, the party has abandoned its "Frexit" pledge for more "national liberalism" where claims for more sovereignty are mixed with protectionist intentions.

Despite Mrs Loiseau's efforts, we believe it won't be her campaign that swings the electorate, rather it will be the current difficult exit of what's known as the 'national debate', the government's answer to the 'yellow vest' crisis. It's been running for months after having gathered more than one and a half million suggestions and comments, but it's now coming to an end. Mr Macron finished his tour of regional constituencies in Corsica this week and the National Assembly is currently debating on the possible measures which could be taken over the four themes of green transition, taxation, citizen participation and state reforms.

The prime minister, Edouard Philippe is due to communicate the government's intentions early next week but President Macron has yet to decide what to announce. For now, no door is closed, but he said proposals could be discussed until the summer. We suspect Mrs Loiseau's list success will depend much more on these than on LREM's own proposal for Europe. The road still looks long towards the 26th of May and the first proposals, together with a possible resurgence of violence in some French cities, may well frame the outcome of the next election.



## Author

### **Alissa Lefebre**

Economist

[alissa.lefebvre@ing.com](mailto:alissa.lefebvre@ing.com)

### **Deepali Bhargava**

Regional Head of Research, Asia-Pacific

[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

### **Ruben Dewitte**

Economist

+32495364780

[ruben.dewitte@ing.com](mailto:ruben.dewitte@ing.com)

### **Kinga Havasi**

Economic research trainee

[kinga.havasi@ing.com](mailto:kinga.havasi@ing.com)

### **Marten van Garderen**

Consumer Economist, Netherlands

[marten.van.garderen@ing.com](mailto:marten.van.garderen@ing.com)

### **David Havrlant**

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

### **Sander Burgers**

Senior Economist, Dutch Housing

[sander.burgers@ing.com](mailto:sander.burgers@ing.com)

### **Lynn Song**

Chief Economist, Greater China

[lynn.song@asia.ing.com](mailto:lynn.song@asia.ing.com)

### **Michiel Tukker**

Senior European Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

### **Michal Rubaszek**

Senior Economist, Poland

[michal.rubaszek@ing.pl](mailto:michal.rubaszek@ing.pl)

**This is a test author**

### **Stefan Posea**

Economist, Romania

[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Jesse Norcross**

Senior Sector Strategist, Real Estate

[jesse.norcross@ing.com](mailto:jesse.norcross@ing.com)

**Teise Stellema**

Research Assistant, Energy Transition

[teise.stellema@ing.com](mailto:teise.stellema@ing.com)

**Diederik Stadig**

Sector Economist, TMT & Healthcare

[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

**Diogo Gouveia**

Sector Economist

[diogo.duarte.vieira.de.gouveia@ing.com](mailto:diogo.duarte.vieira.de.gouveia@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Ewa Manthey**

Commodities Strategist

[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

**ING Analysts**

**James Wilson**

EM Sovereign Strategist

[James.wilson@ing.com](mailto:James.wilson@ing.com)

**Sophie Smith**

Digital Editor

[sophie.smith@ing.com](mailto:sophie.smith@ing.com)

**Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Adam Antoniak**

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

**Min Joo Kang**

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

**Coco Zhang**

ESG Research

[coco.zhang@ing.com](mailto:coco.zhang@ing.com)

**Jan Frederik Slijkerman**

Senior Sector Strategist, TMT

[jan.frederik.slijkerman@ing.com](mailto:jan.frederik.slijkerman@ing.com)

**Katinka Jongkind**

Senior Economist, Services and Leisure

[Katinka.Jongkind@ing.com](mailto:Katinka.Jongkind@ing.com)

**Marina Le Blanc**

Sector Strategist, Financials

[Marina.Le.Blanc@ing.com](mailto:Marina.Le.Blanc@ing.com)

**Samuel Abettan**

Junior Economist

[samuel.abettan@ing.com](mailto:samuel.abettan@ing.com)

**Franziska Biehl**

Economist, Germany

[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

**Rebecca Byrne**

Senior Editor and Supervisory Analyst

[rebecca.byrne@ing.com](mailto:rebecca.byrne@ing.com)

**Mirjam Bani**

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

**Timothy Rahill**

Credit Strategist

[timothy.rahill@ing.com](mailto:timothy.rahill@ing.com)

**Leszek Kasek**

Senior Economist, Poland

[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

**Oleksiy Soroka, CFA**

Senior High Yield Credit Strategist

[oleksiy.soroka@ing.com](mailto:oleksiy.soroka@ing.com)

**Antoine Bouvet**

Head of European Rates Strategy

[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

**Jeroen van den Broek**

Global Head of Sector Research

[jeroen.van.den.broek@ing.com](mailto:jeroen.van.den.broek@ing.com)

**Edse Dantuma**

Senior Sector Economist, Industry and Healthcare

[edse.dantuma@ing.com](mailto:edse.dantuma@ing.com)

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Rico Luman**

Senior Sector Economist, Transport and Logistics

[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

**Jurjen Witteveen**

Sector Economist

[jurjen.witteveen@ing.com](mailto:jurjen.witteveen@ing.com)

**Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

**Nicholas Mapa**

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

**Egor Fedorov**

Senior Credit Analyst

[egor.fedorov@ing.com](mailto:egor.fedorov@ing.com)

**Sebastian Franke**

Consumer Economist

[sebastian.franke@ing.de](mailto:sebastian.franke@ing.de)

**Gerben Hieminga**

Senior Sector Economist, Energy

[gerben.hieminga@ing.com](mailto:gerben.hieminga@ing.com)

