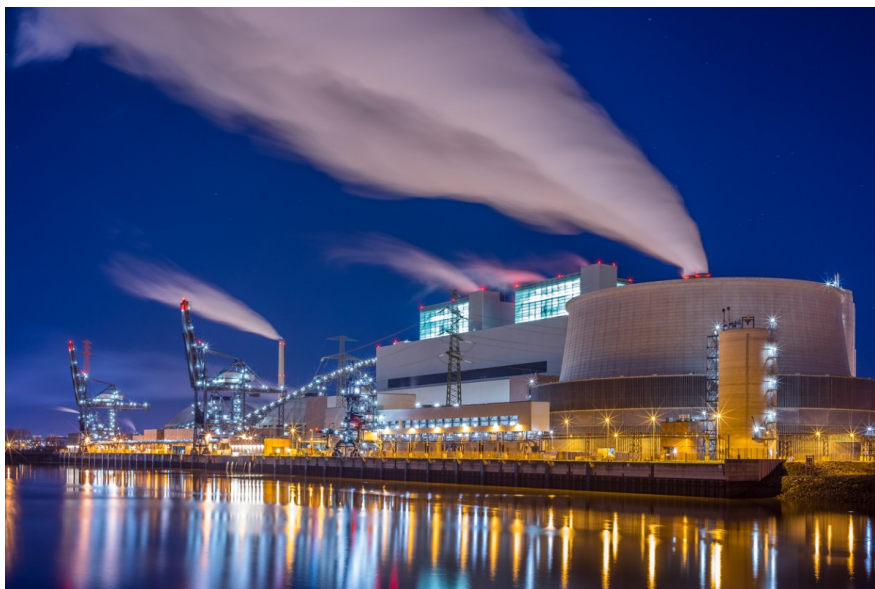


Germany: Glimmers of hope in disappointing data

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.

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 <http://www.ing.com>.