

## Bleeding in German industry stops, for now

German industrial production unexpectedly rose in August, but the jury is still out on whether we can really talk about a trend reversal. We still see further weakness, probably pushing the government to put in place more stimulus early next year



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### Volatile summer

German industrial production unexpectedly expanded by 0.3% in August, defying the consensus forecast for a -0.1% decline. Manufacturing output rose 0.7%, compensating for the 0.6% decline in July, while construction output shrank 1.5%. Year-on-year, industrial production fell by 4%, unchanged from July.

This is finally some good news coming from the biggest economy in the eurozone. However, there is no reason to get overexcited. Industrial production is always volatile during the summer months, so September will be more important to assess whether we can really talk about a trend reversal. In that regard, the omens remain bleak. With yesterday's data showing that industrial orders actually slowed further in August, there's little hope of a real turnaround. On top of that, September's PMI revealed that new orders fell the most since April 2009, leading to a further

reduction in backlogs of work. So we're talking about a bottoming out of industrial production at best, but a real recovery still looks some time away.

## Trade worries

With the drop in export orders, one of the main culprits of the weakness in manufacturing, it is obvious that German industry remains extremely sensitive to further developments in the trade war. Recent events don't bode well, with the WTO allowing the US to impose €7.5 billion of tariffs on European goods in order to compensate for the illegal subsidies Airbus received. These tariffs will kick in as early as 18 October. At the same time, the US could still decide in November to impose tariffs on European cars, which would be especially detrimental to German industry. And of course, there's still the risk of a disorderly Brexit, which is not yet off the table.

## Fiscal stimulus

As long as world trade stagnates, German industry and by extension the whole German economy, is almost certainly bound to languish. With monetary policy having reached its limits, support for the economy should come instead from fiscal policy. The good news is that this is no longer a taboo subject in Germany. Germany's business lobby, the BDI, has called on the government to give up its balanced budget rule, a recommendation echoed by the five leading research institutes. We believe that at the beginning of next year, additional budgetary stimulus might be put in place, paving the way for an economic upturn in the course of 2020.

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