

German industry stagnates at too low level

Industrial activity in November provided more evidence that the economy did not fall off a cliff in the fourth quarter but was not strong enough to avoid a contraction either



German industrial production increased by 0.2% month-on-month in November, from a downwardly revised -0.4% MoM in October. On the year, industrial production was down by 0.4%. Production in the energy-intensive sectors increased by 0.2% MoM and is now down by almost 13% compared with November last year. While production in the energy sector increased by 3% MoM, activity in the construction sector weakened by 2.2% MoM.

Glass half full or half empty?

Today's industrial production data brings back the old question of whether the glass is half full or half empty. To some, the current stagnation means that German industry is holding up better than feared. To others, it is only filled order books at the start of the war in Ukraine and the backlog of orders that prevented more severe damage to industrial production. In any case, industrial production is still some 4% below its pre-pandemic level. Almost three years after the start of the pandemic.

The former growth engine of the German economy is stuttering and improvement is not really in sight. Despite the recent return of optimism as illustrated by improving sentiment indicators, the

sharp drop in new orders, the inventory build-up in recent months, the lagged impact of high energy prices and potential supply chain frictions as a result of China's Covid policies all bode ill for the short-term outlook.

Still, the New Year started on a more optimistic footing for the German economy. The mild temperatures almost seem to have ended the energy supply crisis, at least for now. National gas reserves have increased again, and consumption is clearly below historical averages. However, the question is how sustainable the safety net of warmer temperatures and fiscal stimulus can be. Even at the risk of being perceived as the boy who cried wolf, the short period in early December when a real winter spell pushed gas consumption more than 10% above historical averages illustrates how deceptive the optimism at the start of the year could be. Let's not forget that the German economy is still facing a series of challenges which are likely to weigh on growth this year: energy supply in the winter of 2023/24, changing global trade with more geopolitical risks and changes to supply chains, high investment needs for digitalisation and infrastructure and an increasing lack of skilled workers. While the warm weather should actually ring alarm bells in terms of climate change, it is a welcome surprise for the economy. However, the warm weather does not simply blow away all economic problems.

Solid construction sector too little to avoid recession

Today's industrial production data was the last hard macro data before the German statistical office releases its first estimate of fourth-quarter growth. Remember that in the third quarter, soft data plunged like a stone although actual GDP growth surprised to the upside. This time around, it looks as if hard data will be catching up. So far, and compared with the third quarter, retail sales, exports and industrial production all point to a mild contraction in the economy. Only the construction sector seems to be in growth territory. Despite the latest improvements in confidence indicators, available hard data still suggests that the economy's slide into recession has continued.

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 <http://www.ing.com>.