

## German industrial production sends signs of life

The industrial rebound in October is a glimmer of hope but does not yet signal a turning point as supply chain frictions will only gradually abate in 2022



Industrial production finally sent some signs of life, increasing by 2.8% month-on-month in October, from -0.5% MoM in September. It was only the third monthly increase this year. On the year, industrial production was still down by 0.6%, from -0.4% in September. The increase in industrial production was driven by all sectors. Despite the long-awaited relief, this strong industrial production data does not yet mark a turning point.

### Welcome rebound but not yet a sustainable recovery

It is no longer a secret that German industrial production has suffered enormously from global supply chain frictions this year. It is not only semiconductors but all kinds of input goods, ranging from bottom brackets for bikes to magnesium needed in automotive and aircraft construction. Supply chain frictions are not only leaving their mark on actual production but have started to spread and to undermine production prospects as reflected by dropping orders and weakening production expectations.

Today's strong industrial data is finally a glimmer of hope but does not come as a surprise. Industrial production had been so weak that any single container coming to Germany and every handful of microchips would immediately lead to a pick-up in production. However, supply chain frictions have not been resolved, implying that the October industrial data is rather a short-lived rebound than the start of a sustainable recovery or turning point.

Given that private consumption will be a drag on the entire economy, due to high energy prices and new restrictions amid a fourth wave of the pandemic, any pick-up in industrial production is welcome. In fact, a rebound in industrial production is probably the only thing that can help the German economy to avoid falling into stagnation or worse in the fourth quarter. In our view, the rebound will not yet be strong enough to fully offset weakening consumption. It will take until spring next year before German industry is back on a sustainable recovery path.

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