

## Germany: Give me an “r”

Disappointing November production data gives rise to fears of a technical recession



Industrial production fell by 1.9% month-on-month in November, the sharpest drop since the summer of 2015. To make things worse, the October drop was revised downwards to -0.8% MoM, from -0.5% MoM. On the year, industrial production is now down by 4.7%. The drop in industrial production was widely spread across all sectors.

### There is more to it than just cars

Weaker German industrial production is not only the result of problems in the automotive sector. In fact, the last significant quarterly surge in industrial production dates back to the fourth quarter of 2017. Since then, industrial production has been treading water, first on the back of supply-side constraints and now more recently on the back of weakening demand.

### Technical recession can no longer be ruled out

At face value, today's industrial production data has clearly increased the risk of a technical recession in Germany in the second half of 2018. Watch out for tomorrow's trade data. Another disappointment, combined with the high inventory build-up in 2Q and 3Q, would clearly increase the likelihood of a technical recession. On the other hand, private and public consumption still have

the potential to offset recession forces.

Looking ahead, however, even a technical recession should be nothing to be too worried about. It should be technical, without any significant marks on the labour market. In fact, there are still plenty of reasons to remain optimistic, even for German industry: despite the recent deflation of new orders, order books are still richly filled and companies still report assured production close to record highs and while capacity utilisation has dropped to its lowest level since the third quarter of 2017, the lack of equipment still is a more limiting factor to production than the lack of skilled workers. In addition to this, the recent pick-up in orders in the automotive industry and favourable financing conditions in the entire economy also bode well for at least solid industrial and investment activity in 2019.

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