

German industrial production disappoints in November

New year, same old problems. The downward trend of industrial production continued in November and increases the likelihood of the economy having entered a technical recession



New year, old problems. German industrial production dropped for the sixth consecutive month in November, by -0.7% month-on-month, from -0.3% MoM in October. For the year, industrial production was down by almost 5%. The sharp drop in activity in the construction sector (-2.9% MoM, from -2.2% MoM in October) is especially worrying.

Industrial production is now more than 9% below its pre-pandemic level, almost four years since the start of Covid-19. On a more positive note, production in energy-intensive sectors increased by 3.1% MoM in November and is now down 'only' 4% over the year.

Weak industrial data increases recession risk

Looking ahead, the nearer-term picture of German industry gives very little reason for optimism. The order book deflation of the last two years leaves clear marks as well as ongoing energy and policy uncertainty. With a soft or hard landing of the US economy and still very little positive growth momentum in China, external demand for German industrial production is likely to remain

weak. The only upside could come from a turning of the inventory cycle. However, even though there are some very tentative signs of inventory reduction, it would still take until late spring before we could see a significant impact on actual production.

Today's industrial production data wraps up a month of mixed economic data in Germany. While retail sales fell sharply in November, exports showed some signs of life and improved significantly. Industrial production, however, is down compared with the third quarter. If anything, December is likely to bring more negative surprises, with the first signs of economic fallout from the government's fiscal woes, disruptions in the Suez Canal and reportedly weak Christmas sales. All of this points to another small contraction in the fourth quarter, pushing the German economy into the first – admittedly very minor – technical recession since 2020. As we said: new year, old problems.

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