

German economy powers ahead as production rises

Strong industrial production data signals that the German economy is performing strongly in the second quarter.



Source: iStockphoto

Despite the Easter break, German industrial production recorded a strong month in April. The increase was driven by stronger activity in the energy sector and the production of intermediate goods. After two extremely strong months, activity in the construction sector only dropped by a meagre 0.1% MoM, underlining the current strength of construction.

0.8%

Growth in industrial production (MoM%)

(Previously -0.1%)

Better than expected

The current German recovery remains unbreakable. Particularly, domestic demand is an

inexhaustible growth driver. The strong labour market and higher wages are supporting private consumption, low interest rates are feeding into strong construction activity and the refugee influx has led to higher government consumption. On top of that, the weak euro is supportive for exports. These fundamentals have been intact for a long while and only seasonal factors or technical corrections have led to quarterly fluctuations. The general success story has not changed. The only missing link to further growth is investment which has remained relatively weak over recent years.

There are no signs that this recovery could come to an abrupt halt

Looking ahead, there is increasing evidence that investment could also pick up in the course of the year. Two months of positive new orders data were a good start, accompanied by buoyant confidence indicators. Also, there are more fundamental factors arguing for a more positive take on the German industry and investments. The combination of strong orders at hand and low inventories is currently as favorable for future production as in mid-2006 and late-2010.

Capacity utilization has, almost unnoticed, increased to the highest level since late 2008. And, according to surveys, companies currently consider equipment as a limiting factor to production as pressing as in the first quarter of 2012, even though labour is still mentioned as the most important limiting factor. The fact that loans to corporates have increased gradually since early 2016 and are currently growing by close to 5% YoY is the final argument in favour of a continuation of the current recovery.

The bottom line

The German economic recovery has entered its ninth year and there are no signs that this recovery could come to an abrupt halt. Today's industrial production data have not only confirmed this growth picture but actually provide further evidence that this recovery could gain even more momentum.

Clearly a good start on a day that given the ECB meeting in Tallinn, political theatre in Washington and the UK election many market participants have labelled "Super Thursday".

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