

Snap | 7 August 2017

## German industrial production: rain shower on hot summer day

German industrial production unexpectedly falls for the first time pouring cold water on recent growth optimism



The numbers disappointed in June, dropping by 1.1% MoM, versus +1.2% growth in May. The decrease was driven by weaker production of capital, consumer and intermediate goods. Activity in the construction sector dropped for the second month in a row (-1.0% MoM, from -1.3% in May). Only activity in the energy sector was stronger.

On the year, industrials production was up by 2.5% in June, from 4.9% in May.

While seasonal effects have slightly blurred data in April and May, today's numbers probably show the purest face of the German industry. And it's a mixed face. Even though today's data is a negative surprise, hard data is still catching up with soft data; only not as fast as some might have hoped.

## Self-inflicted automotive problems?

With little risks from the outside, Germany has created its domestic problems. The latest scandals and events in the automotive industry could eventually harm the German economy. The auto industry is currently in the middle of structural changes; partly self-inflicted and partly stemming from external factors.

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*Germany faces little risks from outside but seems to have created its own problems. The latest scandals in the automotive industry could eventually harm the German economy.*

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To some extent, the industry is in a similar situation as the banking sector. In Germany, the self-inflicted part goes back to the diesel emission scandal and the latest antitrust allegations, while at the same time the possibility of diesel bans have emerged. International competition for electric vehicles has increased, and the rise of car sharing could also add to the pressure.

To place this into context, Germany is home to more than 40 automobile assembly and engine production plants, and the sector employs over 800,000 people (some 2% of total employment). However, given that many suppliers for the automotive industry are SMEs and often located in rural areas, the indirect employment effect could be two to three times higher.

Just think of the infrastructure of entire villages or regions hosting automotive suppliers. The gross added-value of the industry accounts for roughly 9% of industrial activity; significant but not the sole destiny for the entire economy.

## What lies ahead?

Looking ahead, low inventories and stronger new orders bode well for industrial production in the coming months. On Friday, June new orders reported an increase of 1.0% MoM (5.1% YoY). New orders have now increased in four out of the first six months of the year. Also, strong confidence indicators point to continued strong activity as well.

As unexpected as today's drop in industrial production has been, the German economy is still on track to post another strong quarter. Given the sound fundamentals, a month of weak industrial data should only be like a rain shower on a hot and humid summer day: a welcome refresher.