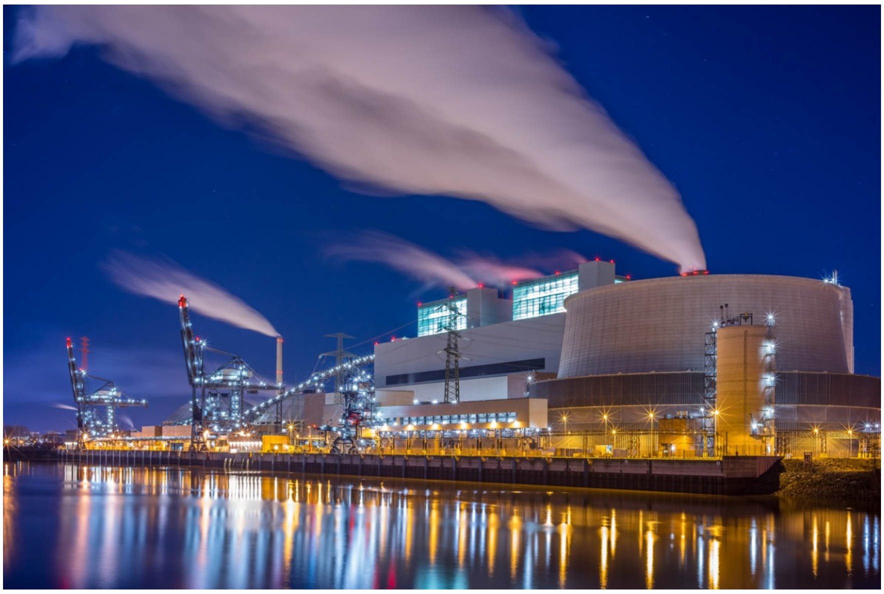
Germany: Glimmers of hope in disappointing data

German industrial production dropped for the third month in a row. Under the surface of disappointing headline figures, there are some glimmers of hope



Source: iStockphoto

The slowdown of the German industry continues. After a slump at the turn of last year, industrial production just repeated the disappointing record of three consecutive drops. In August, industrial production decreased by 0.3% MoM, from 1.3% MoM in July. On the year, industrial production was down by 0.1%. Under the surface of another disappointing headline figure lie some encouraging trends. The production of consumer goods and intermediate goods actually increased in August, while the production of capital goods continued its recent slowdown. Due to the summer break, activity in the construction sector dropped by 1.8% MoM.

Industrial deflation

In the first eight months of the year, German industry has gone through a deflationary phase. Industrial production has dropped by a monthly average of 0.2%, industrial orders were down by a monthly average of 0.8% and inventories surged in the second quarter. Despite this deflation of an order bubble, order books are still richly filled and backlogs in the industry remain elevated.

Anecdotal evidence about order problems in the automotive sector over the summer months was put into perspective by the German ministry of economic affairs, stating that a bottleneck due to the introduction of new pollution standards had been cleared. Still, compared with strong GDP growth in the first half of the year, industrial production seemed to have shifted into lower gear.

Where will the German economy go from here?

The longer the current economic expansion and positive cycle continue, the louder the voices about an imminent end are getting. However, don't forget the famous saying that recoveries never die of old age. A saying which can easily be applied to the German economy. Obviously, the lack of structural reforms and problems in strategic sectors are downside risks as well as the gradual deterioration of German competitiveness over the last few years. Escalating trade tensions or an unexpected slowdown of the eurozone economy could easily be the trigger for a slowdown, bringing the structural deficiencies to the surface. At the same time, however, a strong labour market, low interest rates and a weak euro are the best stimulus package the German economy can imagine. Add to this elevated credit growth in the corporate sector, capacity utilisation at its highest level since 2007, fiscal stimulus by the government and equipment being a more limiting factor to production than the lack of qualified workers, and there is very little reason to be worried about the German economy. At least not in the short run.

In short, today's numbers are a clear disappointment. However, it would still be too premature to dent our optimism. Too often has there been a surge in industrial (and economic) activity in Germany after the summer vacation.

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