

## German industry rebounds in January

Industrial production rebounded strongly from the December crash but weak retail sales show that growth optimism is still premature



German industrial production rebounded strongly in January, more than offsetting the dramatic December crash, increasing by 3.5% month-on-month from -2.4% MoM in December. On the year, industrial production was down by 1.6%. Production in the energy-intensive sectors rebounded by 6.8% MoM but is still down by some 13% compared with January. Activity in the construction sector surged by almost 13% MoM. This strong rebound is not so much a reflection of the overall strength of the economy but rather a sign that the sharp plunge in economic activity in December was a temporary (perhaps also technical) glitch.

### Industrial relief but consumer pain

Despite the January improvement, German industry continues to sputter. Even three years since the start of the pandemic, industrial production is still almost 5% below its pre-pandemic level.

Looking ahead, yesterday's increase in industrial orders brought some relief but it is weak relief as both domestic and eurozone demand fell sharply and only bulk orders from non-European countries increased. Still, lower wholesale energy prices and the reopening of China could give German industry some tailwind. On the other hand, however, the lack of skilled workers, high interest rates and a high level of uncertainty are likely to undermine investment activity. The inventory build-up in recent months adds to concerns about a still weak outlook for industry. Finally, and as if there haven't been enough challenges so far, water levels are currently again at record low levels for this time of the year, potentially creating the next supply chain friction.

Today's industrial production data brings some welcome relief but is no reason to cheer. It is mainly a correction of the December plunge. What is also remarkable is the fact that January retail sales did not correct but continued their downward trend from the end of last year. While industry could become a mild growth driver in the first quarter, private consumption looks set to be a drag.

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