**Nadège Tillier**

Head of Corporates Sector Strategy

[nadege.tillier@ing.com](mailto:nadege.tillier@ing.com)

**Charlotte de Montpellier**

Senior Economist, France and Switzerland

[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

**Laura Straeter**

Behavioural Scientist

+31(0)611172684

[laura.Straeter@ing.com](mailto:laura.Straeter@ing.com)

**Valentin Tataru**

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

**James Smith**

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

**Suvi Platerink Kosonen**

Senior Sector Strategist, Financials

[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

**Thijs Geijer**

Senior Sector Economist, Food & Agri

[thijs.geijer@ing.com](mailto:thijs.geijer@ing.com)

**Maurice van Sante**

Senior Economist Construction & Team Lead Sectors

[maurice.van.sante@ing.com](mailto:maurice.van.sante@ing.com)

**Marcel Klok**

Senior Economist, Netherlands

[marcel.klok@ing.com](mailto:marcel.klok@ing.com)

**Piotr Poplawski**

Senior Economist, Poland

[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

**Paolo Pizzoli**

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

**Marieke Blom**

Chief Economist and Global Head of Research

[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Raoul Leering**

Senior Macro Economist  
[raoul.leering@ing.com](mailto:raoul.leering@ing.com)

**Maarten Leen**  
Head of Global IFRS9 ME Scenarios  
[maarten.leen@ing.com](mailto:maarten.leen@ing.com)

**Maureen Schuller**  
Head of Financials Sector Strategy  
[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

**Warren Patterson**  
Head of Commodities Strategy  
[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

**Rafal Benecki**  
Chief Economist, Poland  
[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

**Philippe Ledent**  
Senior Economist, Belgium, Luxembourg  
[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

**Peter Virovacz**  
Senior Economist, Hungary  
[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

**Inga Fechner**  
Senior Economist, Germany, Global Trade  
[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

**Dimitry Fleming**  
Senior Data Analyst, Netherlands  
[Dimitry.Fleming@ing.com](mailto:Dimitry.Fleming@ing.com)

**Ciprian Dascalu**  
Chief Economist, Romania  
+40 31 406 8990  
[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

**Muhammet Mercan**  
Chief Economist, Turkey  
[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

**Iris Pang**  
Chief Economist, Greater China  
[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

**Sophie Freeman**

Writer, Group Research

+44 20 7767 6209

[Sophie.Freeman@uk.ing.com](mailto:Sophie.Freeman@uk.ing.com)

**Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

**Tim Condon**

Asia Chief Economist

+65 6232-6020

**Martin van Vliet**

Senior Interest Rate Strategist

+31 20 563 8801

[martin.van.vliet@ing.com](mailto:martin.van.vliet@ing.com)

**Robert Carnell**

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

**Karol Pogorzelski**

Senior Economist, Poland

[Karol.Pogorzelski@ing.pl](mailto:Karol.Pogorzelski@ing.pl)

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

**Viraj Patel**

Foreign Exchange Strategist

+44 20 7767 6405

[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

**Owen Thomas**

Global Head of Editorial Content

+44 (0) 207 767 5331

[owen.thomas@ing.com](mailto:owen.thomas@ing.com)

**Bert Colijn**

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

**Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

**Benjamin Schroeder**

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Gustavo Rangel**

Chief Economist, LATAM

+1 646 424 6464

[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

**Carlo Cocuzzo**

Economist, Digital Finance

+44 20 7767 5306

[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)



---

Snap | 5 April 2019

## Germany: Head scratching continues

A positive headline number, further weakening manufacturing data. What to make of this morning's German industrial data?



German industrial production increased by 0.7% MoM in February, from an upwardly revised flat reading in January. On the year, industrial production was still down by 0.4%. While the headline number seems to provide some relief, the components show that activity in the manufacturing sector actually dropped by 0.2% MoM, while activity in the construction sector surged by 6.8% MoM.

This morning's data do not bring relief for industry, only for the economy as total production in the first two months of the year points to positive GDP growth in the first quarter.

A warm thank you to the construction sector. More generally speaking, German industry remains an international reason for concern. In fact, what first looked like the result of a series of negative one-off factors has all of a sudden received the flavor of an industrial meltdown. Brexit woes and the global slowdown have a stranglehold over German industry. However, the weakness of industry can only partly be explained by external factors. Up to now, there has been no rebound effect from disappearing one-off factors. Why this rebound has not materialized, yet, remains a mystery.

## Head scratching will continue

Looking ahead, the big question of this week is how to read the combination of devastating new orders and today's rebound in industrial orders. In fact, it is very easy: today's positive data were driven by the construction sector not by the manufacturing sector and more generally speaking today's new orders are tomorrow's industrial production. Still, the relationship between the two is not a mechanical one. German corporates still report assured production for more than three months. Also, there are tentative signs from more real-time trade indicators, pointing to some improvement in global activity towards the end of the first quarter. And last but not least, the fundamentals for a further pick-up in investments remain intact. Just think of low interest rates.

These days, German industry leaves many analysts scratching their heads. Sure, there are external headwinds but the slowdown has been too severe to exclusively be justified by Brexit, China and trade. Either there is more and structural weaknesses finally leave their mark on industry or a rebound is still in the offing. Not only on the back of a reversal of last year's one-off factors but also on the back of some global relief. For now, the only thing that is for sure and that was also supported by this morning's data is that the domestic part of the economy remains strong and there are even signs that the economy can have accelerated in the first quarter. For the rest, all other scenarios remain possible: the positive one with a rebound but also the negative one with a further meltdown on the back of structural weaknesses and slower global demand. Stay tuned.

### Author

#### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* 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 distribution of this 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). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).