

Germany's sudden halt in December is confirmed

A terrible industrial production report confirms the economy's sudden and hard halt in December.



German industrial production decreased by 3.1% month-on-month in December, from +0.4% MoM in November. On the year, industrial production was down by almost 4%. Production in the energy-intensive sectors plummeted by 6.1% MoM and is now down by almost 20% compared with December last year. While production in the energy sector decreased by 2.3% MoM, activity in the construction sector fell by 8% MoM. This is a simply horrible report.

Industrial pain is real

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 pandemic backlog of orders that have prevented more severe damage to industrial production. In any case, industrial production is currently almost 8% below its pre-pandemic level and the sharp drop in production in energy-intensive sectors illustrates how much the energy crisis is hurting

industry.

The former growth engine of the German economy is stuttering and no improvement is 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 and the lagged impact of high energy prices all still bode ill for the short-term outlook.

Today's industrial production was the last hard data for the month of December. It is a month to forget. Retail sales, exports and imports all fell sharply. Either this data will be strongly revised upwards in the coming months or the German economy entered hibernation in December. Despite the latest optimism reflected in improving sentiment indicators, this economic hibernation is unlikely to end any time soon.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

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