

## First hard data for 2024 signals German economy is bottoming out

This week brought the first hard data for Germany this year. There are signs of a bottoming out but the numbers still point to another economic contraction in the first quarter of the year



This morning, January industrial production came in at 1.0% month-on-month, from -2.0% in December. On the year, industrial production was still down by more than 5% and is now some 10% below its pre-pandemic level. Production in energy-intensive sectors rebounded by some 3% MoM, after the 6% December plunge. The January improvement in industrial production was spread across all sectors except for the automotive industry.

Earlier this week, the sharp surge in January exports brought some hope. The 6.3% MoM increase in exports was encouraging. However, it came after a very weak December reading and the fact that exports were hardly up on the year should put a cap on the enthusiasm. Another party spoiler was the sharp plunge in German industrial orders yesterday. The drop by 11.3% MoM almost completely reversed the 12% MoM surge in December. This strong yo-yo effect was mainly driven by bulk orders. Somewhat promising is the three-month trend, which showed industrial orders 2.3% higher than in the months from August to October.

## Bottoming out but still no imminent rebound in sight

This week's data illustrate the bottoming out of German industry but cannot hide the structural weakness. What we are currently seeing looks like a very gradual, cyclical bottoming out. In fact, industrial sentiment continued to weaken in February as the order book assessment worsened and production expectations only marginally improved, coming from very low levels. The slight turning of the inventory cycle in December and January also came to a halt in February as inventories increased again. This is a data mix that indeed points to a bottoming out but not yet to an imminent rebound.

Looking beyond industry, another drop in retail sales in January, a further increase in consumers' willingness to save and ongoing high policy uncertainty do not really support the often-heard argument that private consumption will drive the economic recovery this year. In fact, at least in Germany, it is normally industry and exports driving a recovery with consumption following, and not the other way around. To make things worse, Germany wouldn't be Germany these days if there weren't new problems weighing on the short-term outlook: strikes by train drivers, airport and airline personnel, and supply chain disruptions as a result of the military conflict in the Red Sea have made another contraction in the German economy in the first quarter of the year even more likely.

All in all, highly volatile data at the turn of the year make it harder to derive a clear trend. What we take from the first batch of hard data for the German economy in 2024 is the picture of an economy that is bottoming out but still stuck between cyclical and structural weakness. Currently, an imminent rebound still looks unlikely, even if there is some vague light at the end of what increasingly looks like a very long tunnel.

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