Germany: December industry data ends a year to forget

After yesterday's disappointing new orders data, industrial production and exports in December were hardly any better, ending a terrible year for German industry

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The manufacturing slump continues. The pick-up in November brought only temporary relief for German industry, as the just-released December data showed a continuation of the broader downward trend. Industrial production fell by 3.5% month-on-month in December, from 1.2% MoM in November. It was the fifth drop in the last seven months. On the year, industrial production was down by almost 7%. Probably driven by the Christmas break, activity in the construction sector fell by 8.7% MoM. Even excluding this sector, production in manufacturing was still down by 2.9% MoM. As if this wasn't bad enough, exports increased by just 0.1% MoM in December, from -2.2% in November, clearly not helping the economy. As imports dropped by 0.7% MoM, the trade balance narrowed to €15.2 billion, from 18.3bn in November.

The German manufacturing sector remains caught between cyclical weakness, on the back of the trade conflict and weaker global growth, and structural weakness, on the back of disruption in the automotive sector and too little investment. The entire manufacturing sector, except for food, is currently in stagnation mode.

Looking ahead, soft indicators point to a bottoming out and stabilisation in the manufacturing sector. Production expectations have improved somewhat and are now back to levels last seen at the beginning of 2019. At the same time, inventories started to drop at the turn of the year, keeping hopes alive for a pick-up in production in the coming months. Generally speaking, the inventory cycle in the German manufacturing sector has had a significant impact on production recently. Interestingly, while total inventories are still high, despite the January drop, inventories in the automotive sector have been dropping since the summer of 2019. At the same time, however, inventories in retail sales of vehicles are still close to record highs. Despite some zigzagging, the turnaround in the inventory cycle since the start of the year is encouraging for the whole manufacturing sector. However, yesterday's disappointing new orders, as well as possible supply chain disruptions from the economic impact of the coronavirus in China, are likely to delay the stabilisation and suggest that any recovery will be slow and gradual.

There are very few positive elements to find in the December industrial data. In fact, the data has raised the risk that next week's GDP data could bring back the R-word for the German economy. A black zero for fourth quarter GDP growth would be a positive surprise. Today's data is another reminder that 2019 was definitely a year to forget for German industry.

Author

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de