Germany: Is this what bottoming out looks like?

Another batch of disappointing industrial data adds to global doom but perhaps volatile data is just a sign of bottoming out

At first glance, the latest batch of German industrial data for the month of January doesn't only add to the current global doom, it's also a further hit to any optimism about growth in the eurozone's largest economy. After Friday's disappointing new orders data, industrial production in January dropped by 0.8% month-on-month and exports remained unchanged. On the year, industrial production was down by 3.3%. While construction and the production of consumer goods rebounded somewhat in January, the production of capital and intermediate goods dropped. At the same time, however, industrial production for December was revised upwards to 0.8% MoM, from an initial -0.4% MoM.

In search for the bottom

The start of the new year has hardly been any better for the German economy than the end of last year. However, there are also some tentative signs of a bottoming out: private consumption has been very strong, domestic orders have rebounded over the last month and despite some relief in the second half of last year, capacity utilisation is still high and companies consider the lack of equipment as a bigger limitation to production than the lack of qualified workers. Combined with low interest rates, these are the best prerequisites for a further pick-up in investment in the coming months.

It has become increasingly difficult to explain the current industrial slump in Germany by temporary factors alone. In fact, it is the combination of several one-off factors and increasing global uncertainty which is behind the ongoing disappointment. With hindsight, the latest batch of disappointing industrial data explains why Bundesbank President Jens Weidmann supported last week's decisions by the European Central Bank. The German economy could currently use some monetary tailwinds.

Strong revisions of monthly data, tentative signs of domestic orders stabilising and still solid fundamentals suggest that the current volatility is merely a sign that the slump in German industry is reaching a nadir. But if the search for a bottom takes too long, the German government should start considering additional fiscal stimulus.

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