

## Germany: Industry takes a break in December

Stagnation in December increases the risk that industrial production will not be able to save the economy from contraction in the first quarter



After seven consecutive months of strong increases, industrial production took a break in December, remaining unchanged from an upwardly revised 1.5% month-on-month rate in November. On the year, industrial production was still down by 1%. While the production of consumer goods and intermediate goods increased, the production of capital goods slightly dropped. Likely driven by the Christmas break, activity in the construction sector dropped by 3.2% MoM.

### Manufacturing sector unlikely to save economy from contraction in 1Q

Since the summer, industrial activity has decoupled from the service sector and other lockdown-hit activities. The nature of the 'smart lockdowns' is clearly one important driver of this divergence. While many parts of the German manufacturing sector voluntarily closed down during the first lockdown, also driven by severe supply chain disruptions, factories have remained open during the

second lockdown. Also, don't forget that the German manufacturing sector seems to have benefited a lot from the strong and continuing recovery of the Chinese economy. However, there is an important distinction between cyclical and structural rebound. The strong industrial performance since the summer is, in our view, a cyclical and not so much a structural rebound. In fact, not only did the manufacturing sector enter the crisis on a much weaker footing than most other sectors, despite the recent acceleration, industrial production is still some 4% below its pre-crisis level.

Looking ahead, it currently looks unlikely that the manufacturing sector will save the German economy from contraction once again. Production expectations have recovered somewhat since November but are still below their summer levels. At the same time, the inventory reduction of the second half of 2020 seems to have come to an end at the turn of the year. Also, with the latest spell of winter weather, the construction sector will hardly be a growth driver in the first quarter.

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