

Germany: Last hope

German industry re-accelerated in September, illustrating that it is the economy's only hope in avoiding a double dip in the fourth quarter.



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German industry reaccelerated at the end of the summer, increasing by 1.6% month-on-month in September, from an upwardly revised +0.5% MoM in August. On the year, industrial production was down by 7.3%. The August increase was driven by all sectors. Interestingly, the construction sector only staged a relatively weak rebound in September.

In this fast-moving Covid-19 environment, assessing this kind of backward-looking data is currently like looking at pictures of a great summer holiday on a grey November day. We all know that the third quarter was strong. Today's data, however, also feed the recent new divergence between services and manufacturing. In our view, there are three main reasons for this new divergence: the 'smart lockdown' in October mainly affected parts of the service sector such as leisure, hotels, restaurants, sports and culture but spared most areas of industry. Also, the rebound in manufacturing started later than that in services and the benefits from the strong and continuing recovery of the Chinese economy. In any case, don't forget that the manufacturing sector entered the crisis on a much weaker footing than the service sector, putting any temporary divergences clearly into perspective.

Temporary or not, this divergence could still last a bit. In fact, industry is the German economy's

only hope to possibly still avoid a contraction. Despite some weakening, production expectations were still strong in October and order books had quickly filled again after the lifting of the lockdown measures. In our view, industrial production should still take this positive momentum into the fourth quarter. However, given the sentiment impact from the latest lockdown measures but also weaker foreign demand as many other eurozone countries have also gone into lockdown again, this positive momentum will in our view not be enough to avoid this double dip for the German economy.

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