

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.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.