

## Disappointing German March macro data increase risk of technical recession

Today's industrial production figures are the final data release for a disappointing March, and have increased the risk that the German economy ended up in a winter recession after all



The latest batch of hard economic data for the German industry is a clear reminder to never count chickens before they are hatched. After a strong rebound in February, almost all hard data plunged in March. Industrial production is the latest data release, published this morning, coming in at -3.4% month-on-month, from +2.1% MoM in February. On the year, industrial production was up by 1.8%. Production in the energy-intensive sectors dropped by some 3% MoM and is still down by 13% compared with March 2022. Activity in the construction sector plunged by almost 1.5% MoM.

German industrial data was unusually volatile this winter. The combination of cyclical factors like the reopening of China, milder weather but also a more general ongoing reduction of backlogs, as well as continuing structural transitions, are strong arguments to focus on longer-term trends rather than monthly ups and downs.

## Risk of downward revision to first quarter GDP growth has increased

Still, it is not only industrial data which disappointed. In fact, all German macro data in March plunged. Retail sales and exports dropped sharply, and together with today's industrial production data, have increased the chance of a downward revision to first-quarter GDP growth. A downward revision would mean the economy fell into recession after all.

Looking ahead, the picture for German industry remains mixed: today's data is so weak that some kind of short-term rebound is on the cards. However, more structurally, production expectations have weakened again, order books have thinned out and inventories remain high. Add to this the impact of the most aggressive monetary policy tightening in decades, and the expected slowdown of the US economy hitting German exports, and the outlook is anything but rosy. On top of these cyclical factors, the ongoing war in Ukraine, demographic change and the current energy transition will structurally weigh on the German economy in the coming years.

Compared with the fourth quarter, industrial production and activity in the construction sector even after today's data were still up in the first quarter. It is the negative carry-over into the second quarter that is more worrisome. Generally speaking, today's industrial production data show that an industrial renaissance is far from reality and there is still a high chance of a downward revision to first-quarter GDP growth, pushing Germany officially into a technical recession.

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