

Germany: Not so far from the shallows

A new star was not born. Instead, another disappointing drop in German industrial production shows that industry is not so far from the shallows any more.



Source: Shutterstock

Industrial production dropped by 0.5% MoM in October, from a 0.1% MoM drop in September. On the year, industrial production was up by 1.6%. After two small monthly increases, the October drop shows that German industry is trading water. The drop in industrial production was mainly driven by shrinking production of consumer goods.

What started as a stagnation at high levels has become a year of fears and severe car accidents for the German industry and the entire economy. The industrial slump over the summer months, mainly driven by production delays in the automotive industry, has once again given rise to concerns about the strength of the entire German economy. Are we currently witnessing the start of a prolonged slowdown, driven by a structural cooling of foreign demand, or yet another blip on the back of (too many) one-off factors?

Reasons to still be cautiously optimistic

In our view, the latest developments still support moderate optimism. Taking the trend of the last three months, German industry has at least not lost more momentum but instead is trading water. Also yesterday, new orders had recorded their third monthly increase in a row, leaving the trough of the summer behind. Low interest rates and strong loan growth to the corporate sector

remain strong arguments in favour of increasing investments in the coming months. Admittedly, some supply-side constraints of the German industry are easing, with capacity utilization in the fourth quarter dropping to the lowest level since 2Q 2017 and the pick-up in the automotive industry should be spread over the next two quarters.

All in all, balancing these opposing trends illustrates that any rebound in German industry will not follow a straight line but will be wobbly. To paraphrase Lady Gaga and Bradley Cooper: even if the times are no longer extremely good, the German economy should be longing for some structural change to improve long-term growth prospects before it starts fearing itself. The economy is not so far from the shallows any more.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.