

Germany: Industry takes a longer Christmas break

Industrial production dropped in January, illustrating that it will be hard for industry to prevent the entire economy from falling into contraction once again.



After eight consecutive months of strong increases, industrial production took a break in January, dropping by 2.5% month-on-month, from 1.9% in December. On the year, industrial production was down by almost 4%. Excluding the production of energy and activity in the construction sector, industrial production dropped by 0.5% MoM. The sharp drop in activity in the construction sector of more than 12% MoM, doesn't bode well for the coming months. Note, however, that measuring activity these days seems to be difficult as can be witnessed in the extreme revisions of the December numbers.

Mixed outlook for industry and construction

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.

Looking ahead, it currently looks unlikely that the cyclical swings in industrial production, construction and exports will save the entire economy again from falling into contraction in the first quarter. Even if the current picture is mixed. With production expectations in the manufacturing sector surging and order books still improving, the prospects of industrial production remain positive. On the other hand, however, with the sharp fall in January and the spell of winter weather in February, the construction sector will hardly be a growth driver in the first quarter.

As of today, some restrictions on daily life will be eased again in Germany. However, the opening of book stores, florists and gardening centers will hardly boost the economy. Instead, hospitality and most other leisure services will remain closed and the agreed plan for potential next easing steps will not allow for any significant changes in the coming weeks. Consequently, the economy will remain in the stranglehold of the lockdown until the end of the first quarter.

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