

Germany: Mixed bag of industrial data

Mixed data from industrial production and trade shows that the manufacturing slump is still not over



Cars on a German Autobahn

After two disappointing months, industrial production increased in November, up 1.1% month-on-month from -1.0% in October. On the year, industrial production was down by 2.6%. Production of investment goods rebounded by 2.4% MoM, while the production of intermediate goods dropped by 0.5%. On a positive note, activity in the construction sector surged by 2.6% MoM. At the same time, the short relief rally from exports ended, with a drop of 2.3% MoM. As imports dropped by 0.5% MoM, the trade balance narrowed to €18.2 billion.

This is a mixed bag of data, which needs to be put into perspective. Despite today's increase, industrial production is still down compared with the third quarter and it would require another strong increase in December to end the year on a positive note. This outcome is rather unlikely given the slump in new orders. At the same time, the surge in the construction sector, even discounting for a Christmas-driven drop in December, should make construction an important growth driver for the entire economy in the fourth quarter.

From a broader perspective, however, the German manufacturing sector remains caught between *cyclical* weakness, on the back of the trade conflict and weaker global growth, and *structural* weakness, on the back of disruption in the automotive sector and too little investment. Earlier this week, the German Association of the Automotive Industry released data showing that the number of vehicles produced in German factories in 2019 dropped to the lowest level since 1997.

Looking ahead, production expectations in the manufacturing sector improved somewhat but remain close to the lowest levels since late 2012. At the same time, inventories are at their highest levels since the end of 2009 and order books have been deflated for two years in a row. This combination does not bode well for industrial activity in the months ahead.

All in all, consumption and construction should have kept the entire economy out of recession territory once again in the fourth quarter but the former growth engine, manufacturing, is still stuttering.

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