

Germany: Industrial setback

Industrial production took a breather in September, but fasten your seatbelts! The fast ride of the German economy is set to continue



German industrial production once again showed how sensitive it is to weather effects and vacation planning. Industrial production dropped by 1.6% MoM in September, partly offsetting the August surge of 2.6% MoM. On the year, industrial production was up by 3.6%, from 4.7% in August. The September drop was mainly driven by less activity in the production of capital goods and energy. The construction sector saw an increase in activity.

Despite today's setback, all the ingredients are in place to see a resurgence of industrial activity in the coming months. Yesterday's new order data (survey-based order books data at all-time highs and inventories having dropped significantly) closing in on record-low levels from 1990 are all strong arguments that the hard data will catch up with buoyant sentiment indicators.

Interestingly, despite booming industrial activity, selling price expectations in the manufacturing industry have remained stable. Further evidence that the typical textbook signs of an overheating economy are still not visible. Today's data confirm that the weak spots of the past few years – investment and industrial production – are only gradually returning as a strong growth engine. With capacity utilization back at levels last seen in 2008 and equipment being increasingly mentioned by the manufacturing industry as a limiting factor to production, investment should

further pick up. As cumbersome and as difficult as the coalition talks in Berlin are currently progressing, spending more money in our view remains the easiest-to-agree-on common denominator for any next German government. Therefore, keep your seat belts fastened, the fast ride of the German economy should continue soon.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

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