

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.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.