

## Germany: Industrial slump worsens

October industrial data suggests that the flirtation with stagnation and contraction has continued in the final quarter of the year



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A bad start to the fourth quarter. Industrial production disappointed in October, dropping by 1.7% month-on-month, from -0.6% in September. On the year, industrial production was down by 5.3%. Production of investment goods fell by 4.4% MoM while the production of consumer goods increased by 0.3%. What is worse, production in the construction sector fell by 2.8%. Today's data suggests that the German economy is continuing to flirt with stagnation and contraction in the final quarter of the year.

Capacity utilisation has dropped to its lowest level since early 2013. At the same time, the well-known supply-side constraints have also started to ease but not with the same magnitude as capacity utilisation. The lack of skilled employees and too little equipment as limiting factors have dropped to their 2017-levels, suggesting that the current slump in manufacturing is still a combination of supply-side and demand-side factors.

Looking ahead, both soft and hard indicators bode ill for industrial activity in the months ahead. Production expectations show very tentative signs of stabilisation at low levels but order books are still shrinking and inventories remain high. Trade conflicts, global uncertainty and disruption in the automotive industry have put the entire German industry in a headlock, from which it is hard to

escape.

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