

Snap | 5 April 2019

## Germany: Head scratching continues

A positive headline number, further weakening manufacturing data. What to make of this morning's German industrial data?



German industrial production increased by 0.7% MoM in February, from an upwardly revised flat reading in January. On the year, industrial production was still down by 0.4%. While the headline number seems to provide some relief, the components show that activity in the manufacturing sector actually dropped by 0.2% MoM, while activity in the construction sector surged by 6.8% MoM.

This morning's data do not bring relief for industry, only for the economy as total production in the first two months of the year points to positive GDP growth in the first quarter.

A warm thank you to the construction sector. More generally speaking, German industry remains an international reason for concern. In fact, what first looked like the result of a series of negative one-off factors has all of a sudden received the flavor of an industrial meltdown. Brexit woes and the global slowdown have a stranglehold over German industry. However, the weakness of industry can only partly be explained by external factors. Up to now, there has been no rebound effect from disappearing one-off factors. Why this rebound has not materialized, yet, remains a mystery.

## Head scratching will continue

Looking ahead, the big question of this week is how to read the combination of devastating new orders and today's rebound in industrial orders. In fact, it is very easy: today's positive data were driven by the construction sector not by the manufacturing sector and more generally speaking today's new orders are tomorrow's industrial production. Still, the relationship between the two is not a mechanical one. German corporates still report assured production for more than three months. Also, there are tentative signs from more real-time trade indicators, pointing to some improvement in global activity towards the end of the first quarter. And last but not least, the fundamentals for a further pick-up in investments remain intact. Just think of low interest rates.

These days, German industry leaves many analysts scratching their heads. Sure, there are external headwinds but the slowdown has been too severe to exclusively be justified by Brexit, China and trade. Either there is more and structural weaknesses finally leave their mark on industry or a rebound is still in the offing. Not only on the back of a reversal of last year's one-off factors but also on the back of some global relief. For now, the only thing that is for sure and that was also supported by this morning's data is that the domestic part of the economy remains strong and there are even signs that the economy can have accelerated in the first quarter. For the rest, all other scenarios remain possible: the positive one with a rebound but also the negative one with a further meltdown on the back of structural weaknesses and slower global demand. Stay tuned.

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