Germany: March rebound bodes well for 2Q growth

This morning's macro data out of Germany adds to our optimism for a strong economic rebound in the second quarter.

Industrial production increased by 2.5% month-on-month in March, from -1.9% MoM in February. On the year, industrial production was up by 5.1%. The construction sector staged the expected strong comeback, seeing activity surging by 10.8% MoM. Finally, exports (seasonally and calendar adjusted) increased by 1.2% MoM, from 0.9% in February. On the year, exports were up by 16%.

Fasten your seatbelts

After weaker industrial data in the first months of the year on the back of a long Christmas break, harsh winter weather and the Chinese New Year, industry has finally gained momentum. An interesting detail from the export data: in the first quarter the UK for the first time ever dropped out of Germany's Top 5 most important export destinations.

Looking ahead, filled order books and low inventories bode well for industrial activity. Fiscal stimulus and investment initiatives around the globe should also benefit German industry. Admittedly, supply chain disruptions like the blockage of the Suez Canal or semi-conductor delivery problems have, and will, distort industrial activity. However, these disruptions will only delay - not derail - the catch-up of German industry. Therefore, it doesn't come as a surprise that production expectations in the manufacturing sector currently stand at an all-time high and even capacity utilization has surged to close to historic peaks. Ii might not be long before the first murmurs about capacity issues and hurdles to more growth return.

As we already knew from the first estimate of 1Q GDP growth, this explosion of manufacturing and construction activity was not sufficient to prevent the German economy from falling into contraction. However, even without any growth in the next three months, particularly construction should significantly boost GDP growth. The manufacturing sector is currently flat. However, it does not require a lot of imagination to see more than simple stagnation ahead. Fasten your seatbelts.

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