

## January growth indicates German industry may have hit bottom

Finally some good industrial news out of Germany as industrial production rebounded in January. Another data point confirming the current bottoming out of the industrial slump but not yet a sign of any significant turnaround



German industry started the year on a more positive note, increasing by 2% month-on-month in January, from -1.5% MoM in December. On the year, industrial production is still down 1.6%. At the same time, the frontloading of exports, anticipating looming tariffs, stopped as German exports dropped 2.5% MoM in January. As imports increased by 1.2% MoM, the trade surplus narrowed. German industrial production remains about 10% below its pre-pandemic levels some five years after the onset of Covid-19.

### Bottoming out of industrial slump

Today's data confirms the bottoming out of Germany's industrial slump. However, it is too early to call any substantial turnaround. Manufacturing capacity utilisation is at lows comparable only to those seen during the financial crisis and the initial lockdowns, order books shrank again in January with particularly weak foreign demand, and inventory levels remain at elevated levels.

This still paints a rather unflattering picture of a nation known as an industrial powerhouse.

With looming US tariffs on the EU and the expected modern version of 'beggar-thy-neighbour' policies by the new US administration, the short-term outlook for German industry remains anything but rosy. This is not just because of the potential impact on German exports, but more so the effect on German investments if companies were to move production to the US. It is hard to see that last week's fiscal big bang from the potentially incoming government will be able to lead to an immediate turnaround. However, if the announced stimulus is indeed delivered, it could provide a short-term confidence boost, and enhance the longer-term prospects of the German economy.

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