

## German industrial production weakens further in October

Industrial production adds to evidence that the gradual slide into recession continued at the start of the final quarter of the year



German industrial production, excluding construction and energy, decreased by 0.4% month-on-month in October. On the year, industrial production was up by 0.8%. Production in the energy-intensive sectors, however, dropped by 3.6% MoM and is now down by almost 13% compared with October last year. Global supply chain frictions as well as the cooling of global demand continue to weigh on German industry. On the upside, activity in the construction sector grew by 4.2% MoM. However, don't forget that industrial production is still below its pre-pandemic level.

### Weak start to the final quarter

Today's industrial production data is the final part of the entire batch of hard October macro data. And despite recent glimmers of hope, as illustrated by an uptick in the Ifo index and the PMI, the verdict at the start of the final quarter is clear: the German economy has not fallen off a cliff but continues its long slide into recession. Retail sales were down sharply, exports were down and industrial production was down; activity in the construction sector was the only growth driver.

Admittedly, there have been some positive developments: several government stimulus packages, filled national gas reserves, a better and faster adaption of businesses and households to reduce gas consumption, and hopes that consumers will simply spend away the energy crisis. However, the downsides still outweigh the upsides: new orders have dropped by almost 15% since the start of the year and inventories have started to increase again after the summer, a combination that never bodes well for future industrial production. Despite some relief in global supply chain frictions, early leading indicators from Taiwan and Korea point to a weakening of global trade in the winter. High energy prices are gradually being passed through to consumers, therefore gradually weighing on private consumption.

The government's fiscal stimulus is substantial enough to cushion the contraction and to turn a severe winter recession into a shallow one. The next question will be whether the economy can actually avoid a double dip in the winter of 2023/24. Currently, many official forecasts expect the German economy to return to average quarterly growth rates by mid-2023. We are more cautious and think that the series of structural changes and adjustments will keep the recovery subdued, with a high risk of a double dip.

Today's industrial production data has two messages: German industry, excluding energy-intensive sectors, is more resilient than some pessimists had thought but at the same time, the gradual slide into recession still looks unavoidable.

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