

Positive signs under the surface of disappointing German industrial data

Industrial production continues its year-end stagnation. However, disappointing headline data masks a promising pick-up in the manufacturing sector



German Economy, Minister Robert Habeck, visits the Airbus factory in Hamburg

German industrial production dropped by 0.2% month-on-month in December, from an upwardly revised +0.3% the previous month. Industrial production dropped in eight months in 2021 and ended the year more than 4% lower than in December 2020. However, today's industrial production report is not as bad as it looks at first glance. Industrial activity was mainly weakened by the construction sector, which shrank by more than 7%. Construction seems to suffer significantly from supply chain friction, labour shortages and probably also a longer Christmas break. Industrial activity excluding energy and construction actually increased by 1.2% MoM. Still, total industrial production is still some 7% below its pre-crisis level.

Still waiting for the ketchup bottle effect

When reading today's data it is important to make a distinction between activity in the construction sector and manufacturing. The sharp drop in construction activity weighed on industrial production, while the manufacturing sector saw production increasing for the second month in a row.

Despite these first positive signs, German industry remains in the stranglehold of global supply chain frictions. 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. This bottleneck problem has reached unprecedented levels. For example, the estimated number of months' production assured by orders on hand in manufacturing has reached 4.5 months. The historical average is less than three. At the same time, order books are still filling as illustrated by the strong December increase in industrial orders. All of this means that it is only a question of time before industrial production surges again. The only other upcoming risk, other than supply chain frictions, is labour shortages. Companies are desperately seeking employees as both recruitment plans and the lack of labour as a limiting factor to production are both at record highs.

We mentioned before that German industry is waiting for the "ketchup bottle effect". Remember the glass ketchup bottle that you shake and tap all you want with no result until suddenly it all comes flooding out and your food is smothered in ketchup? Under the surface of today's headline data, the bottle has started to drip.

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