

## 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.



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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.

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